

# TABLE of EXPERTS Series



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## About this Supplement

On August 15, lawmakers from around the state will come to Montgomery for a special session – and Medicaid funding will be a key point of discussion as lawmakers address the state's financial future.

The Medicaid funding situation in Alabama is a critical issue for the state's health care industry, as well as patients, families and the business community.

Alabama health care leaders say securing additional funding is critical for hospitals, physicians and patients from across the state.

In this special supplement, three experts share their thoughts on the funding situation, explain the stakes and show how Medicaid funding impacts not just their facilities, but Alabama's entire health care system – including patients who are not on Medicaid.

## The Experts



**Dr. Will Ferniany**

UAB Health System

A senior leader in health care since 1975, Dr. Will Ferniany is Chief Executive Officer of the UAB Health System. UAB Health System is a \$3 billion six hospital academic health system which includes a wholly-owned insurance plan. Prior to coming to UAB in 2008, he was Associate Vice Chancellor and Chief Executive Officer of University of Mississippi Health Care and spent fourteen years at the University of Pennsylvania where he held several senior leadership positions.

Dr. Ferniany holds a PhD in Administration-Health Services and a Masters of Science in Health Service Administration from the University of Alabama at Birmingham (1975). His undergraduate degree is from the University of Alabama. Dr. Ferniany has been a Senior Fellow in the Leonard Davis Institute, an adjunct faculty member of the Wharton School and the School of Health Related Professions at the University of Mississippi; and an instructor in the University of Pennsylvania School of Medicine. He currently teaches in the UAB Schools of Medicine and Health Professions.



**Ted Hosp**

Maynard Cooper & Gale

Ted Hosp is a Shareholder and Co-Chair of Maynard Cooper's Governmental and Regulatory Affairs Practice Group. His list of distinguished clients includes both local and Fortune 100 companies in the health care, insurance, banking and financial services, energy and manufacturing industries, as well as governmental entities. Ted helps companies navigate today's complex legislative and regulatory environment, and he assists them with strategic planning to seize opportunities and circumvent obstacles. With his law practice centered in the state's capital, Ted is able to track legislation in real time to provide clients with timely alerts regarding new developments. He is a recognized leader in the areas of Government Ethics laws, the Legislative and Regulatory Process, and Campaign Finance law. His Government Relations Practice, among other areas of his practice, is consistently recognized by The Best Lawyers in America® and Super Lawyers®. Ted also serves as an Administrative Law Judge for Alabama's State Health Planning and Development Agency, focusing on Certificates of Need.



**Michael Warren**

Children's of Alabama

Mike Warren is President and Chief Executive Officer of Children's of Alabama. Children's is an independent, not-for-profit, free-standing pediatric healthcare center. Prior to joining Children's in January, 2008, Warren was Chairman and CEO of Energen Corporation and its two primary subsidiaries, Alagasco and Energen Resources.

Warren practiced law with the Birmingham firm of Bradley, Arant, Rose & White for a dozen years before joining Alabama Gas in 1983. He became President of Alagasco in 1984 and was named President and CEO of Energen in February, 1997 and Chairman in January, 1998.

Mike Warren has been involved in many State and local efforts and served as chairman of the Business Council of Alabama, the United Way, Children's Hospital, Leadership Birmingham and Leadership Alabama. He also has been chairman of the Board of Metropolitan Development Board, the Alabama Symphony and the area American Heart Association. He has chaired the general campaign for the United Way twice and the United Negro College Fund.

## The Discussion

### Q: Why is the current Medicaid situation so important for the health care industry?

**Dr. Will Ferniany:** Medicaid is essential to the state's entire health care system. UAB is 15 percent Medicaid. And it's significant for rural hospitals as well. Medicaid covers a large portion of the costs in Alabama. Close to a million people in Alabama are currently covered under Medicaid, and about 400,000 more would be covered if we expanded Medicaid. Our Medicaid program is very, very bare bones. It needs adequate and sustainable funding, not one-time fixes. We have bare-bones benefits. We're pretty good for children and pregnant women, but we're bare bones for most adults. So the Medicaid situation is two parts. There's a need for adequate funding for what we have today, and there is a need for expansion so 400,000 more people will be covered.

