## Closing the Gap Mending Medicaid

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- Earlier this year, a drug that had been flying off the pharmacists' shelves in New York State suddenly had it wings clipped. As the New York Post reported late last month, in the last three months of 2001, doctors in the state wrote 2,574 prescriptions for the drug Serostim, which contains a human growth hormone that helps treat AIDS wasting syndrome. But after the state instituted a rigorous authorization process for the drug earlier this year, the Post reported, doctors suddenly got spooked. Sales in New York State fell to just 589 prescriptions in July, August, and September. It turns out that the drug is a favorite of bodybuilders, who constitute a lucrative black market for it. The Post reported that Medicaid paid out \$47 million for the drug in New York State in 2001, the vast majority of it for fraudulent purposes. The city - since New York State uniquely shifts half of its Medicaid bill to its local governments - picked up about 25% of the cost. This fraud went on despite the fact that as far back as 1997, a year after the drug came on the market, the feds caught people paying off miscreants in Washington Square Park to obtain the Serostim under false pretenses. This is just one example of the fraud and abuse that infest Medicaid in New York State. This waste, a federal reimbursement formula unfavorable to the state, and a spendthrift government at Albany insistent on offering every optional benefit Medicaid offers, are some of the reasons the city faces a \$6 billion budget gap. In 2002, the city's Medicaid expenditures amounted to \$3.49 billion - and they are expected to increase by 7.4%, to \$3.75 billion, in 2003, according to the mayor's budget. Medicaid may be a bloated mess in all 50 states, but, to borrow a phrase from President Bush's home state, everything's bigger in New York. In a report issued in October, the Manhattan Institute's E.J. McMahon writes that New York State's Medicaid spending per recipient is roughly two and a half times the average for the rest of the nation. Mr. McMahon wrote that if New York State could reduce its Medicaid costs by only 18% - a level still double the average for the rest of the states - it could save about \$1.25 billion a year. The City could save about half a billion dollars a year. Though it might require approval from Albany, there's a way costs can be reduced by such a margin, if not more, here: New York City could emulate the plan being floated at Albany by that county's comptroller, Michael Conners.

The nut of the Conners plan is that Medicaid recipients could have their health care provided for in the same way as municipal employees, with the government purchasing private health insurance as opposed to directly purchasing medical services. The main benefit of this is that when health care providers are forced to deal with private insurance companies, as opposed to the unaccountable Medicaid bureaucracy, fraud and abuse is far less likely to escape the squeeze of private penny-pinchers. In other words, no more steroids for strongmen. This plan would also constitute an end run around some of the optional benefits the state requires under Medicaid, such as podiatry, dentistry, eye care, and prescription drugs - including that other favorite strength-enhancing pill, Viagra.

As an additional benefit, according to Mr. Conners, about 20% of recipients would qualify for family policies, which reduces costs for those individuals significantly. Furthermore, if the Medicaid-eligible could be asked to cough up small co-payments, which they are currently not asked to do, it would discourage wasteful use of health care resources.

Mr. Conners estimates that Albany County could cover Medicaid recipients for a cost of about \$4,000 a head. The current system costs, on average, \$7,000 for each Medicaid recipient statewide. Overall, Mr. Conners told The New York Sun that he believes his plan could save 15% on Medicaid expenses in Albany County. If these savings could be achieved in Albany County, they could likely be achieved in New York City, which pays about \$3,000 to insure individual city workers and \$6,000 to insure their families.

A plan such as Mr. Conners's would require a waiver from the federal government, which the state would have to authorize the city to request. Given Mayor Bloomberg's recent success in wresting control of the city's schools from Albany, we are confident in his prospects. And given that the current presidential administration is a Republican one, we would also be optimistic about the prospects of Health and Human Services Secretary Thompson looking upon a waiver favorably. Mr. Bloomberg, to his credit, has not been entirely derelict on this issue. The mayor's office is preparing to ask the state to contain costs, crack down on fraud, eliminate optional benefits, and tighten eligibility requirements. This last item - New York State allows middle class residents to "spend down" their wealth until they qualify for Medicaid, even when their families could take care of them - has the potential to save a good deal of money.

More than this is needed when one in six New York State residents is on the Medicaid dole, and when the City of New York spends more on Medicaid than the State of California, which has about four times our population. Ultimately, the burden of Medicaid funding best would be carried by the state government, which sets state Medicaid policy. But for now, assume that Medicaid recipients could be covered by the same policies that cover city workers. Surely the poor should not go untreated, but neither does it seem fair for them to be getting Medicaid Cadillac health insurance coverage when the working man is driving a Honda. Assume the costs increase slightly because of what may be a more sickly population. And say the cost is \$4,000 an individual instead of \$7,000. The Medicaid system - state, federal, and local - saves about \$3,000 for every patient. There are about 1.9 million Medicaid patients in New York City, creating savings of \$5.7 billion for the system. The city gets a quarter of these savings, or \$1.425 billion.

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