PA Coalition of
Medical Assistance MCOs

HealthChoices Expansion:

Response to the Department of Public Welfare's Proposal for HealthChoices Expansion

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In this difficult fiscal environment, attention has focused on the need to identify cost savings initiatives to help save and contain costs within the Medical Assistance Program. This Issue Brief from the Pennsylvania Coalition of Medical Assistance Managed Care Organizations (PAMCO) provides recommendations relating to the Commonwealth's recent proposal to expand the HealthChoices Program statewide. While PAMCO applauds the Department's decision to move forward with expansion, their proposed program design falls short in realizing the full cost containment possible for Pennsylvania's MA program.

HealthChoices Expansion:

The Department of Public Welfare (the "Department") recently issued a draft discussion paper announcing its intent to expand HealthChoices, the Department's mandatory managed care program, to serve the physical health needs of Medical Assistance consumers throughout Pennsylvania. As noted by the Department, the expansion of HealthChoices will offer consumers additional options to obtain the care they need to remain healthy and to pursue opportunities to allow them to live more independently.

The Department proposes to divide the 42 counties that are currently not part of HealthChoices into the New East and New West Zones. The Department will eliminate the existing voluntary managed care program, and develop a model that will provide consumers with the choice of two MCOs. The Department also proposes to maintain the existing ACCESS Plus program as a choice for Medicaid consumers.

The Department proposes to release an RFP for the HealthChoices expansion in October 2011, with proposals being due in November 2011. Under the current proposal, proposers will have the option to bid for the New East Zone, the New West Zone or both zones. The Department plans to begin the MCO selection process in December 2011, with implementation in the New West Zone in September, 2012, and implementation in the New East Zone in March 2013.

PAMCO applauds the Department's decision to expand full-risk managed care as a positive development for the Commonwealth's taxpayers, consumers, and the provider community. PAMCO has been advocating for the expansion of HealthChoices statewide for many years. The Commonwealth's HealthChoices program is one of the most successful Medicaid managed care programs in the nation. In 2010, all of the Commonwealth's longstanding HealthChoices physical health MCOs ranked in America's Best Medicaid Health Plans, with five ranking in the top 25.[1]

The Department's proposal, however, contains a fundamental flaw. Rather than replicate the success of the historical HealthChoices model, the Department is proposing to continue ACCESS Plus as a government-run MCO along with the traditional MCO model. In order to maximize cost savings and ensure the success of the implementation effort, PAMCO advocates that this expansion stay true to the traditional HealthChoices model and utilize at-risk Capitated MCOs. Our recommendations relating the HealthChoices expansion are outlined below.[2]

[1] The National Committee for Quality Assurance and the Consumer Reports Health Rating Center examine MCO performance using the standard performance measures and ran MCOs according to their performance scores.

[2] The Coalition also prepared a more detailed response to the Department's Public Discussion paper relating to HealthChoices Expansion.

<u>Recommendation #1</u>: Adopt a Full-risk Capitated Managed Care Model in the HealthChoices Expansion Zones.

The expansion proposal should be revised to exclude ACCESS Plus as a program option for a number of important policy reasons.

The Proposal to Maintain the ACCESS Plus Program in the HealthChoices Expansion Zone:

- ***Will Reduce Cost Savings to the Commonwealth.*** A recent report issued by the *Lewin Group*[3] found that expanding HealthChoices statewide would yield state fund savings of approximately $375 million between CY2012 and CY2015, or over $90 million annually during this four year period. By including ACCESS Plus as an option, potential savings could be reduced by as much as 75%, resulting in initial savings of only $21.5 million per year.[4] In light of the Commonwealth's financial situation, it is critical for the Department to take advantage of all opportunities for program savings.

> ***"[T]he potential savings occurring under ACCESS Plus are deemed far below the amount available through the HealthChoices model…"***
>
> ***- The Lewin Group***

- ***May Jeopardize the Success of the Expansion Effort.*** With ACCESS Plus continuing as an option for providers, the Commonwealth's cost savings from expansion could be further eroded. Many providers, especially those unfamiliar with Medicaid Managed Care, may be wary of the more diligent utilization management protocols employed by MCOs. This reluctance, coupled with the enhanced bargaining position that providers will have with Medicaid FFS as an alternative to MCO participation, could drive up the cost of provider contracts.

  The financial implications extend into the rate setting methodology used by the Department to set MCO rates. The Department has developed and refined a sophisticated system for rate setting that includes components such as budget neutral risk pools and risk management. These were developed for an all-MCO HealthChoices. Adapting that system

[3] *An Evaluation of Medicaid Savings from Pennsylvania's HealthChoices Program*, Lewin Group (May 2011); http://www.pamco.org/publication_files/an-evaluation-of-medicaid-savings.pdf

[4] This estimate is based on historical data that shows that in counties that offer a choice of both MCOs and ACCESS Plus, 23 percent of consumers are currently choosing MCOs. Note, however, that it is possible that MCO enrollment would show a gradual increase as a result of a change in the auto-assignment methodology.

to include the relatively unmanaged ACCESS Plus program could have a negative financial impact the Commonwealth and the MCOs.

