

# National Governors Association

## Policy Position

### **EC-17. Foundations in Health Care Reform**

Governors believe that significant reforms of the health care system are necessary, and we appreciate that earlier this year the Administration and Congress approached governors to examine options for such reforms. Governors are prepared to work with our federal partners on a bipartisan approach to develop pragmatic solutions that reduce costs, improve quality and ensure access to affordable health care coverage for all.

Soaring costs for and spending on health care threatens to undo what many states have already achieved in their own health reform initiatives, and is unsustainable for families, government, and businesses. Governors understand that in order to develop a uniquely American solution, health reforms must engage all stakeholders—individuals, the private sector, and government, both federal and state—who have a shared responsibility to address the existing limitations of the health care system.

The approach for reforms should harness and build upon the existing strengths of the federal government, states, providers, employers, and other stakeholders. That is, the federal government can advance improvements by establishing a broad framework and providing states with the tools necessary for achieving overarching shared goals. Governors believe practical solutions also must provide states as well as the U.S. commonwealths and territories flexibility to adapt systems to local conditions, retain the primary state roles of administration, regulation, and consumer protection, and build on state expertise and capacity. Further, the approach should support the strong role states play in innovations around delivery system reform, quality-driven value-based purchasing, and improved access to services and coverage.

States are currently facing cumulative budget deficits of at least \$200 billion over the next few years. Although the American Recovery and Reinvestment Act provided states some relief, states are not well-positioned to meet current health care financing obligations. Further, despite anticipated improvements in the national economy, states are likely to experience a sustained period of limited economic growth for the foreseeable future. Consequently to maintain any state role in financing of the health care system, reforms are needed to improve quality, contain costs, and expand access.

Governors recognize that changing any one component of the health care system will have direct and indirect impacts on other aspects of the system. Therefore, reforms must be well-coordinated between the federal and state governments and move on parallel tracks to improve coverage while reorienting the system to base reimbursement on the quality rather than the quantity of services delivered; focus on health rather than treating illnesses; and facilitate information-sharing about best-practices, effective services, and consumer options as well as transparency in costs and quality.

### **Principles for Reform**

- **Focus on approaches to consistently deliver cost-effective, quality care across the spectrum of prevention, primary, acute, and long-term services and supports.** Health care delivery system organization and payment policies are interconnected and largely driven by volume rather than quality and health outcomes. Therefore payment reform and delivery system redesign must go hand-in-hand. The federal government can lead through payment reforms in all federal programs. In addition, collaboration between the federal-state partners—in conjunction with private sector partners—is needed to scale up the work underway to develop quality-based measures and outcomes that emphasize primary care, prevention and wellness, and care coordination practices. Coordinated efforts also must be undertaken to attract and retain a health care workforce sufficient to meet the needs across the health care continuum. Over time these can help transform the health care delivery system from one that focuses on treating illness to a system focused on the health and well-being over the lifespan of an individual. In addition, reforms should support utilization of science-based policies in public programs, and providing consumers with information that identifies cost-efficient, effective services and supports. Finally, a comprehensive effort at the federal level to address the cost of health care must be undertaken. Simply put, a quality-driven health care delivery system should reward effective, efficient and appropriate care.
- **Integrate existing federal programs to more appropriately focus on care coordination and efficient use of resources.** Complex, conflicting federal programs, and policies impede the delivery of coordinated, cost-efficient health care for millions of Americans and contribute to the health care cost burden borne by the federal government and states. For example, despite recent state and federal efforts to address structural problems, the existing system for the more than seven million individuals insured by Medicare and Medicaid—known as dual eligibles—is a largely fragmented, uncoordinated, and inefficient system of care. One of the most impactful reforms in this area would be to create a seamless delivery system for dual eligibles. States should have the option of managing this population, have access to meaningful Medicare data, and should be allowed to capture savings from federal programs for health care reform activities. In addition, the Indian Health Services (IHS) is a federally administered health care system in crisis and should be overhauled to create a model of care with sufficient funding to provide a full spectrum of care.
- **Develop a sustainable financing mechanism for long-term care services and supports for an aging and disabled population, regardless of income.** While states and localities have worked for decades to improve the availability of quality long-term care services and supports, an increasingly disproportionate share of the financing is being thrust onto state Medicaid programs. It is clear that Medicaid cannot be the financing mechanism for the nation’s long-term care costs as baby boomers retire and people are living longer. The federal-state partnership must be employed to redesign our approach to financing and provision of services. While administration of long-term care services and supports by experts at the state and local levels could continue, states and the federal government must work together

