AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 1 HEALTH AND HUMAN SERVICES

ASSEMBLYMEMBER HOLLY MITCHELL, CHAIR

MONDAY, APRIL 16, 2012
4:00 P.M. - STATE CAPITOL ROOM 127

ITEMS TO BE HEARD

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4280 MANAGED RISK MEDICAL INSURANCE BOARD

ISSUE 1: MRMIB OVERVIEW

The Managed Risk Medical Insurance Board (MRMIB) administers programs that provide health care coverage through private health plans to certain populations without health insurance. The MRMIB administers five programs: 1) Major Risk Medical Insurance Program (MRMIP); 2) Access for Infants and Mothers (AIM); 3) County Children's Health Initiative Matching Fund (CHIM); 4) Pre-Existing Conditions Insurance Program (PCIP); and, 5) Healthy Families Program (HFP).

MRMIB Budget

The Governor's Budget proposes to eliminate the MRMIB, by shifting all of the children in the Healthy Families Program to the Medi-Cal program, and by moving all of the other MRMIB programs to the DHCS by July 1, 2013. The chart below summarizes the proposed department budget, which reflects this proposed elimination.

MANAGED RISK MEDICAL INSURANCE BOARD *(Dollars in thousands)*					
Fund Source	**2010-11 Actual**	**2011-12 Projected**	**2012-13 Proposed**	**CY to BY Change**	**% Change**
General Fund	$120,693	$288,610	$136,213	($152,397)	-53
Proposition 99	28	34	35	1	3
Perinatal Insurance Fund	50,925	58,692	59,061	369	0.6
Major Risk Medical Insurance Fund	27,670	38,583	43,015	4,432	11
Federal Trust Fund	758,479	843,812	358,049	(485,763)	(57)
Reimbursements	87,443	8,873	8,417	(456)	(5)
County Health Initiative Matching Fund	689	705	819	114	16
Mental Health Services Fund	130	-	-	-	0
Children's Health & Human Services Special Fund	168,205	123,160	11,342	(111,828)	(91)
Federal Temporary High Risk Health Insurance Fund	32,836	320,681	348,618	27,937	8.7
Total Expenditures	**$1,247,098**	**$1,683,150**	**$965,569**	**($717,591)**	**(43)**
Positions	89	107.8	99.7	(8.1)	(7.5)
MRMIP	27,679	38,592	43,015	4,423	11
AIM	118,199	132,156	127,096	(5,060)	(3.8)
HFP	1,066,418	1,189,770	444,627	(745,143)	(63)
CHIM	1,966	1,951	2,213	262	13
PCIP	$32,836	$320,681	$348,618	$27,937	8.7

The Major Risk Medical Insurance Program (MRMIP). MRMIP provides health insurance for Californians unable to obtain coverage in the individual health insurance market because of pre-existing conditions. Californians qualifying for the program participate in the cost of their coverage by paying premiums. Proposition 99 (tobacco tax) Funds are used to supplement premiums paid by participants to cover the cost of care in MRMIP. MRMIP was the state's pre-existing conditions program (PCIP) prior to the passage of the federal Affordable Care Act (ACA) and creation of the federal PCIP (described below).

Long-term effect of the ACA. Some MRMIP clients have moved already or soon will move, to one of the new programs, namely the PCIP and the Low-Income Health Program (LIHP). Upon full implementation of the ACA, when both the PCIP and the LIHP are dissolved, those clients and additional MRMIP clients will be able to secure coverage through the Health Benefits Exchange (Exchange) or Medi-Cal; however, there will still be a small population of people who remain uninsurable in both the private market and public programs, who therefore would continue to benefit from MRMIP.

Access for Infants and Mothers (AIM). AIM provides low cost insurance coverage to uninsured, low-income pregnant women, up to 300 percent of the federal poverty level (FPL) who do not qualify for Medi-Cal. The subscriber cost is 1.5 percent of their adjusted annual household income. AIM is supported with Proposition 99 Funds, as well as federal funds to supplement the participant's contribution to cover the cost.

Long-term effect of the ACA. The AIM program should see a reduction in caseload once the Exchange is operational, however some portion of these clients may still not meet immigration requirements for other public programs.

