# Little Hoover Commission

## California's Publicly Funded Health Care System: Medi-Cal

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Hearing Room 437 – State Capitol

**Stan Rosenstein**
Deputy Director
Medical Care Services
California Department of Health Services



## Objectives

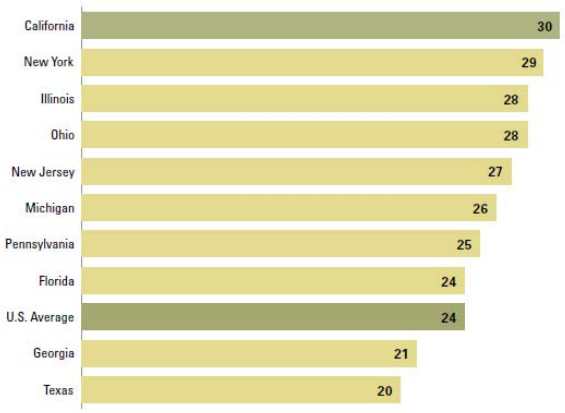
- Provide overview of the Medi-Cal program.
- Discuss constraints faced with increasing coverage while maintaining program cost-effectiveness.
- Highlight recent Medicaid reform efforts undertaken by California.
- Highlight efforts to increase access to care and provide health care coverage.

# Medi-Cal…

- California's Medicaid program is known as "Medi-Cal"
- Medicaid is created under Title XIX of the Federal Social Security Act that provides coverage for acute and long-term care health services for low-income children, parents, seniors and persons with disabilities.
- Medicaid programs are state administered, governed by state and federal rules.
- Medicaid financing is jointly shared by the state and federal government.
- For every dollar California spends on Medi-Cal, the federal government contributes 50 cents.
- Medi-Cal is the largest Medicaid program in terms of the number of people covered (approximately 6.6 million) and is the second largest in terms of dollars expended (approximately $35 billion).
- Medi-Cal services are provided to eligible individuals, based on medical necessity, under fee-for-service or through contracted managed care plans.
- Medi-Cal eligibility is established based on population groupings and income levels.



## Optional Benefits Covered (of 31 total)




Notes: The ten most populous states are represented along with the national average. Of the 31 optional benefits examined, Medi-Cal does not cover direct billing for Private Duty Nursing.

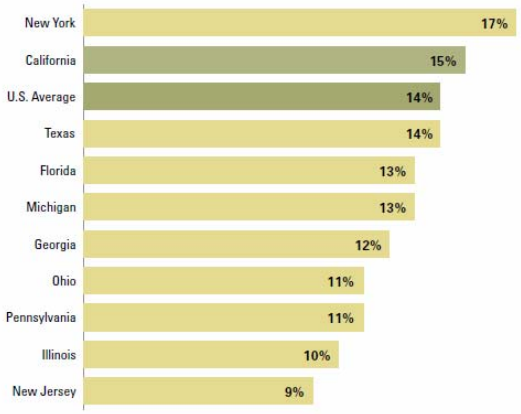
Source: Kaiser Commission on Medicaid and the Uninsured Medicaid: An Overview of Spending on "Mandatory" vs. "Optional", Populations and Services June 2005 and Kaiser Commission on Medicaid and the Uninsured Medicaid: Medicaid Benefits Online Database.

**Medi-Cal**
State Comparison

California covers more optional benefits than any large state. Among those services least likely to be covered by other states are: chiropractic, dental, dentures, hearing aids, occupational therapy, and physical therapy.

# Enrollment

**Non-elderly Population Covered by Medicaid**




Note: The ten most populous states are represented along with the national average.
Source: Kaiser Family Foundation (www.statehealthfactsonline.org), 2003 data.

**Medi-Cal**
State Comparison

California covers a slightly higher proportion of the non-elderly population than the national average.

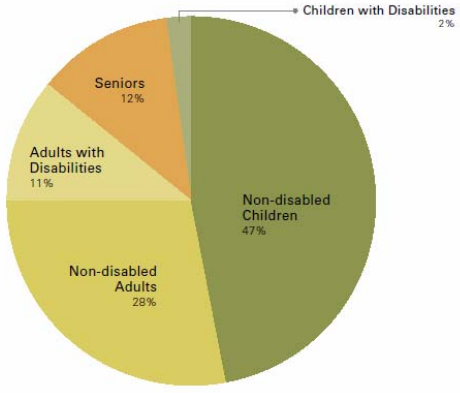
California also has a slightly higher proportion of its non-elderly residents with incomes below the FPL than the national average* (not shown).