- ***Is Not Necessary In Pennsylvania.*** Traditionally, states have implemented state-run enhanced primary care case management programs such as ACCESS Plus in rural areas of their state because of the immaturity of the managed care program, and concerns by the state that they could not identify qualified MCOs to serve the Medicaid consumers. In Pennsylvania, these concerns do not exist. Pennsylvania has one of oldest and most successful Medicaid MCO programs in the country. Several MCOs already serve much of the expansion zones through the Voluntary Managed Care Program, including many of the most rural counties in those regions. It is likely that several MCOs will seek to provide services in each of the two new zones, ensuring a rigorous and competitive procurement process.

  It is worth noting that while the Department cites Indiana, Kansas and Texas a precedents for operating an ACCESS Plus-type model and MCOs concurrently in the same zone, the actual experience in these states does not support the Department's proposed approach. In Indiana, the existing PCCM and MCO models serve different populations. In Kansas, the existing PCCM and MCO models serve different populations in most of the state, and only provide overlapping services in a sparsely populated region where more than one MCO option is not available. In addition, Texas is planning to expand their Medicaid MCO program to replace the existing "ACCESS Plus-like" model. Florida is planning a similar expansion of Medicaid, risk-based capitated managed care.

- ***Is Inconsistent with the Goal of the Commonwealth to Implement Innovative Private Sector Solutions.*** HealthChoices MCOs are privately run entities that have clinical, financial and administrative accountability over all aspects of the delivery and financing of services. As a result, HealthChoices MCOs have several distinct advantages over the state-run ACCESS Plus program. These advantages include:

  - ✓ ***Financial Risk:*** Unlike ACCESS Plus, HealthChoices places the financial risk on the MCOs and provides budget predictability to the Commonwealth by eliminating the need for supplemental appropriations. Additionally, with expanded HealthChoices populations, the MCOs can offer added value due to scaled operations.

  - ✓ ***Fraud and Abuse Detection and Prevention:*** Because MCOs are "at-risk" for the cost of services, detecting fraud, abuse and waste is a critical priority. MCOs have implemented cutting-edge technology and best practices to protect the integrity of the MA program in the current HealthChoices program.

- ✓ ***Accountability:*** HealthChoices MCOs have clinical, financial and administrative accountability over all aspects of the delivery and financing of services. In ACCESS Plus, these functions are performed by the Department and various contracted entities in a decentralized organizational structure.

- ✓ ***Flexibility and Innovation:*** HealthChoices can react quickly to implement novel programs to enhance quality and consumer outcomes. HealthChoices is not hindered by staffing, procurement, and other limitations that may exist in government-run programs like ACCESS Plus.

- ✓ ***Access and Quality:*** The MCOs provide comprehensive care, increased access and quality outcomes in the current HealthChoices program. Access and quality standards for MCOs are rigorous, and the Department has the ability to adjust its standards to fit the needs of consumers and the Commonwealth.

➢ ***Will Maintain Duplicative and Unnecessary State Program Infrastructure.*** By maintaining ACCESS Plus as an option, the Department must continue to fund a state employee and contractor infrastructure to operate the program. This includes civil service and contract staff in the Office of Medical Assistance to oversee ACCESS Plus, as well as clinical staff to provide utilization management, case management, and pharmacy management. Contracts for the ACCESS Plus vendor, claims processing, and specialty pharmacy are also necessary for the Department to operate ACCESS Plus "like a health plan." By replicating HealthChoices through an expansion with only MCOs, DPW could eliminate some of these functions and scale others back drastically to support a residual fee-for- service infrastructure. This change could save the Commonwealth millions in General Government expenditures over and above the estimated savings figure of $375 million between CY2012 and CY2015.

It is also worth noting that if ACCESS Plus is permitted to participate in the new HealthChoices Expansion Zones, the Department would be acting as both a regulator and a competitor of the MCOs – a clear conflict of interest.

Recommendation #2: Provide Additional Medicaid MCO Options in Each Expansion Zone.

The HealthChoices Expansion Public Discussion Paper also indicates that "no more than two MCOs will be awarded contracts for each expansion zone." This decision should be re-visited, because it is in the best interest of Pennsylvania to eliminate ACCESS Plus as an option in the HealthChoices Expansion zones. If ACCESS Plus is no longer an option, the Commonwealth should replicate the existing, and extremely successful, HealthChoices model that provides additional choices of MCOs for consumers in each zone. A choice of more MCOs provides the right balance of competition and consumer choice, and has proven to be successful from both a cost and quality perspective.

Recommendation #3: Expedite the HealthChoices Expansion to Maximize Cost Savings.

The Department proposes to release an RFP for the HealthChoices expansion in October 2011, with proposals being due in November 2011. Under the current proposal, proposers will have the option to bid for the new East Zone, the new West Zone or both zones. The Department plans to begin the MCO selection process in December 2011, with implementation in the New West Zone in September, 2012, and implementation in the New East Zone in March 2013. PAMCO believes that the implementation process can be expedited, in order to maximize program savings.