County Children's Health Initiative Matching Fund Program (CHIM). The CHIM offers counties the opportunity to use local funds to obtain federal matching funds for their Healthy Children's Initiatives, which provides health coverage to uninsured children. Currently, four counties participate in CHIM.

Long-term effect of the ACA. Upon full implementation of the ACA, the four county CHIM programs should experience decreases in caseload as a result of some children and families moving to subsidized coverage under the Exchange. However, there will remain a population of children, based on either immigration status or income level, who still will not qualify for coverage through the Exchange or other public insurance programs.

Pre-Existing Conditions Insurance Program (PCIP). Created by the ACA, the PCIP offers health coverage to medically uninsurable individuals 18 years or older who live in California. It is available for people who have not had health coverage in the 6-months prior to applying. PCIP uses a preferred provider network that has contracted health providers in all 58 counties statewide. Monthly premium costs are based on the applicant's age and the region where the applicant lives.

Long-term effect of the ACA. The PCIP was created as a temporary bridge to full implementation of the ACA, and therefore will be eliminated by December 31, 2013.

Healthy Families Program Background

The Healthy Families Program (HFP), California's version of the federal Children's Health Insurance Program (CHIP), provides subsidized health, dental and vision coverage through managed care arrangements for children (up to age 19) in families with incomes up to 250 percent of the federal poverty level, who are not eligible for Medi-Cal but meet citizenship or immigration requirements. Eligibility is conducted on an annual basis. A 65 percent federal match is obtained through a federal allotment (Title XXI funds). In addition, infants born to mothers enrolled in the AIM program (200-300 percent of federal poverty) are immediately enrolled into the HFP and can remain in the program until age two. At age two, the family income must not exceed 250 percent FPL in order for the child to stay in the HFP.

The HFP benefit package is modeled after that offered to state employees, including health, dental and vision. The enabling federal CHIP legislation required states to use this "benchmark" approach. These benefits are provided through managed care arrangements. The HFP directly contracts with participating health, dental and vision care plans. Participation from these plans varies across the state.

In addition to these HFP benefits, enrolled children can also access the California Children's Services (CCS) Program if they have a CCS-eligible medical condition. A child enrolled in the HFP receives nearly all mental health services through his or her health plan, including medications, and is also eligible to receive supplemental mental health services provided through County Mental Health Plans specifically for Serious Emotional Disturbance (SED). These additional services are provided in accordance with state statute and are also available to children enrolled in Medi-Cal.

Caseload in the HFP has remained relatively flat for the past few years. The economy could be expected to result in increased enrollment; however, this effect may have been offset by the near-elimination of funding for outreach activities. The MRMIB projects a year-end total enrollment of 883,174 subscribers. This is an increase of 5,463 (0.6 percent) compared to the 877,711 projected for the current year. This year-end enrollment estimate is based on the full caseload. Should the Legislature approve of the Governor's proposal to transition all children to Medi-Cal, the year-end enrollment for the Healthy Families program will be zero.

Healthy Families Program Local Assistance				
Fund Source	**2011-12 Revised**	**2012-13 Proposed**	**CY to BY $ Change**	**% Change**
General Fund	$285,905,000	$133,834,000	($152,071,000)	(53)
Federal Funds	$762,231,000	$282,067,000	($480,164,000)	(63)
Reimbursements	$8,371,000	$7,923,000	($448,000)	(5)
Children's Health and Human Services Fund	$123,160,000	$11,342,000	($111,818,000	(90)
TOTAL, ALL FUNDS	**$1,179,667,000**	**$435,166,000**	**($744,501,000)**	**-63**

Workforce Cap. For permanent salary savings of $352,000 ($123,000 GF), the MRMIB is requesting authority to abolish five vacant positions in order to achieve a five percent salary savings per the Workforce Cap plan contained in Executive Order S-01-10. The positions proposed for elimination include 2 Associate Governmental Program Analysts/Staff Services Analysts, 1 Research Analyst II, 1 Office Technician, and 1 Staff Services Analyst.

