

NATIONAL PRESS CLUB LUNCHEON WITH GOVERNOR JIM DOUGLAS

SUBJECT: THE ROLE OF STATES IN NATIONAL HEALTH CARE REFORM

MODERATOR: DONNA LEINWAND, PRESIDENT, NATIONAL PRESS CLUB

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DONNA LEINWAND: (Sounds gavel.) Good afternoon, everyone. Welcome to the National Press Club. My name is Donna Leinwand. I'm a reporter for *USA Today*, and I'm President of the National Press Club. We're the world's leading professional organization for journalists, and we are committed to a future of journalism by providing informative programming and journalism education, and fostering a free press worldwide. For more information about the National Press Club, please visit our website at www.press.org.

And on behalf of our 3,500 members worldwide, I'd like to welcome our speaker and our guests in the audience today. I'd also like to welcome those of you who are watching us on C-SPAN. We're looking forward to today's speech, and afterwards I'll ask as many questions from the audience as time permits. Please hold your applause during the speech so that we have time for as many questions as possible. For our broadcast audience, I'd like to explain that if you hear applause, it may be from the guests and members of the general public who attend our luncheons, and not necessarily from the working press.

I'd like now to introduce our head table guests and ask them to stand briefly when their names are called. From my left, Leland Schwartz, editor, *States News Service*; Emily Walker, MedPage Today; Shawn Bullard, President of the Duetto Group and a member of the National Press Club's Board of Governors; John Thomasian, Director, National Governors Association Center for Best Practices, and a guest of our speaker; Susan Heavey, health reporter for Reuters News; Dr. Craig Jones, Director of the Vermont Blueprint for Health, and a guest of our speaker.

Skipping over the podium for a moment, Melissa Charbonneau, Speaker's Committee Vice Chairman and independent journalism with Newshook Media; skipping over our guest for just a moment, Matt Mlynarczyk, President of Advocatus Group and Speakers Committee member who organized today's lunch, and he told me how to pronounce his name ten times; Ray Scheppach, Executive Director of the National Governors Association; Suzanne Struglinski, senior editor of *Provider Magazine*; Lorraine Woellert, congressional reporter, *Bloomberg News*; and John Mulligan, Washington Bureau Chief for the *Providence Journal*.

After serving Vermonters for nearly 40 years beginning with his election to the Vermont House of Representatives in 1972, our guest today, Governor Jim Douglas, has announced that he won't seek reelection in 2010. Governor Douglas currently serves as Chair of the powerful and bipartisan National Governors Association. Perhaps this is why our guest today has been able to handle, and in fact lead, the radioactive health care debate without becoming a victim of political sniping.

As governor, Mr. Douglas focused his state on health care reform and reached across party lines to achieve consensus on his Blueprint for Health. Building on the blueprint, Governor Douglas signed a comprehensive package of health reforms in 2006 designed to expand access to coverage, improve the quality and performance of the health care system, and contain costs. As a result of his health care reform efforts, Governor Douglas was honored in 2006 by AARP as one of ten extraordinary people who have made the world a better place through their innovative thinking, passion, and perseverance.

Vermont has been ranked the healthiest state by the United Health Foundation for the past two years, while the state's uninsured population has shrunk from 9.8 percent in 2005 to 7.6 percent in 2008. As Chair of the National Governors Association, he is focusing his efforts on the critical role of states in national health care reform. Today, he'll talk with us about his yearlong NGA initiative, prescription for health reform; affordable, accessible, accountable, which looks at opportunities for states to contribute to the success of national health care reform and the importance of state efforts to help all citizens have access to more coordinated and efficient health care. Please join me in welcoming to the National Press Club Governor Jim Douglas. (Applause)

GOVERNOR DOUGLAS: Well, Donna, thank you for those kind words and your introduction. It's an honor to be here with all of you today, especially with a couple of ex-pats from Vermont whom I ran into in the audience. It's great to see them, along with some of our team from the National Governors Association. I don't get to our nation's capitol too much. When you live in heaven, why would you want to come to Washington? (Laughter) But I'm honored to be here today and talk a little about a timely topic.

In response to some of the questions I got in the anteroom before coming in, we had an outstanding ski season. We had a great maple crop. Our summer tourists are up,

and next month is going to be just wonderful as the leaves begin to turn and the autumnal splendor is in its full glory. So, we hope you'll all have a chance to come to the Green Mountain State in the not too distant future.

I want to thank Donna and Matt for their invitation to be here. This was scheduled some time ago, but timing is everything and frankly, rather than dwell too much on my NGA initiative, I'd be remiss if I didn't talk about what's going on on Capitol Hill in terms of health care reform. No one else in Washington is talking about it, so I thought I'd bring it up today and offer a few perspectives from the standpoint of the governors.

But these are obviously important issues for all of us. Every governor, I believe, wants to improve the quality of health care in our country. Every governor wants to reduce the cost of that care. It's particularly imperative now because health care is such a huge portion of the national economy in terms of its percentage of our gross domestic product. And increasingly, it's a large percentage of every state's operating budget. Medicaid alone is nearly 22 percent, on average, of a state budget around the country. In places like Vermont with an expanded program, it's even greater and we expect it'll be much higher over the next decade. So we've got to take this seriously from an economic and fiscal standpoint, as well as do what we can to improve the health outcomes of the people of our great country.