**Michael Warren:** To put it in perspective, 60 percent of our in-patients at Children's of Alabama are Medicaid recipients. One of the things that means is, if it were not for Medicaid, we could not afford to have five pediatric neurosurgeons and six rheumatologists. We

couldn't afford to have all the specialists that you may need if your child or grandchild has an issue. So Medicaid is an essential part of the fabric of the services that Children's of Alabama offers. Even if you're personally insured, you're still awfully glad we have those neurosurgeons there. And without the volume of Medicaid patients, we would not be able to support the experts that we have at our beck and call through our affiliation with UAB and the Department of Pediatrics and the Department of Surgery.

**Ted Hosp:** Medicaid really is the foundation for the health care delivery system in the state of Alabama. What that means is if you do away with Medicaid, it's not just that you're going to get rid of health care for Medicaid recipients. You wind up without an adequate delivery system for everybody else. And one thing that is overlooked is that Medicaid is actually a remarkable value in many respects when you think about it from a state investment perspective. The General Fund portion of Medicaid spending is currently budgeted at \$700 million for the next fiscal year. But

Medicaid in Alabama is a \$5.8 billion industry. If you took that away, the health care industry couldn't survive.

**Ferniany:** It's very poorly funded from the General Fund. It survives because there's a nursing home tax that pays part of the match. And Alabama is the only state where the hospitals pay 100 percent of the match. So cutting hospital Medicaid saves the state budget zero. It's very poorly funded, and we have been kicking the can down the road with one-time funding.

**Warren:** One-time funding has been the name of the game in Alabama for the last number of years. It's not only year to year to year, but it's also Band-Aids. It's funding that goes away next year and has to be replaced with some other funding. The result is it's extraordinarily difficult for anybody to plan. How do you plan when you do not know from year to year what the funding is going to be? The health care industry has huge needs for capital investment over time. For example, four years ago Children's of Alabama moved into the new Benjamin Russell Hospital. That

\$400-plus million project could not be done in the Medicaid atmosphere in Alabama today. We would not have been able to finance that construction project, and those 2,000 to 3,000 construction jobs over a three-year period would not have happened, and those 500 or so permanent jobs that have been added as a result of that project would not have happened. We would not have pediatric transplant and cardiovascular surgery at Children's of Alabama. Thank goodness we built the building when we did, because we could not do it in today's atmosphere.

**Ferniany:** There is one other thing related to this. The state lottery that is being proposed is important because what we're looking for is adequate sustainable funding of Medicaid, and that's what the legislature and governor have given us as an option. But that is not enough money by itself. It is a partial fix, and it won't help us in 2017 at all. We need more than just the lottery if we want Medicaid to operate.

**Q: How will this impact your organization and the state's health care community**

**overall?**

**Warren:** Children's gets referrals every year from every county in Alabama, no matter how remote or rural. Pediatricians and primary-care physicians in every county send patients to Children's. One of the concerns we have is the adequacy of that network of pediatricians and primary-care physicians if the Medicaid system doesn't survive and thrive. We need that health care network in order for Alabama to provide adequate access to health care.

**Hosp:** Certainly what everybody in the state's health care community is very concerned about is if you cut reimbursement to primary-care physicians, are we going to see a loss of primary-care physicians? Reimbursement under Medicaid recently went down approximately 30 percent. The state had been continuing to pay the primary-care physician bump, which was originally part of the Affordable Care Act. At first the federal government paid for the bump, which is an enhanced payment. When it stopped at the federal level, the state of Alabama continued to do it. That's now been cut. It's roughly a savings of \$15 million each year for the state. But while we save \$15 million, are we going to lose a bunch of primary-care physicians? The state should really figure out a way how to restore that bump. It's pretty clear that when folks are visiting their primary-care physician, it's an overall net benefit to people's health and the cost effectiveness of health care.

**Warren:** One of the primary missions of the UAB School of Medicine is to train the next generation of physicians. If you were

finishing a pediatric residency today, would you choose to go to a rural Alabama setting – knowing that you would be serving a predominantly Medicaid community – in light of the funding mess Alabama has had for the last several years? My guess is the answer would be a resounding no. That is a dramatic concern for Alabama when we think about the next generation of physicians and patients in the state.

**Ferniany:** And the cliff is not here. There's a cliff coming that we're all about to fall off, and it starts in 2018. So if we don't have adequate funding for Medicaid, then starting in 2018 the disproportionate shares start going down.

**Warren:** When you say 2018, that's the fiscal year. So it's actually Oct. 1, 2017, which is less than 14 months away. The additional support for uncompensated care, which an organization like UAB Hospital provides a tremendous amount of, begins to go away in a hurry. That is a huge hole for the overall health care network in the state of Alabama.

