A SMARTER WAY TO CARE:

TRANSFORMING MEDI-CAL FOR THE FUTURE

Executive Summary

LITTLE HOOVER COMMISSION

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California's debate about health care is changing long-held assumptions and revealing new opportunities as features of the state's health care landscape are re-evaluated in a new light. The problems remain immense. But so does the potential for transformational change, to a degree unimaginable even five years ago.

Much of the focus of this year's debate has been on how the state can help extend health insurance to the 6.5 million Californians who lack health insurance.[1] It is an important discussion but incomplete without consideration of the 6.6 million low-income, senior and disabled Californians who rely on state government for health coverage through the Medi-Cal program, more formally, the California Medical Assistance Program.[2]

The Medi-Cal program is the second single largest investment the state makes, behind only education.[3]

Several of the recent proposals to provide health coverage to the uninsured involve the Medi-Cal program, but without addressing the fundamental weaknesses in the program, adding more people to Medi-Cal will only stress an already overburdened system.

As it is, the Medi-Cal program consumes $37.7 billion a year in state and federal tax dollars, but the Department of Health Care Services lacks a system or a structure to measure whether its outlays improve the health outcomes of its millions of enrollees.[4] Both taxpayers and enrollees deserve smarter spending.

Better measurement is essential, as costs in the program are rising rapidly, at twice the inflation rate and more quickly than the overall state budget.[5] By 2010, the Medi-Cal budget is expected to reach $53.9 billion, an increase of 43 percent from its current outlays. Of that total, $19.7 billion will come from the General Fund, an increase of 33 percent from the General Fund's $14.6 billion contribution in 2007.[6]

Medi-Cal's growth rate puts it on course to expand from 15 percent of the General Fund budget in 2003, to 19 percent in 2010 and 21 percent in 2015.[7]

In a 2005 reform attempt to slow rising costs, the department acknowledged that Medi-Cal's growth was not sustainable and, left unchanged, would force cuts in other parts of the budget or a need for higher taxes.[8] Nothing has changed and Medi-Cal's costs continue to outpace state revenues.

Also ahead is the retirement of the Baby Boom generation, set to become the state's fastest growing population group. Seniors already represent the fastest rising cost population among Medi-Cal's members, and their expanding numbers will fuel further cost increases in the program.

These dynamics are not limited to California. Faced with many of the same pressures, the federal government is pushing California and the rest of the states to transform their programs to increase health care quality, transparency and accountability.

But the Medi-Cal program isn't prepared to meet these challenges.

As the state grapples with the problem of the uninsured, California also must transform its Medi-Cal program. The governor needs to articulate a vision for that transformation and the reasons for it. The Department of Health Care Services needs to develop a strategic plan to reengineer the Medi-Cal program so that it can ensure that its health spending improves health outcomes for enrollees. It must focus its efforts on prevention and improved care of chronic conditions, to reduce the number of Medi-Cal enrollees who develop acute health problems and avoidable disabilities.

As the state's largest purchaser of health care, Medi-Cal has the potential to reshape the state's health care market for all Californians by measuring performance and using incentives to improve heath outcomes. To accomplish this, it will need to know its beneficiaries better, to know what care they are receiving, how it compares to what is recommended, and whether it is working. That will require not only a strategy, but the analytical power to inform policy making as well as the data management systems to support the analysis.

At the same time, the state will need to streamline and modernize its enrollment and eligibility process to bring it in line with federal requests for simplification. Lower enrollee churn will shrink administrative costs and reduce lapses in care.

When the Little Hoover Commission began its examination of publicly funded health care, one of its goals was to determine whether state operations could be made more efficient and whether potential savings could be used to extend coverage to more uninsured Californians.

The answer is a qualified yes, as the state will need to invest to modernize the program before it can realize any potential savings. In the short run at least, improvements in quality and access are likely to increase costs as enrollees find it easier to get health care and seek care for previously unaddressed or under-treated health problems.

If the state can show, however, that it is serious about transforming the Medi-Cal program, it can start to reap immediate dividends in accountability and legitimacy with taxpayers.

The Commission interviewed dozens of state and federal health officials, doctors, nurses, social workers and researchers and visited clinics and hospitals where Medi-Cal enrollees and poor people seek treatment.

What the Commission found was exciting:

- Non-profit community clinics providing primary care for poor people who otherwise might have turned to a much more costly hospital emergency room.
- Ways to use claims and payment records to identify people within a population with chronic diseases to ensure that, as a group, they were getting the most appropriate care.
- New methods of measuring value and quality that focus on outcomes – improved patient health – helping to ensure health dollars are spent most efficiently.

The health professionals the Commission met – inside the government and out – were passionate about improving health care and energized by the prospect of truly transformational change, change that will increase access to health care, improve health outcomes of patients and reduce inefficiency, waste and errors in the health care system.

This is encouraging, because the state – through its people, purchasing power and policies – can be a powerful catalyst for change. And as California's largest single purchaser of health care, the Medi-Cal program is the place to start.

