

ADDENDUM TO EMAIL ON MAJOR MEDI-CAL ADJUSTMENTS

In our email on major Medi-Cal budget adjustments sent yesterday, we identified large increases in per-enrollee costs. Notably, the revised per-enrollee cost estimates for undocumented residents increase General Fund costs by over \$2 billion across the budget window with implications for further General Fund cost pressures in future years. In addition, we noted that while we found the administration's overall caseload estimates to be reasonable, we were still evaluating large increases in per-enrollee costs used in these estimates. Below, we provide some key updates to our assessment of these issues and our recommendations to the Legislature.

Updates Regarding Significant Upward Revision in Per-Enrollee Costs for Undocumented Residents

In our prior email, we noted a significant upward revision in per-enrollee costs for undocumented residents but did not have sufficient information to determine if the revised costs were reasonable. We have subsequently received additional information from the administration which we discuss below.

Administration Established New Capitated Rates for Undocumented Residents. As part of a corrective action plan, the Centers for Medicare and Medicaid Services (CMS) began last year requiring the state to establish separate managed care capitated rates for undocumented residents. The administration has developed these rates going back to 2019 using prior-year claims data. The administration stated that the past claims data indicate that when compared to other Medi-Cal enrollees, undocumented residents had higher service utilization rates and costs. The May Revision includes both retroactive and prospective adjustments to incorporate the newly developed rates. We note that the Governor's January budget made the adjustment based on estimated rates, while the May Revision updates the adjustment based on an assessment of actual claims data from prior years.

Recent Claims Data Might Overstate Future Costs. Because of the recency of the eligibility expansions for undocumented residents, we think it is plausible that past claims data might overstate future costs for this population. Notably, because the expansions considerably improved access to health care services for these populations, they might have had built-up demand for services resulting in high near-term utilization of services in the years immediately following the eligibility expansions. If so, the high levels of service utilization that the administration has identified could subside in future years.

Rates Could Be Adjusted in Future Years. The administration notes that it will continue to review claims data and intends to update the capitated rates for undocumented residents on an annual basis. While it would be unable to retroactively adjust the capitated rates, these adjustments potentially could reduce General Fund cost pressures in future years if, for example, service utilization rates among undocumented residents subside. In addition, the administration

has indicated that it is considering steps to minimize potential impacts of cost fluctuations for the planned eligibility expansion for undocumented residents between the ages of 26 through 49.

Recommendation

Continue Monitoring Costs and Capitated Rates. The administration's updated estimates of costs for the Medi-Cal expansion roughly double the costs of the expansion once fully implemented. Under the May Revision, additional solutions will be required in future years to accommodate the state's core ongoing programs. Budget deficits in multiyear under the May Revision are around \$15 billion each year through 2026-27. To the extent the administration anticipates continued uncertainty around the costs associated with the Medi-Cal expansion, the Legislature may wish to build in additional budget capacity to address unanticipated costs. That said, as noted above, costs could decline as newly eligible individuals receive consistent care. As the state implements the expansion we recommend the Legislature closely monitor the associated costs and the future capitated rates for undocumented residents enrolled in Medi-Cal to ensure the capitated rates are appropriately sized.

Updates to Per-Enrollee Costs in Caseload Assessment

In our prior email, we found the administration's caseload estimates to generally be reasonable. However, we noted that we were unable to determine the reasonableness of large per-enrollee cost increases included in the administration's estimates. We have subsequently received additional information from the administration which we discuss below.

Displayed Per-Enrollee Costs Are Not Used in Developing Budget. The administration has noted that the per-enrollee costs are included in their estimates for display purposes only and are not directly used in developing the budget. Rather, the Medi-Cal budget is built based on various policy changes and adjustments, many of which are then used to develop these estimates of per-enrollee costs for informational purposes. As such, while the displayed per-enrollee costs appear significantly higher than in January, these do not necessarily result in increased General Fund expenditures for Medi-Cal. (As we noted in our prior email, relative to the January budget, General Fund costs are actually \$1.4 billion lower in 2022-23 and \$1.1 billion lower in 2023-24.)

Various Factors Could Contribute to the Change in Displayed Per-Enrollee Costs. The administration noted that various factors likely contribute to the large increases in displayed per-enrollee costs relative to what was displayed in January. In particular, the administration notes the proposed renewal of an increased managed care organization (MCO) tax resulted in higher displayed per-enrollee costs (as the cost of the tax gets built into managed care capitation rates). While a renewed MCO tax was incorporated into the January per-enrollee cost estimates, the May Revision proposes a revised MCO tax that is several times larger than what was included in January. In addition, the administration cited higher costs due to COVID-19-related caseload increases.

Recommendation

No Adjustment to Caseload Costs Needed at This Time. As we noted in our prior email, we find the administration's caseload estimates generally to be reasonable but were continuing to evaluate the large increase in per-enrollee costs displayed by the administration. Based on recent information provided by the administration, we understand that these increases are largely due to the way other policy changes have been displayed in the estimates. As such, we find the administration's May Revise estimates—in terms of the bottom-line caseload totals and associated costs—to be reasonable and do not recommend any further adjustments at this time.