Now, if health reform gets through Congress, states are going to play a significant role in its implementation. Some health programs are generally run by the state governments, whether it's Medicaid or some other program. And so, it's obvious that states are going to play a key role in whatever passes the Congress. So, it's critical from our standpoint that governors be given the time and the flexibility to implement those reforms if we're going to be successful in carrying them out.

I'll talk a little today about several aspects of reform and how they affect the governors across the country. And I think it's fair to say that although these are my own thoughts that I'm reflecting the preponderance of the views of my counterparts on both sides of the political aisle.

We appreciate the efforts that the Congress is making. We recognize their progress, but we want to make sure that federal policymakers are aware of the huge risks that states are facing in these national reform efforts. As I talk with people around the Green Mountain State and discuss the issues with my colleagues from around the country, there's a real consensus that we've got to do something. Keeping the American people healthy is not a Republican or Democratic objective. We want the best for everybody. Now, there's a conference that NGA is sponsoring across town now on the early care and education of young people. And one focus of that is insuring that kids are healthy when they're in their youngest years and they come to school ready to learn. Because we know that their educational outcomes are going to be more successful as time goes on.

And at the other end of the chronological spectrum, Vermont is the second oldest state in America in terms of median age, and we need to be sure that as we get older, we have the best possible care for those in their golden years. So, we've got a common interest across the political spectrum and we need to make sure that the Congress gets it right from the standpoint of the states.

I mentioned the economy, and over the past year or so, every state is facing some real economic stress. Even before the current recession began, I talked about what I called the affordability agenda, making sure Vermont is an affordable place to live, work and raise our families. And one key element of that agenda is the cost of health care. It's squeezing the budgets of families, of small businesses, and state government as well, and that's why as Donna noted a few minutes ago, I worked with Republicans and Democrats in our legislature to find common ground and pass the comprehensive health reforms that are really making a difference for the people of our state.

The successes that we've realized in Vermont haven't come easily. They've required teamwork, compromise and a willingness to address all the tough issues around health care. But they're vital for the people of our state and I think can be a model for reform across the country.

Especially now, as we seek to come out of this global recession, the longest and deepest since the Great Depression, we need to be sure we're ready to grow as a nation, both in terms of its economic health and the health and well being of the people who live here. So we're going to have to find some common ground. And that's why I've decided to make health care reform the focus of my yearlong initiative as Chairman of the National Governors Association. After 6 ½ years of working to reform health care, I welcome the current discussion in Washington because in order for state reforms to really be successful, the federal government has to be a full partner in that effort.

Now, reforming a sixth of our national economy is no small task. It's a tough job for the Congress and I certainly respect that. Whenever they are talking about health care, they're really discussing not a single system, but a complex web of political, economic and social issues that'll really have a profound impact on the American people. And I think it's understandable that Americans have a right to worry about how reforms will affect the quality and the affordability of the care that they receive. They have a right to worry about how inaction and the rising cost of health care and our quantity, not quality, driven system will affect them. There's nothing wrong with a lively and spirited debate, especially on an issue as critical as this one because policymakers, politicians and citizens at large have an obligation to speak openly and honestly about the costs and consequences of all the reform proposals that are being advanced.

But the debate seems to have a way of veering off track, away from our common goals and toward bold political fault lines. So, my greatest concern about the current political discussion in Washington is that it's too focused on the wrong end of the health care debate; namely, the payment structure that we have in place now. With so much time and energy spent discussing where the money comes from, we missed the crucial fact that

no matter who pays, health care costs are on track to bankrupt our families, our states and indeed the whole country if we don't act boldly in order to reform our delivery system.

The nation spends almost \$7,500 per person for health services every year. That's more than double the nation average for all the other industrialized countries around the world. But the outcomes in America are no better than they are in these other places. We've got a system that encourages inefficiencies, promotes duplication and waste, and too often does not encourage disease prevention. Instead, opting for expensive care after people are already sick.

So, rather than oversimplifying the debate about how we pay, I really think we need to put our heads together and talk about how we make health care more affordable and more accountable across America. I think states like Vermont, states that have demonstrated how innovative health reforms can increase access to care, lower costs and improve outcomes for patients, can be a guiding light for the nation as we continue this debate in our capitol.

Now, if there's one thing we've learned about reform, and I hope Washington will remember, it's that coverage alone isn't enough. Coverage without significant improvements to the health care delivery system and efforts to lower health care costs will eventually cause further strain on an unsustainable system. True reform really needs to get at the cost drivers. We need to make changes in how we deliver care, how we incent and align payments, how we realize health and wellness to promote a healthier population. These are the things that are going to truly reform health care and contain the spending that is out of control. We've got to drive value in the system. But it'll take a lot of efforts to be successful and to make it sustainable.

In Vermont, we've gained national reputations for successfully implementing comprehensive reforms that incorporate aspects of high quality, coordinated care along with expanding coverage. It's a simple reality that when Americans are healthier, they spend fewer dollars on health care services. Insurance companies and government programs pay less, claims aren't as numerous and taxpayers and policyholders save money. By combining the coordination of care with health information technology and how we pay for it, we can eliminate duplicative, unnecessary services and have a more efficient system.