STAFF COMMENT / QUESTIONS

The Subcommittee staff has asked the MRMIB to provide an overview of the Department, its programs, budget, and request for authority to eliminate positions.

PANEL

- Managed Risk Medical Insurance Board
- Department of Finance
- Legislative Analyst's Office

4260 DEPARTMENT OF HEALTH CARE SERVICES
4280 MANAGED RISK MEDICAL INSURANCE BOARD

ISSUE 1: ELIMINATION OF MRMIB

The Governor's January 2012 Budget proposes the elimination of the MRMIB by transferring all children in the Healthy Families Program to Medi-Cal, and by shifting all of the other MRMIB programs to the DHCS. The proposal requires all of the programs (MRMIP, PCIP, AIM & CHIM), excluding the HFP, to shift to the DHCS by July 1, 2013. There are no savings assumed as a result of this proposal in the Budget Year or out-years, and the caseloads for these programs are indicated in the table below.

MRMIB PROGRAM	ESTIMATED 2012-13 CASELOAD
Healthy Families	883,174
Managed Risk Medical Insurance	6,166
Access for Infants and Mothers	10,627
Pre-Existing Conditions Insurance	5,972
County Children's Health Insurance Matching	1,665

BACKGROUND

Mirroring a proposal first included in the Governor's 2011 May Revision, the Administration indicates that the Governor's intent with this proposal is to reduce the size and complexity of state government, increase efficiencies in the operation of programs, and prepare for implementation of the ACA. The Administration describes the shift of these programs from MRMIB to DHCS as a "lift and shift," meaning that MRMIB staff would move with the programs and there are no changes planned for how the programs would be implemented or managed at the DHCS.

Maternal and Child Health Access (MCHA) has raised concerns about the proposed transfer of the AIM program to the DHCS, stating that the following must be addressed in order to achieve increased efficiencies: 1) AIM's eligibility rules need to be simplified and better coordinated with Medi-Cal's; and, 2) AIM's small pool of enrollees must be provided access to Medi-Cal's large network of providers. MCHA has made several specific recommendations regarding the implementation of shifting this program from MRMIB to the DHCS, including related to the handling of eligibility determinations for AIM-linked infants.

STAFF COMMENT / QUESTIONS

The Administration has indicated that they will provide trailer bill language but it has not yet been received.

The Subcommittee has asked the DHCS to respond to the following questions:

1. Please discuss capacity at DHCS for so many new programs and functions being developed and proposed for this one department.

2. Are there any advantages to having the DHCS manage MRMIP, AIM, PCIP, & CHIM?

3. How will the Administration ensure that the transitions are seamless, such that clients are effectively unaware of the change?

4. What number & percentage of MRMIB staff will shift to DHCS and what number & percentage will lose their jobs?

5. Please provide a response to the concerns and suggestions related to AIM raised by Maternal and Child Health Access.

PANEL

- Department of Health Care Services
- Managed Risk Medical Insurance Board
- Department of Finance
- Legislative Analyst's Office

ISSUE 2: HEALTHY FAMILIES TRANSITION TO MEDI-CAL

The Governor's Budget proposes to transfer all children in the HFP to Medi-Cal in three phases, as outlined in the chart below, beginning October 1, 2013 and to be complete by June 30, 2013. Effective October 1, 2012, all new eligible applicants to the HFP would instead be enrolled into the Medi-Cal program. During the transfer, all children will be declared presumptively eligible for Medi-Cal and redetermination will occur on his or her next birthday. This transfer is projected to result in 2012-13 General Fund (GF) savings of approximately $71 million, assuming approval of the proposed rate reduction discussed below, or approximately $45 million without adoption of the proposed rate reduction.

BACKGROUND

The Administration states that while the HFP has been a very successful program, it is also experiencing decreasing participation by health plans, reimbursement rates in the HFP and Medi-Cal have gotten closer together, and federal laws and regulations that govern the two programs have become more similar over time.