**Ferniany:** It ramps up for UAB Hospital to a \$36.7 million reduction a year. When the Affordable Care Act was passed,

the idea was that Medicaid expansion would fill the gap. But the Supreme Court made that optional, and Alabama did not expand Medicaid. Therefore, not only will UAB Hospital suffer, but the rural hospitals will really suffer. Because you're not going to have the offsetting Medicaid revenue, and you're going to have less federal revenue.



*“If you do away with Medicaid, it's not just that you're going to get rid of health care for Medicaid recipients. You wind up without an adequate delivery system for everybody else.”*

- Ted Hosp

**Warren:** The expansion of Medicaid was not something that was on Children's of Alabama's radar, primarily because 95 percent of the children in Alabama are covered by some kind of insurance. About a third by commercial insurance, half by Medicaid and another portion by ALL Kids. Alabama is among the top 10 states in the country in terms of providing some kind of insurance coverage for children. That was short-sighted on my part. Given the long-term financial need we have in the state, the expansion of Medicaid will indirectly benefit Children's dramatically because it will provide significant additional tax revenues that will ripple through the system and not only provide some money to the General Fund but even more tax revenue to the education trust fund.

**Hosp:** Politically, the possible expansion

of Medicaid is not popular in Alabama. The governor has said he wants to fix Medicaid before we try to expand it. There are estimates that we would need somewhere in the neighborhood of \$150 to 200 million or so per year in additional state funding in order to fund the expansion once you get to the 90/10 match in 2020. And I think there is rightfully some concern about where that revenue would come from.

**Ferniany:** The interesting thing about expansion is, if this were an industry and we came to the state government and said, “We're going to bring \$2 billion into your state, and the economic ripple effect of that is going to be \$3.4 billion. And all we want from you is \$200-plus million.” Plus, with that state match, the tax revenue should be \$299 million. So the state comes out ahead. And it's even better. The Hospital Association has found that other states have moved people from high-match programs to the new expansion. There are things you can do that are legal and acceptable to CMS (Centers for Medicaid Services). That creates another \$135 to \$157 million. So if the state expanded Medicaid, it would have a positive impact on the state budget of \$155 to \$177 million. If this was a manufacturing company, people would be jumping all over themselves to do this.

**Q: What do the funding shortage and the recent cuts mean for patients?**

**Hosp:** We have a bare-bones Medicaid program to start with. So when you start cutting, there aren't a lot of places to cut. The first place

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we cut is primary-care physicians. That was done effective August 1. The other things on the table are things like pharmacy coverage. You might save money on the short run, but if people aren't taking their medication, you're going to lose money in the long run. Another thing on the table is cutting outpatient dialysis. That means that a person who now can go into a dialysis clinic and receive treatment will have to become a patient in a hospital, which costs more. It doesn't cost the state any more money because the hospital program is supporting that portion of the Medicaid program. But while you're saving money on the General Fund side, you're costing the overall health care system more money, and quite frankly you're putting those patients at risk. Because if you have to become an in-patient in order to get your dialysis treatment, you're less likely to do it. Which mean you're more likely to go through kidney failure and have your health adversely affected.

**Ferniany:** If we don't fix the budget this year, other cuts will come in. And these cuts are much more severe than people think. The state cannot cut the mandatory benefits that are required to have a Medicaid program. You can't cut the hospitals, because it saves the state no money. You can't cut the nursing homes, because they pay a tax, too. All that leaves are the optional programs. So it's a very, very significant cut in the optional programs. What looks like a small cut on the Medicaid budget as a whole is a big cut on the few things they can actually cut.

**Warren:** That's what bare bones really means. In order to have a program that qualifies at all according to CMS and the Medicaid program, you have to adhere to certain things. Alabama has very few things above that. The bump for primary-care physicians is one, and that's on the chopping block. Hospice care is also on the chopping block as are some of the pharmacy services. There are very, very few things that can be cut. So you have to cut them drastically in order to have any kind of impact.

**Q: If the lottery passes, how many of the proposed dollars would go to this issue?**

**Ferniany:** I've heard the Governor speak twice about the lottery, and he does not say where the money would go. The bill that is being crafted for the special session is very tightly written and only allows for a referendum or a vote on a lottery. It does not specify where the money goes. It's just to the General Fund. So you have three hurdles. You have to pass the bill allowing the vote, you have to pass the vote, and then you have to have an argument

in the legislature next spring as to where the money goes. Right now nobody knows where the money would go. It's not definitely for Medicaid.