Through the Blueprint for Health in Vermont and innovation that we put in place six years ago, we utilize health teams to provide coordinated services through primary care practices. All of our payers, Medicaid and the private insurance companies, as well as large employers, are participating in this Blueprint effort. With yesterday's announcement by Secretary of Health and Human Services Sebelius, Medicare will now be able to participate in this type of exciting and innovative state-lead reform. These aren't just theories about what'll happen some time in the far off future, these reforms are having a real impact on the lives of people today.

Now, Vermont isn't the only place where reform efforts have been undertaken, although I think it's the best model. There are programs in Minnesota and Washington and some in other states as well that are improving care and removing excess spending in the system. So, all these innovative state programs can serve as models for the federal government, as well as for other states. System reforms and coverage efforts really need to go hand in hand. Many governors have expanded coverage through private and public programs to insure that folks have access to affordable insurance, but it needs to be more than insurance in name only. Americans need coverage that helps them stay healthy and prevent disease and is available if they get sick. If we focus on improving the delivery system, we'll reduce health spending and improve health outcomes.

And reform isn't just critical for the personal and fiscal health of American families and businesses, it's critical for the stretched budgets of state government. But it has to be done right. My colleagues and I are watching the debate in Washington closely because the impact on our state budgets could be enormous. Health care reform that doesn't respect the fiscal realities of state government will not only fail to improve the system, but it'll sap vital resources from other important efforts such as improving education, protecting the environment or strengthening our economies. Unlike the federal government, states can't print money. We have to balance our books at the end of every fiscal year, and doing so isn't getting any easier.

Collectively, states are facing projected budget shortfalls of over \$200 billion in the next couple of years. Democratic and Republican governors have been forced to make some painful decisions. In fact, in the current fiscal year, 28 governors proposed general fund spending cuts in personnel in higher education; 27 recommended cuts in K-12 education and 25 proposed cuts in Medicaid and corrections. Some governors also recommended tax and fee increases totaling nearly \$24 billion.

Vermont's no different. We just learned last month that our state revenue projections were down 2 ½ percent right after our budget was passed earlier this year, over my objections. To give you a sense of the gravity of the situation, the Rockefeller Institute for State Government estimates that even under its most optimistic projections, state revenues will not have recovered to pre-recession, that's 2007 levels, even by 2014. So states are going to have to make even more tough decisions in the coming years to balance our budgets and avoid increasing taxes to a level that will stifle growth and innovation. Federal mandates that aren't fully funded, health reforms that simply shift costs to the states will bust the budgets and ultimately fail to achieve their objectives.

Health care reform at the federal level needs to respect the fact that implementation at the state level is not one size fits all. If national reform passes, governors will have a critical role in implementing the broad policies set by the Congress. It'll take a lot of preparation and potential restructuring in some state governments to move it forward. States will be where the rubber meets the road. Governors' leadership and experience will be crucial and to succeed with transitioning to a reform system, states must work in partnership with the federal government to insure they have the flexibility to implement those reforms.

My colleagues and I are working hard to insure that policymakers here in Washington hear that message. But flexibility is the key to innovation and critical to the success of their reforms. But we're not naïve, we realize that there will inevitably be some adapting in state capitols to whatever passes here. It's why a key comment of my chair's initiative is to help governors understand what national health reform means for them and for their state programs. We need to get up to speed so all the governors can make decisions on the timing and process of implementation. States will need to approach the issue strategically so they can lead the way.

And if health reform becomes law, many of the details of the reforms will remain undefined and left to federal agencies to decide through regulations. So, we'll need to work with them, the agencies, to insure that the concerns are noted as the rules are adopted.

I want to offer some personal views on the current Congressional discussions. A lot of work's gone into developing the House and Senate health reform proposals, and governors appreciate that committee members have been listening to state concerns and made some changes in their proposals to address them. While all governors believe improvements are needed to the health care system, their initial reactions to the proposals differ. Frankly, some are opposed to any unfunded mandates to states, while others have signaled their strong support for the proposals. But all governors need more details. Governors are concerned about the impact on our states.

I want to mention three areas with respect to the Congressional proposals very briefly. On insurance reform, the Finance Committee in the Senate lays out new federal standards, but it appears to give states flexibility to make these changes and others that states believe best suit their markets. Most importantly, the amount of state insurance preemption is limited, and the day to day monitoring of insurance is left to the states. But these aren't changes we can make happen with the flip of a switch. That's why it's critical that we have time to phase in any new rules that they adopt as the Finance Committee appears to be doing.

We need to make sure the rules allow our experts in the states determine how to fit them with existing structures and regulations that we already have. Finance Committee seems to recognize the value of the health insurance exchange concept and appears to have put forward a fairly state-friendly proposal. The complex array of coordination issues, to be put simply, can't be dictated from the federal level. It's critical that states run these exchanges.

Several pioneering states, most notably Massachusetts and Utah, already have demonstrated that there are a lot of approaches that can make them successful, primarily for consumers. States have tremendous new health IT initiatives under way that need to be integrated with the exchanges. We know states need to thoughtfully develop the relationship between the exchange and state Medicaid programs so low income individuals get the appropriate program placement. States need to be able to coordinate

the health care programs with other services provided to low income individuals like food stamps and welfare assistance. So the bottom line is that the Finance Committee's insurance reforms and exchanges still need work, but I think they're headed down a path that seems workable for the states.

