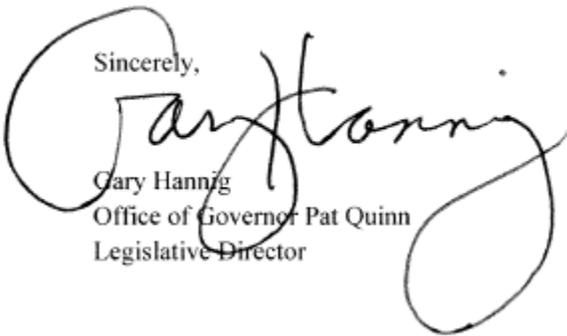


April 24, 2012

Dear Honorable Member of the General Assembly,

Please find enclosed copies of recent media coverage regarding the Governor's Medicaid and Pension Stabilization Plans. We look forward to working with you on these difficult issues. Please contact me at (217) 524-1423 with any questions or comments.

Sincerely,

A large, stylized handwritten signature in black ink, appearing to read "Gary Hannig". The signature is written over the typed name and title.

Gary Hannig  
Office of Governor Pat Quinn  
Legislative Director

# Chicago Tribune

FRIDAY, APRIL 20, 2012

## Quinn delivers Strong medicine to rescue Medicaid

In February, a somber Gov. Pat Quinn told lawmakers that the state's Medicaid program needs radical surgery to survive. He called for \$2.7 billion in cuts to an annual Medicaid budget of nearly \$15 billion. "Our rendezvous with reality has arrived," Quinn told the General Assembly, alluding to runaway Medicaid and pension costs. "This is not something you can blithely delay for another year."

That's what he said. But would he follow through on that lofty goal or ... blithely delay?

On Thursday, Quinn delivered what he had promised: He gave legislators his proposal to reduce Medicaid's pressure on the budget by, yes, \$2.7 billion. On Friday, he's expected to offer his companion plan to repair the pension system. "This is 'epic week' in Illinois," he said during a news conference Thursday afternoon. "We want to have epic reforms."

The governor's Medicaid proposal involves wide, deep and difficult cuts — \$1.35 billion in all — to help reach that \$2.7 billion goal. He also recommends a \$1-a-pack cigarette tax increase (to \$1.98) in order to generate about \$675 million, when federal matching dollars are included. And he proposes a \$675 million rate cut for Medicaid providers. Total: the \$2.7 billion.

Credit Quinn for a sound proposal that does, in fact, rendezvous with reality: Illinois' Medicaid system cannot survive without a major downsizing. It would cause genuine problems for some recipi-

ents and the people who deliver their care. Whom to blame? For many years, Illinois lawmakers irresponsibly have allowed Medicaid coverage to expand beyond levels that taxpayers realistically can support.

Because of that indefensible mismatch between costs and resources, Illinois expects to have \$1.9 billion in unpaid Medicaid bills on hand by June 30, the end of fiscal 2012. Without a fix, the Civic Federation of Chicago credibly estimates, that backlog will balloon to \$21 billion in five years. Providers, who aren't getting paid for about four months already, could see that delay grow to a full year. At that point, who would be left to care for the 2.7 million people — 1 of every 5 Illinoisans — who depend on Medicaid?

To rescue Medicaid, Quinn proposes 58 cuts, reductions and efficiencies: ■ Medicaid would save \$120 million in the fiscal year that starts July 1 by removing from the rolls 100,000 people who don't belong on them. Some recipients don't even live in the state. Some make too much money to get health care designated for the poor. That purging is long overdue. ■ Tens of thousands more Medicaid recipients would get fewer services. The proposal eliminates adult dental treatment (\$51 million saved), cuts chiropractic treatment for adults (\$884,000), limits bariatric

surgery (\$3 million), cuts podiatric services for everyone except diabetics (\$5.2 million) and zeros out group psychotherapy for nursing home residents (\$14 million).

■ Medicaid recipients would be limited to five prescriptions a month (there are virtually no limits now), saving \$136 million. Several states have done this. The expectation is that a limit would force doctors to better coordinate recipients' prescription drug care; some patients now consume several drugs prescribed by several physicians.

