

July 2, 2015

Medi-Cal Payment Issues

LEGISLATIVE ANALYST'S OFFICE

Presented to:
Senate Committee on Public Health and
Developmental Services
Second Extraordinary Session
Hon. Ed Hernandez, Chair





Medi-Cal Payment Reductions



2011-12 Budget Authorized Medi-Cal Payment Reductions.

The 2011-12 budget package authorized the administration to reduce Medi-Cal fee-for-service (FFS) payments to providers for certain services by up to 10 percent, and to reduce payments to Medi-Cal managed care plans by a related amount. These reductions—commonly referred to as the AB 97 payment reductions—originally applied to a wide range of providers and services, including:

- Outpatient services provided by physicians, dentists, and clinics.
- Institutional providers such as distinct-part nursing facilities and intermediate care facilities for the developmentally disabled.
- Ancillary services such as laboratory tests and medical transportation.
- Retailers of medical goods such as pharmacies and medical equipment suppliers.



Reductions Were Enjoined by Federal Court Until Mid-2013.

Federal court injunctions prevented the state from implementing many of the reductions until June 2013, when the injunctions were lifted. This gave the state authority to (1) implement the reductions to current and future payments on an *ongoing* basis, and (2) *retroactively* recoup the reductions from past FFS payments that were made to providers during the period in which the injunctions were in place. (There are no retroactive recoupments from managed care payments.)



Medi-Cal Payment Reductions *(Continued)*

- Administration Has Foregone Some Reductions and Recoupments.*** The budget-related legislation authorizing the payment reductions also gives the administration authority to partly or fully exempt specific providers and services from the reductions, in order to comply with federal Medicaid access requirements. The administration has exempted the following providers and services from *retroactive* recoupments: physicians and clinics, certain high-cost drugs, dental services, intermediate care facilities for the developmentally disabled, and medical transportation. The administration has also exempted the following providers and services from *ongoing* reductions: pediatric services, certain community-based adult service centers, certain drugs and pharmacy providers, distinct-part nursing facilities, and dental pediatric surgery centers. For managed care payments, the administration also decided against applying reductions related to pharmacy and specialty physician services.

- 2015-16 Budget Restores Medi-Cal Payments for Dental Providers.*** The 2015-16 budget package eliminated the ongoing 10 percent payment reduction for dental providers, at a state cost of \$30 million. The remaining reductions are estimated to save the General Fund \$185 million in 2015-16.



Legislative Proposal to Increase Medi-Cal Payments

Senate Bill 243 (Hernandez)—introduced in the 2015 legislative session—would require certain payment increases in the Medi-Cal program. As noted below, this proposal goes beyond a full repeal of the AB 97 reductions. Below are the categories of proposed increases and their associated annual General Fund costs as estimated by the Senate Appropriations Committee. (These cost estimates were based on information provided by the Department of Health Care Services.)

- Raising FFS Payments for Hospital Inpatient Services.*** Medi-Cal FFS payments for hospital inpatient services would be increased by 16 percent in 2015-16, and subsequently increased at the annual rate of medical inflation. These payment increases, combined with the resulting impact to the hospital quality assurance fee, are estimated to cost \$1 billion General Fund annually.
- Eliminating Remaining AB 97 Payment Reductions.*** Medi-Cal payments for services provided after June 1, 2011 would be determined without application of the current payment reductions, at an estimated cost of \$270 million General Fund annually. (We note that this cost estimate was made prior to the enacted budget action to repeal the ongoing 10 percent payment reduction for dental providers.)
- Raising Medi-Cal Payments to Medicare-Equivalent Levels.*** The proposal would require a variety of Medi-Cal payment increases that would be benchmarked to Medicare payment levels, for a total estimated cost of \$5.3 billion General Fund annually.

 - ***FFS Rates for Medicare-Covered Services.*** Medi-Cal FFS payments for outpatient services, medical transportation, and several other services would be increased to equal the Medicare payment level for those services.



Legislative Proposal to Increase Medi-Cal Payments

(Continued)

- ***Proportionate Increase in Dental Payments.*** Payments for dental services would be increased in proportion to the increase in other FFS payments to the Medicare payment level. (Dental services generally are not covered by Medicare.)
- ***Corresponding Increase in Managed Care Payments.*** Medi-Cal managed care payments would be increased by an amount corresponding to FFS payment increases.