*For example, percent of non-elderly adults with incomes below the poverty level is 16 percent for California and 17 percent for the U.S.



# Enrollment by Major Population

**Total Enrollment:** 6.5 million



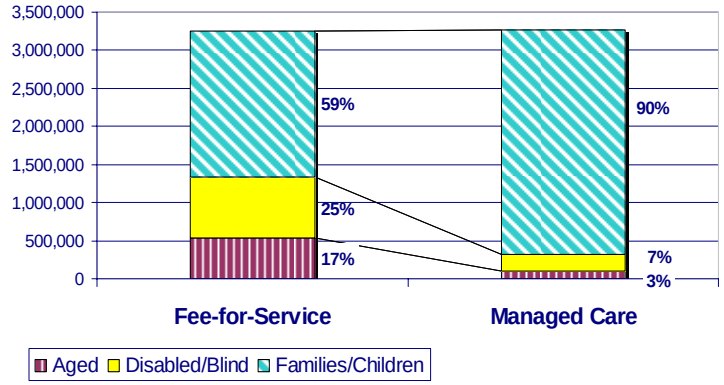

Source: Medstat analysis of Medi-Cal MIS/DSS updated through August, 2005 (May 2005 data).

**Medi-Cal**
Budget and Characteristics

Children account for nearly one-half of Medi-Cal beneficiaries.

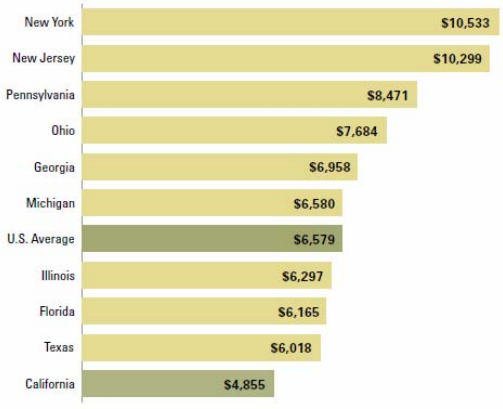
Seniors and adults with disabilities constitute 23 percent.

# Medi-Cal Eligible's Covered Under Fee-for-Service and Managed Care






# Spending per Beneficiary

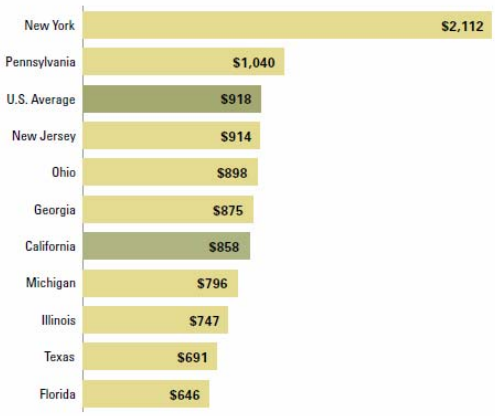



Note: The ten most populous states are represented along with the national average.
Source: Kaiser State Health Facts. (Federal FY2004 expenditures: June 2004 enrollment).

**Medi-Cal**
State Comparison

California spends nearly 30 percent less per beneficiary than the national average and the least per beneficiary among the ten largest states.

## Spending per Resident



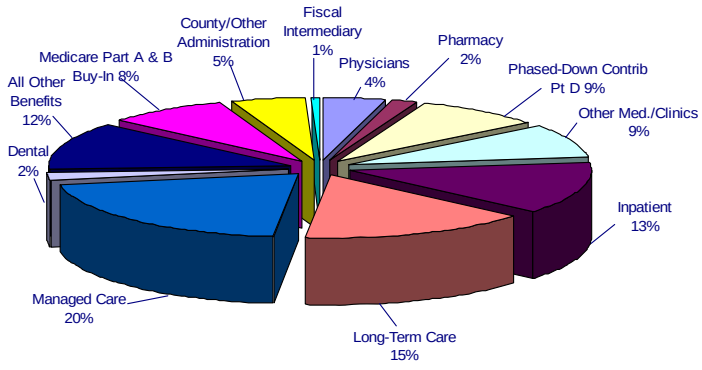

Note: The ten most populous states are represented along with the national average.
Source: Kaiser, State Health Facts (Total Medicaid Spending, Federal FY2003) and U.S. Census Bureau, Table NST-EST2004-01 (State Population Estimates, July 1, 2003).