But governors remain most concerned with the Medicaid expansion and the potentially tremendous financial liability that this poses for states. The original House Tri Committee bill recognized our precarious fiscal condition by fully and permanently funding Medicaid expansion. Governors have discussed the expansion at great length with the Senate Finance Committee members. The chairman's proposal has moved far, going from zero to an average of almost 90 percent federal funding for the expansion over the long term. But there's still enormous risks for states. Based on their experiences, many states are concerned that the Medicaid expansion will create upward pressure on provider reimbursement rates that's unsustainable. When you bring almost 30 million additional people into the system, including an additional 11 million on Medicaid, this is a reasonable trend to expect.

But also has many governors concerned are the fiscal pressures created by enrolling millions who are currently eligible, but un-enrolled. By some estimates, there could be six million of these individuals coming into Medicaid through the so-called woodwork effect. These are new enrollees and should be treated as part of the expansion population, and therefore, I believe, should receive an increased federal match.

As Congress moves forward, we hope they'll continue to work with governors to craft successful reforms. But they need to recognize that reforms can't be built on the backs of states, but can only be accomplished in partnership with them. As governors, we'll shape a prescription for health reform that insures our nation's health system is affordable, accessible and accountable to our systems. We have the opportunity to fulfill our role as leaders in addressing the key cost drivers, improving the quality of our system, and providing more insurance coverage.

So it's an important issue on the minds of all the governors of our great country. I'm pleased that through the National Governors Association, we've been able to work across the aisle to communicate with the Congress, to articulate our concerns, and I certainly hope that before this is all said and done that the folks in the Congress will similarly find a way to reach across the aisle and find some bipartisan solutions that will improve health outcomes of the people of our country. Thank you all very, very much indeed. (Applause)

MS. LEINWAND: Okay, we have a lot of questions here, so I'll start you off with a home state-er. What lesson should Washington take away from your experience in passing health reform in Vermont?

GOVERNOR DOUGLAS: I think the key to what we've accomplished in Vermont is that it is a comprehensive approach. It's not just expanding coverage, it's not just adding more people to Medicaid or other publicly-supported programs. It's changing

how we actually deliver care. Let me give you a specific example. As I mentioned, we have what we call community health teams. We have three communities across the state that comprise 10 percent of our population where we have a primary care delivery model that's exciting and successful. We have a medical home for Vermonters so that they are affiliated with a practice that includes not just a physician but a nurse, a behavioral health specialist, a dietician, whatever is necessary to fulfill the needs of that individual patient.

And at the White House health forum that I was privileged to host in Burlington in March, a young woman from the northeastern part of our state named Rhonda Rose, talked about her experience. This is a young woman who suffered from a chronic disease, who wasn't making much progress, was out of work, who was expensive to our system. And when she got into a practice that constitutes a medical home with her community health team, her life began to turn around because she has a team of professionals who really care about her and who are providing the ongoing care that's been necessary to get her on the road to recovery. She's managing her illness, she's back to work. It really can make a difference.

So I think the message from Vermont is that it needs to be a comprehensive approach. It's wellness, it's prevention, it's early detection, it's management of chronic illness and providing an incentive to providers to provide a good quality of care, not just more care. We pay an incremental bonus to our primary care providers in this program based on their adherence to standards of the National Council on Quality Assurance. They get paid more for delivering better care.

So, I think we've got a great model. And in Medicaid alone, over the last couple of years, we've seen an 11 percent decline in the number of admissions to our hospitals, and a 6 percent decline in emergency room usage. So, I think we have a model that works. And by the way, we saved nearly a quarter of a billion dollars in Medicaid during the last four years of the waiver that we've been granted by HHS. And believe me, for Vermont that's a lot of money.

MS. LEINWAND: What is the one aspect of Vermont's reform that you have not seen represented in the national health care bills?

GOVERNOR DOUGLAS: Well, to be honest, we haven't seen the bill from the Senate Finance Committee. So, I'm not sure I can answer that specifically until we do. I do appreciate Chairman Baucus, in particular, reaching out to governors. We've had a number of meetings, a number of teleconferences. He has reflected some of the concerns we've raised. He has moved in the right direction. But most governors at this point want to see what it means to their individual states. And until we have the actual language of the legislation, I'm not sure I know what the impact is on Vermont. There were some numbers floating around this week, but I certainly want my Medicaid director to crunch the numbers for my state and others do as well.

We've been so focused on coverage on Medicaid expansion that we haven't really had detailed conversations about delivery system reform. So I guess the answer is to the extent that the Finance Committee bill doesn't incorporate what I've just described to you as a model for delivery system reform, then that needs to be added.

MS. LEINWAND: Is there a health care reform Vermont tried that was a mistake and that you think federal lawmakers should avoid?

GOVERNOR DOUGLAS: Well, probably the ones that the legislature passed that I vetoed a few years ago. (Laughter) Mainly, tax increases. And the reason I say that is we have to get costs under control. I've often said to the people of Vermont that whether you're for publicly funded health care options or privately funded options, it doesn't matter what pocket we pay for it out of, all our pockets are going to be empty unless we get the cost of care under control. So raising taxes is not the right response. We need to focus on cost containment. And as I've explained, we've been successful in doing that.