Less than half of Medi-Cal's members are enrolled in managed care plans, despite research that shows managed care can lower costs and improve care, even for people with complex health needs.[9] Most of the program's beneficiaries with the highest cost health problems are not in managed care, but in fee-for-service part of Medi-Cal, where the state has little ability to coordinate care and lacks the tools to assess the value of the care they receive.

The state must enroll more of its aged and blind and disabled beneficiaries in managed care plans. But first, the state must ensure the plans are on stable financial footing so that they can handle the influx of new, high-need members. And it must put in place a system to evaluate readiness so that the state's most vulnerable citizens can be assured they will get high quality care.

To improve access to primary care that is the foundation of prevention, the Department of Health Care Services must bolster the state's network of community health clinics, and provide incentives for communities to try new approaches to primary care. The state must help California's clinics develop their capacity to deliver chronic care as well. In this way, the state can help these clinics serve Medi-Cal enrollees in the most cost-effective setting and reduce the burden of non-urgent visits to hospital emergency rooms. In many counties, clinics are parts of larger health plans, providing many of the coordinated care benefits and access to specialists that managed care offers. The state must create more opportunities for communities to innovate in this way.

In rural areas where Medi-Cal cannot enroll more of its senior and disabled beneficiaries in managed care, it must borrow the managed care strategy of disease management, which allows experts to focus on an enrollee's most serious health problems.

The state should lead by setting standards for health information technology and raising the quality bar for managed care plans serving all Californians. Additionally, the state should consolidate the purchasing power of all of its operations, including its mental health hospitals and the California Public Employees' Retirement System, to drive improvements in value and quality.

Governor Schwarzenegger's executive order on health information technology outlines a vision for how the state can lead in introducing new tools to connect patients, laboratories, pharmacies, hospitals and physicians. It is a vision that connects health information systems with the goals of transparency for consumers and accountability. It recognizes the importance of collecting and analyzing data to improve performance.[10]

To deliver on the governor's vision will require an action plan, and that plan must include transformation of the Medi-Cal program. Such transformation could not only improve health care for all Californians, but ultimately holds the potential to lower costs for all Californians.

Fear of such extensive change is understandable, especially in a program as complex as Medi-Cal. In addition to policy changes, transforming the

state's publicly funded health care system will require purchasing and installing new computer technology, critical to reducing fraud, speeding claims payment and organizing and analyzing patient records.

In state offices, however, there is a palpable apprehension of adding another failed state computer system to the list of expensive government technology debacles.

But there also is a growing national list of successful new computer systems, as well as new public-private approaches to tackling technology challenges. California can learn from the successes of other states. Harnessing the assets it has at hand and the opportunities within its reach, it can change the health care landscape in the nation's largest state and give others the chance to learn from its success.

California has paid the price in the past for its failure to size up its challenges and its opportunities honestly. The Medi-Cal program has to change. Rising costs, shifting demographics and a new federal stance demand it. Here the state has the opportunity to embrace the challenge and make Medi-Cal the model for the rest of the nation.

To their credit, the governor and legislative leaders have engaged in the debate about California's uninsured, developing proposals that reflect a deep understanding of the complex issues involved. But also they need to look at reform of the state's own operations as a critical component to any meaningful solution.

The debate – and the state – will benefit by making the transformation of Medi-Cal the starting point for revolutionary and lasting health care reform, using the state's purchasing power as leverage to improve the health of its most vulnerable residents and deliver true accountability to its taxpayers.

Recommendation 1: The Department of Health Care Services must transform the Medi-Cal program into a value-driven purchaser of health care. Specifically, the department should:

- ***Develop a strategic plan that emphasizes prevention.*** The state must adopt a strategic plan for transformation that emphasizes prevention through increased access to primary and chronic care. The strategic plan should include goals and timetables to:
  - ✓ Expand managed care where possible and provide medical homes and disease management programs where managed care is not an option. The plan should guide the department in managing costs and improving health through better coordinated care of chronic

conditions, a reimbursement structure that rewards improved health outcomes, and better health system transparency.

- ✓ Collect and analyze data on health care quality provided to its enrollees to guide policy and decision-making.
- ✓ Reduce barriers to enrollment for eligible Californians.

- ❑ ***Designate a leader and a strategy team.*** The department director must develop and articulate a long-term strategy to transform the Medi-Cal program. The director should designate an individual dedicated to directing the strategy and policy efforts of this transformation, separate from the responsibility for day-to-day operations of the program. That individual should lead a formally recognized strategy team located within the Medi-Cal program. Together with the strategy team, the leader should be focused on the long-term planning and program needs and projected changes within Medi-Cal's enrollee population.
- ❑ ***Develop a Medi-Cal succession plan.*** The Department of Health Care Services should take specific steps to develop leadership and management capacity for transforming the Med-Cal program to ensure that transformation efforts are not tied to specific individuals, but can outlast personnel and administration changes.
- ❑ ***Use Value-based purchasing.*** The Department of Health Care Services should adapt and adopt value-based purchasing strategies used by other large purchasers of health care, such as CalPERS and business consortiums, that build incentives for improved health quality outcomes into contracts with providers.

