

December 22, 2004

The Honorable Charles E. Grassley
Chairman
Committee on Finance
United States Senate
Washington, D.C 20510

The Honorable Max Baucus
Ranking Minority Member
Committee on Finance
United States Senate
Washington, D.C. 20510

The Honorable Joe Barton
Chairman
Committee on Energy and Commerce
U.S. House of Representatives
Washington, D.C. 20515

The Honorable John D. Dingell
Ranking Minority Member
Committee on Energy and Commerce
U.S. House of Representatives
Washington, D.C. 20515

Dear Chairman Grassley, Senator Baucus, Chairman Barton, and Representative Dingell:

The nation's Governors look forward to working closely with the Administration and Congress to reform Medicaid. Reforming the Medicaid system is the highest priority for the Governors, and will result in cost savings and efficiencies for both the federal and state governments. Reform, however, should not be part of a 2006 fiscal year budget reduction and reconciliation process, especially if it does nothing more than shift additional costs to states.

Governors are committed to administering the Medicaid program in a very cost-effective way, and as equal partners in the program have a tremendous incentive to continue doing so. This is reflected in the fact that the annual growth in Medicaid per capita spending has not exceeded approximately 4.5 percent per year, substantially below the growth rate of private health insurance premiums, which have averaged 12.5 percent per year for the last three years. Total Medicaid costs, however, are growing at a rate of 12 percent per year and now total Medicaid expenditures exceed that of Medicare primarily due to two major factors that are largely beyond the control of states. First, states, over the last four years, have experienced large case load increases of approximately 33 percent. Second, and far more costly to states, are the impacts of long-term care and of the dual eligible population. Medicaid currently accounts for 50 percent of all long-term care dollars and finances the care for 70 percent of all people in nursing homes. Furthermore, 42 percent of all Medicaid expenditures are spent on Medicare beneficiaries, despite the fact that they comprise a small percentage of the Medicaid caseload and are already fully insured by the Medicare program. Benefits for the dual eligible population should be 100 percent financed by Medicare.

We agree that maintaining the status quo in Medicaid is not acceptable. However, it is equally unacceptable in any deficit reduction strategy to simply shift federal costs to states, as Medicaid continues to impose severe

strains on state budgets. Our most recent survey of states shows Medicaid now averages 22 percent of state budgets. This commitment has caused a strain on funding for other crucial state responsibilities. These funding challenges will become more acute as states absorb new costs to help implement the Medicare Modernization Act for the millions of dual eligible beneficiaries.

We look forward to working with you on Medicaid reform.

Sincerely,

Governor Mark R. Warner
Chairman

Governor Mike Huckabee
Vice Chairman