Now, the problem is in Washington, there's always a need for instant results. And that's not likely to happen. We launched the Blueprint for Health in '03 and now after six years, we've been able to achieve some of the results that I've described. But it takes time. It takes dedication, it takes commitment on the part of the insurers, the providers, policymakers, and everybody in Vermont to turn that proverbial battleship and point things in a different direction. So it'll take time, but we've demonstrated that it can work. We can deliver a higher quality of care with fewer dollars. And adding more money to the system, I don't believe, economically or fiscally is the way to go.

MS. LEINWAND: What was your political strategy in Vermont that helped you avoid some of the political pain that's going on now, like the Tea Party movement?

GOVERNOR DOUGLAS: Well, there was a little pain, frankly. But, after we passed the bill, they passed the bill, in '05 that I rejected, we came back the next year and worked together and accommodated different points of view and got a bill passed that wasn't everything I wanted, wasn't everything the legislature wanted, but something we could agree to. And I was really pleased with a senator of the other party in our state said after that bill was enacted into law, "You know, going through the first round with the veto really resulted, ultimately, in a better bill."

So there wasn't a lack of pain entirely, but I think there was, and continues to be, a level of mutual respect. Vermonters are ruggedly independent. We really care about the people we represent and despite political differences, we're able to come together.

MS. LEINWAND: What is the status of the health information exchange in Vermont?

GOVERNOR DOUGLAS: Well, we began a program a few years ago with the acronym VITL, Vermont Information Technology Leaders, that has public and private

participation in establishing an exchange for our state. I believe strongly that information technology is one key to cost containment and improvement of care. And I think we're seeing some real evidence of that as well. There was a recent report in your publication, I think, Donna-- did you write that question?

MS. LEINWAND: I did, that's mine.

GOVERNOR DOUGLAS: That highlighted this. In a couple of places, notably in the city of Rutland where we have a regional medical center, there's a medication history pilot project and if you go into that emergency room and you're part of that community of care, your medication history is online for the emergency room doctors to see as soon as you come through the door. And there was a case reported where a woman came in, had a stomach pain of some kind and without this capacity to get the information immediately online, who knows what might have happened? Lots of expensive tests, perhaps, maybe even exploratory surgery if the symptoms were serious enough.

But in fact, the ER doctor pulled the history up on the screen, talked to the patient, found that she hadn't taken her medication for her problem and so the care was delivered quickly, inexpensively and correctly. So, I believe information technology is key to get providers the information they need to make real time decisions and VITL, this program that we have launched with our providers, is going to accomplish that.

So we have a program where we're getting laptops to providers, we have a website called doc site that we've been working with to facilitate this and we're going to make sure that the entire state has this capacity soon.

MS. LEINWAND: Speaking of emergency rooms, this questioner asks an ER physician recently told me that emergency rooms are becoming the dumping ground of the nation's health care system. How do you fix that in any health care reform?

GOVERNOR DOUGLAS: As I noted earlier, we are making progress on that front. We've seen a 6 percent decline in emergency room usage by our Medicaid population because of the Blueprint strategy of focusing on preventive care, on early detection, on screening, on insuring that people get their regular physical exams, on putting these medical home community health teams in place. It really does work. I think most Americans would rather spend their time somewhere other than the emergency room and if we can give them the tools, the care team, the self confidence to do what's necessary to take better care of themselves, then we can achieve those results. So we've seen some progress in Vermont, and that's why I think it's a model that can work elsewhere.

MS. LEINWAND: How did your program increase access for uninsured or under insured people and what evidence do you have that they are getting access to the system?

GOVERNOR DOUGLAS: Well, as you noted in your introduction, Donna, we've reduced the uninsured rate in Vermont from 9.8 to 7.6 percent over the couple of years since we launched our reform efforts. We still have a ways to go, but the majority of those who are uninsured in Vermont are eligible for Medicaid. They just don't sign up for it. We have extensive outreach programs, I guess we'll have to try to make them even better. But we've provided affordable coverage to thousands of more Vermonters as a result of our reforms.

And what we've done is what I think is a good model, once again. It's a seamless system of access based on family affordability. We have the basic Medicaid program that requires no outlay on the part of the participants at the very lowest end of the income range. Then we have something called VHAP, Vermont Health Access Program, that is an expanded Medicaid program that requires a premium based on income to participate. Then, we have what we call Catamount Health, that is a partnership with some private providers where participants pay a premium, again based on their ability to pay. And eventually, people are able to afford insurance on their own.

And that's what we need to do. The problem we have in America, I think, is what I call the benefit cliff where you're either on a public program or you're not. So there's no incentive to earn more, to better yourself, to improve the economic condition of your family. That's not right. We've got to find a way to make a graduated system of access and that's been the philosophy that we've used in our state. So, we've got thousands of more people covered, we'll keep at it.

MS. LEINWAND: Well, I want to know who the person is with bad handwriting, but good questions. (Laughter) Given that costs in Vermont have gone up more than the national average according to the Banking Insurance Securities Health Care Administration, what evidence do you have that the medical home pilots will save money overall?

GOVERNOR DOUGLAS: Because in Medicaid, we're saving money. According to our Medicaid office, in the four years of the global commitment waiver that we've had in place since '05, our Medicaid expenditures are \$245 million less than they would have been under the traditional non-waiver program. I mentioned the drop in utilization in hospitals and so I'm very proud of that. We've got work to do. We have an infrastructure in Vermont that's probably not as efficient as it might be in some other places because of our small population. The rural nature of Vermont, the small population makes it difficult in many fields to achieve the economy of scale that other places do.

