



HEALTH CARE AND HUMAN SERVICES POLICY, RESEARCH, AND CONSULTING—WITH REAL-WORLD PERSPECTIVE.

## An Evaluation of Medicaid Savings from Pennsylvania's HealthChoices Program

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## I. Executive Summary

### A. Introduction and Background

HealthChoices – the Commonwealth of Pennsylvania’s mandatory capitated managed care program for Medical Assistance (MA) recipients<sup>1</sup> – was implemented in 1997. Eight managed care organizations (MCOs) currently provide services to HealthChoices enrollees: Aetna Better Health, AmeriHealth Mercy Health Plan, Coventry Cares from HealthAmerica, Gateway Health Plan, Inc., HealthPartners of Philadelphia, Inc., Keystone Mercy Health Plan, UnitedHealthcare Community Plan, and UPMC *for You*.<sup>2</sup>

Mandatory enrollment into the HealthChoices program is required in 25 counties. Pennsylvania has also implemented an enhanced primary care case management fee-for-service Medicaid program named ACCESS Plus. ACCESS Plus is used exclusively in 16 counties for Medicaid consumers without Medicare coverage.<sup>3</sup> In Pennsylvania’s remaining 26 counties, the MCOs serve Medicaid consumers on a voluntary enrollment basis, with consumers who do not select an MCO option receiving coverage under ACCESS Plus.

The Pennsylvania Coalition of Medical Assistance Managed Care Organizations (the Coalition) is comprised of physical health managed care organizations that contract with the Commonwealth of Pennsylvania to provide services to recipients enrolled in the HealthChoices program. In 2005, the Coalition commissioned The Lewin Group to conduct a comparative evaluation of Pennsylvania’s HealthChoices program and fee-for-service program, focusing on four areas that contribute to a health care program’s overall value:

- Cost-effectiveness as compared to traditional fee-for-service;
- Impact on access;
- Quality of services provided; and
- Focus on and approaches to serving individuals with special needs.

The Coalition has now asked The Lewin Group to update our analysis of the cost savings of the HealthChoices program as compared to traditional fee-for-service and to ACCESS Plus.

### B. Summary of Approach

To conduct this evaluation, Lewin interviewed six of the eight managed care organizations participating in HealthChoices to gain context for the medical cost comparisons. Additionally, we calculated per member per month (PMPM) costs for Pennsylvania and other comparison states using Medicaid Statistical Information System (MSIS) data to review cost trends for blind/

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<sup>1</sup> In Pennsylvania, the HealthChoices program encompasses both physical and behavioral health managed care. This report focuses specifically on the physical health managed care organizations.

<sup>2</sup> Six of the eight HealthChoices MCOs sponsored this study and participated in its development: AmeriHealth Mercy Health Plan, Gateway Health Plan, HealthPartners of Philadelphia, Keystone Mercy Health Plan, UnitedHealthcare Community Plan, and UPMC *for You*.

<sup>3</sup> Persons dually eligible for and enrolled in Medicaid and Medicare are not served by HealthChoices nor by ACCESS Plus.

disabled consumers who are not dually eligible for Medicare.<sup>4</sup> This subgroup was the focal point of the cost trending estimates as it is particularly amenable to coordinated care impacts due to coverage continuity, prevalence of chronic conditions, and high usage of services (e.g., inpatient hospital and pharmacy) that managed care models can typically influence.

## C. Summary of Findings

The HealthChoices program continues to provide Medicaid cost savings to the State through a broad and innovative array of cost containment strategies. Below we provide HealthChoices cost saving estimates compared to fee-for-service and ACCESS Plus, cost trends and cost containment efforts in the HealthChoices program, and estimates of potential savings associated with a geographic expansion of HealthChoices.

### 1. Savings Compared to Fee-for-Service

In the 2005 study, Lewin found that HealthChoices saved the State \$2.7 billion (\$1.4 billion in State funds) during the preceding five-year period. This update of the cost-effectiveness component of that previous study finds that the HealthChoices managed care approach continues to yield significant savings to the State. The current study finds that:

- HealthChoices is estimated to have yielded overall Medicaid savings of \$5.0 to \$5.9 billion (\$2.9 billion to \$3.3 billion in State funds) when compared to fee-for-service over the past 11 years (CY2000 – CY2010).
- Looking forward, HealthChoices is projected to yield State Fund savings of \$2.9 billion to \$3.6 billion versus fee-for-service over the next five years (CY2011 – CY2015) in the existing HealthChoices counties. These savings are projected to increase to between \$5.4 billion and \$6.6 billion for the ensuing five-year period (CY2016 – CY2020).

