

**The Critical Role of States in National Health Reform:
Governor Douglas' Address to the National Press Club
September 17, 2009**

It is a pleasure to be here with all of you this afternoon.

As governor of Vermont and as chair of the National Governors Association I want to thank the National Press Club for giving me this opportunity to add my voice to what is one of the most important discussions of our time – health reform.

This event was scheduled a while ago, so I could have not foreseen how relevant and timely this speech would be on the heels of Chairman Baucus' release of his plan for reform. And, I want to talk to you today about three very relevant issues within health reform that significantly affect states.

First, the vital importance of improving the delivery of care in this country. We spend too much money on health care for too little return, and our system must be made more efficient and effective to provide the high-quality care that Americans deserve.

Secondly, if health reform does get through Congress, states are going to play a significant role in implementation. Giving governors the time and flexibility to implement reforms is crucial to the success of these national efforts.

Finally, I want to give you my personal reaction to the recent events taking place up on Capitol Hill. We appreciate the efforts that Congress is making and recognize their progress, but we want to make sure that our federal policymakers are aware of the huge risks that states are facing in national reforms.

As I talk with the people of my state, and hear from my colleagues around the country, there is a broad consensus on the need to reform health care in this country. It's not a Republican or Democratic concern to want a better system of care – it is something that all Americans deserve.

In Vermont, my focus has been to provide new economic opportunities by helping to create good-paying jobs and making Vermont a more affordable place to live and work.

Addressing the affordability crisis in health care is essential to achieving this goal. The well-being of families, small businesses and, indeed, state government depends on a healthy health care system.

That is why one of my first initiatives as governor was the *Blueprint for Health*, to encourage Vermonters to live healthier lives and help contain costs. It's why I worked with Republicans and Democrats in our state legislature to find common ground and pass comprehensive health reforms.

It's why I went to Washington to ask for flexibility in spending Vermont's Medicaid dollars more efficiently. It's also why I've worked so hard as chair of the NGA State Alliance for e-Health – along with my fellow governors – to promote health IT and other technologies that reduce costs and improve the quality of care.

The successes we've realized in Vermont have not come easily – they've required teamwork, compromise and a willingness to address the tough issues surrounding health care – but they are vital for the people of my state and for all Americans. And especially now, as we seek to emerge from this global recession strong and ready to grow as a healthy nation, we need to find the common ground on which to reform our health care system.

For those reasons, I've made health care my yearlong initiative as chair of NGA. After six-and-a-half years of working to improve the health care, I welcome the current discussion in Washington because in order for state reforms to truly succeed, the federal government must be a full partner in this effort.

I understand that reforming one-sixth of our nation's economy is an enormous task. Whenever policymakers discuss health care they are, in fact, discussing a complex web of political, economic and social issues that will have a profound impact on the people of this country.

Americans have every right to worry about how reforms will affect the quality and affordability of the care they receive. They have an equal right to worry about how inaction and the rising cost of health care in our quantity – not quality – driven system will affect them.

And there is nothing wrong with a lively and spirited debate, especially on an issue as critical as this one, because policymakers, politicians and citizens have an obligation to speak openly and honestly about the costs and consequences of each reform proposal being advanced.

Unfortunately, this debate has a way of veering off track – away from our common goals and toward old political fault lines. And my greatest concern about the current political discussion in Washington is that it is too often focused on the wrong end of the health care debate: the current payment structure.

With so much time and energy spent discussing where the money comes from, we miss the crucial fact that no matter who pays, health care costs are on track to bankrupt our families, businesses, states and, indeed, our country if we do not act boldly to reform our delivery system.

Our nation spends almost \$7,500 per person for health services each year – more than double the national average in other industrialized countries – yet our outcomes are no better. We have a system that encourages inefficiencies, promotes duplication and waste,

and too often does not encourage disease prevention – instead opting for expensive care after patients are already sick.

Rather than oversimplifying the debate about how we pay, we should put our heads together and discuss how we can make health care more affordable and more accountable in this country.

I believe that states like Vermont – states that have demonstrated how innovative health reforms can increase access to care, lower costs and improve outcomes for patients – can be a guiding light for the nation as we continue to debate health reform in Washington.

