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September 9, 2011

The Honorable Kathleen Sebelius
Secretary
Department of Health and Human Services
Washington, D.C. 20201

Dear Madam Secretary,

I am pleased to present New Jersey's vision for preserving our Medicaid/NJ FamilyCare program as an essential health insurance safety net that can be sustained long into the future. The Section 1115 Demonstration Comprehensive Waiver we are submitting today to the Centers for Medicare and Medicaid Services has been designed to make Medicaid/NJ Family Care more flexible, more effective, more affordable to our taxpayers and more comprehensive in the services it offers.

We are proposing administrative and operational efficiencies that will make the program sustainable for decades to come and nimble enough to respond quickly to changing circumstances. We plan to use this additional flexibility to experiment with new modes of health care delivery such as Accountable Care Organizations and medical homes, which hold the promise of providing better care at less cost. We intend to employ a substantial part of the resulting savings to improve Medicaid/NJ FamilyCare services to populations that currently are underserved, notably our citizens with developmental disabilities, mental health disorders, or both. We are committed to rebalancing our spending on long-term care so that we rely less on institutionalization and more on services that will help keep our aging citizens and those with disabilities in their own homes, which is where they have told us they want to stay.

While this admittedly is an ambitious agenda, our vision is not limited to improving Medicaid/NJ FamilyCare. We hope that our initiatives with managed long-term care, medical homes, Accountable Care Organizations and other efforts to deliver coordinated health care will provide workable models that can be replicated by other payers and other states.

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The Comprehensive Medicaid Waiver we are submitting is not merely a compilation of best ideas for improving Medicaid/NJ FamilyCare. It is the product of concerted collaboration among three state departments—Human Services, Health & Senior Services and Children & Families—as well as extensive consultation with our Medicaid/NJ FamilyCare clients and their health care providers and advocates. One of my first acts as Governor was to sign an Executive Order requiring state agencies proposing new regulations to consult their stakeholders. Our Administration has faithfully observed this directive by publishing the concept paper that outlined our proposed waiver, convening numerous stakeholder forums and carefully evaluating the feedback it received. As a result, the proposals outlined in the original concept paper have been refined and, in some cases, substantially revised. I would like to highlight two of these changes.

We no longer propose freezing enrollment of parents earning below 133 percent of the federal poverty level into NJ FamilyCare. This was not an idea we originated; previous administrations in New Jersey had frozen enrollment of adults in order to cope with financial downturns less serious than the one we face now. We initially viewed freezing enrollment of parents as a way to conserve limited resources and preserve New Jersey's very generous eligibility standards—up to 350 percent of the federal poverty level -- for enrolling children into NJ FamilyCare. We reasoned that this would be a temporary hardship for parents earning less than 133 percent of poverty who are not already enrolled in NJ FamilyCare, as they will become categorically eligible for Medicaid in 2014. Our stakeholders, however, told us that in these turbulent economic times, freezing NJ FamilyCare would be a very substantial hardship on parents who become newly eligible, perhaps because they have lost a job. Our stakeholders also made a convincing argument that freezing enrollment of parents would harm our efforts to provide health care coverage for every child in the state, because parents signing up for NJ FamilyCare will enroll their children as well. We take these concerns very seriously and have concluded that, on balance, maintaining current eligibility standards for parents is the right thing to do.

I do feel compelled to point out that under current law, in 2014 the Medicaid program nationwide will expand to cover everyone up to 133 percent of the federal poverty level, with the federal government initially paying 100 percent of the cost for those who are "newly eligible." This means the cost of covering parents up to 133 percent of poverty will be borne entirely by the federal government in those states that have never covered this population, while New Jersey will actually see its federal matching rate for covering these parents drop from 65 percent to 50 percent. In effect, New Jersey will be punished for doing the right thing. I hope you agree that this represents an inequity and that you will assist us in our efforts to obtain enhanced federal matching funds for covering parents up to 133 percent of poverty.

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We also are changing our strategy for reducing the inappropriate use of hospital emergency rooms for non-emergency conditions. We originally proposed charging Medicaid clients a \$25 co-pay if they went to a hospital emergency room with a "low-acuity, non-emergency" condition; we intended this to create a financial incentive to seek care in a more appropriate setting such as a primary care provider or Federally Qualified Health Center. During our discussions with stakeholders, however, we were presented with convincing evidence that a co-payment would not change patient behavior and that hospitals would be unable to collect these co-payments and would have to absorb the cost. Accordingly, we are dropping the proposed \$25 co-payment and will instead pursue our goal of reducing inappropriate use of hospital emergency rooms through other initiatives.

Accountable Care Organizations are one example of such an initiative. You have probably read of the pioneering work that Dr. Jeffrey Brenner is doing here in New Jersey through the Camden Coalition of Healthcare Providers. Dr. Brenner's work so far indicates that health care costs can be substantially reduced by providing good primary care to poor and marginalized patients before they show up in our hospital emergency rooms with serious conditions. More importantly, the quality of these patients' lives can be improved immeasurably. It was to foster innovative programs such as this that I signed a law authorizing our Department of Human Services to establish Medicaid Accountable Care Organization pilot programs. Making these pilot programs a reality will require additional approvals from your office, which we intend to pursue through our Comprehensive Medicaid Waiver.

Other pilot programs proposed in our waiver application would extend Medicaid services to citizens with unmet medical needs. As one example, New Jersey is continuing its commitment to individuals and their families who are dually diagnosed with developmental disabilities and mental illness. The State will develop a 200-person pilot program for children and young adults who are dually diagnosed with developmental disabilities and mental illness who meet the state psychiatric hospital level of care. The primary goal of the pilot is to provide a safe, stable, and therapeutically supportive environment in the community for children and young adults with significantly challenging behaviors and medical needs. This pilot also will increase the community capacity in New Jersey to serve this vulnerable population.

New Jersey also recognizes that a number of individuals with Medicaid coverage have Pervasive Developmental Disabilities (PDD) diagnoses, such as autism, and are unable to receive PDD-related habilitation services through the Medicaid State Plan that are available to New Jerseyans with private health insurance. In 2009, New Jersey mandated coverage for PDD-related habilitation, such as applied behavioral analysis (ABA), in private health insurance for children with autism and other developmental disabilities. Our waiver includes a pilot program for 200 children to receive services such as ABA, discrete trial and pivotal response, family training and nutritional consultations; these services are identical to those mandated under private health insurance. This is an important first step in ensuring

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that children with autism and other developmental disabilities that are covered by Medicaid receive the same medically necessary services as those with private insurance.

These are just a few of the innovations proposed in our Comprehensive Medicaid Waiver. It also includes programs to promote healthy behaviors and create incentives for our citizens to stay healthy, to encourage primary care providers to participate in Medicaid/NJ FamilyCare by increasing their reimbursement, and to coordinate care for our most expensive category of patients, those eligible for both Medicaid/NJ FamilyCare and Medicare. I look forward to cooperating with your office to make these possibilities a reality. Working together, we can improve the delivery of health care and the lives of our fellow citizens, both in New Jersey and throughout these United States.

Sincerely,


Chris Christie
Governor