

**New Jersey Health and Senior Services Commissioner Heather Howard
FMAP Hearing on H.R. 5268
House Energy and Commerce Health Subcommittee
Tuesday, July 22, 1008
Washington, DC
2 pm**

Good afternoon Chairman Pallone and Distinguished members of the House Energy and Commerce Health Subcommittee.

I am pleased to be here to discuss the importance of maintaining our health care safety net during a time of national recession.

First, though, I would like to take this opportunity to thank you and the many members of Congress for your leadership and hard work in enacting a moratorium on many of the harmful Medicaid regulations the Administration issued over the past year. Those regulations threatened critical funding for hospitals and other health care providers and would have impacted the care provided to the most vulnerable. I know you worked together in a bipartisan fashion to prevent the regulations from taking effect and want to commend your efforts.

And Mr. Chairman, thank you for your sponsorship of HR 5268, which would provide New Jersey and the rest of the nation with a temporary—but urgently needed—increase of nearly 3 percent in the Federal Medical Assistance Percentage or FMAP. This legislation has bipartisan support and I am hopeful it will have the same success as the moratorium on the Medicaid regulations.

States are clearly experiencing the effects of the economic downturn. According to the nonpartisan Center on Budget and Policy Priorities, more than half of the states are facing budget shortfalls and more are likely to have deficits in the coming months.

Because most states cannot operate in a deficit, unless Congress intervenes enacting a temporary increase in FMAP, states may be forced to reduce health care services and eligibility for the most vulnerable.

This bipartisan proposal can be enacted quickly, as there is precedent from the 2003 economic stimulus package Congress enacted. And it is timely, temporary and targeted to helping the working families who are struggling in this failing economy.

Mr. Chairman, the decline in the national economy—and therefore most state economies—means rising unemployment, escalating Medicaid costs and more families in need of health care services. More employers will be forced to reduce or eliminate health coverage for their employees, exacerbating the negative trend in employer-provided health insurance. According to the Kaiser Family Foundation, nationally every 1 percent increase in unemployment results in 1.1 million more uninsured, and, that in turn results in an additional 1 million individuals enrolling in Medicaid, including 400,000 children.

And, since Medicaid eligibility lags six months behind unemployment figures, the full impact of increasing demand for Medicaid services may not be known for some time.

These new developments could not come at a worse time from a health care perspective. There are now about 47 million uninsured Americans – up from 40 million in 2000.

Mr. Chairman, this is a national problem that calls for a national response from Congress, and I am grateful that the committee is meeting today to discuss this critical issue.

This year, the National Governors Association, in a bipartisan action, strongly endorsed a temporary increase in the federal matching rate for Medicaid, along with flexible block grant funding, stating that “such efforts were effective in the past to stabilize the economy and maintain health care services for the most vulnerable populations.”

Let me be clear: a majority of states are now facing significant budget shortfalls, and will be considering drastic spending cuts as a result. In these hard economic times, not only are states seeing reduced state revenues, more people are qualifying for need-based benefit programs, further exacerbating state shortfalls.

In response, some states have already implemented cuts to public health programs, and clearly more will be forced to do so as the recession worsens, unless Congress approves temporary, increased Medicaid funding.

In New Jersey as in many other states, the health care system is in distress. Seven hospitals have closed in the past 18 months and half of those that remain are operating in the red. Approximately 1.3 million people have no health insurance. According to the American Hospital Association, last year 35% of urban emergency departments were over capacity, and 56% of urban hospitals and 64% of teaching hospitals had spent time on ambulance diversion status, in many cases for long stretches.

New Jersey's Medicaid program is the safety net for more than one million low-income families and individuals—including 40,000 elderly nursing homes residents—who depend on the health care services that Medicaid provides. They need our help now more than ever as they struggle with spiraling fuel prices and higher food costs.

Medicaid pays for one-third of all births in the state of New Jersey, half of all HIV/AIDS treatment, childhood immunizations, critical cancer screening and treatment, pharmaceuticals for the mentally ill and specialized care for the blind and disabled.

Governor Corzine has taken bold steps to address the State's structural deficit. The recently-enacted budget represents a \$2.9 billion reduction in spending, \$600 million below last year's spending level -- the largest actual dollar, year-to-year reduction in state history. It also reduces the size of government by 3,000 workers through early retirement and attrition, cuts the operating budgets of every state department by an average of five percent, and eliminates altogether two state agencies.

The state's financial crisis made it necessary to propose significant and painful cuts to a variety of programs, including state aid to hospitals and nursing homes. The cuts, however, were crafted in such a way as to protect the most vulnerable. For example, safety net hospitals serving the greatest number of the uninsured received the smallest cut, and the nursing homes serving the highest percentage of Medicaid patients received a full cost of living update.

As the recession worsens, however, we may need help from the federal government to forestall worse cuts. Indeed, while New Jersey has shown that it is willing to take strong steps to get its fiscal house in order, we and other states may not be able to maintain our critical safety net in the face of a deepening national recession without temporary and targeted assistance from the federal government.

As you know, in 2003, Congress provided a temporary increase in the FMAP. According to the Kaiser Commission on Medicaid and the Uninsured, that temporary increase was effective in averting additional Medicaid cuts and also allowed some states to reverse previously enacted cuts. A similar temporary increase in the FMAP of 2.95 percent would mean nearly \$280 million in additional funding for New Jersey today and would enable us to preserve Medicaid and other health care safety net programs and prevent us from having to cut vital services or reduce eligibility.

In conclusion, if the recession continues, as expected, states may be forced to make additional cuts to health care services for working families. This is a critical time for the millions of Americans struggling with escalating health care costs.

Therefore, I would urge you to pass a temporary increase in FMAP. It would prevent states from having to make deep reductions in vital Medicaid services and help us to preserve the safety net for our most vulnerable residents.

Thank you again Mr. Chairman for this opportunity to testify. I would be happy to answer any questions from the members of the subcommittee.