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## News

[Back](#)

### A Vision for the Future of Health Care

I want to thank Dan Walsh, Ed Reinfurt of the business council and Peter Aust of the Chamber Alliance for giving me this opportunity to speak to you today – at some length – about the challenges that we face in New York State in controlling health care costs. I'm also going to be talking about access to health insurance and to our health care system, because I'm convinced that getting more people treated effectively in a well run system rather than haphazardly is one of the keys to controlling health care costs. But mostly I want to talk about the key to resolving the crisis of affordability of health care for individuals, employers and taxpayers, which is to address the fundamental drivers of cost of our health care system.

Ironically, the challenges of access and affordability have become greater during a time of extraordinary medical progress. New drugs and medical technologies have dramatically reduced the need for lengthy hospital stays and enabled people to live longer on their own. Yet these very advances have made health care much more expensive for individuals and employers who purchase insurance and for taxpayers who fund the cost of Medicaid and other public health programs. The cost of an insurance policy for a family of four in New York State also more than doubled, from \$5,300 in 1996 to more than \$11,000 in 2005. The high cost of providing health benefits has also weakened the state's competitive position in attracting and retaining businesses--as this audience knows all too well.

As we all know, the cost of the State's Medicaid program severely burdens all taxpayers--individuals and businesses alike. The total cost of the Medicaid program has nearly doubled over the last decade, from \$24 billion in 1996 to almost \$50 billion in the executive budget proposed yesterday. Medicaid costs have been financially crippling for many county budgets, resulting in higher property and sales taxes. Last year, 10 counties in New York State actually spent more on Medicaid than their total property tax receipts.

New York is in this predicament because for too long we have not made honest and hard choices, and as a result we find ourselves with a system that is at once too costly and yet leaves too many without adequate access to the health care they need. As remarkable as the care for individual patients can be, the system, as a delivery system is broken.

Some people say that all our problems could be solved just by reducing Medicaid fraud. Cutting Medicaid fraud is crucial and it has been a priority of mine as attorney general. Since 1998 my office's Medicaid fraud recoveries are up nearly 2000 percent – with no

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significant increase in our resources – and we have led the nation in such recoveries repeatedly. Last year we recovered more money than any Medicaid fraud control unit ever. But today I'm going to lay out how the state can do even a better job in preventing fraud and abuse, by giving my office the additional authority it needs.

But as important as fighting Medicaid fraud is, anyone who tells you that anti-fraud efforts alone will solve the affordability crisis in health care or Medicaid just isn't leveling with you. Instead of a narrow focus on one part of the problem, New York needs a new comprehensive strategy for reducing the cost of health care--one which first, gets people into the health care system in the most effective way, second, redesigns the health care delivery system in a way that reduces costs while improving quality, and third addresses the particular policy challenges of the Medicaid program.



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#### Increasing access

Most experts agree that extending access to health care to get people treated in the most cost-effective way makes good financial sense. That's because seeing a doctor in a clinic costs a lot less than treating the same patient in an emergency room, and effectively managing chronic illnesses like diabetes is a lot cheaper than dealing with the complications if the disease is left untreated.

Today, some 2.7 million New Yorkers lack health insurance coverage -- nearly one out of every seven of us. This is unacceptable as a matter of policy and it costs us dearly. We can and must cut the number of the uninsured in New York State in half over the next four years, and here's how it can be done:

#### Health insurance for every child

There are nearly 500,000 children in New York who are uninsured. Our first commitment must be to make sure every child in the state has health insurance coverage. The vast majority of these children actually qualify for existing state programs such as child health plus or Medicaid, but are not enrolled for various reasons. We need to understand the obstacles and get these children covered.

We need to make sure that premiums in programs such as child health plus are affordable to all families based on their income. And we need to be smart about how to enroll every child. This includes simplifying enrollment procedures that keep many families from enrolling their children, but also thinking creatively about reaching parents in new ways. That means that schools should require parents to demonstrate insurance coverage for their children or fill out an application. It means hospitals should help enroll every newborn not already covered by insurance. And it means making sure these children don't fall out of coverage due to bureaucratic complexity or other inappropriate reasons.

