

Medicaid Managed Care in the Governor's FY 2011/12 Budget

April 2011

In this difficult budget environment, attention has focused on Governor Corbett's proposed budget for the Medical Assistance Program. This Fact Sheet from the Pennsylvania Coalition of Medical Assistance Managed Care Organizations (PAMCO) highlights the Medicaid budget's key provisions relating to Physical Health Managed Care.

The Facts

Capitation Appropriation

- The Medicaid Capitation appropriation funds both Physical and Behavioral Health Managed Care.
- Physical Health Managed Care Organizations (MCOs) provide services for over 1.2 million of the Commonwealth's 2.2 million Medicaid consumers.
- The Budget shows a State fund increase of \$965,408,000 in Capitation. Nearly all of the increase is a replacement for Federal stimulus funds and one-time funding used in the 2010/11 budget, combined with additional funding for an anticipated rise in Medicaid caseloads.

Funding for MCOs

- The Budget funds a minimal rate increase of approximately 2.5% for MCOs. While the Department of Public Welfare (DPW) has spoken publicly about a 3.5% rate increase, the actual increase is much lower.
- Approximately 1% of the amount described by DPW as an increase simply recognizes the shift in Pharmacy Rebate revenue from the MCOs to the Commonwealth. Pharmacy Rebate collections have been redirected from the MCOs to DPW as a result of the Drug Rebate Equalization provisions of the Federal Affordable Care Act. The Federal law also guarantees the Commonwealth significantly higher rebates than the MCOs had been able to collect previously.

Rate Adequacy

- A 2.5% rate increase is less than half of the most recent medical trend estimate for HealthChoices from DPW's own actuaries. Rate increases to MCOs have averaged 3% over the past five years. A 2.5% increase would continue the pattern of underfunding in recent years.
- Federal Medicaid law requires DPW to pay MCOs actuarially sound rates, which must also reflect the actual cost experience related to drug rebates. PAMCO questions whether the budget proposal satisfies these requirements.

- A number of the MCOs have sustained losses over the last few years due to long-term underfunding of the program. The significant divergence between actual medical cost trends and Commonwealth payment rates to MCOs cannot continue. For HealthChoices to continue to produce sustained systemic savings to the Commonwealth and serve as a platform for future growth, the program must be financially viable.
- **It is essential that the Governor’s proposed funding for MCOs be maintained.**

Pay for Performance

- The amount budgeted for MCO Pay for Performance reimbursement is the actual amount DPW owes to the MCOs for FY 2009/10 contract incentives.
- The Pay for Performance line has been decreased by \$46,627,000 (State and Federal) from the current fiscal year to reflect a contract change made by DPW to reduce the incentive portion of MCO payments.
- The Pay for Performance program is not a “bonus” program. It is a Value-Based Purchasing component of DPW’s payment methodology and rate structure designed to improve quality of care. It is a Commonwealth contractual obligation. This program has enhanced the capacity of MCOs to improve outcomes and access to care, while lowering the trajectory of health care cost escalation and overall patient care costs.
- This **Pay for Performance funding is essential to the MCOs** since rates have not kept pace with medical trends. This additional funding is necessary to allow MCOs to continue to provide programs proven to reduce costs and improve patient outcomes.

Smart Purchasing

- Complete details on this Budget initiative are not yet available. Until we receive more information, PAMCO is raising two preliminary issues of clinical concern:
 - Good dental health has been tied to better medical outcomes in areas such as preterm labor, diabetes and heart disease.
 - Many of our adult members take considerably more than six medications per month to manage complex and chronic medical conditions.
- In the managed care environment, MCOs rely heavily on both Pharmacy and Dental services as cost effective medical alternatives to keep consumers healthy and help prevent expensive Emergency Room visits and hospitalizations. Imposing limits may compromise the ability of the MCOs to control costs.

- MCOs are at financial risk for increased Emergency Room visits and hospital stays that could result from adopting these dental and pharmacy limits. Without an adequate, administratively viable exception process to these limitations and appropriate valuation of the financial impacts of these proposed initiatives in the rate setting process, **these Smart Purchasing changes could place an undue burden on MCOs and our consumers.**

Partners in Revenue Generation

- The Budget contains a State revenue increase of \$8,650,000 related to the MCO Gross Receipts Tax, raising the total annual revenue generated by this tax to approximately \$315,000,000.
- The MCOs continue to partner with the Commonwealth and the hospitals in the Quality Care Assessment, which will raise a significant amount of revenue – approximately \$500 million annually – to help maintain the financial integrity of the Medicaid program.
- DPW is changing the timing of MCO payments to take advantage of the higher Federal match rates that expire on June 30, 2011. Thirteen payments will be made in FY 2010/11, while eleven payments will be made in FY 2011/12.

What's Missing from the Budget?

- **Expanding HealthChoices statewide** could save the Commonwealth hundreds of millions of dollars over the next several years. Beginning this initiative prior to, or with, the enacted FY 2011/12 Budget would allow the Commonwealth to begin realizing savings in the coming fiscal year.
- **Implementing Medicaid Managed Long Term Care** could save the Commonwealth nearly a billion dollars over a five-year period. While it is unlikely that this major systems change could be implemented in FY 2011/12, the Budget should launch this initiative so that true savings could be captured in the FY 2012/13 budget.