Recommendation 2: To improve health outcomes and spend public resources more efficiently, the Department of Health Care Services must ensure that Medi-Cal beneficiaries have access to care, particularly prevention and coordinated care. The department should:

- ❑ ***Strengthen and expand managed care.*** The department should increase the number of beneficiaries in managed care plans where such plans exist. To do so, it must revive the open stakeholder process to develop standards for readiness and plans to monitor managed care plans for their ability to care for elderly and disabled beneficiaries. The department also must ensure capitation rates are fair and provide incentives for improving health outcomes.
- ❑ ***Experiment with new approaches.*** The department must encourage innovation through grants and pilot projects, by setting health quality goals and by allowing providers at the community level to try new approaches to create medical homes, either through clinics or community-based health plans. Where necessary, the state should seek federal waivers to allow money to be spent where it can have the

largest long-term benefit – on primary care that can reduce the need for future acute care.

- ***Create incentives to improve outcomes.*** The Department of Health Care Services should create incentives in its Medi-Cal reimbursement structure to improve health outcomes of enrollees through education, prevention, case management, disease management and chronic care programs.
- ***Encourage emergency room alternatives.*** The department should provide incentives and adapt reimbursements to encourage safety net hospitals to open primary care clinics to treat non-urgent cases, preventing inappropriate use of emergency department resources.
- ***Ensure that patients in fee-for-service Medi-Cal have medical homes.*** The department should expand the use of case managers to coordinate care for beneficiaries who remain enrolled in Medi-Cal fee-for-service and promote the use of disease management strategies to target chronic conditions.
- ***Encourage patient responsibility.*** The department should develop prevention and chronic care strategies that encourage enrollees, once educated and given the tools to evaluate care, to take more responsibility for their health.

Recommendation 3: The Department of Health Care Services must have the data and analytical capacity to measure health outcomes, plan for the future, prevent fraud, and promote the most appropriate and cost-effective health care. The Department of Health Care Services should:

- ***Develop a data plan.*** The Department of Health Care Services, working with stakeholders in other state agencies, must develop a strategic plan for data needs based on health quality goals. The plan should link existing systems and accommodate new data management systems.
- ***Use data to track quality and fight fraud.*** The Department of Health Care Services should use patient data to determine quality and health outcomes and in areas of measured low quality performance, encourage the use of best practices to improve health outcomes. The new system should be designed in collaboration with the Office of the Attorney General to build in optimal fraud detection capability before claims are paid.
- ***Leverage outside research assets.*** Until the department can develop its own research team, it should contract with the California Medicaid Research Institute at the University of California to analyze clinical data collected by the state. The department must use research from its operations to develop policies to improve health outcomes for enrollees.

- ***Replace claims payment information system.*** The department should prepare for replacement of the Medi-Cal Management Information System, including the hiring of staff to extract business and professional rules from the present system. Top priorities for the new system include the ability to quickly and accurately process payments as well as to capture a range of clinical data from patient encounters with providers, laboratories and pharmacies.
- ***Integrate electronic patient information.*** In coordination with other state purchasers of health services, the Department of Health Care Services must develop a strategy to integrate health information technology into its purchasing policies. As a first step, Medi-Cal can adopt standards and timetables for health information technology protocols in areas where private and non-profit providers have taken the lead and are prepared to participate.

Recommendation 4: To ensure that qualified Californians are enrolled in programs for which they are eligible, the Department of Health Care Services, working with other involved departments, local governments and community-based organizations, should:

- ***Align application, eligibility and renewal procedures with federal rules.*** Application forms, eligibility determinations and renewal procedures should be simplified as required by federal law. The state should consider whether the costs of an assets test outweigh the benefits.
- ***Make electronic applications available to the public.*** The department should transition to an Internet-based system for enrollment and eligibility determination and adopt existing software technology to simplify and streamline the process; to improve accuracy and retention; and, eliminate waste and duplication.
- ***Encourage "one-stop" enrollment.*** Drawing on the experience of counties already doing so, the department should help all counties adopt a "one-stop" approach to enrollment for publicly funded health programs so that families with members who qualify for different programs can make a single application to all publicly funded health programs for which they might qualify.
- ***Encourage innovations in renewal procedures.*** The department should promote and lead county innovations to simplify and streamline the Medi-Cal renewal process by doing the following:
  - ✓ Communicate patients' renewal dates to providers and encourage providers to distribute renewal forms.
  - ✓ Allow annual re-determination to occur anytime throughout the year, as long as it occurs annually.
  - ✓ Gather and share information on county innovations with other counties so that best practices can be adopted to streamline

procedures and maximize administrative resources. Examples of innovations include pre-populating the forms that are sent to beneficiaries and providing for call-in renewal.

- ✓ Ensure that each applicant is screened for every Medi-Cal program.