**Hosp:** In order to have a lottery in Alabama we have to amend our constitution, because it prohibits lotteries. There are multiple ways to set up a lottery. Most states historically have done it with a state-based lottery commission that is essentially an entity of the state. Some states recently have gone more to private companies that come in and run your lottery. The process that the state will have to go through in deciding which avenue to go down could delay when you would start seeing revenue from a lottery. It could be a year or more. So a lottery definitely isn't going to help this coming year, and it probably won't help the year after that, because there are a lot of issues that are going to have to be resolved. And once the lottery money does start coming in, it will have to be budgeted just the same as every other dollar that comes into the state.

**Warren:** From a funding standpoint, we have a short-term issue and a longer-term issue, both of which relate to the lottery. If the lottery were to pass, it will not help the 2017 budget. So we will need some short-term money for 2017. We know how to do that. Whether we have the will to do it is another question. But a lottery alone will not be enough longer term. There needs to be a comprehensive plan. We need to challenge the governor and the legislature to think longer term about some kind of combination of revenue sources so there is a long-term sustainable basis for the funding of Medicaid and the other General Fund entities.

**Hosp:** In order for a lottery bill to be on the Nov. 8 ballot, it has to pass the legislature no later than Aug. 24. And if you favor a lottery, you want a lottery referendum on a general election ballot because lottery support tends to be broad but shallow. People sort of like it, but it's not a driving factor that's going to get them to the polls. Lottery opposition tends to be more narrow but very deep. The opponents will go to the polls. So if you want to pass it, you want

to have the largest possible electorate going to the polls on that day, and that's a general election.



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- Mike Warren

**Q: Several Birmingham health providers were expected to create jobs due to the RCO plan. Does the Medicaid situation put those jobs in jeopardy?**

**Ferniany:** The answer is absolutely yes. St. Vincent's and UAB in the Birmingham region, and UAB, Baptist Health, East Alabama and South East Alabama in the Montgomery Region, have all been very involved in the RCOs. Right now it does not look like there is any way any of us could ever get RCOs approved. I would never even consider taking it to my board, and here's why. Number one, no sustainable funding. We're going to remodel the building we're in, take a longer term lease on a new space, hire 200-something people, only to lay them off next year when there's no funding? No. So we're not going to get into that. You have to have sustainable funding. And there are a lot of administrative issues that have come up. The RCOs as they're envisioned now are not what we envisioned a couple of years ago. They've changed a lot in the way their being implemented. As an example, the state government wants the RCOs to fund most of the amount of money that they can't afford to

pay from August and September claims. So RCOs have to pay \$160 million of the State's expenses. The state's only going to pay RCOs 25 percent of the first-of-the-month payment, so RCOs have to fund the rest, which makes it almost unworkable. And they've put significant restrictions on how RCOs must operate. But really the main issues are we don't know when we're going to get paid, and number two, we don't have sustainable funding that we can depend on. If we don't have a partner in the Alabama legislature to help us make this happen, then it will not happen.

**Warren:** Children's of Alabama is not part of any RCO but we are a major Medicaid provider, one of the very largest in Alabama. And based on the funding situation we have now and the

fact that the rules have changed from what was expected four years ago, Children's opposes the implementation of RCOs. We don't think they can work now in Alabama. We are against them because the basis guidelines and rules have changed dramatically. We thought we were playing football four years ago and now the game is badminton. As a matter of fact, the commissioner of Medicaid's own numbers suggests that the additional administrative costs anticipated will be greater than the projected savings. In other words, Alabama will lose money if RCOs are implemented under the current setup.

**Ferniany:** If you estimate the administrative costs at an average of 10 percent, that's \$250 million. And Medicaid is not reducing their staff at all, so there's no savings there. So you have \$250 million out of the system.