Proposed Benefits of Transition

The Administration acknowledges that many details would need to be worked out once this proposal is enacted; however, they state that key benefits of this consolidation include the following:

- Enrollment for children would be simplified with a unified program of coverage for all children up to 250 percent of FPL;
- Families would be able to apply for coverage at a county, by mail, or on-line and will not have to have their application bounced between programs;
- Children at or below 150 percent of FPL would no longer pay premiums, as is presently done in the Healthy Families Program;
- Children would receive retroactive coverage for three-months *prior* to their application;
- Children would be eligible for the free federal Vaccines for Children (0 to 18 years), which reduces costs for providers and health plans;
- Low-income children would gain access to comprehensive Medi-Cal services including the Early and Periodic, Screening, Diagnosis and Treatment (EPSDT) Program;
- Many children would be able to remain with their existing provider during the transition as health plans contract with providers for both Medi-Cal and Healthy Families;
- There has been a considerable decline in participation by the commercial health plans in Healthy Families in many counties. By consolidating Healthy Families and Medi-Cal, children will have more stable plan choices;

- This consolidates health care entitlement programs under one department so that duplicative systems and processes can be eliminated to gain administrative efficiencies;

- This simplifies contracting requirements, rates and other core components of delivering services in the public sector for health plans and providers;

- It increases the ability of the state to monitor encounter data and payment data to better ensure the state is receiving its best value for the dollars it invests in children's coverage; and,

- It serves as an early building block for successful implementation of federal health care reform. California must implement many changes before 2014, including new online enrollment processes, new eligibility rules, an expansion of coverage, and the development of the Health Benefits Exchange. Under health care reform, HFP children with incomes under 133 percent of FPL would become Medi-Cal enrollees on January 1, 2014.

Transfer Phases. The table below details the phased-in approach to the proposed transition.

Proposed Transition of HFP Enrollees to Medi-Cal

Phase	Enrollee Categories	Number of Children	Percent of Caseload	Phase-In Period
1	HFP children transferring to a "matching" Medi-Cal managed care plan	411,506	47%	October-December 2012
2	HFP children transferring to a non-matching Medi-Cal managed care plan	416,605	47%	January-March 2013
3	HFP children transferring to Medi-Cal fee-for-service	49,671	6%	January-June 2013
TOTAL CHILDREN		**877,782**		

Dental Managed Care. Under this proposal, once the enrollees transition into Medi-Cal for medical care, they will concurrently transition into Medi-Cal for dental coverage. Individuals enrolled in a HFP dental plan would transition to the same dental plan to the extent that the plan is a Medi-Cal dental managed care plan. If the enrollee's HFP dental plan is not a Medi-Cal dental managed care plan, DHCS would be authorized to contract with the dental plan to allow the individuals to enroll in the same plan. These new dental health plans would also be available for voluntary enrollment by existing Medi-Cal enrollees. Individuals who are enrolled in the HFP Exclusive Provider Organization would enroll in the Medi-Cal dental fee-for-service system.

Eligibility Processing. Related to eligibility processing, the proposal does the following:

- County Performance Standards. Establishes new county eligibility reporting and performance standards. Counties would be required to report to the DHCS the number of applications and annual redetermination forms processed on a monthly basis, a breakout of applications and annual redetermination forms based on poverty level, final disposition of applications and annual redetermination forms, and average number of days to process applications and annual redetermination forms received directly from the county and from the Single Point of Entry (SPE). The DHCS would determine the manner and time period for county submission of reports and would provide enrollment information to the Legislature, within one year of enactment, regarding the transition of enrollees.

- Single Point of Entry Processing Standard. Establishes a new 10 working day standard for counties for processing applications and redetermination forms received from the SPE and for acting on information received from the SPE that may impact eligibility for individuals with incomes between 150 percent and 250 percent of the federal poverty level (FPL).

- New Budgeting Methodology. Develops a new budgeting methodology for eligibility processing in consultation with the counties.

New applicants seeking services as of October 1, 2012 will go straight into Medi-Cal and continue to be able to apply for health care services through County Human Services Offices or through the existing Single Point of Entry (SPE). Counties would make eligibility determinations as they do today for children applying at the local county office.

Children with incomes up to150 percent of FPL would enroll into no-cost Medi-Cal, receive services through the Medi-Cal delivery system and receive ongoing case management through the County.