Delivery System Reform

If there is one thing that we've learned about reform that I hope Washington will remember, it's that coverage alone is not enough.

Coverage without significant improvements to the health care delivery system and efforts to lower health care costs will eventually cause further strain on an unsustainable system. True reform must get at the cost drivers.

We must make changes in how we deliver care, how we incent and align payments, and how we realize health and wellness to promote a healthier population. These are the things that will truly reform health care and contain health spending. We must drive value in our system, but it will take a range of efforts to be successful and sustainable.

In Vermont, we've gained national recognition for successfully implementing comprehensive reforms that incorporate aspects of high-quality, coordinated care along with expanding coverage to the uninsured.

To be sure, providing affordable and comprehensive coverage for people who are uninsured is key to bending the cost curve. Because of our efforts in Vermont, those previously uninsured now have insurance they can afford, and they can get the care they need, when they need it. In just 2 years, we have seen our uninsured rate drop from 9.8 percent in 2005 to 7.6 percent last fall.

People with insurance are more proactive about their health. They seek care when they need it, knowing their costs will be paid by insurance.

It's simple really: When Americans are healthier, they spend fewer dollars on health care services; insurance companies and government programs pay fewer claims; and taxpayers and policyholders ultimately save money.

That is why I am proud that Vermont has been named the healthiest state in the nation for two years in a row. A major reason for our success is the *Blueprint for Health*, which provides a roadmap for healthier lives and fiscal responsibility.

The blueprint is built on the premise that prevention and improved care for chronic illness will result in a healthier population, appropriate and timely treatment, and significant cost savings for individuals and government.

A lot of Vermont's delivery system reform is about breaking down barriers. For many of us, a visit to our family physician takes place in one silo, while visits to specialists and even hospital procedures happen in another.

By combining the coordination of care with health information technology and how we pay for care, we can eliminate duplicative, unnecessary services and have a more efficient and effective system.

Through our innovative *Vermont Blueprint for Health*, we utilize "health teams" to provide coordinated services through primary care practices.

The primary care medical home is critical to coordinating services. By using health IT, your primary care doctor receives updates on your care by connecting to the specialists, labs and hospitals you visit no matter where those services are delivered. Duplicative – and by extension unnecessary and costly – tests are eliminated, and dangerous medication interactions are flagged. Common sense coordination leads not only to better quality, but saves money throughout the system.

For example, in a hospital in Rutland, Vermont, doctors in the emergency room now have electronic access to patients' medication histories. They are now able to diagnose more quickly a possibly adverse drug reaction and avoid the need for costly tests – saving time, money and lives.

The blueprint's primary care model also means a different health care experience for patients and physicians. From a patient's perspective, they have a more thorough and less hurried primary care visit. Their community health team is there to make sure they understand their care plan and connect them with the community services they need.

And primary care providers are getting paid for *better care*, not *more care*, through incentive payments. In our Vermont pilots – which currently cover approximately 10 percent of the population – participating providers receive a larger fee for higher performance.

From the primary care provider's perspective, they now have the tools to fulfill the mission that motivated them to choose their profession in the first place. With all insurers supporting this model of care, physicians can make sure that patients' individual needs and concerns are addressed.

All Vermont's payers – Medicaid and private insurers, as well as large employers – participate in the blueprint efforts. With yesterday's announcement by Secretary Sebelius, Medicare will also now be able to participate in this type of exciting and innovative state-led reform.

These aren't just theories about what will happen sometime in the far off future. These reforms are having a real impact on people's lives today.

In March, at the White House Forum on Health Reform in Vermont, Rhonda Rose explained how her community care team in St. Johnsbury, Vermont, has improved her life and her health.

Rhonda had struggled for years to get a handle on her chronic disease. As a recipient of Medicaid and other state programs, her struggle had a financial impact on the state. Now, through a doctor, a social worker and others on her community care team, she's taking necessary steps to prevent expensive emergency room visits, her health has improved and she's able to work.