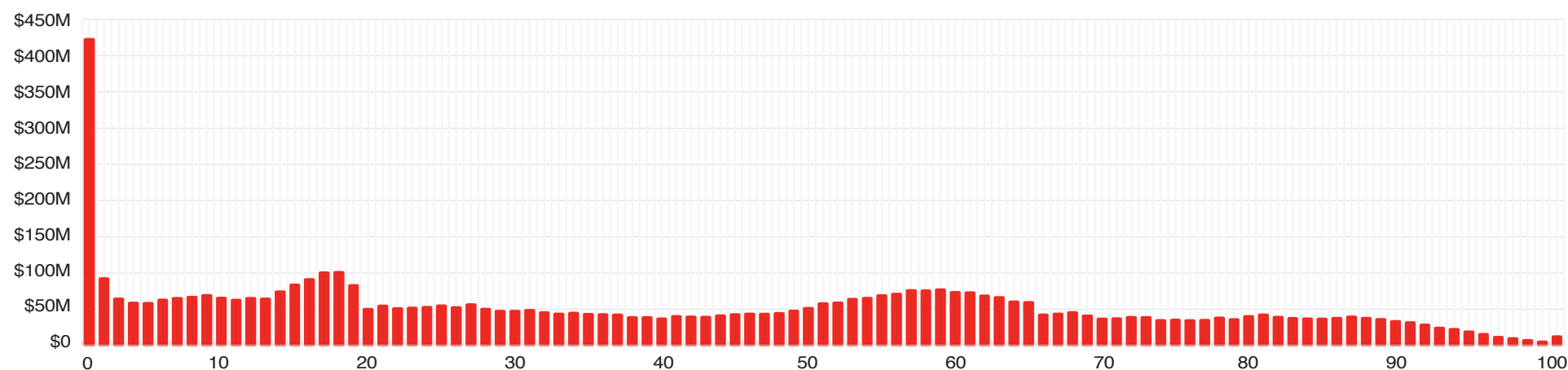
**Warren:** There is a vicious circle: If you support RCOs by reducing utilization, you also reduce the tax dollars that are raised, and that in turn reduces the dollars available to match the overall program. So the spiral starts.

**Ferniany:** The only fix for that is expansion.

**Hosp:** It will be interesting to see what happens when they get into a special session. In order to pass a lottery, it's likely they will need some Democratic votes. I've seen that stated by Senator (Jim) McClendon in the Alabama Senate. I think he's going to be the Senate sponsor of the lottery legislation, and he's said it can't be passed in the Senate without Democratic votes. So it's going to be interesting to see if they do make a real pitch to try to pass the lottery, what are the things the Democrats are going to want to include or make sure happen? One of those things could be Medicaid expansion. I don't know if that's something they'll push for, but it might be one of the things they ask for in exchange for their votes. Expansion is talked about a lot in Montgomery, but it is so politically unpopular among the majority of the legislators that you'd have to put that as a longshot. I'm of a view that the governor could do this on his own and expand Medicaid without legislation, but there are others who have looked at this and disagree.

**Warren:** Part of a long-term financial solution — part of stability going forward — needs to include expansion of Medicaid as part of the answer. A lottery is not enough, and expansion could be the supplement that helps. There are a lot of different flavors of lotteries being talked about, not just what the governor is talking about. So who knows? But this is the time for the legislature and the governor to step up to the plate and do tough things to solve the problems we have with the General Fund. It

FY 2015 Medicaid Expenses by Age Group | Alabama Medicaid Agency expenditures for medical and support services for fiscal year 2015. By age at the date of service



can be done, but it takes will.

**Ferniany:** One of the ironies is, the governor says we need to reform Medicaid before we do expansion. But if we don't do expansion, we cannot afford to reform Medicaid. This thing is circular.

**Warren:** They need to happen together in order for it to work. They cannot happen in a series. They must happen at the same time as part of a total solution.

**Q: Rural health care providers are already facing challenges. What will Medicaid cuts mean for them?**

**Ferniany:** In a lot of small towns in Alabama, health care is the main part of the economy. To show how important it is, our state is pretty tax adverse, but when the hospital closed down in Chilton County they passed a tax referendum to support a hospital even though it's going to always lose money. They did that because the hospital is an important employer and they see it as important to attract business.

**Hosp:** In rural counties, hospitals tend to be the biggest employer in that county. If you have a hospital, that's where people are going to work. So it's more critical to many of these rural counties than it is to Birmingham.

**Warren:** Over the next 10 years, will doctors who finish training go to rural areas if they are looking at a Medicaid climate like we have now? I think the answer is no, at least not in the numbers that are needed. We have an aging pediatrician population around the state. The average age is about 55. So you are going to see a real turnover, and that is particularly

challenging in rural areas where you may have only one pediatrician in a small town.