**Medi-Cal**
State Comparison

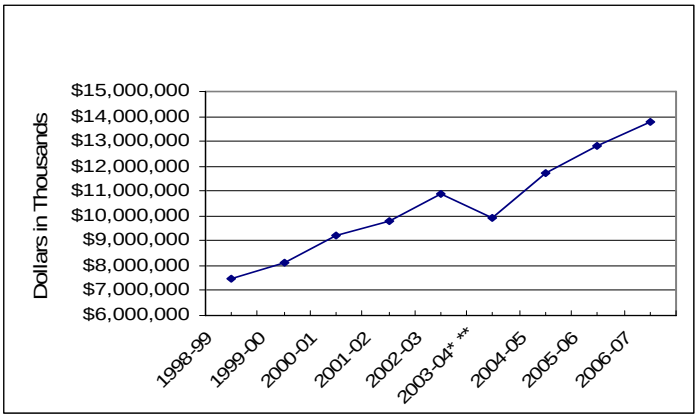
California spends 7 percent less per state resident on Medicaid than the national average.



## Medi-Cal FY 2006-07 General Fund

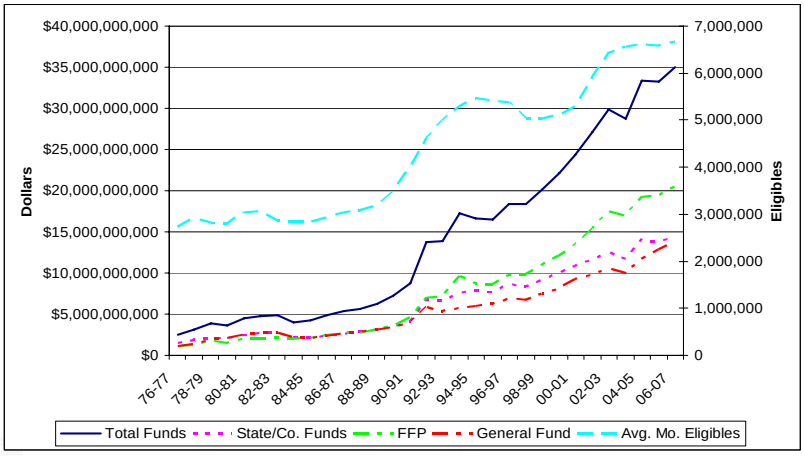


# Medi-Cal Budgeted General Fund



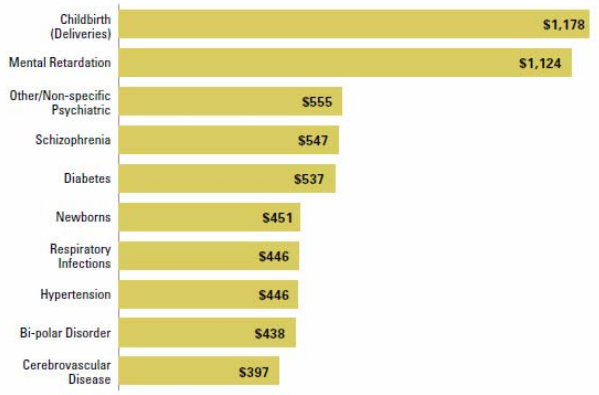



# Medi-Cal Budgeted Dollars and Eligibles 1976-77 through 2006-07



## Most Expensive Conditions

**Fee-for-Service Payments** (millions)




Notes: Reflects ten most costly episode of care categories among over 200 total categories. Based on fee-for-service payments for episodes of care initiated in 2004; episodes and payments may continue beyond 2004. Deliveries includes vaginal deliveries and C-sections; Other/Non-specific Psychiatric does not include depression or anxiety disorders. Payments for all episodes of care totaled $13.3 billion.

Source: Medstat analysis of Medi-Cal MIS/DSS data updated through September 2005

**Medi-Cal**
Budget and Characteristics

Among fee-for-service payments, Medi-Cal spends more on childbirth and mental retardation than on any other condition.



## Summary

- California spends slightly less per resident on Medicaid than most other large states and:
  - Provides coverage to a higher proportion of low-income residents than most states.
  - Spends much less per beneficiary than the national average.
  - Is disadvantaged by an inequitable federal matching formula.
- Recent growth of Medi-Cal expenditures is driven by two factors:
  - Increases in enrollment: mostly among children and families, due to coverage expansions in 2000 and 2001 and the falling rate of employment-based coverage; and
  - Rising costs per beneficiary: largely due to rapidly increasing prescription drug spending among elderly and disabled beneficiaries.
- The growth of Medi-Cal expenditures over the past decade is very similar to the growth of commercial health insurance premiums.