■ Quinn's proposal would end Illinois Cares Rex, a supplemental drug program for seniors that doesn't draw federal reimbursement. Savings: \$72 million.

■ Moving Illinois patients into managed care will deliver modest savings — \$16 million — next year. But that should rapidly increase in years to come, as the state finally moves much of its Medicaid population into more coordinated, cost-effective treatment. Quinn proposes to accelerate that transition.

All of this is necessary, but doesn't reach \$2.7 billion. Enter the \$1-a-pack cigarette tax, which would generate an estimated \$337.5 million. Because Washington matches each state dollar spent on Medicaid, the state's gain would double, to \$675 million. We support this hike for two reasons: Medicaid, which provides care for

smoking-induced illnesses, needs the money; the American Cancer Society estimates that tobacco cost Illinois \$1.5 billion in Medicaid spending last year. And making cigarettes costlier means many people will quit or never start.

Also baked into the proposal is a \$675 million rate cut for health care providers — roughly 8 percent if these cuts fall equally on hospitals, doctors and all other Medicaid providers. Will they?

That's not just a financial issue, but a policy question. How would legislators apportion \$675 million in cuts, and would Quinn agree with them? Example: Should Illinois exempt from cuts the safety-net hospitals that treat a disproportionate share of Medicaid patients?

We'll see. The bottom line here is that Quinn has given lawmakers a template to do what he repeatedly has told them needs to be done. He's given them plenty of time to debate this, to adjust, to add their own proposals before this legislative session's scheduled conclusion May 31. All good.

The rendezvous with reality starts now. The Legislature is notorious for pushing off tough decisions to another day, another year, another decade. That can't happen this time. "If we don't make those changes, we won't have a system at all," Quinn said Thursday. He's right.

So let's get to it. Lawmakers, if you don't like the governor's solutions, let's hear yours. Only one thing can't change: The number is \$2.7 billion.

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# Chicago Tribune

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April 22, 2012

VIEW: <http://www.chicagotribune.com/news/opinion/editorials/ct-edit-reckoning-0422-20120422,0,2547804.story>

## Editorial: The Reckoning

Through years of recession, overspending and tax collections that couldn't keep pace, the pols who run Illinois assumed that fairy dust would be their salvation: Either the Revenue Fairy would reward them with new money from a rapid economic rebound, or the Stimulus Fairy would keep sprinkling federal money on [Springfield](#). In the past, one fairy or the other always had flown to the rescue.

This time, the fairy tales didn't come true. Gov. [Pat Quinn](#) first admitted as much on Feb. 22 when he proposed a budget for the fiscal year that begins 10 weeks from Sunday. "Too many governors and members of the General Assembly have clung to budget fantasies rather than confronting hard realities, especially with respect to pension and [Medicaid](#) investments," he told a mostly silent if not entirely chastened chamber of legislators. He then explained why they no longer could wait for fairy dust: "We must stabilize and strengthen our pension systems to prevent them from swallowing up our core programs in education, health care and public safety, and to ensure that we can pay all our bills."

On Thursday the governor kept his February pledge to suggest how lawmakers should reduce Medicaid's pressure on the budget by \$2.7 billion. (The headline atop our Friday editorial on that plan: "Quinn delivers.") On Friday Quinn concluded what he called "Epic Week" with a similarly bold pension proposal that he said would save Illinois \$65 billion to \$85 billion — and eliminate the system's \$83 billion in unfunded obligations.

Three forces pushing Springfield to act:

- Many legislators, too, see Medicaid and pension costs elbowing their own priorities out of the budget. [Democrats](#) who took terrible political risks last year by voting to spike the income tax certainly didn't expect pension expenses to devour virtually *all* of that new revenue.
- News that the underfunded Teachers' Retirement System of Illinois may be forced to reduce pension payments to teachers who are *already retired* is a shock to Springfield's culture of delay and denial.

- A recent warning from ratings agency Standard & Poor's that it could downgrade Illinois' creditworthiness "by more than one notch" if the state doesn't fix its problems adds still more urgency: A multiple downgrade would attest that Illinois, its leaders AWOL, is in free fall.

Quinn's Medicaid and pension plans now go to legislators. By their yelps of protest, ye shall know them.

