



STATE OF NEW YORK
EXECUTIVE CHAMBER
ALBANY 12224

RICHARD RAVITCH
LIEUTENANT GOVERNOR

September 20, 2010

Hon. David A. Paterson
Governor
State of New York
633 3rd Avenue, 39th Floor
New York, NY 10017

Dear Governor Paterson,

At your request, I have spent the past year as Lieutenant Governor studying New York's fiscal condition and budget crisis. I have shared my recommendations with you. As part of that effort, I am enclosing the attached report on Medicaid in New York, the largest single driver of the State's growing expenditures.

Sincerely,

A handwritten signature in black ink, appearing to read "Richard Ravitch".

Richard Ravitch
Lieutenant Governor

LIEUTENANT GOVERNOR'S REPORT ON CONTROLLING INCREASES

IN THE COST OF NEW YORK MEDICAID

The State of New York faces growing budget gaps in the next several years, and a chief source of pressure on the State budget is the growth in Medicaid costs.

Medicaid is a joint federal-state program that pays the health care costs of lower-income individuals. The federal government reimburses the states for a certain percentage of their Medicaid expenditures and imposes its own rules on those expenditures. *Medicaid is not Medicare*, though the two programs overlap. *Medicare* is wholly federal; it is primarily a health insurance program for the elderly, though it also covers people with certain disabilities. Medicare pays mainly for “acute care” services such as hospitals and doctors’ visits. In contrast, Medicaid will pay not just for acute care but for long term care such as nursing homes and home health care, including certain services for the mentally disabled.

Once a program only for welfare recipients, Medicaid now pays the health care costs of lower-income working families with no other coverage, provides long term care services, and directly subsidizes safety-net hospitals for the otherwise uncompensated care of the uninsured. It has become a massive program. It is the largest purchaser of health care in the State, serving more than four and a half million New Yorkers—almost one in four state residents.

In State fiscal year 2009-10, Medicaid spending—State, federal, and local—totaled over \$50 billion, the equivalent of more than one-third of the State’s All Funds budget. Between 2009-10 and 2013-14, this total is expected to grow by 27 percent to \$63.5 billion, an average annual increase of nearly seven percent. During the same

period, the State's share of Medicaid costs will increase much faster—by 71 percent, an average annual increase of nearly 18 percent—because of the expiration of federal stimulus aid.¹ In 2014, because of the recently enacted federal health care reform law, increased numbers of New Yorkers are projected to enroll in Medicaid, further increasing State costs.

New York's present budget crisis and the anticipated consequences of federal health care reform make it especially important to control Medicaid spending and improve management. But for reasons of history, bureaucratic inertia, and politics, New York's Medicaid program is not administered in the most rational or cost-effective manner. It has an unwieldy and overly decentralized structure that serves contradictory goals and provides perverse incentives. As a result, it is ill-equipped to control costs or to benefit from federal health care reform.

The State cannot do an adequate job of managing the increased numbers of enrollees and their associated costs, let alone adjusting to the changes contemplated by federal health care reform, unless it changes the way in which Medicaid manages, delivers, and pays for health care.

SUMMARY OF RECOMMENDATIONS

I. The State should change the process by which Medicaid sets rates of reimbursement to health care providers in order to increase the program's capacity to control costs and improve outcomes.