It is a huge challenge moving forward. What I think will happen at Children's is we will end up getting patients referred later and they will be sicker, and therefore the cost to the system will actually go up. So while we think we're doing something smart short-term, it's a double whammy longer-term. Costs will go up and the whole system will be less effective and less efficient, and access to health care will diminish in the state of Alabama.

**Hosp:** From an economic perspective I think you'll see some rural hospitals close, and that will cost jobs. People will have to go farther to get their health care, so they might postpone it and get sicker, and the cost of treatment will then go up.

**Ferniany:** The other thing that's related there is I think our emergency rooms are going to clog up. Because where are you going to go? You're not going to find a primary-care doctor, so you go to the emergency room. And that's real expensive care.

**Warren:** If a Medicaid kid has a medical home where checkups and vaccinations take place, I think we can make

some real progress in identifying problems early, getting them addressed early and

managing that care. That will not only keep children out of the emergency room but it will also keep them out of the hospital. That is where true savings can be achieved and better health care for kids can be delivered.

**Q: What role does Medicaid play in hospitals' financials? How will they be impacted by cuts and what are their options for responding?**

**Ferniany:** It is a foundation for the whole system, and there are only so many ways you can respond to the cuts. You either have to cut costs or close programs. If you're a small hospital and you get cuts in Medicaid, what are you going to do? If you have less money you have no choice. You either cut jobs and programs or you close.

**Warren:** The funding challenges we have in Medicaid are not new. They have been here for the last several years and we have had year-to-year, stop-gap funding to fill shortfalls. At Children's over the last two years, we have reduced our

capital budget for facilities by 50 percent. And we have reduced our IT budget by 50 percent,



*"In Kentucky, 12,000 jobs were created because of Medicaid expansion, and they estimate that by around 2024 it's going to go up to 40,000 jobs. Alabama is missing out on these jobs by not expanding Medicaid."*

- Dr. Will Ferniany

all because of concerns about Medicaid funding. In the short term we have been able to defer or delay capital projects to help meet budget shortfalls. But as we go into 2017 and beyond, the kind of cuts we will have to make will involve people and programs. That is detrimental to health care for kids in Alabama.

**Q: Many experts have said Medicaid cuts could force some providers to stop accepting Medicaid. Do you think that will happen?**

**Warren:** When we talk about physicians around the state, that clearly is true. Children's of Alabama has been around for more than 100 years. We're going to treat these kids. We may go broke in the process, but we're going to treat kids.

**Ferniany:** Some providers aren't going to be able to afford to take care of Medicaid anymore, so they're going to stop accepting Medicaid patients. Others are just going to leave. There is a very large shortage of physicians in this country and it's growing. So physicians can leave Alabama and they'll have no trouble finding jobs in other states. And the recruiters will be out to recruit them from Alabama. That will have an effect in the emergency rooms and the hospitals, and it will cost more in the long run.

**Q: If more Medicaid funding isn't provided, how will that impact access to care in Alabama?**

**Warren:** Access to care is a huge issue for Children's of Alabama. We partner with

## UAB Medicine supports adequate and sustainable funding and expansion of Medicaid.

### Why? Because without adequate, sustainable funding:

- The people of Alabama and quality of care will suffer
- Physicians may move to other states
- Some hospitals, especially in rural areas, may go out of business
- Jobs will be lost

### With expansion, however:

- Alabama could benefit from as much as \$3.4 billion in potential economic impact
- After paying the federal match, the state budget could be increased by over \$150 million annually
- Jobs will be created. In Kentucky, for example, Medicaid expansion created 12,000 jobs, with an estimated 40,000 by 2021.

*We should all be doing what we can to support adequate, sustainable funding and expansion of Medicaid. Do your part and contact your legislators.*



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pediatricians and primary care providers throughout the state. If the physician providers are not there, the result will be delays in referrals and sicker kids arriving at Children's. And that will result in more expensive hospital stays, because our partners who used to take care of these children have gone away.

**Hosp:** Access-to-care issues go beyond the Medicaid population. That needs to be stressed. When hospitals close or cut services, and when physicians leave the state of Alabama, it doesn't affect just the Medicaid population. It affects those of us who have private health insurance, too. Because the hospital that you used to go to won't be there. The physician that you go to has left. So if Medicaid isn't properly funded, it's a crisis that goes beyond the Medicaid population.