**The best feature** of the pension proposal is its frontal assault on that immense unfunded obligation. The governor's budget director, Jerry Stermer, says that under rules now in place, the state must pay about \$310 billion into the pension system by 2045. That would improve today's dismal funding ratio of 43 percent to 90 percent — still leaving a \$32 billion shortfall. Quinn instead would invest \$245 billion and reach 100 percent funding by 2042 — three years earlier.

How so? By reducing the cost of benefits. Quinn wants employees to raise their payroll contributions to their pensions, accept a lower cost-of-living scheme and phase in a retirement age of 67. Workers who accept that package would get three things in return: future pay increases still factored into their pension calculations, a state subsidy for health care in retirement, and — drum roll — a legal requirement, now nonexistent, that lawmakers fully fund the pension system.

Expect public employee unions to say Quinn's plan unconstitutionally diminishes benefits promised to public workers. The governor says that's wrong, in part because, in return, employees would get those three paybacks.

He also will get pushbacks for proposing that:

- School districts, community colleges and public universities phase in the acceptance of some responsibility for paying pension costs the state now covers.
- Retired state workers and teachers pay, on a means-tested scale, some portion of their health insurance premiums.
- Excluding the private-sector officials and staffs of unions and some state associations from receiving state pensions. (Quinn's plan doesn't address pension abuses by union officials drawing city of Chicago pensions.)

That said, we expect many public employees to see Quinn's plan as a way to preserve defined-benefit pensions that still would be more generous than retirement benefits most Illinois taxpayers can expect. But many of those workers will expect their union leadership to first put up a hellacious fight.

**Quinn needs to keep** explaining that, in the fiscal year that starts July 1, pension costs alone will consume \$1 of every \$5 Illinois spends. Three-fourths of that will cover the state's annual payment into the pension system; the rest covers repayment of money borrowed to make pension payments in prior years.

That drain on all Illinois taxpayers can't continue. We hope Democrats, including those beholden to unions, will build on Quinn's plan. Just as we hope [Republicans](#) will do the same — and drop their opposition to including a cigarette tax hike in any Medicaid rescue.

For Illinois to escape its downward spiral, its politicians of both parties will need to abandon some of their customary talking points ("No benefit reduction," "No tax hike").

We take it as a real measure of leadership that Gov. Quinn — accepting his "rendezvous with reality" — is pressing the case for major Medicaid and pension reforms. Friday afternoon, meeting with our editorial board, he said that legislative agreement to rescue Medicaid and pensions "will make Illinois a whole lot better state."

He's right.



April 22, 2012

VIEW: <http://www.suntimes.com/opinions/12026025-474/editorial-raising-cigarette-tax-1-makes-sense-for-illinois.html>

### **EDITORIAL: Raising cigarette tax \$1 makes sense for Illinois**

The very first cigarette tax in the nation was imposed in 1921 in Iowa. It was 2 cents a pack.

Cigarette taxes have gone up a bunch since then. Massachusetts now has the highest rate — \$2.51 a pack — and supporters of a health-care bill there hope to boost it an additional \$1.25 this spring.

Illinois' tax is 98 cents a pack, 32nd highest among the states. Gov. Pat Quinn wants to raise that by \$1 a pack to generate about \$338 million a year for Medicaid. The new revenue would be matched dollar for dollar by the federal government.

Nobody likes tax increases. But this is one that makes sense, and the Legislature should approve it.

Arguments against cigarette taxes fill the air like cigarette smoke in an elevator. Critics say it's a nanny tax, an example of government using its power to tax to steer citizens in a desired direction.

They say it hurts small retailers. When an Illinois smoker drives to Missouri to buy smokes, where the tax is 17 cents a pack, Illinois businesses lose not only that cigarette sale, but also the sale on gasoline, liquor, groceries and whatever else the smoker buys.

The number can be significant. When Cook County doubled its cigarette tax to \$2 in 2006, cigarette sales at one Riverside gasoline station plummeted from 110,000 packs a month to just 17,000.

The Illinois Retail Merchants Association says the state already is battling a problem of unregulated counterfeit cigarettes on which no taxes are paid. And the association predicts that after an initial revenue bump, the tax increase would generate less and less net revenue.

