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# LAO Assessment of the Governor's Care Coordination Initiative

LEGISLATIVE ANALYST'S OFFICE

Presented to:

Joint Oversight Hearing on Long-Term Care Integration and  
Medi-Cal Managed Care

Assembly Budget Subcommittee No. 1 on Health and Human Services  
Hon. Holly J. Mitchell, Chair

Assembly Committee on Aging and Long-Term Care  
Hon. Mariko Yamada, Chair





## Organization of Handout

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- Background on Medi-Cal seniors and persons with disabilities (SPDs) and the health care and long-term supports and services (LTSS) they receive.
- Governor's Care Coordination Initiative to integrate Medi-Cal LTSS and Medicare benefits within managed care.
- Governor's proposal has potential to improve outcomes and reduce costs.
- Key implementation issues must be addressed to increase likelihood of success.
- Governor's proposal to implement initiative statewide is premature.
- LAO recommendations.



## Background on SPDs and the Services They Receive

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- Medi-Cal SPDs.** Approximately 1.9 million low-income SPDs are enrolled in California's Medicaid program (known as Medi-Cal), the state-federal program to provide health care services to low-income persons.
- Dual Eligibles.** Of the SPDs enrolled in Medi-Cal, about 1.2 million are also enrolled in Medicare, the federal program that provides healthcare services to qualifying persons aged 65 and over and persons with disabilities. The SPDs who are enrolled in both Medi-Cal and Medicare are known as dual eligibles.
- How Medi-Cal Wraps Around Medicare.** When dual eligibles use hospital or physician services, Medicare is the primary payer and Medi-Cal is the secondary payer, providing wrap around coverage for Medicare cost sharing. Medi-Cal is the primary payer for most LTSS, such as nursing facility care and home and community based services.
- Medi-Cal Provides LTSS.** Some of the main LTSS that are part of the Medi-Cal Program include:

  - In-Home Supportive Services (IHSS)
  - Multi-Purpose Senior Services Program (MSSP)
  - Community-Based Adult Services (CBAS)
  - Other Home and Community-Based Waiver Programs
  - Skilled Nursing Facilities (SNFs, also referred to as nursing homes)

Generally, LTSS are provided through Medi-Cal fee-for-service (FFS), while medical services, such as hospital and physician services, are provided through Medicare or Medi-Cal managed care.



## Background on SPDs and the Services They Receive

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***Fragmented System Results in Uncoordinated Care and Increased Costs.*** Generally, no single entity has the capacity and financial incentive to coordinate the full range of services SPDs need. This fragmentation often results in poor care coordination, reduced accountability, and increased costs.



### **Recent Legislation Creates Opportunity to Improve Coordination of Care for Dual Eligibles**

- California was one of 15 states awarded \$1 million to develop strategies for implementing models of care that coordinate services for dual eligibles.
- Chapter 714, Statutes of 2010 (SB 208, Steinberg), authorized a coordinated care pilot project for dual eligibles in up to four counties. The demonstration is scheduled to begin in January 2013.



## Governor's Care Coordination Initiative Would Integrate Medi-Cal LTSS and Medicare Benefits Within Managed Care

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### **Expand Four-County Demonstration to Integrate Care for Dual Eligibles**

- Demonstration would be expanded to up to 10 counties in 2013, an additional 20 counties in 2014, and the remaining 28 counties in 2015.
- Uses a capitated managed care model to integrate Medicare and Medi-Cal benefits, including LTSS.



### **Include LTSS in Managed Care**

- LTSS will be included as managed care benefits for nearly all Medi-Cal beneficiaries.
- Integration of LTSS will occur on a schedule that is similar to the expansion of the dual demonstration described above.



### **Key Components of the Administration's Savings Estimates**

- **Budget Year:** The administration estimates \$166 million in up-front costs associated with the transition from FFS to managed care, offset somewhat by \$42 million in shared savings from the Medicare program. The administration proposes to defer payments to managed care plans and FFS providers, resulting in a one-time benefit to the General Fund of \$746 million in 2012-13.
- **Out Years:** The administration estimates approximately \$1 billion in annual ongoing General Fund savings in future years, generally due to reduced hospital and nursing home utilization. More than half of the savings are attributed to shared Medicare savings.



## Governor's Proposal Has Potential to Improve Outcomes and Reduce Costs

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While we have a variety of concerns about the Governor's proposal, we support the general concept of aligning incentives and coordinating services to improve health outcomes, reduce program costs, and increase accountability.

- Managed Care Has Potential to Improve Outcomes and Reduce Costs.*** Once managed care plans have the financial risk for the delivery of nearly all services to Medi-Cal beneficiaries, the plans could use a variety of tools to contain costs—many of which could simultaneously result in improved health outcomes through better coordination of care and a greater emphasis on preventing unnecessary institutional costs.
  