to modify the federal financing stream to adjust federal payments for changes in demographics.

- **Establish federal interoperability standards to speed adoption of health information technology (HIT) and development of electronic health information exchange (HIE) as part of a national framework to improve the way care is delivered and financed.** States have led the way in ambitious, innovative HIT and HIE efforts, which are helping to drive improvements in health care quality, coordination, transparency, and coverage, reduce disparities, enhance privacy, and promote healthier living. However, federal interoperability standards are needed to provide the consistency and confidence to accelerate progress and address challenges to widespread HIT adoption and electronic HIE.
- **Utilize the federal-state partnership to modernize the Medicaid program.** Medicaid is an integral part of reforms to improve quality, cost, and coverage, and changes to the program should be pursued through the federal-state partnership. Governors oppose changes to the Medicaid program that will result in an unfunded mandate imposed on the states. Should the federal government choose to expand Medicaid coverage, however, federal assistance is required to provide benefits to low-income individuals and families, and start-up costs for state exchanges. The federal government and states also must collaborate on workable financing approaches to account for the variation in current state coverage levels, and implementation and administrative issues. Further, changes must be balanced by the pressing need to modernize the Medicaid program as well as establish a path to incorporate state innovations as permanent parts of the state Medicaid plan. Regardless of the specific changes to Medicaid, states require new flexibilities to administer a more efficient Medicaid program that better meets today's needs of low-income and vulnerable populations and reduces costs for both states and the federal government.
- **Preserve state authority to regulate insurance.** While there is a federal role in subsidizing coverage for low-income populations and promoting payment reform to focus on quality, a careful balance must be struck to preserve the state role as regulator and protector of consumer interests. This authority is critical to the established systems for consumer protection and regulation provided by state and locally-based networks. It also provides states the ability to respond to variation in local conditions, costs, and perspectives on health coverage. Since states have a long history of working collaboratively to reach agreement on standardization where necessary, governors strongly oppose preemption of state regulatory authority.
- **Provide states with the ability to establish exchanges (such as connectors or some other mechanism) to connect individuals to comprehensive information about their health care coverage options, facilitate their enrollment and fulfill other functions as needed.** Several states have developed uniquely structured entities to regulate, organize and link individuals to information about health insurance and to facilitate the enrollment process for consumers. Connectors can be an effective part of the health care system when they are designed, implemented, and regulated at the state level. Enhancing the ability of

states to establish such mechanisms could help realize efficiencies in the health insurance marketplace as well as the health care delivery system.

- **Improve relationships and coordination between public and private stakeholders.** Conversations about reform cannot be entirely a government discussion. Further, although governors are sensitive to the concerns of large multistate employers, one of the greatest barriers to recent state reform initiatives is the Employee Retirement Income Security Act (ERISA). While reforms must consider the state-by-state variances and according complexity of health care regulation, changes to the existing system and ERISA rules can be achieved without jeopardizing the operation of employer sponsored plans or preempting state laws. New approaches are needed to reduce state-by-state variances and control health care costs while still allowing states to regulate insurance and protect consumers. Preemption would lead to not only the loss of significant consumer protections, but would lead to the loss of substantial revenues due to premium taxes.

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### **Health Care Task Force**

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