It's true in public education, where our expenditures per pupil, per capita, are nearly the highest in the nation. It's true in corrections, where our cost per inmate is quite high because we have small facilities spread around the state geographically. And it's true in health care where we have relatively small hospitals in various parts of the state. So I'm not sure that economy of scale is something we can ever completely overcome,

but we've seen some real progress in our Medicaid costs and I'm confident that the medical home strategy will be successful for the entire population.

MS. LEINWAND: I have two questions about Canadian commuting habits, and they're both asked in opposite ways. So, I'll start with in Vermont, do you see many Canadians coming to your state for medical services and procedures that are superior in Vermont's health care system? Or for care they would have had to wait for in Canada?

GOVERNOR DOUGLAS: We see Canadians coming to Vermont for a variety of reasons; to ski, to shop. If you use, as I will this evening, the Burlington International Airport, I think nearly 40 percent of the passenger traffic is from north of the border. So it's a lot smaller and more convenient than the big airports in Montréal, so a lot of folks come south for that purpose. So we regard our Québec neighbors as not foreigners, frankly, but our friends.

This is a little off topic, Donna, but we have villages that are bisected by the international border. We have a manufacturing plant that's split, we have a grocery store where the border goes through it. We have an opera house and a library that's split by the border. These are our friends and neighbors, and so there's a lot of interaction. There's commuting for work across the border as well.

But I can tell you about one conversation I had with a Canadian woman in the not-too-distant past. I think it's fair to say that despite the challenges, most Canadians like their health care system and want to preserve it, although the Supreme Court of Canada earlier in this decade said in the famous quote, "Access to a waiting list is not access to health care." So, there is some movement toward a public/private blend in Canada as well.

But this woman told me about her son who has a special need and she said, "I'm almost at the two year anniversary of when I asked for an appointment for someone to see him." So I think the lesson I take from general conversations with Canadians is that their quality of care is good, their emergency care is good. But if it's not emergent, there may be a wait. I want to make sure that in Vermont and in America, a mother doesn't have to celebrate-- Not celebrate, note-- The two year anniversary of a request for an appointment for her son to see a practitioner.

MS. LEINWAND: This is the converse. Don't lots of Vermonters go to Canada for care? Doesn't this indicate that we could learn something from their insurance-company free system?

GOVERNOR DOUGLAS: I anecdotally don't know of Vermonters who do. We have seen some access of prescription drugs from north of the border that often are less expensive. But in terms of actual care, other than the convenience of someone who's closer to a community near the border, I haven't seen that significantly.

MS. LEINWAND: Moving on to the federal situation, how much consultation is going on between Congress and the governors? And do you feel the governors have been made part of the process?

GOVERNOR DOUGLAS: I discussed that in my remarks, and I do appreciate especially the reaching out that we've seen from the Gang of 6 on the Senate Finance Committee. But even beyond that, I've met with and talked on the phone with Speaker Pelosi a number of times and talked about this and other topics. So, there has been some interaction. But the bulk of it has been very recently when Chairman Baucus and his colleagues have spent quite a lot of time with governors. We have a variety of different formats in which we do that. We have a health care reform task force that I appointed that has 14 governors, 7 of each party. It's tough on short notice to get everybody on the phone, but we get the vast majority of them when there's an opportunity to talk with the senators.

And then occasionally, there are four leaders of the association, two of each party, who will be available to meet with them. So we do it almost always on a bipartisan basis and I think, as I suggested earlier, that's the way we're going to succeed in these health care reform efforts. I thought Senator Enzi made a good point in the comment I heard, or saw reported a couple of weeks ago. "Yes," he said, "The Senate could pass a bill that's not bipartisan, marshal the necessary votes to push it through." But in the long run, I hope that the Congress will want a reform effort that the American people can feel good about, that the American people will buy into. Because if it's something that's forced on the people of our country, or forced on the states, it's unworkable, it's unsustainable, then it's not going to succeed. So I think it's better to get this done right than to get it done right away.

MS. LEINWAND: How important do you think the recent discussion on medical malpractice reform is to the health care reform debate?

GOVERNOR DOUGLAS: I think it's an element that's worth pursuing. The President mentioned it in his speech last week, of course, and Chairman Baucus has included it in the bill that he's presenting this week. Some states have made some real progress on medical malpractice reform. California has some innovations that are often cited as quite strong. Mississippi has put in place some reforms as well. We've tried in Vermont with less than complete success. But I think it makes sense the way the Senate Finance Committee is approaching it. It's voluntary. It would be grants to states to put in place some kind of reform efforts, whether they're mediation processes or malpractice courts, whatever states would like to do with a little federal support to facilitate that, I think that's a good idea.

I know there's a lot of debate about whether it's a significant part of the cost of care or not. Some estimates are that judgments and settlements are no more than one percent of the total cost. But let's face it, there is defensive medicine. I'm sure of it. I hear that from physicians and hospital CEOs. I had a chat with one CEO who's no longer in his position in Vermont, but we were chatting about this a few years back and he said,

“I’ll be honest with you. If you, Jim Douglas, come off the ski slope with a fracture and come into this hospital, we’re going to give you the best care that we can and you’ll be just fine and you’ll be good to go as soon as possible. But if it’s, oh, somebody from Washington, not in the local area, a license plate from far way, we’re probably going to run some more tests. That’s just the way we do business.” So I think it is a factor that we need to consider and I was pleased that the chairman has included it.