**Ferniany:** It also has a financial effect on everybody. Hospitals can only make money three ways: through Medicare, Medicaid or private insurance. Medicare is just above break-even, so basically, lower Medicaid payments is a tax on people who have private insurance. Because you have to raise the private-insurance rates for the hospitals to make money.

**Q: Could this situation have long-term effects on the economy?**

**Ferniany:** There's going to be a loss of jobs. In Kentucky, 12,000 jobs were created because of Medicaid expansion, and they estimate that by around 2024 it's going to go up to 40,000 jobs. Alabama is missing out on these jobs by not expanding Medicaid.

**Warren:** Another aspect is that when other industries are looking to move or existing industries are thinking about expanding, the things they look at are the education system and the health care system in the state. Clearly, if you are a company thinking about opening an operation in a new location or expanding an existing location, one of the things that would keep Alabama off the possible list is our overall underfunded and inadequate health care system.

**Q: If the state's funding for Medicaid isn't increased and the RCO plan doesn't move forward, what will that mean for the state's medical community in the long-term?**

**Ferniany:** People say if we don't do the RCOs, we're going to lose the \$748 million in the 1115 waiver. But that is not new money. That is from savings, from less hospital and doctor spending. And if we don't save it, a good portion of that has to go back. What the federal government is saying is, "If you do these RCOs and cut Medicaid spending by \$748 million, we'll give that back to you to do other things." So it's not new money. It's our money.

**Warren:** It is a pay-it-forward sort of thing. We will give you your own money early, but if you are not able to save like you said you would, we are going to require you to give it back.

**Ferniany:** We need to look at alternatives to the RCOs that meet the original objective, which is better, more efficient care for the patients. The health homes are a type of coordinated care for the patient. You identify the chronically ill, and you assign case workers to make sure they're getting the proper care instead of just popping in and out of emergency rooms.

**Warren:** A recent study indicated that overall

health care costs in the nation are expected to go up 6.4 percent annually for the indefinite future. Unfortunately for the RCO solution, the world has changed, the guidelines have changed, and we need to recognize that. In addition, RCOs were oversold or over-interpreted by many in the legislature who believed that the problem with Medicaid funding was going to be solved forever by the implementation of RCOs. That is not true. The opportunity now is to find a plan B; an alternative to RCOs. I think it can be a combination of things, but included among them ought to be the health home. Then we can begin to reduce that 6.4 percent annual increase.

Can it be 3 percent? Maybe so. But it can't be zero, and we need to quit fooling ourselves about what is possible in the world of health care.

**Ferniany:** RCOs were never intended to reduce the cost of Medicaid. They were intended to reduce the rate of increase.

**Warren:** That was the initial objective, and it was possible with the rules as they existed four years ago. But it is not possible today because the rules have changed and we are not funding Medicaid adequately.

**Hosp:** Medicaid commissioner Stephanie Azar delivered a series of presentations to members of the legislature, and it was a very comprehensive view of every part of Medicaid. And the last line on her final presentation said, "Alabama Medicaid has a budget crisis with or without RCOs." She has been very clear about that. This year's Medicaid budget is at \$700 million. If we take the 6.4 percent medical inflation figure, that means next year Medicaid will need another \$45 million, and another \$50 million the year after that. The projections are that by the year 2020, Medicaid will need about \$917 million of state General Fund money. That's an increase of \$217 million, or 34 percent, over the current year's state General Fund share.

**Ferniany:** And that doesn't include the amount the hospitals and nursing homes are paying. That's additional to that amount, which is why the lottery alone is not enough to make this work.

**Hosp:** So you have to look at the causes of medical inflation. Why is it increasing by 6.4 percent? If you're going to do something to fix it, you have to get that 6.4 percent inflation rate under control. Because it's obviously not

sustainable to say we're going to need an extra \$50 million a year out of the state General Fund, at least not the way the fund is currently configured.

**Q: What can the business community do to try to help?**

**Warren:** What the governor and legislators need is the courage to step up to the plate. They need the business community to say, "We know this is hard. We know it's going to require you to make some tough decisions. We don't know exactly what the answers should be, but we support your efforts to find an answer." In

other words, give them not only the encouragement but also the cover to make some tough choices. If Alabama politicians continue to focus on, "How will this impact me on my re-election campaign," Alabama will continue to get the same answer that we have gotten for the last half-dozen years. What the business community needs to do is help instill some courage and fortitude in the decision-makers. And, the business community needs to be willing to participate in what those answers should be. There are a lot of things that ought to be on the table, and it will take multiple answers to come up with the right long-term solution. It will take a quilt, not a simple blanket. The business community needs to give our elected officials the courage to make that quilt.