#### Reduce bureaucratic and other barriers to coverage

Our next priority must be the approximately 900,000 adults statewide who are eligible for coverage under our existing programs but who still go without insurance. The state receives Medicaid matching funds for care provided to nearly all of these individuals once they are enrolled in programs, so it is much less costly for our health care system to treat them with primary care through these existing programs than through the back-door, with costly state-supported uncompensated charity care at hospitals once the individuals become sick.

We need to break through the bureaucratic inertia to cover these eligible New Yorkers. First, we should make the enrollment process simpler, replacing the onerous application that prospective enrollees now need to complete with a simplified enrollment we used following 9/11. This simplified form led to increased coverage with no apparent increase in fraudulent enrollments. Second, we should change the re-certification process that leads to 40 percent of enrollees losing their coverage each year. The sheer complexity of this process drives up Medicaid costs and adds to administrative burdens. Third, we must maintain and expand, with appropriate monitoring, the state's successful use of facilitated enrollment through community organizations – something which has proved to be so successful.

Guaranteeing that every child in New York has health insurance and removing bureaucratic obstacles that keep those who are eligible from enrolling in existing programs will go a long way towards achieving our goal of reducing the number of uninsured in New York State by 50 percent over the next four years. But if we are committed to the goal of extending access to health insurance to all New Yorkers, we must make health insurance more affordable than it is today, by tackling head on the second major objective, which is to redesign the health care system.

We must address the fundamental drivers of cost in the health care system by rethinking key elements of our health care system. This process should start with four basic initiatives: 1) restructuring our hospital and nursing home system; 2) using technology to create state-of-the-art health information systems that are the key to containing costs while improving health care quality; 3) managing and preventing chronic diseases more effectively; and 4) reducing the cost of prescription drugs.

#### Restructure our hospital and nursing home system

Our hospital system needs to come to grips with the vast changes in medicine that have made it possible to treat many conditions outside of the hospital and dramatically reduced the length of hospital stays. These changes have left New York State with significant overcapacity of hospital beds, which contributes to the financial distress of many hospitals and increases the cost of health care. Many hospitals are closing while many others remain on the financial brink.

Last year, the Legislature and the Governor created the Commission on Health Care Facilities in the 21st century -- sometimes called the Berger Commission -- to make recommendations for "rightsizing" our hospital and nursing home systems.

This process will not be easy, but we know that it is necessary. If we are serious about

getting control of health care costs, we have to make these hard decisions about the best way to provide hospital care. Some hospitals will have to close. Not every hospital will be able to offer every type of specialized service, and some hospitals will have to close or be converted into facilities that provide only ambulatory, educational and emergency care.

In managing this transition, I believe there are four principles that should guide our approach. First, we must maintain safety net services to vulnerable populations and ensure availability of comprehensive services within a reasonable distance. Second, we must make sure the capabilities of our finest academic medical centers—so important to the state's economy—are unimpaired and even strengthened. Third, we must make sure that public subsidies are provided to struggling institutions only as part of a clear plan to move the facilities in question toward long-term financial viability. And finally, we must ensure an orderly transition that respects the tens of thousands of workers whose jobs will be affected, including implementing effective workforce retraining so that they have the skills to function in the new delivery systems that emerge. We must recognize that the knowledge, experience and dedication of these workers are invaluable resources that our health care system cannot afford to lose.

We also need to recognize that the imbalance of power between big insurance companies and health care providers has contributed to the financial distress of many hospitals. Something is wrong when our hospitals collectively lost \$2.3 billion on hospital operations over the last seven years, while one for-profit insurance company made nearly \$1.5 billion over the last year alone. The Health Department should respond to this imbalance by examining the ability of providers — hospitals and doctor alike — to negotiate effectively with ever larger, national for-profit insurance companies within the constraints of federal and state anti-trust laws.