Other states have made similar strides. For example, Minnesota is implementing a series of quality and transparency measures that include a ranking of health care providers based on their cost and quality performance and the collection of data from all payers in the system.

Minnesota has also created a program in which state-purchased health care must comply with standards set in four key areas: diabetes; hospital stays; preventive care for adults and children; and cardiac care. This program aligns payments and incentives based on the outcomes.

Washington state promotes high-quality, cost effective health care by investigating what works. Washington's first-in-the-nation Health Technology Assessment program established an independent clinical committee to determine which medical treatments and devices are the safest and most effective for patients.

In two years, the program has conducted reviews of ten treatments, including five highlighted by a *Consumer Reports* list of the most overused treatments, such as back surgeries, whole-body screens and virtual colonoscopies. In Washington, patients are getting the care they need while being protected from unnecessary and potentially harmful procedures. As an added benefit, they are bending the curve on health care costs.

Other states have made similar strides. Programs in Minnesota and Washington, along with many other states, are improving care and removing excess spending in the system. Innovative state programs can serve as models for the federal government and for other states.

System reforms and coverage efforts must go hand-in-hand. Many governors have expanded coverage through private and public programs to ensure more people have access to affordable health insurance. But it needs to be more than insurance in name only. Americans need coverage that helps them stay healthy and prevent disease and is also available if they get sick.

If we focus on improving the delivery system, we will reduce health spending and improve health outcomes.

Implementation

And reform isn't just critical for the personal and fiscal health of American families and businesses; it's critical for the stretched budgets of state government. But, it must be done right.

As governors, my colleagues and I are watching the debate in Washington closely because the impact on our state budgets could be enormous. Health care reform that does not respect the fiscal realities of state governments will not only fail to improve the system, it will sap vital resources for other important efforts to improve education, protect the environment and strengthen our economies.

Unlike the federal government, states can't print money. We have to balance our books at the end of each fiscal year, and doing so certainly isn't getting any easier.

Collectively, states are facing projected budget deficits of more than \$200 billion over the next three years. Democratic and Republican governors have been forced to make painful decisions. In fiscal year 2010, 28 governors proposed general fund spending cuts in personnel and higher education, 27 recommended cuts in K-12 and 25 proposed cuts in Medicaid and corrections. Some governors also recommended tax and fee increases totaling \$23.9 billion.

Vermont is no different. We recently learned that our state revenue projections were down 2.5 percent, just one month after the state budget was passed over my objections.

To give you a sense of the gravity of the situation, the Rockefeller Institute for State Government estimates that even under its most optimistic projections, state revenues will not have recovered to pre-recession – that's 2007 – levels even by 2014.

As such, states are going to have to make even more tough decisions in the coming years to balance their budgets and avoid increasing taxes to a level that will stifle growth and innovation. Federal mandates that are not fully funded and health reforms that simply shift costs to the states will bust our budgets and ultimately fail to achieve their objectives.

Health care reform at the federal level needs to respect the fact that implementation at the state-level is not one size fits all. If national health reform does pass, governors will have a critical role in implementing the broad policies set by Congress. And, it will take much preparation and potential restructuring in state government to move forward.

Ultimately, states will be where "the rubber meets the road." Governors' leadership and experience will be crucial. And, to succeed with transitioning to a reformed system, states must work in partnership with the federal government to ensure they have the flexibility to implement reforms.

In the fall of 2005, we secured this kind of flexibility through a waiver – we called it our Global Commitment Waiver – from the federal government. I’ll tell you about that onerous process another day, but the fact I was a Republican governor and there was a Republican in the White House didn’t make a bit of difference to the folks at OMB, and let’s just say there was a lot of convincing to do.

Over the years we watched as our Medicaid program grew at an unsustainable rate and were convinced that if we were allowed to manage the program – to focus more on prevention, disease management, and other non-traditional programs – we could spend our Medicaid dollars more effectively and efficiently.

In exchange for flexibility, we agreed to a cap on our federal payments over the five-year period. We took a risk, but it’s paid off. By the time our waiver expires – and we’ve already begun the renewal process – Vermont will have saved almost a quarter of a billion dollars. That may not seem like a lot of money in this town, but in a state like Vermont it’s real money – and now that I think of it, it happens to be the size of our current deficit.

