



COMMONWEALTH OF PENNSYLVANIA
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JAN 22 2009

The Honorable Glenn Thompson, Jr.
United States House of Representatives
124 Cannon House Office Building
District of Columbia 20515-3805

Dear Representative Thompson:

As Congress considers the American Recovery and Reinvestment Bill of 2009, I wanted to share several important federal legislative priorities for Pennsylvania's Medicaid program that would greatly assist us in our efforts to address the needs of the growing number of our citizens who depend on this program for their health care services.

In Pennsylvania, roughly two million people rely on Medical Assistance to meet their health care needs. The deepening economic downturn threatens even greater demands for these safety net services. Through innovative cost containment and with a Governor committed to maintaining access and eligibility to services, Pennsylvania has managed to avert program benefit reduction for recipients and drastic payment cuts to providers. However, without federal relief, the serious budgetary constraints we now face may force us to consider more dire actions.

Our Federal Medical Assistance priorities include the following:

FMAP Rate Increase: Our top priority is an increase in our Federal Medical Assistance percentage (FMAP) in the economic stimulus package. We were, therefore, very pleased to see that the initial draft of the House economic stimulus package included \$87 billion in additional federal Medicaid matching funds for states. The House package would distribute a portion of these funds via an across the board 4.9% FMAP increase with the remainder distributed under a formula that provided additional FMAP based, in part, on unemployment rate increases. Despite the severe economic and fiscal conditions in Pennsylvania, our initial calculations show that the Commonwealth would place in the bottom tier in terms of the proposed unemployment formula. We are extremely supportive of the level of assistance provided in the House package however we would urge a more equitable formula for the distribution of these funds.

Extension of Grandfathering Period for MCO Assessments – We also request that the final stimulus package include an extension of the current grandfathering period for Medicaid managed care organization (MCO) assessments.

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Pennsylvania is one of seven states (including California, Michigan and Georgia) that currently levy an assessment on Medicaid managed care organizations' revenue. Under the Deficit Reduction Act, states with an existing assessment, such as Pennsylvania, can only continue their assessment through September 30, 2009. The expiration of the grandfathering period significantly increases the commonwealth's budget shortfall at a particularly inopportune time given the depths of the current economic downturn. On an annual basis, the current assessment results in approximately \$200 million in additional revenues that are used to support the Pennsylvania Medicaid program. An extension would allow for sufficient time for stabilization in state revenue resulting from the current downturn.

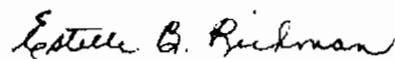
Federal Drug Rebates for MCOs – We strongly support federal legislation that would enable state Medicaid programs to benefit from federal rebates when drugs are provided through Medicaid MCOs. Currently, Medicaid MCOs cannot earn the significant pharmacy rebates available to states when the state purchases the drugs directly through their Medicaid fee-for-service program. Federal law (OBRA '90) excludes MCOs from these rebates. Allowing states to benefit from federal rebates when drugs are provided through Medicaid MCOs not only would save Pennsylvania more than \$140 million dollars on an annual basis, but the Federal government would likewise realize significant savings. A November CBO report estimates that a proposal to access federal drug rebates would reduce the federal deficit by \$3 billion between 2010-2014.

Finally, I was pleased to see that the initial House stimulus bill included a delay in a series of Medicaid regulations proposed by the previous Administration that would have a serious negative fiscal impact on the Commonwealth. We seek your continued support for federal legislation or administrative action to withdraw or reverse these regulations.

I recognize that this is a very historic and challenging time for you and the other members of the Pennsylvania Congressional delegation as you work to craft an economic stimulus package to address the nation's current fiscal crisis. We are appreciative that Medicaid relief to states is a component of the overall strategy and ask for your consideration of these priorities as you work toward a final package. If I can provide you any additional information to assist your efforts, please let me know.

Thank you for your support of our continuing efforts to provide Pennsylvania's most needy citizens the care they need.

Sincerely,



Estelle B. Richman