



GOVERNOR ARNOLD SCHWARZENEGGER

July 31, 2009

The Honorable Harry Reid
Majority Leader
United States Senate
Washington, DC 20510

The Honorable Nancy Pelosi
Speaker of the House
U. S. House of Representatives
Washington, DC 20515

The Honorable Mitch McConnell
Minority Leader
United States Senate
Washington, DC 20510

The Honorable John A. Boehner
Minority Leader
U. S. House of Representatives
Washington, DC 20515

Dear Senator Reid, Senator McConnell, Madam Speaker and Mr. Boehner,

I appreciate your commitment and hard work toward reforming the nation's health care system. I think we can all agree that the current system is not working as it should, and I have long supported a significant overhaul. Costs continue to explode, while tens of millions remain uninsured or underinsured. Many families are one illness away from financial ruin – even if they do have insurance. We have the greatest medical technology in the world at our fingertips, yet Americans' health status lags behind many countries that spend less than half what we do per capita. Any successful health care reform proposal must be comprehensive and built around the core principles of cost containment and affordability; prevention, wellness and health quality; and coverage for all.

Cost Containment and Affordability

Cost containment and affordability are essential not only for families, individuals and businesses, but also for state governments. Congress is proposing significant expansions of Medicaid to help reduce the number of uninsured and to increase provider reimbursement. Today, California administers one of the most efficient Medicaid programs in the country, and still the state cannot afford its Medicaid program as currently structured and governed by federal rules and regulations. The House originally proposed fully funding the expansion with federal dollars, but due to cost concerns, members decided to shift a portion of these expansion costs to states. I will be clear on this particular proposal: if Congress thinks the Medicaid expansion is too expensive for the federal government, it is absolutely unaffordable for states. Proposals in the Senate envision passing on more than \$8 billion in new costs to California annually – crowding out other priority or constitutionally required state spending and presenting a false choice for all of us. I cannot and will not support federal health care reform proposals that impose billions of dollars in new costs on California each year.

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The inclusion of maintenance of effort restrictions on existing state Medicaid programs only compounds any cost shift to states. We simply cannot be locked into a cost structure that is unsustainable. Governors have three primary ways to control Medicaid costs: they can adjust eligibility, benefits and/or reimbursement rates. Maintenance of effort requirements linked to existing Medicaid eligibility standards and procedures will effectively force state legislatures into autopilot spending and lead to chronic budget shortfalls.

The federal government must help states reduce their Medicaid financing burden, not increase it. A major factor contributing to Medicaid's fiscal instability, before any proposed expansion, is that the program effectively remains the sole source of financing for long-term care services. Therefore, I am encouraged by congressional proposals that create new financing models for long-term care services. Proposals that expand the availability and affordability of long-term care insurance are steps in the right direction, but they must be implemented in a fiscally sustainable way. More fundamentally, however, the federal government must take full responsibility for financing and coordinating the care of the dually eligible in order to appreciably reduce the cost trend for this group. This realignment of responsibilities is absolutely essential to controlling costs for this population, while ensuring that state governments will be better positioned to fill in any gaps that will undoubtedly arise from federal health care reform efforts.

I also encourage Congress to incorporate other strategies to help stabilize Medicaid costs for states. Delaying the scheduled phase-out of Medicaid managed care provider taxes pending enactment of new Medicaid rates, reimbursement for Medicaid claims owed to states associated with the federal government's improper classification of certain permanent disability cases, and federal support for legal immigrant Medicaid costs are examples of federal efforts that could provide more stability to state Medicaid programs. Moreover, given the fiscal crisis that many states, including California, are experiencing, I strongly urge Congress to extend the temporary increase in the federal matching ratio to preserve the ability of state Medicaid programs to continue to provide essential services to low-income residents pending full implementation of national health reform.

Prevention, Wellness and Health Quality

Prevention, wellness and health promotion, along with chronic disease management, can help to lower the cost curve over the long run and improve health outcomes in the near term. This was one of the cornerstone pieces of my health care reform proposal in California, and I continue to believe it should be a key piece of the federal efforts. Prevention, wellness and chronic disease management programs should include both the individual and wider population levels.

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At the individual level, proposals to provide refunds or other incentives to Medicare, Medicaid and private plan enrollees who successfully complete behavior modification programs, such as smoking cessation or weight loss, are critical reforms. To ensure they are widely used, individual prevention and wellness benefits should not be subject to beneficiary cost sharing.

Because individuals' behaviors are influenced by their environments, health reform must place a high priority on promoting healthy communities that make it easier for people to make healthy choices. California has demonstrated through its nationally recognized tobacco control efforts that population-based strategies can be effective and dramatically change the way the people think and act about unhealthy behaviors, such as tobacco use. A similar model, community transformation grants, has been advanced in the Senate Committee on Health, Education, Labor, and Pension legislation, and it should be included to support policy, environmental, programmatic and infrastructure changes that address chronic disease risk factors, promote healthy living and decrease health disparities.

Quality improvement measures are also critical to health reform. The House proposal for a Center for Quality Improvement to improve patient safety, reduce healthcare-associated infections and improve patient outcomes and satisfaction is a positive step. Coordinated chronic disease management is necessary to improve outcomes for chronically ill people. Systematic use of health information technology and health information exchange, including access for public health agencies, is vital to providing the necessary tools to measure the success of quality improvement efforts. Finally, investments in core public health infrastructure can be facilitated through the creation of the proposed Prevention and Wellness Trust.

Coverage for All

Coverage for all is also an essential element of health care reform and I believe an enforceable and effective individual mandate, combined with guaranteed issuance of insurance, is the best way to accomplish this goal. The individual mandate must provide effective incentives to help prevent adverse selection that could occur if the mandate is too weak. Creating transparent and user-friendly health insurance exchanges to help consumers compare insurance options will also help facilitate participation. States should maintain a strong role in regulating the insurance market and have the ability to maintain and operate their own exchanges, with the understanding that some national standards will need to be established. California has a long history of protecting consumers through our two separate insurance regulators, one covering health maintenance organizations and the other monitoring all other insurance products. Maintaining a strong regulatory role at the state level is in the best interest of consumers, and I urge Congress to maintain this longstanding and effective relationship as you design these new market structures.

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I hope our experience in California working toward comprehensive health care reform has informed the debate in Washington. There will be many short-term triumphs and seemingly insurmountable roadblocks for Congress and the nation on the road to comprehensive health care reform. We must all remain focused on the goal of fixing our health care system and remember that we all have something to gain from the reforms, and we all have a shared responsibility to achieve them. I look forward to working with you as you move forward on this desperately needed legislation.

Sincerely,



Arnold Schwarzenegger

/la

cc: The Honorable Max Baucus
The Honorable Edward M. Kennedy
The Honorable Christopher J. Dodd
The Honorable Charles E. Grassley
The Honorable Mike Enzi
The Honorable Charles B. Rangel
The Honorable Henry A. Waxman
The Honorable George Miller
The Honorable Dave Camp
The Honorable Joe Barton
The Honorable John Kline
Members of the California Congressional Delegation