The original 2005 study used Medicaid fee-for-service as the baseline for comparison as ACCESS Plus was still in its early stages. Therefore, for the purpose of consistency, this update to the study also used a traditional fee-for-service baseline to demonstrate that, consistent with the 2005 study, HealthChoices continues to provide significant savings to Pennsylvania when compared to an unmanaged fee-for-service system in the HealthChoices zones.

### 2. Savings Compared to ACCESS Plus

Another reference point for HealthChoices' savings impacts is the State's enhanced primary care case management program ACCESS Plus. When comparing HealthChoices to ACCESS Plus, the current study found:

- HealthChoices is estimated to have yielded total savings \$1.1 to \$1.4 billion in State funds when compared to ACCESS Plus over the past five years (CY2006 – CY2010).
- Looking forward, HealthChoices is projected to yield State Fund savings of \$2.1 billion to \$2.4 billion over the next five years (CY2011 – CY2015) in the existing HealthChoices

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<sup>4</sup> The MSIS data are available on the CMS website at <http://msis.cms.hhs.gov>. This data set includes Medicaid cost and eligibility information for each state throughout the past decade. MSIS data can be tabulated for various Medicaid population subgroups and types of service.

counties and between \$3.8 billion and \$4.4 billion for the ensuing five-year period (CY2016 - CY2020) when compared to ACCESS Plus.

Because ACCESS Plus incorporated additional cost containment strategies that the traditional fee-for-service model does not utilize, the annual savings HealthChoices is creating, although still large, are smaller relative to the ACCESS Plus baseline in recent years than relative to the traditional fee-for-service setting from earlier years when ACCESS Plus did not exist.<sup>5</sup>

In the estimates of savings compared to ACCESS Plus, as well as the savings compared to fee-for-service, the State's premium tax program accounts for approximately 40 percent of the State Fund savings the HealthChoices program is yielding, with HealthChoices' care coordination model accounting for the majority (approximately 60 percent) of State Fund savings.

### *3. Cost Trends and Cost Containment*

Cost trends were assessed across a five-year timeframe, CY2003 - CY2008, as 2008 is the most recent year for which parallel information is currently available from every state. For the non-dual blind/disabled population, Pennsylvania's PMPM Medicaid costs were lower in 2003 than in the three comparison groups of geographic peers, size peers, and the United States overall. These PMPM costs subsequently trended more slowly in Pennsylvania (an average of 3.5 percent annually between 2003 and 2008) than in the comparison groups, which all averaged an annual trend of 4.8 - 4.9 percent. Thus, Pennsylvania's PMPM costs for these subgroups as of 2008 were further below those of the comparison groups. Given Pennsylvania's high percentage of capitation, it is probable that HealthChoices was a major contributing factor to both the relatively low PMPM and cost trend in the blind/disabled population.

The structure of the HealthChoices program also features more cost containment attributes than either fee-for-service or ACCESS Plus, including: channeling patient volume towards lower cost settings and towards cost-effective providers, avoidance of unnecessary services, and assuming risk for medical costs. While all cost containment techniques used by ACCESS Plus are also deployed by HealthChoices, the HealthChoices MCOs implement a wide array of additional cost containment approaches that do not occur under ACCESS Plus.

From a service-specific perspective, HealthChoices has demonstrated cost containment techniques in prescription drugs and inpatient hospital care resulting in large-scale cost savings. For pharmacy costs, MCO dispensing fees are half of what is paid in fee-for-service and ACCESS Plus (\$2 versus \$4), resulting in an estimated \$40 million a year in savings. Further, MCOs use generics on average 10 percent more frequently than fee-for-service. HealthChoices plans have also focused on reducing inpatient hospital costs and usage throughout their tenure. Recent initiatives in this area include the use of "observation day" rates for low-acuity patients during short hospital stays rather than the higher Diagnosis Related Group (DRG) rate for inpatient care, resulting in substantial savings per case for these admissions.

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<sup>5</sup> Another factor that reduced the savings HealthChoices is annually able to achieve involves the removal of Medicaid/Medicare dual eligibles from the HealthChoices program as of CY2006 in conjunction with the creation of the Medicare Part D pharmacy coverage program.

#### ***4. Savings from Geographic Expansion***

The Coalition also asked Lewin to estimate the potential savings that could result from converting ACCESS Plus members into HealthChoices in the 42 counties where the ACCESS Plus program currently operates. We estimate that this policy change would yield State Fund savings of approximately \$375 million between CY2012 and CY2015. State savings are projected to total approximately \$725 million across the five-year timeframe CY2016 - CY2020. Thus, State savings from replacing ACCESS Plus with HealthChoices across the nine-year period CY2012 - CY2020 are projected to be roughly \$1.1 billion.