## Public Policy Institute of California Medi-Cal Expenditures: Historical Growth and Long-Term Forecasts

Three questions were addressed with this review:

- How much are Medi-Cal costs likely to grow over the next decade in the absence of policy changes?
- How will this growth compare to revenue growth?
- What factors are driving Medi-Cal costs?



## Findings

- Medi-Cal benefit expenditures will grow by approximately 8.5 percent annually over the next ten years.
- By 2010, it is forecasted that the total cost of the Medi-Cal program will rise to $53.9 billion, $19.7 billion paid by the General Fund.
- Service categories with the fastest growth in average expenditures - physician visits and prescription drugs; hospital costs will decrease
- Overall population growth will increase enrollees and this accounts for about 17 percent of the increase in benefit expenditures

# Findings (cont.)

- At 8.5 percent, the average growth in Medi-Cal expenditures will outpace the expected 6 percent annual growth in state revenues projected by the Legislative Analyst's Office.
- Medi-Cal will become a larger share of the overall General Fund budget, rising from 15 percent in 2003 to 19 percent in 2010 and 21 percent in 2015.
- In 2010, Medi-Cal will require an additional $3.7 billion over and above the costs expected if Medi-Cal expenditures remained a constant share of state revenues.



# Findings (cont.)

- Effective strategies to contain costs will require difficult choices.
- On average, children incur around $800 in annual expenses; adults in their 20s and early 30s incur more than double this amount; the average 85-year-old Medi-Cal enrollee incurs about $10,000 of expenditures.
- Costs for 52-year-olds in 1997 rose from $3,824 to $7,694 as they aged from 52 to 58 by 2003 – a 100 percent increase compared to a 75 percent increase in the cross-section comparison of 52-year-olds in 1997 to 52-year-olds in 2003.

# Findings (cont.)

- The most expensive two-percent of enrollees were responsible for more than 40 percent of all fee-for-service Medi-Cal benefit expenditures.
- 60 percent of all Medi-Cal expenditures in 2003 went to benefits for only five percent of enrollees.
- The bottom 75 percent of enrollees accounted for less than 6 percent of all costs.



# Public Policy Institute of California Medi-Cal Expenditure Conclusions

- Medi-Cal spending is extremely concentrated among a small segment of the enrollee population.
- Sixty percent of all Medi-Cal expenditures in 2003 went to benefits for only five percent of enrollees.
- Two-percent of the most expensive enrollees were responsible for more than 40 percent of all fee-for-service Medi-Cal benefit expenditures.
- The only way to save significant cost involves addressing expenses for the highest cost cases.

# Review of the 1,000 Most Costly Medi-Cal Beneficiaries

Based on a review of costs from FY 2003-04, the following was revealed:

- Over $458 million in expenditures were incurred for the studied group.
- Average expenditures per person were $458,000; with ranges from $263,223 to $3.7 million.
- The top five most costly individuals generated expenditures between $2.5 million and $3.7 million each; and the lowest five generated expenditures between $260,000 to $272,000.
- Acute inpatient hospital care and pharmacies generated 85 percent of all expenditures.
- Many suffered from multiple complex chronic health conditions, genetic disorders and/or congenital disorders.
- Top five diagnoses were hemophilia, pneumonias, chronic obstructive pulmonary disease, newborns with major complications and acute respiratory failure/distress.
- Over 27 percent of the studied group died between June 2003 through April 2005.
- 57 percent of the studied group were identified under disabled Medi-Cal Aid Codes.
- 98 percent of the studied group were under Medi-Cal fee-for-service.



# Medi-Cal Redesign 2005

Due to increasing health care costs and program enrollments, in FY 2005-06 Medi-Cal Redesign was introduced with the following goals:

- Maintaining current eligibility of low-income populations.
- Containing costs and maximizing efficiencies.

The following were the proposed Medi-Cal Redesign initiatives:

- Hospital Financing
- Managed Care Expansion:
  - Expand into 13 new counties and mandatorily enroll seniors and persons with disabilities
  - Implement Acute and Long Term Care Integration Pilot projects in three counties
- Modification of the Adult Dental Benefit
- Beneficiary Cost Sharing
- Improved Eligibility Processing for Children

# Medi-Cal Redesign 2005 (cont.)

The following were the outcomes of the Medi-Cal Redesign effort:

- Hospital Financing: 5-year section 1115 demonstration waiver approved, effective September 1, 2005 to implement new hospital financing methodologies consistent with federal policy.
- Managed Care Expansion: geographic expansion to occur in 13 new counties, effective in FY 2007; and the development of performance standards and measures which will serve as the building blocks for quality improvement strategies in Medi-Cal managed care plans.
- Dental Benefit Modification: established $1800 annual cap on dental benefits for all adults with certain exclusions including dentures and complex dental procedures.