#### Using technology to contain costs while improving quality

The second initiative we must pursue in redesigning the health care system is to use technology to contain costs while improving quality. In every other industry, technology has been at the core of producing greater efficiencies and improving quality. Yet, this has not been the case in health care.

Technology can be the lynchpin of a new approach to health care in the state that focuses on accountability and transparency. We can track spending on different health care strategies and study the evidence about results to identify which strategies provide the best quality at the most efficient cost. "Following the money" in this way can increase accountability in the health care system. Technology can also make transparent to doctors and patients alike what works medically, and provide decision support about the best course of treatment. These decision support systems may eventually allow us to align our payment systems to reinforce the most effective clinical practices.

Montefiore Hospital shows what can be done with sophisticated information systems. Using information technology, Montefiore is able to track and manage the type of care that is being delivered across the Montefiore system by each professional, and to identify recommended treatments for chronic illnesses such as congestive heart failure, diabetes and asthma. Every patient in the Montefiore system has an electronic medical record, and

doctors order prescriptions and schedule tests online. This has resulted in improvements in quality and efficiency and in a sharp reduction in medical errors.

Analysts say the use of electronic records significantly reduces redundant and improper treatments, and cuts back on medical errors resulting from incomplete or erroneous information. The bush administration recently estimated that electronic health records nationwide would save approximately \$140 billion a year.

Investing in health information technology is not cheap, but it is the key to redesigning the health care system. We need to make sure that information technology capital grants that the state makes are being awarded in a systematic way, with preference being given to investments that are consistent with the state's overall health care policy rather than parochial interests. This area is so important that we should appoint a state coordinator for health information technology to ensure that these essential investments are made as part of a focused strategy and not spent on ineffective programs.

#### Improving chronic disease management

The third part of our redesign of the health care system involves improved management of chronic diseases such as diabetes, heart disease, asthma, hypertension, and hiv/aids. Nationally, these chronic ailments account for over 60 percent of the rise in health care spending, and experts tell me that in New York this number is higher.

But New York's current health care system is not designed to effectively manage these diseases. We all read the recent *New York Times* series on diabetes, which recounts the alarming increase in the incidence of diabetes and its devastating costs to New York families. One observation in the series exemplifies why I insist on the need to redesign our health care system. The article reports that three prominent New York diabetes centers had to close down after seven years in operation. The *times* writes that these centers "did not shut down because they had failed their patients. They closed because they had failed to make money. They were victims of the Byzantine world of American health care, in which the real profit is made not by controlling chronic diseases like diabetes but by treating their many complications." What an indictment of our health care system.

We need a system that pays to keep patients out of hospitals, not in them. We need a system that pays to prevent devastating and costly diseases before they start, not wait for their onset to treat their effects.

A number of health plans and providers in New York are currently demonstrating innovative approaches to managing chronic diseases that result in better care at lower cost. Take for example a project launched by affinity health plans in 2002 to improve management of the chronic disease of childhood asthma. In three years, affinity's new care model which involved early identification and outreach, followed by effective care management and education, cut hospitalizations due to asthma by two-thirds and reduced asthma-related emergency room visits by 75 percent. Affinity estimates that every dollar spent in the program saves \$10 in costs.

The state must use its leverage as a regulator and as a purchaser of health care services to encourage widespread adoption of the most effective of these chronic disease management programs.

We can have an even greater impact if we can prevent these chronic diseases in the first place. Prevention programs may not sound important, but many health care policy experts believe that improved public health and prevention programs are the single most important element in controlling health care costs.

One of the most important strategies we should focus on is how to combat obesity, which has become an epidemic in our country, particularly among our children. The rise in obesity has been associated with a rise in diabetes, hypertension, and mental disorders among children – and the effects on adults as they reach maturity are even greater. The board of regents should create new standards for physical activity and the state health commissioner should strengthen and enforce our school's nutrition and junk-food standards. The impact of even modest reductions in obesity would ripple through the health care system, further reducing premiums over time.