- Could Lead to Greater Accountability for Outcomes.*** The Governor's proposal establishes the state as the level of government ultimately responsible for ensuring high-quality services are available to dual eligibles. In addition, managed care plans become the primary entity responsible for coordinating services for beneficiaries and the state could focus its oversight and monitoring efforts on managed care plans to ensure beneficiaries are receiving the services they need.
  
- Takes Advantage of Opportunities for Shared Medicare Savings.*** Any indication that the federal government is willing to share a portion of its savings is an important step toward system reform. With shared Medicare savings, the state has a strong incentive to identify more efficient models of care for dual eligibles.



## Key Implementation Issues Must Be Addressed to Increase Likelihood of Success

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Although we have noted several aspects of the Governor's proposal that have merit in concept, there are numerous details that are crucial to success. We describe some of the key implementation issues that the Legislature should consider when evaluating the Governor's proposal.

- Strong Oversight of Managed Care Plans Is Essential.*** Despite the potential benefits of managed care, the state must have strong monitoring and enforcement of standards related to quality of care, provider network adequacy, and financial solvency to ensure managed care plans are providing beneficiaries the services they need.
- Effective Rate Development Is Critical to Success.*** Rates paid to managed care plans should generally reflect the costs of providing services to the covered population—enough to ensure plans can deliver quality services to beneficiaries, while ensuring the state is not overpaying. Rates should be based on reliable data that account for a wide range of beneficiary needs.
- It Will Take Time for Managed Care Plans to Understand LTSS.*** Most managed care plans are unfamiliar with community-based services, such as IHSS. It will take time for these plans to develop relationships with LTSS providers and understand how these programs can be best utilized to reduce hospital and nursing home costs.
- Consider the Level of Program Utilization and Control Granted to Plans.*** Prior to integration of LTSS within managed care, it must first be decided which parts of the program are fundamental and necessary to preserve, and which components the managed care plans should have the ability to control. Making the IHSS program a managed care benefit presents several unique challenges.



## Governor's Proposal to Implement Initiative Statewide Is Premature

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In our view, the Governor's proposal to implement the initiative statewide changes the "pilot" nature of the demonstration. Instead of first operating a four-county demonstration and evaluating the results, the Governor's proposal assumes the success of the demonstration and proposes to roll it out statewide.

- An Evaluation of the California Demonstration Could Provide Valuable Lessons.*** By having time to evaluate the four-county demonstration, the Legislature could determine whether the model of care was successful. It could also use the results to identify improvements that could be made before expanding the model statewide.
  
- Proposal Does Not Allow Time to Evaluate Results From Pilots in Other States.*** California could learn, not only from the experience of its own demonstration, but also from the experiences of the other states participating in the national pilot.





## LAO Recommendations

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- Proceed With Four-County Demonstration, but Reject the Proposal to Expand It Statewide at This Time.*** The demonstration sites have not been selected yet, much less implemented, or evaluated. The aggressive time lines make successful statewide implementation difficult. More importantly, the degree to which the model produces the desired outcomes is unclear. The Legislature could learn valuable lessons from the four-county demonstration, as well as models being piloted in other states, before it makes a decision to expand it statewide.
  
- Ensure Proper Evaluation Measures Are in Place for the Demonstration.*** The Legislature should provide appropriate direction to the administration to make sure that once the four-county demonstration is completed, it has enough information to determine whether the policy should be implemented statewide. This information could also assist the Legislature in determining which aspects of the demonstration were successful and which aspects should be changed before statewide implementation. Chapter 714 put in place several reporting requirements. As more decisions are made about the implementation of the demonstration, the Legislature may wish to create additional requirements.
  
- Consider Other Options for LTSS Integration in Certain Counties.*** We recommend that, through the policy process, the Legislature consider the merits of a separate pilot that integrates LTSS into managed care, without integrating Medicare benefits. This way, if the integration of Medicare benefits for dual eligibles is not successful, the Legislature would have information to assess whether LTSS integration makes sense.



## LAO Recommendations

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**Reject the Proposed Legislation That Conditions the Payment Deferral.** We recommend the Legislature reject proposed statutory language that restricts the Department of Health Care Services from deferring payments unless the Care Coordination Initiative is enacted. The proposed language unnecessarily limits administrative flexibility to create budget-year savings.



### Reevaluate Savings

- **Budget-Year Savings.** The majority of the savings in the budget year are attributable to payment deferrals. Therefore, the level of budget-year savings largely depend on whether some or all of the deferrals are adopted.
- **Out-Year Savings.** We have concerns about the administration's underlying assumptions related to enrollment, share of Medicare savings, and reductions in hospitalizations and nursing home utilization. Similar to the Governor's proposal, out-year savings associated with the four-county demonstration are highly uncertain. The difference in savings ultimately realized in the out-years largely depends on the population of dual eligibles in the counties selected for the four-county demonstration.