MS. LEINWAND: Do you see any alternative to expanding Medicaid? Or is the answer just having full federal funding of any expansion?

GOVERNOR DOUGLAS: Well, I think frankly there should be full federal funding if there is an expansion because unfunded mandates are not acceptable. The NGA has made that clear in a policy statement and I suggested a few minutes ago that I’m pleased that the new committee draft has moved in the direction of more federal support and we’re grateful for that. But still, some of my colleagues have pointed out that even at 5 percent state funding, 5 percent of a whole lot more is still quite a lot of money.

And to put this in context, I mentioned the fact that we’re not going to be back to our pre-recession revenues for seven or eight years. Look what states have done during that time. We’ve cut, in many cases, education which is the other big public expenditure that most states have. States have under funded pension systems, have borrowed more in some cases, have laid off workers. We can’t expect states, just when the revenue recovery begins, to put every new incremental dollar into an expanded health care system. There are these other competing demands. So, I think the feds have to own up to whatever they require the states to do.

Now, some believe, to the point of the question, Donna, that Medicaid expansion is not the way to go because it’s a program that’s big, unsustainable, inflexible, and that we ought to think of something new and different and a more creative way to expand coverage. Our approach in Vermont has been a public/private partnership. I think it’s between pretty successful. I’m sorry that we have to beg the federal government for permission through the waiver process to implement some of the reforms that we have, but it’s been successful so far.

I have to tell you a little story about that, by the way. When I came down here several times in ’05 to request the waiver to put in place the reforms that I’ve described, I met with Secretary Levitt a number of times and we got the HHS signoff. And then someone said, “Oh, by the way, now you have to go over to OMB.” I didn’t know that. But I guess they sign off on all these financial arrangements, so I made an appointment to go meet with the folks at OMB. And I went into the old executive office building there and the then-governor of Texas was coming out of a similar meeting asking for a Medicaid waiver from the folks at OMB. And I asked, “So Jeb, how’d it go?” And he said, “Ah, I don’t think it went too well.” And I said, “If you can’t get a waiver from this administration, I don’t know about me.” (Laughter) But we both got it.

MS. LEINWAND: Do you think reform proposals do enough to address long-term care and the strain it places on Medicaid? Specifically, what do you think of the Class Act?

GOVERNOR DOUGLAS: I'm glad you brought that up. Here's another area where Vermont has innovated. And I really feel good about the progress we've made. We have something called Choices for Care. For Medicaid participants in long-term care settings, whether it's older or disabled Vermonters or Americans, basically there's a bias towards nursing homes. And what we've done through a waiver process is get equal access for care at home and institutional settings. I mentioned earlier, we're the second oldest state. But despite that, we have de-licensed several hundred nursing home beds over the last few years. We've downsized our nursing home capacity because we're caring for more people at home. In most cases, that's what they would prefer.

My in-laws are in their early 90s, they're not well. They live a few miles from us. They're still at home with a lot of care. They're not on Medicaid, just for the record. But, I can't imagine if we have a choice not keeping them there in the home where they've lived for 65 years. So I think most Americans feel that way. So, we got another waiver from the feds to use our Medicaid dollars to keep more people at home. And we have saved, literally, millions of dollars over the last couple of years through that effort.

So, I think long-term care has to be a part of it. It's not the biggest piece of the Medicaid program, but it's an important one, especially as the population ages.

MS. LEINWAND: Considering Vermont is the second oldest state, what was the public response there to the debate over the so-called death panels?

GOVERNOR DOUGLAS: Well, I mentioned earlier that Vermonters are independent. And I think it's also fair to say that we're quite civil in our public discourse. One of our senators serves on the health committee and he had several well attended forums, as other members of Congress did around the country during the August recess. And there were no disruptions similar to what we saw other places. People had opinions, they expressed them sometimes strongly, but in a very respectful and civilized way. So I think the range of public opinion in Vermont is across the spectrum in terms of their views of these reform efforts. But the level of debate, I think, has been at a higher level than we've seen in some other places.

MS. LEINWAND: So what do you make of the Tea Party movement and what it says about sentiments about Obama's plan for health care nationwide?

GOVERNOR DOUGLAS: Well, as I suggested early in my remarks, I think it's perfectly appropriate for people to have strong views, to ask some serious questions, to try to understand what it means when proposals seek to reduce Medicare expenditures. Does that mean a cut in benefits? Does it mean if reimbursement to providers is going to be reduced, less access to the care that people need? I think these are fair questions, but

they need to be debated on their merits and not with the kind of inflammatory performances that we've seen in some areas.

By the way, for anyone who believes, as has been suggested, that these were organized by the Republican Party, I don't think we're that organized. (Laughter) I think Americans are concerned about this and showed up at these events to express that concern. And I hope that if we can refocus the debate on the real merits of the issues that need to be discussed, that we can do something positive.

MS. LEINWAND: You've been asked to solve a mystery. It looks like the public option is dead. Who, or what, killed it?