**Hosp:** The lottery is a politically difficult

issue for many of our legislators. Lottery opponents tend to be vocal and feel that opposition very passionately. If it is going to pass and we're going to find some long-term solutions to Medicaid funding, the members have to hear from the folks who support that as much if not more than they hear from people who don't want new taxes or a lottery. If the business community sees that adequate funding for Medicaid is crucial to our health care infrastructure, then everybody really needs to step up and say to their legislators, "I will stand behind you if you do this." Because absent that, the members are just going to hear from the opponents.

**Warren:** It reminds me of the old story about the worker who was asked what he was doing and he replied, "I'm making bricks." And then another worker was asked and he said, "I'm helping build a cathedral." The lottery alone is just making bricks. We need a cathedral. We

need a big answer. We don't need the lottery to pass and the legislature to think, "We've solved Medicaid." Because that is not true. A lottery alone will not do it. We need to think big.

**Ferniany:** That is my fear, that they will pass the lottery and say, "We've done our part." It's not enough. It won't fund expansion. The lottery alone won't fix Medicaid.

**Hosp:** The governor has always said he doesn't want to expand a system that he believes needs fixing first. But it's a chicken-or-the-egg type thing. You can't reform it until you expand it, and he's saying you can't expand it until you reform it. But there's no doubt that in Alabama the concept of Medicaid expansion among the general public has a negative connotation. There is an incorrect perception among the general public that the Medicaid system is all about free health care for people who are just sitting at home and not trying to get a job. That simply is not the case. That's not who it's covering. It's covering children, it's covering the disabled. About 70 percent of the Medicaid population is children.

**Ferniany:** It's children, pregnant women, the blind and disabled. That's who's on it. It's hardly anybody who is a working adult.

**Q: Any final thoughts?**

**Ferniany:** It's important for people to understand that Medicaid is important to all of us, not only for those who are covered by it. It's a critical component of the health care system, and without it the whole system will fail

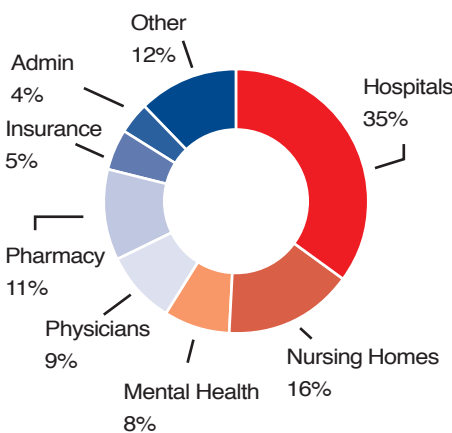
**Warren:** It's a complex situation, and it is difficult for people to connect the dots. But to ignore something because it's complex is the height of foolishness. That is where we are right now. To put our heads in the sand as a state in the face of this crisis situation would be a huge mistake. But it is going to take courage and creativity and innovative thinking to fashion a long-term solution to this Medicaid and General Fund situation. Will Alabama step up?

**Hosp:** What I hope folks will understand is Medicaid matters to the entire population. It matters to businesses because of their health insurance premiums. It matters to hospitals because they form the foundation of the health care infrastructure as a whole. It has nearly a \$6 billion direct impact, direct spend, on the Alabama economy. That can't be minimized. And I do think there is a misperception out there that if the state doesn't do it, the federal government will just come in and take over the program. That's not the way this works. If the program is decertified by CMS, it just goes away. That's never happened before, and it's almost inconceivable to think that we could get that far down the road. But it could happen.

**Warren:** I am cautiously optimistic that things are so bad now that we've finally gotten the attention of the governor and the legislature. I am optimistic that there will be a real concerted effort to reach a long-term, sustainable funding solution that will make Medicaid viable for the future. Sometimes it takes a real crisis, out of which will come some good answers. We just need for the business community to encourage the legislature to use creativity and innovative thinking to solve this problem. If the business community had a problem like this, it would be turning cartwheels to come up with answers. We need that same kind of energy and focus and creativity in the legislature to come up with the right solution for Alabama.

FY 2015 Medicaid Funding Analysis

Benefit Payments and Administrative Costs



FY 2015 Medicaid Funding Analysis

State and Federal Funding