Children with incomes above 150 percent of FPL would enroll in Medi-Cal and be subject to premiums. The DHCS will use the same premium amounts as Healthy Families. The existing contractor that handles Healthy Families eligibility determinations or the counties would handle the ongoing management of the cases for individuals with incomes above 150 percent of FPL. To the extent, the current eligibility processing vendor handles the ongoing case management for these children, DHCS may contract with select counties (i.e., a "regional" approach rather than all counties) to make the annual redetermination.

The SPE vendor would continue to do the initial screening of applications it receives and would grant presumptive eligibility for those who appear to meet established income guidelines. The SPE would forward the case to the county for a final eligibility determination. Once the county establishes eligibility, the income level of the child would determine how the case would be managed as described above.

Managed Care Performance Standards. The proposal requires Medi-Cal managed care plans into which the HFP enrollees would transition, to meet specified performance standards and comply with all existing performance standards and measurements set forth in the law *prior* to the transition of any children.

Continuity of Care. The Proposal requires plans to allow the enrollees to remain with their current primary care provider, or report to DHCS on how they will provide continuity of care.

California Children's Services. Healthy Families children that are eligible for California Children's Services (CCS) will continue to receive CCS under the Medi-Cal program as they do today. Counties will continue to administer CCS for these children and be required to fund the same share of the non-federal share of the CCS costs as they do today for these children with a CCS-eligible condition.

Access to Care. It is challenging to determine definitively if either the HFP or Medi-Cal clearly has significantly better access to providers than the other. Nevertheless, more evidence points to better access in the HFP. One survey found that when pediatricians who currently see patients enrolled in HFP and Medi–Cal were asked if they would continue to see HFP enrollees after they were transitioned to Medi–Cal, 51 percent replied that they would, while 19 percent replied they would not and 30 percent were unsure. Of pediatricians who currently see patients enrolled in HFP, but not Medi–Cal, 26 percent responded that they would be willing to enroll in Medi–Cal to continue to see those patients, 29 percent said they would not be willing to enroll in Medi–Cal, and 46 percent were unsure. Some pediatricians surveyed expressed concerns regarding differences between HFP and Medi–Cal in terms of rates, administrative procedures, and access to federal vaccine programs and drug formularies.

Furthermore, it has been reported that even for health plans that currently contract with both programs, due to higher reimbursement rates in the HFP, the provider networks are substantially larger in the HFP, thereby creating better access to care.

In 2011, the Administration completed a statutorily required study on the anticipated impact of proposed Medi-Cal rate reductions on access to care. Based on this study, the Administration determined that the impact on access to clinical services for children would be significant and therefore opted to not apply the rate reduction to pediatric providers.

Affordable Care Act

The Governor's proposal to eliminate the HFP appears to be in response to two significant changes to the delivery of health care as a result of the federal Affordable Care Act (ACA):

1. ***Medicaid Expansion***. The ACA increases Medicaid (Medi-Cal in California) eligibility to 133 percent of FPL. Currently, Medi-Cal eligibility for children aged 6 and older is 100 percent FPL. Federal law requires eligibility to increase to 133 percent FPL by 2014, and therefore children between 100 and 133 percent FPL who are currently enrolled in the HFP will automatically become eligible for Medi-Cal.

Healthy Families Program Caseload By Income	
Income Category (as a percent of the Federal Poverty Level)	**Number of Children**
100 – 133 percent	183,339
134 – 200 percent	476,935
201 – 250 percent (1-19 yrs old)	187,011
201 – 250 percent (0-1 yr old)	7,257

2. ***Health Benefits Exchange.*** The second significant change as a result of federal health care reform, that potentially changes the future of the HFP, is the creation of the Health Benefits Exchange (Exchange) which, once fully operational, will extend health insurance to many low-income families (both parents and children) who currently utilize the HFP for their children.

   The Exchange is charged with creating a new insurance marketplace in which individuals and small businesses will be able to purchase competitively priced health plans using federal tax subsidies and credits beginning in 2014. The Exchange is an independent public entity within state government with a five-member board appointed by the Governor and the Legislature. It is currently fully funded with federal funds. Once the Exchange is fully operational in 2015, it must be self-supporting.