GOVERNOR DOUGLAS: Well, I think it was the professor in the library with the candlestick. I guess I'm not a fan of the public option, to be honest, and let me give you a reason from our own experience. About 15 or 20 years ago, Vermont started a program called Dr. Dinosaur, which is a Medicaid supported program for children. And we have virtually full universal coverage for our kids. The percentage of uninsured children is quite low, and like the unemployment rate, it's more or less the transition in the population. So it's virtually universal. And it's been affordable because insuring children is a lot less expensive than it is for people in their older years.

But here's what happened. The program went into effect and a lot of employers said to their employees, "Hey, take your kids off the company plan and put them on that new state program." And that's happened to a lot of folks. And what we need to do, and what we're trying to do in our reform effort, is provide subsidies to people to get coverage through their employers as well as the Catamount plan, as we call it. The catamount, by the way, I should have explained that earlier, that's the mascot for our university athletic teams, and the catamount is like a panther, now extinct, by the way. Last one was shot in the town of Barnard in 1836.

But we want people to get access to whatever program works for them. Through their employer if it's at least as comprehensive a plan as what we offer through Catamount. But since we saw this migration to Dr. Dinosaur away from plans through employers, my fear is that a public option will see the same kind of migration and not provide the robustness of the market that we need.

MS. LEINWAND: In the U.S., we have arguably the best health technology in the world, and it's increasing exponentially. However, new technologies are always expensive. How shall we ration the use of these technologies across the population?

GOVERNOR DOUGLAS: Well, that's a good question and I'm not sure, to be perfectly honest, that we've figured that out in Vermont. Or, there's one aspect we haven't solved in our state. We have a certificate of need process, as I know many other states do, to determine when a major capital expenditure is appropriate for a health care institution. But it's difficult to say no when a community comes to state regulators and says, "Gee, we've got to have that dialysis program in our community. I mean, gas prices as high as

they are and no public transportation in our community, you don't expect us to drive 25 miles to some other community to get dialysis, do you?" And that replicates itself throughout our state many times, and I'm sure it's true in other places as well. So we are seeing a significant expense for infrastructure.

And that relates to a question that Donna asked earlier about the relatively high cost, proportionally in Vermont, because we don't have the economy of scale that other places do. So, that's an area that continues to challenge us, and I'm sure that's true in other parts of the country as well.

MS. LEINWAND: Okay, we have a little wild card question here for you. How do you feel now about your veto of the same sex marriage bill? Is it anything you regret, and what kind of impact do you think same sex marriage will have in Vermont?

GOVERNOR DOUGLAS: Well, that's a matter of great debate. Obviously earlier this year, a matter of intense personal opinion. As I said to Vermonters at the time, I see it quite differently from other issues that we confront. It's not something that deals with the economic well being of our state, with the fiscal integrity of Vermont, with job creation or affordability. It's a personal opinion that people have and everybody will cast his or her vote as he or she deems appropriate. I cast my vote. The legislature decided to go another way and I certainly accept that.

MS. LEINWAND: Okay, we are just about out of time. But before I ask the last question, I have a couple of important matters to take care of. First of all, let me remind our members of our future speakers. On September 18th, that's tomorrow, we have Dr. Denis Cortese, President and CEO of the Mayo Clinic, so we'll have another health care chat tomorrow. And on September 28th, Ken Burns, the documentary filmmaker, will be joining us to discuss his new program on national parks. And on October 8th, John Potter, the Postmaster General of the United States Postal Service, will give us the state of the postal service.

And second, I would like to present our guest with the traditional and much coveted National Press Club mug. (Applause)

GOVERNOR DOUGLAS: Why, thank you. Very nice.

MS. LEINWAND: Okay, and for our last question, what is the first thing you will do after a new governor is inaugurated in Vermont?

GOVERNOR DOUGLAS: Jump for joy. (Laughter) Well, it'll be a transition for me, and obviously for the state. But, it feels like the right time for me to move on. I've been in public office most of my so-called adult life. I ran for the legislature the year I graduated from college and I've been at it more or less ever since. We don't have term limits in Vermont, but we run every two years, so I've done it four times and think it's good to pass the gavel to somebody else. I want to make sure I'm as energized on the last day in office as I was on the first. I'm pleased to be going out when people ask, "Gosh,

why are you going so soon?" rather than at some point in the future when they ask, "Why'd you stay so long?"

So, I feel good about it and we'll have more time to focus on my initiative as Chairman of NGA, to do everything we can to improve the health outcomes for the American people, to improve our delivery system, control those costs and make some real progress on something that's so important to the future of our country. But another answer to your question, Donna, is that I have to remember how to drive a car. Thank you all very much. (Applause)

MS. LEINWAND: I'd like to thank you all for coming today. I'd also like to thank National Press Club staff members Melinda Cooke, Pat Nelson, Joann Booz and Howard Rothman for organizing today's lunch. Also, thanks again to Matt Milanchec. Also, thanks to the NPC Library for its research. The video archive of today's luncheon is provided by the National Press Club's Broadcast Operations Center. Our events are available for free download on iTunes, as well as on our website. Nonmembers may purchase transcripts, audio and videotapes by calling 202-662-7598; or emailing us at archives@press.org. For more information about the National Press Club, please go to our website at www.press.org.

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