Republican legislative leaders oppose any tax increases. "A cigarette tax, even if that's one that's not offensive to many people, is a revenue solution to a spending problem," Senate GOP Leader Christine Radogno said Friday. "And that's a philosophical difference between our parties."

The critics overlook more important facts.

First, a tax on cigarettes will deter smoking. The American Cancer Society estimates the tax increase would stop 72,700 children in Illinois from becoming smokers and encourage 53,400 adults to quit. That's no small accomplishment, given how terrible smoking is for our health.

Second, smoking-related health-care costs drive up Medicaid spending, a fact Gov. Quinn emphasized when he met with the Sun-Times editorial board Friday. Smoking is estimated to cost the state \$4.10 billion a year in health-care costs — and \$1.5 billion of that tab is picked up by Medicaid.

“This is a very big public health measure,” Quinn said, “and anyone who is involved in public health is all for this.”

Third, trying to balance the state’s Medicaid budget with cuts alone means walking away from federal dollars. No other tax offers that huge federal match.

Fourth, Quinn already is proposing 58 stunningly deep Medicaid cuts. Further cuts would be devastating.

Fifth, the last three Republican governors of Illinois backed cigarette tax increases five times.

Radogno and the House Republican leader, Tom Cross, have voted for a cigarette tax increase, too.

It’s time they do so again, and bring their party with them.

Are we, or are we not, a just and compassionate society?

April 22, 2012

## **EDITORIAL: Give Quinn credit for proposing solutions**

There are many who will disagree with the Gov. Pat Quinn's plan to cut \$2.7 billion out of the state's Medicaid budget. And many others will disagree with his plan to reform the state's pension system, which was unveiled Friday.

But let's give Quinn credit. He has recognized that the state cannot continue to spend money it does not have, and he has proposed plans that will reform both programs.

It's now up to the General Assembly, which has in the past delayed these types of crucial decisions, to deliver. These decisions cannot be delayed. They will be painful, but they must happen.

Quinn's Medicaid proposal cuts \$1.35 billion from the program. He is also recommending a \$1-a-pack cigarette tax increase, which would put the state's tax at \$1.98 per pack. That would generate about \$675 million, if federal matching dollars are included. The plan would cut another \$675 million from Medicaid providers in order to reach the \$2.7 billion.

Quinn made his Medicaid proposal after a panel of legislators could not reach a satisfactory conclusion.

The reforms are crucial. It's estimated, by the Civic Federation of Chicago, that the state will have \$1.9 billion in unpaid Medicaid bills by June 30. Without changes, that figure will escalate to \$21 billion in five years.

To put it another way, unless Medicaid and the pension systems are reformed, the state will spend all of its new revenues, and then some, on those two programs. That leaves no new money for education, public safety or other government spending.

The scariest result might be another downgrading in the state's bond rating. Rating agencies have indicated that unless the state addresses its financial issues, further reductions in the ratings could occur. The result would be higher interest rates on the money the state borrows and more difficulty in issuing bonds to fund capital projects.

Quinn's Medicaid proposal did not receive overwhelming support when it was introduced.

Republican leaders in both houses, and some Democrats, said they are opposed to a cigarette tax increase. An increased cigarette tax would drive some smokers in the border areas to neighboring states. But the tax also could serve dual purposes. It not only raises revenues, but if more people would quit smoking, the amount of Medicaid payments to deal with smoking-related illnesses would also decrease.

The Illinois Hospital Association was also quick to disagree with the cuts to Medicaid providers, and many agencies representing the poor have stated that reducing the number of people on Medicaid will create problems.

Those all may be valid concerns. But the state needs solutions, not just complaints.

Members of the General Assembly will have plenty of opportunity to adjust the details of Quinn's plan. That's part of the process.

But legislators need to remember one thing. These decisions, which will be difficult, can no longer be delayed.

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THE STATE

# Journal Register

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THE OLDEST NEWSPAPER IN ILLINOIS™

April 22, 2012

VIEW: <http://www.sj-r.com/opinions/x1783281831/Cigarette-tax-hike-a-reasonable-part-of-plan>

## **EDITORIAL: Cigarette tax hike a reasonable part of plan**

On Thursday, Gov. Pat Quinn announced a sweeping set of cuts that will drastically reduce the health care the state provides to low-income residents under Medicaid.