   In August, 2011, the Exchange received a $39 million federal Level 1 Establishment grant that will help the state plan for and design a new health insurance marketplace to cover millions of Californians. Specifically, the federal funds will be used to create a three-year business and operational plan, begin development of an information technology infrastructure, and conduct other start-up activities including consumer outreach.

Policy Decision

Given the changes created by the ACA, California is faced with a basic policy decision about the future of the HFP program. The federal CHIP is authorized through 2019 and there is nothing in federal law that requires states to discontinue their CHIP programs. However, with the existence of both Medi-Cal and the Exchange, some argue that a third public coverage program is excessive and unnecessary, and therefore support the elimination of the HFP.

If the Legislature agrees that the HFP should be eliminated, the secondary decision that must be made is where HFP children would best be served in the future: Medi-Cal or the Exchange. As stated above, Medi-Cal will be expanded to cover individuals up to 133 percent FPL and therefore we know with certainty that those children will transition to Medi-Cal. However, Children between 133 and 250 percent FPL could be covered through Medi-Cal or the Exchange. The Governor argues that the benefit package in Medi-Cal will be better for kids than that offered by the Exchange, and that the state will be better able to control GF costs by covering these children through Medi-Cal.

LAO Recommendation

The LAO finds that the proposal has merit in that consolidating state health programs would improve continuity of care for families who have one child enrolled in the HFP and another child enrolled in Medi-Cal because all the children could be enrolled in the same plan together. However, the LAO also raises concerns regarding the following: 1) there could be little-to-no savings if health plans are unwilling to participate at the proposed lower rate; 2) there is the potential for HFP children to experience interruptions in care as they transition to Medi-Cal; and, 3) access to providers may be less in Medi-Cal than in the HFP. Therefore, the LAO has proposed an alternative: only children in families with incomes between 100 percent and 133 percent of the FPL – those who are required to shift to Medi-Cal under the ACA in 2014 – would be shifted to Medi-Cal in 2012-13. This shift would serve as a pilot to guide future decision-making in this programmatic area. They also recommend that all remaining policy decisions be handled through the policy process. The Department of Finance estimates that this "bright line" policy could be expected to result in approximately $10-12 million in GF savings.

Stakeholders. A coalition of children's advocacy organizations, including the 100% Campaign, American Academy of Pediatrics California Chapter, California Coverage & Health Initiative, United Ways of California and PICO California, also supports the LAO alternative to shift just children up to 133 percent FPL to Medi-Cal. The coalition expresses concerns about access to care in the Medi-Cal program, unaddressed transition issues including the need for a monitoring system, and the need to establish formal leadership and oversight at the DHCS specific to children's health care needs. Finally, The Children's Partnership has requested specific changes to the proposed trailer bill language regarding streamlining the eligibility process for children moving from the HFP to Medi-Cal.

STAFF COMMENT / QUESTIONS

Several issues and questions should be considered thoroughly related to this proposal:

- It remains unknown which Medi-Cal managed care plans truly have the provider network capacity to serve the HFP population;

- This proposal implements major policy changes that exceed the requirements of the ACA, by moving all HFP children to Medi-Cal, rather than allowing them to obtain coverage through the Exchange or through the HFP, by keeping it operational long-term;

- Many people believe that overall access to care is superior in the HFP; higher reimbursement rates lead to better participation by providers and therefore larger networks, including in dental care; and,

- Major program transitions inevitably lead to some amount of disruptions in care; does the Administration's proposal take all necessary precautions and measures to minimize disruptions in care?

The Subcommittee has requested the DHCS and MRMIB to respond to the following questions:

1. Please provide an overview of the key concepts of the proposal.

2. The Healthy Families Program benefits from being operated by a small agency that has a primary focus and expertise on children's health coverage. How will the benefits of this focus not be lost?

3. Please describe the Department's findings in its 2011 study on the impacts of rate reductions on access to care in Medi-Cal, that led the Department to exclude pediatric providers from rate reductions.

4. Please explain how network adequacy is being determined with regard to Medi-Cal managed care plans.

5. Please describe any benefits to making the policy choice now to move all HFP children to Medi-Cal, rather than only those under 133 percent FPL, as required by the ACA.