#### Cut the costs of prescription drugs

The fourth part of our plan to redesign the health care system involves ways to reduce the cost of prescription drugs. Prescription drug costs is one of the fastest growing expenses in health care, so addressing this issue is an essential part of fixing our health care system. Nearly 20 percent of the benefits expense for a typical health plan is spent on pharmacy benefits.

The most important opportunity for savings in commercial as well as government plans is through the increased use of generic drugs. New York has one of the lowest rates of use of affordable generic drugs in the nation – at 43 percent -- while other states use generics almost 60 percent of the time. One recent study by Excellus in Rochester showed that if every county in upstate New York were to increase its use of generic drugs for each age group to match that of the highest performing county, the total annual savings would exceed \$880 million. We should encourage greater use of generic drugs and less expensive but therapeutically equivalent prescription drugs through provider education and greater awareness. There is simply no excuse for our lagging the nation in the use of generic drugs.

We must ensure that market forces are put to work to the consumer's advantage when it comes to prescriptions drugs. This should include taking a close look at the operations of the vast pharmacy benefit managers--called pbms--an industry where just three firms control 90 percent of the commercial market. The New York State Insurance Department must use its regulatory mechanisms to protect consumers and businesses from potential abuses. And New York State should explore the creation of a non-profit pbm to compete with these companies to reduce drug costs for both Medicaid and commercial plans.

#### Medicaid

The initiatives to address the fundamental drivers of health care costs I have just addressed will help reduce the cost of Medicaid, but there are problems that are specific to the Medicaid program that must be confronted if we are to gain control of the single largest and fastest growing component of the state budget.

I strongly supported the Legislature's action last year to cap the counties' share of Medicaid spending, but we know that this important step will add significantly to the state's fiscal burdens, as much as \$1.9 billion to the budget by the end of fiscal year 2008. It is now more important than ever that New York State take bold steps to regain control of this program.

#### Reduce Medicaid fraud and abuse

Fighting Medicaid fraud and abuse is an essential element in controlling Medicaid costs. I support many of Governor Pataki's recent proposals to improve efforts to fight Medicaid fraud through improvements at the State Health Department, but we should go farther by enhancing the powers of the attorney general's office as well. The attorney general's office has a long-standing request with the federal government to obtain authorization to use automated fraud detection systems to identify targets, which we currently are barred from doing under federal regulations. This regulation is terrible public policy and costs New Yorkers untold millions. A number of counties were recently permitted to use such systems--a capability known as "data mining," but our office, inexplicably, is specifically barred from doing so. We will continue to push Washington to change this policy.

We needn't wait on Washington for other important changes. The State Legislature should immediately enact a martin act for Medicaid fraud that gives the state the same broad powers we've used to fight securities fraud so effectively. The Legislature should also pass a state false claims act modeled on the federal statute that has been used to great effect. Next, the state budget must provide both the attorney general's office and the department of health with adequate staffing levels to investigate Medicaid fraud and waste. Every fraud investigator earns back her salary many times over.

Finally, the state must upgrade its computer systems, so that it can analyze patterns of Medicaid payments and identify instances in which the use of expensive procedures is well above what clinical best practices would suggest is necessary.

#### Reduce Medicaid prescription drug costs

Prescription drug costs are also a large and growing part of the Medicaid cost problem. Medicaid spending for prescription drugs is over \$5 billion and has been growing at a rate of nearly 20 percent a year.

The Preferred Drug List--known as the PDL--passed by the Legislature and enacted this year was an overdue step towards addressing this challenge, but it did not go far enough. First, we must watch how the PDL system operates to ensure that the "prescriber prevails" rule in the law doesn't become a loophole, so that drug manufacturers compete

on price where there is no demonstrated clinical advantage between drugs. Second, in addition to the PDL process, the Health Department must develop a database that enables the state to target those Medicaid patients who are seeing multiple prescribers and pharmacists. These outliers drive a disproportionate share of prescription drug costs, and this database will enable us to better target fraud and abuse.