Some 215,000 people will lose Medicaid benefits entirely. The Illinois Cares Rx program will be eliminated, affecting 180,000 senior citizens for whom the program helps with prescription costs. Medicaid recipients will be limited to five prescriptions a month. Dental coverage, now provided for 172,000 people, will be dropped.

Illinois hospitals, which already lose money on Medicaid patients, would see their reimbursement rates cut even further — up to 9 percent.

Whether you are a Medicaid provider or patient, these cuts and dozens of others in the Quinn plan are deep and painful. And, unfortunately, they also are necessary in the state's effort to cut \$2.7 billion from a Medicaid budget that, if not reformed, is on a trajectory to consume the entire state budget.

As severe as the cuts are, they still barely push the savings to \$2 billion. That's why we were taken aback Thursday at reaction to Quinn's proposal for filling the remainder of the Medicaid hole: a \$1-a-pack cigarette tax that will raise an estimated \$337.5 million per year. Matched dollar-for-dollar by the federal government, it would bring \$675 million into the Medicaid system.

"Governor Quinn put out a proposal that includes a tax increase," said a statement issued by the Republican leaders in the General Assembly. "We stand with our members on the Medicaid working group against any tax increases to solve our Medicaid crisis."

To them and any others who find a cigarette tax outrageous, we say, "Good luck finding another \$675 million in savings somewhere else in the state budget." To which we will add that taxing smokers an extra \$1 per pack for a habit estimated to be the source of \$1.5 billion in Medicaid expenses annually — and \$4.1 billion in overall health-care costs — makes perfect sense.

This is a tax that would apply only to the 17 percent of Illinoisans who smoke, and it's a tax all smokers can avoid if they quit — which about 38,600 will do when the price of cigarettes goes up by \$1 a pack, according to the American Cancer Society. The added cost also can be expected to deter more than 72,000 teens from becoming smokers, according to ACS estimates.

But those merely are collateral benefits. The fact is this limited tax fills a gaping hole without either denying more people health care or further squeezing Medicaid providers on reimbursement rates.

Any lawmaker who shoots down this portion of Quinn's Medicaid reform package without offering a practical alternative forfeits credibility with us. We have seen lawmakers far too often cry for cuts in state spending while finding voluminous reasons to oppose every suggested reduction. (The Tamms Correctional Center closure debate comes to mind.)

We don't like the fact that tens of thousands of people will lose important health-care services if this plan is adopted. Yet faced with a problem of this magnitude, the Quinn plan spreads the pain as evenly as can be expected. If lawmakers don't have the fortitude to accept part of the solution in an easily avoided tax on a product that is part of the problem, we can't imagine any formula that will please them.

## EDITORIALS

# Gov's Medicaid cuts get to what's morally right

**G**ov. Pat Quinn is just about the last person you'd expect to cut health services for the poor.

His career has been built around helping the little guy.

So when Quinn finally decides it's time to put forward a list of painful cuts that he and other dogooders acknowledge will hurt, but will ultimately help keep afloat the safety net for the poor, we're going to back him up.

Likewise, when Quinn says the cuts can only go so far without shredding that safety net, and proposes a modest increase in the cigarette tax to make up the

**If the state flinches, Gov. Quinn says, the Medicaid system could collapse under a mound of debt.**

difference, we're also going to back him up.

It's time for the members of the General Assembly to do the same.

On Thursday, Quinn made good on a promise to wring an astonishing \$2.7 billion out of the state's \$14.2 billion Medicaid program. If the state flinches, Quinn says, the Medicaid system could collapse under a mound of debt.

No one thinks he's exaggerating. "We're beyond the crisis stage," said the Civic Federation's Laurence Msall. "Now we're in the 'how do you avoid collapse' stage." Msall praised Quinn for "exerting his leadership in identifying a reasonable plan to save Medicaid."

Quinn's proposal calls for nearly \$1.4 billion in cuts — including eliminating health care for poor single adults, ending adult dental care, reducing prescription coverage and scaling back so-called "optional services" such as adult occupational and physical therapy. Most of these cuts were vetted

by a bipartisan legislative group convened by Quinn.