PANEL 1

- Department of Health Care Services

- Managed Risk Medical Insurance Board

- Department of Finance

- Legislative Analyst's Office

PANEL 2

- Kathleen Hamilton, The Children's Partnership, The 100% Campaign

- Vanessa Cajina, Western Center on Law and Poverty

- California Medical Association

- Teresa Stark, Kaiser Permanente

ISSUE 3: HEALTHY FAMILIES RATE REDUCTION

The Administration proposes trailer bill language to reduce the HFP rates paid to health, dental and vision plans, to mirror the estimated combined Medi-Cal rate of $76.86. The Medi-Cal "combined rate" reflects the average amount paid for health, dental and vision services. Currently, the HFP's statewide average rate is $103.44. The HFP rates are over 25 percent higher (on average) than Medi-Cal rates for children up to age 19. The new rates would be effective October 1, 2012. The Administration estimates $202.1 million ($71 million GF) savings in 2012-13 and $279.5 million ($98.2 million GF) savings in 2013-14 and annually thereafter. The Administration expects to refine this proposal within the May Revise.

BACKGROUND

MRMIB is responsible for negotiating rates with health plans that participate in HFP. The current statewide average benefit cost per month per eligible member (PMPM) for HFP is $103.44. MRMIB negotiates HFP rates with contracting plans during the months of January through April for Board approval in May. These negotiated rates are effectuated annually with an October 1 start date. In comparison, with this proposal DHCS, estimates that the rate for these children would be $76.86 in Medi-Cal. The table below details the components of the Medi-Cal rate.

Components of Medi-Cal Rate for Children Age 0-19	
Managed Care Capitation Rate	$62.02
Managed Care Carve Out	$2.58
Fee-For-Service Costs	$0.43
Dental	$11.83
TOTAL	**$76.86**

According to the Administration, there are several differences in benefits, contracting, and financing that help explain the lower Medi-Cal rates compared to HFP. The Administration finds that these differences explain why the rate change would not lead to disruption in provider and plan participation. Among these differences are:

1. Mental health benefits are fully carved out in Medi-Cal and Medi-Cal plans have no responsibility for these costs, including medications. The HFP plans are responsible for mental health services except when the member is referred to the county mental health system for Serious Emotional Disturbance (SED).

2. Vaccines for Children program funds are available to Medi-Cal members and not to HFP members, saving both Medi-Cal plans and providers the cost of vaccines.

3. The HFP plans cover frames and lenses within vision coverage, whereas this is a carved out cost in Medi-Cal.

4. Medi-Cal rates are set through a process intended to create actuarially-sound rates, whereas HFP rates are set through negotiations between the MRMIB and the plans.

In effect, through this proposal, the Governor is asking health plans to accept Medi-Cal rates for providing the HFP benefits package, during the transition phase of children moving to Medi-Cal. This rate reduction could be described as a way to "front-load" the savings (that otherwise would be out-year savings) associated with the transition of children to Medi-Cal.

According to the MRMIB, approximately ten counties currently have only one health plan available for the HFP. Therefore, if one or more of those plans choose to no longer participate in the HFP, as a result of the rate reduction, the State would be at high risk of a federal Maintenance of Effort violation, thereby jeopardizing all federal financial participation in both the HFP and Medi-Cal.

LAO Comment. The LAO finds that it is unclear whether or not MRMIB would be able to negotiate a lower rate. It notes that while the benefits offered under HFP and Medi–Cal are largely equivalent, the access to providers may differ between the two programs.

STAFF COMMENT / QUESTIONS

It is unknown how many health plans may be willing to contract with MRMIB for HFP at this reduced rate and there is reason to be pessimistic that the MRMIB would be able to maintain state-wide coverage at this rate level.

The Subcommittee has asked the DHCS and MRMIB to respond to the following questions:

1. What is the status of MRMIB's rate negotiations with health plans?

2. What key issues have been expressed from health plan providers regarding this proposal?

3. How does the Administration think it can maintain access while reducing rates?

PANEL

- Department of Health Care Services
- Managed Risk Medical Insurance Board
- Department of Finance
- Legislative Analyst's Office