My colleagues and I are working hard to ensure that policymakers in Washington hear that message – that flexibility is key to innovation and critical to the success of reforms.

But we are not naïve, and we realize that there will inevitably be some adapting in state capitols to whatever reforms pass in Washington. That is why a key component of my Chair’s Initiative is to help governors understand what national health reforms mean for them and their state programs.

Governors will need to get up to speed so they can make decisions on the timing and process for implementing reforms. States will need to approach these issues strategically so they can lead the way in implementation.

And, if a health reform bill becomes law, many of the details of the reforms will remain undefined and left to federal agencies to decide through regulations. As governors, we will need to work with the federal government to ensure that the concerns of states are noted and potentially addressed in the regulations.

Reaction to Federal Efforts

On that issue, let me offer my personal views on the current congressional discussions.

Tremendous work has gone into developing the House and Senate health reform proposals. Governors appreciate that committee members have been listening to state concerns and made some changes to address them.

While all governors believe improvements are needed to the health care system, their initial reactions to the proposals differ. Some are opposed to any unfunded mandates to states while others have signaled their strong support for the proposals. But, all need more details. Governors are concerned about the impact on their states.

With respect to congressional proposals, I want to cover three areas.

On insurance reform, the Finance Committee lays out new federal standards, but it appears to give states flexibility to make these changes and others that states believe best suit their markets. Most importantly, the amount of state insurance preemption is limited and the day-to-day monitoring of insurance is left to states.

But these are not changes we, as governors, can make happen with the flip of a switch. That's why it's critical that states have time to phase in any new rules that are adopted – as the Finance Committee appears to do.

We need to make sure the new rules allow our experts in the states to determine how these fit with existing state structures and regulations already on the books.

The Finance Committee seems to recognize the value of the health insurance exchange concept, and appears to have put forward a fairly state-friendly proposal. Put simply, the complex array of coordination issues can't be dictated from the federal level. It is critical that states run the exchanges.

Several pioneering states, most notably Massachusetts and Utah, already have demonstrated that there are a host of approaches that can make exchanges successful, particularly for consumers. States also have tremendous new health IT initiatives underway that must be integrated with exchanges.

We know states need to thoughtfully develop the relationship between the exchange and state Medicaid programs so that low income individuals get placed in the appropriate program. And states need to be able to coordinate these health care programs with other services provided to low-income individuals – including food stamps and welfare assistance.

The bottom line is the Finance Committee's insurance reforms and exchanges still need work but they are headed down a path that seems workable to states.

However, governors remain most concerned with the Medicaid expansion and the potentially tremendous financial liability this poses for states. The original House Tri-Committee bill recognized our precarious fiscal situation by fully and permanently funding a Medicaid expansion.

Governors have discussed the expansion at great length with Senate Finance Committee members. The chairman's proposal has moved far – going from zero to an average of almost 90 percent federal funding for the expansion over the long-term.

Still, there are enormous risks for states. Based on their experiences, many states are concerned that a Medicaid expansion will create upward pressure on provider reimbursement rates that is unsustainable. When you bring almost 30 million additional

people into the system, including an estimated 11 million in Medicaid, this is a reasonable trend to expect.

What also has many governors concerned are the fiscal pressures created by enrolling millions more individuals who are currently eligible but unenrolled. By some estimates there could be six million of these individuals coming into Medicaid through the so-called “woodwork effect.” These are new enrollees and should be treated as part of the expansion population and therefore should receive an increased federal match.

As Congress moves forward, we hope they will continue to work with governors to craft successful reforms. However, they must recognize that reforms cannot be built on the backs of states but can only be accomplished in partnership with states.

As governors, we will shape a prescription for health reform that ensures our nation’s health system is affordable, accessible and accountable to our citizens. We have the opportunity to fulfill our role as leaders in addressing the key cost drivers, improving the quality of our system and providing more insurance coverage.

I’m so pleased that you invited me to join you today to discuss these critical issues and I’d be happy to take any questions.

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