The state can save even more money on prescription drugs by using its enormous leverage as a customer--including following the example of other states by using multi-state buying consortiums to increase its buying power. As a huge customer, New York State should include "most favored nation" clauses when contracting with drug providers to ensure that it gets the best available price on such purchases, which in many cases it does not. We need to make sure New York State is getting the best price for the drugs it buys by using our version of the tools used by the V.A.--effectively using federal discount pricing, targeted formularies, and tougher negotiating.

#### Develop a better and less costly long-term care system

The biggest issue in Medicaid spending is long-term care. Long-term care now accounts for 41 percent of the Medicaid budget, or over \$17 billion a year. Some have suggested that changing eligibility requirements for long-term care assistance is a large part of the answer to controlling Medicaid costs. There may be some flagrant abuses that need to be addressed. And the State will have to evaluate the impact of recent federal law changes that tighten asset transfer rules. But the fact is that very few families have the resources to pay the costs of nursing home care on their own, so to truly manage this problem, we need to develop a strategy that addresses the fundamental issues of long-term care.

First, New York needs to make it easier for our residents, regardless of income, to prepare and save for their long term care needs. We need a broad public education campaign so that our residents understand their financial planning options. Many do not realize that Medicare does not pay for long term care. There is also a widespread lack of awareness regarding the high costs of long term care, which now exceeds \$100,000 a year in many parts of the state.

We must pursue initiatives that make saving and paying for long-term care easier. For example, the state of New York mortgage agency should launch a reverse mortgage product to allow the elderly to tap into the equity in their homes to help finance long-term care. We should also increase tax credits for the purchase of long-term care insurance, and allow individuals to make tax-free payroll deductions to pay for their long-term care needs, just as they do now for college and retirement.

The next fundamental strategy we must pursue is to support better home and community based long-term living options that reduce the need for the most expensive nursing home care. We must work to provide options across the full range of long term care settings. That could include providing support like respite care to informal care givers who want to keep their loved ones at home but cannot do so without help. And, New York State must do what other states have done successfully: get the federal government to permit us to combine Medicaid and Medicare dollars for this full continuum of care, not just for nursing homes. Most of these ideas are not new or even all that controversial, we just need to get

them done.

Our third strategy is to increase the role of managed long term care. Managed long-term care can be a "win-win" of better care at lower cost in many cases. New York State has fewer than 14,000 enrollees in managed long term care. Despite the challenges of program design and capital needs, increasing enrollment in managed long term care must be a policy priority.

Finally, we need to make it easier for our families to navigate New York's fragmented long-term care programs, making the process both more user-friendly and cost efficient. This could be achieved by coordinating entry into the long-term care system with a goal of encouraging the use of community settings where appropriate. If done correctly – and we have models already such as the one in Broome County -- this will ensure that our elderly receive quality care that is tailored to their needs so that they are better able to live independently in the most appropriate environment, at the most efficient cost.

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There is so much more we need to address in health care, issues I will be talking about over the course of this campaign, such as how to reduce our high administrative costs, the shortages of nurses and the specific needs of home health care workers. We must address the issue of high medical malpractice premiums. And we must address the very troubling issue of racial and social gaps in the distribution of health care access and in the quality of outcomes.

The challenges facing the health care system are great, but we really don't have a choice: without fundamental reforms in our approach to providing health care, the system will collapse under its own weight.

Many of the ideas I've discussed today are not new, but they have not been implemented because of the gridlock in our political system. More important than any single programmatic recommendation I've made today, the message I want to leave you with is that leadership is the indispensable quality of in transforming our health care system. Working together, we can break that gridlock, and have a health care system that is both compassionate and fiscally sound. Only then can we finally address the crisis of access and affordability in health care.

Thank you.

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