Another \$675 million will come from across-the-board rate cuts, a proposal that should be modified to make sure true safety net hospitals take less of a hit. The final \$675 million will come from a \$4-a-pack increase in the cigarette tax and an accompanying 100 percent federal matching grant. No one likes a tax increase, but this one features the public health benefit of discouraging smoking and would draw \$338 million in new federal money to Illinois. When making this revenue projection, the governor's office says, it factored in the fact that the tax hike would reduce cigarette sales.

Predictably, state Republicans leaders reject the cigarette tax, saying the entire \$2.7 billion should come from cuts and reforms.

We say: Show us the way. Many of the cuts and reforms proposed by Quinn are long overdue, such as kicking people out of Medicaid who are no longer eligible. And some program eliminations will be reversed when (and if) the federal health-care law is fully implemented.

But many of the cuts are not driven by goals of efficiency or good policy. Some services are being reduced or eliminated because Illinois is broke. Real people — poor folks in nursing homes, the state's mentally ill — will be hurt.

Keeping that pain to a minimum, and ensuring that the right cuts are being made, should be the Legislature's focus now as it turns Quinn's proposal into passable legislation. Fighting over a modest tax, even one that has minor downsides, when the alternative is denying poor people their medications, is absurd.

Quinn's plan is financially right for Illinois. And it is morally right.

Every pol in Springfield should follow those two bright stars.



## EDITORIALS

# Quinn's pension reforms will defuse time bomb

**A** group of mature adults is finally running the State of Illinois.

Leading the way is Gov. Pat Quinn, who last week spoke candidly and directly about the state's dire financial straits and then laid out game-changing proposals to save Illinois' Medicaid and pensions systems from collapse.

On Friday, we backed Quinn's Medicaid proposal, and today we strongly endorse the broad contours of his plan to rein in state employee pension costs. The basic elements were drafted by a bipartisan legislative working group.

We take no pleasure in backing a plan that cuts benefits for teachers and prison guards —

**Legislators avoid risky moves in an election year. This year, that could be the real political risk.**

they've faithfully paid toward their pensions year after year while the state has not. But without changes of the magnitude envisioned by Quinn, before too long there may be no pension systems to reform.

Illinois is facing a ticking time bomb. The state's pension systems are only 43 percent funded, leaving an \$83 billion pension liability that is crowding out spending on the most basic services, including schools, human services and prisons. This year, the state paid \$5.7 billion toward pensions, including debt service, consuming 17 percent of state spending. By 2017, that will reach \$7.8 billion, or 21 percent of state spending, according to the Civic Federation.

To lower costs, Quinn wants teachers and state employees to retire later, at 67, and to accept lower annual cost of living increases in retirement. They'll also contribute 3 percent more of their

salaries toward their pensions. The state would set a 30-year timetable to reach full pension funding and would use a more sound system of calculating what it owes each year.

In return, Quinn says the state will pay its share every year. An ironclad guarantee isn't possible, but as they translate this plan into a bill, legislators should get as close as humanly possible.

To avoid running afoul of the Illinois Constitution, which says pension benefits "shall not be diminished," Quinn wants to offer public employees a choice if they reject his plan: keep current benefits but give up free health care in retirement and accept that pay raises over time won't be factored into final pension benefit calculations. We worry about the legality of excluding raises and urge legislators to triple-check that as they draft legislation that inevitably will be challenged in court.

Quinn also proposes making school districts, community colleges and universities pay a small part of the cost of their employees' pensions. Most pay nothing now. The Republican leadership rejects this, saying it would force school districts to raise property taxes. We don't buy that, given the small amount districts would be asked to pay. But Quinn is wise to separate this issue from his larger plan.

Many details remain unresolved, as they should be. This leaves room for state unions, which strongly reject Quinn's proposal, to help shape it and to make sure legislators get this just right.

Illinois Republicans, to their credit, have been pushing for these changes for years. And Quinn, to his credit, is the leader stepping up to say the moment is now.

Legislators typically avoid anything risky or bold in an election year. But this year, that could prove to be the real political risk.