# California's Uninsured Children

- 95 percent of eligible children are enrolled in Medi-Cal
- 800,000 children remain uninsured
- Of the 428,000 uninsured children eligible for Medi-Cal or Healthy Families but are not enrolled, 200,000 are eligible for Medi-Cal
- 2006-07 Budget includes $72.2 million to:
  - Promote and maximize enrollment in Medi-Cal and Health Families
  - Improve the retention of children already enrolled
  - Support county-based efforts to enroll eligible children into existing public programs.

# Increasing Medi-Cal/Healthy Families Program Enrollment

**$20 million in Local Grants for the following:**

- Allocations to counties to increase the following activities:
  - Outreach
  - Enrollment
  - Retention
  - Utilization
- Build upon local efforts to reach underserved communities in a culturally and linguistically appropriate manner
- Build upon local Children's Health Initiatives' success in enrollment of eligible children into Medi-Cal and Healthy Families

**Allocation Strategy for Local Grants:**

- Top 20 counties with the highest number of eligible but not enrolled children and Medi-Cal/Healthy Families caseload
- Small and Rural counties with established outreach and enrollment efforts



# Coordinating Care for Medi-Cal's High Cost Users

- 90 percent of seniors and persons with disabilities receive care through Medi-Cal's fee-for-service delivery model.
- In 2004 the 1,000 most costly Medi-Cal beneficiaries with a serious illness and/or who were at end-of-life generated a combined cost of $458 million.
- In FY 2003-04, for individuals with a serious mental illness and/or substance abuse, Medi-Cal costs for psychotherapeutic drugs reached nearly $1 billion and health care expenditures $2.5 billion.

- Coordinating Care Goals:
  - Implement a Care Management Demonstration Project for high-cost users over a five year period, beginning January 2008, targeting seniors and persons with disabilities in fee-for-service who have chronic illness coupled with a:
    - serious illness and/or near end-of-life; or
    - serious mental illness who may or may not have a substance abuse problem
  - Increasing enrollment of seniors and persons with disabilities into Medi-Cal managed care

# Healthcare Coverage Initiative

- Component of the hospital financing demonstration in years 3, 4 and 5.
- Senate Bill 1448 (Kuehl) provides statutory framework for implementation.
- Opportunity to provide coverage options to uninsured individuals.
- Makes available $180 million of federal funds in demonstration years 3, 4 and 5 for eligible applicants to develop healthcare coverage programs for uninsured individuals via a competitive application process.
- May build on existing health care programs for the uninsured that are currently in place at the local level.
- At a minimum, the proposed program must offer the following:
  - Enrollment processes with a health coverage card
  - Designation of a medical home with an assigned primary care provider
  - Use of a medical record
  - Quality monitoring for health care outcomes



# Recent Efforts to Increase Access to Coverage and Provide Preventive Care

- SB 437 (Escutia): Streamlines enrollment processes for Medi-Cal and Healthy Families and reduces the number of kids that lose coverage due to administrative barriers, including the initial application process and the annual process of verifying continued eligibility. SB 437 is expected to cover 94,000 additional children.

- AB 1948 (Montañez): Studies the feasibility of a system to allow a family, on behalf of a child in the Child Health Disability Program, to simultaneously pre-enroll in temporary presumptive eligibility and apply for regular ongoing Medi-Cal or Healthy Families coverage, thereby making it easier for families of children to apply for Medi-Cal and Healthy Families.

# Recent Efforts to Increase Access to Coverage and Provide Preventive Care (cont.)

- AB 1745 (Chan): Requires the department to develop, implement and evaluate a pilot project federal waiver to provide a pediatric palliative care benefit, which would include those services that are available through the Medi-Cal hospice benefit.

- AB 2560 (Ridley-Thomas): Requires the department, in cooperation with the California Department of Education, to establish a Public School Health Center Support Program to support California's school health centers by increasing cross-agency collaboration, gathering data about services delivered in school health centers throughout the state and providing technical assistance to aid in the development of new and existing school health centers. The Governor announced his support of school-based health centers in July at his Summit on Health Care Affordability