MAY 6, 2024

Physician Rates in Medi-Cal

PRESENTED TO: Assembly Budget Subcommittee No.1 on Health
Hon. Akilah Weber, Chair

LEGISLATIVE ANALYST'S OFFICE

Order of Presentation

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Assessment of Physician Rates

Key Principles Used to Assess Rates:

- Access and Quality
- Economy and Efficiency
- Equity
- Simplicity and Transparency

Overview of Physician Rates in Medi-Cal

Rates in Medi-Cal FFS: A Historical Perspective

- ***Physician Rates in FFS System Set by a Schedule Largely Developed in the 1960s.*** In the FFS delivery system, Medi-Cal uses a schedule of rates to determine how much to pay for physician services. Under this system, physicians submit a claim for each procedure they provide to a patient. Each procedure has an associated rate. The rates are determined by many factors, including the relative cost of the procedure and whether the patient is an adult or child.
- ***State Has Not Had a Formal, Consistent Process for Adjusting Rates Once Initially Set.*** The state does not have a formal policy to adjust rates over time. In the absence of such a policy, the budget condition has been a driving factor of rate adjustments. For example, the last increase to physician rates (base rates) that we were able to identify was in the late 1990s, when the budget was in good condition. The state then enacted rate reductions in the 2000s as a budget solution. This includes 10 percent reductions to physicians and other providers known as the "AB 97 reductions."
- ***A Few Years Ago, State Created Supplemental Payments Using Proposition 56.*** Proposition 56 (2016) increased taxes on tobacco products. Most of the resulting revenue goes to the Medi-Cal program. The state has used some of this funding to provide supplemental payments (on top of base rates) for certain primary care and behavioral health codes for physicians. According to the Department of Health Care Services (DHCS), these payment levels initially were set to make overall payments for these codes equal to Medicare payments.

Overview of Physician Rates in Medi-Cal

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Rates in Medi-Cal Managed Care: A Historical Perspective

- ***Managed Care Plans Set Their Rates to Physicians.*** In Medi-Cal managed care, the state contracts with managed care plans that oversee the delivery of care to beneficiaries. Medi-Cal pays the plans for the cost of care based on actuarial standards. The plans then use these funds to pay for health care services, including services from physicians.
- ***Plans Use Different Approaches to Set Their Physician Rates.*** Managed care plans have many different approaches to pay providers for physician services. In some cases, plans pay providers for services on a fee-for-service basis, much like Medi-Cal FFS. Plans sometimes benchmark these rates to what is paid in Medi-Cal FFS. In other cases, plans have their own managed care arrangements with physician groups and pay these groups each month to cover the cost of all services in the contract.
- ***State Also Directs Certain Payments to Physicians in This System.*** The state also directs some funding to physicians in Medi-Cal managed care. For example, the state is using Proposition 56 funding to provide supplemental payments for the same procedures as in the managed care system.

Overview of Physician Rates in Medi-Cal

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Rate Changes Under MCO Tax Package

- ***Legislature Recently Adopted Plan to Increase Provider Rates.*** Last year's budget adopted a new MCO tax and set aside some of the funding for provider rate increases in Medi-Cal. Some increases began in 2024. For most of the funding, however, the Legislature required DHCS to come back next year with a plan to increase rates beginning in 2025. Some of these increases impact physician rates specifically, described below.
- ***Some Rates Were Increased in 2024.*** Under the MCO tax package, Medi-Cal FFS rates for primary care, maternity care, and mental health services were increased to 87.5 percent of Medicare. Proposition 56 payments were included in the 87.5 percent calculation—meaning that those payments are now part of permanent base rates. Managed care plans also are required to pay at least this level.
- ***Administration Proposes to Increase Rates Further in 2025.*** The administration proposes the following increases, costing $1.1 billion annually from MCO tax funds:
  - ***Tying Nearly All Physician Rates to Medicare.*** The administration proposes to broadly apply rate increases to most services. The rates would be set between 80 percent and 100 percent of the corresponding Medicare payment level, depending on the procedure. These rates would then be maintained at these thresholds, adjusting for changes in the Medicare rates.
  - ***Varying Rates Regionally.*** Medicare varies the rates for services for many different regions, generally intended to reflect regional variation in the cost of care. Medicare uses 32 such regions for California. The administration proposes to use each region's Medicare rate to set the Medi-Cal rate.

Overview of Physician Rates in Medi-Cal

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- ***Creating Equity-Based Adjustment.*** The administration proposes to create an equity adjustment to further boost rates in certain geographic areas. This means that certain rates would exceed 100 percent of Medicare in some areas. According to the administration, the adjustment would be based on measures such as whether the region has health workforce shortages, the concentration of Medi-Cal members in the area, and various social drivers of health.
- ***Directing Managed Care Plans to Pay at Least FFS Amount.*** As is the case with the 2024 increases, managed care plans would be required to pay the new Medi-Cal FFS rates for the affected services.

Assessment of Physician Rates: Access and Quality

- ***Access to Quality Care Is a Key Goal of Medi-Cal.*** The purpose of Medi-Cal is to provide access to quality health care for low-income people. Measures of access tend to focus on availability of providers, travel distance to providers, wait times for appointments, and utilization of services. Measures of quality vary widely, given the expansive nature of an individual's health and well-being.
- ***Rate Sufficiency for Access to Quality Care Often Is Gauged in Two Ways.*** Federal law requires states to pay rates that are sufficient to attract enough providers. What constitutes a sufficient rate, however, is difficult to determine. Generally, we identified two key ways to gauge sufficiency:
  - ***Comparisons to Other Payors.*** The federal government and states have long compared Medicaid rates to what is paid in the federal Medicare program, and to a lesser extent in private insurance. In concept, such comparisons measure the competitiveness of Medicaid relative to other payors.
  - ***Comparisons to Cost.*** Stakeholders, researchers, and policy experts often consider whether rates are sufficient to cover the cost of providing services.
- ***Physician Rates in Medi-Cal FFS Are Lower Than What Is Paid in Other Systems.*** Past research has found that physician rates in Medi-Cal FFS tend to be at around 70 percent of what Medicare pays on average. This puts California at the average of all state Medicaid programs. However, some rates are lower than this benchmark for certain services (such as a little over 60 percent relative to Medicare for maternity care). Private insurance tends to pay more for services than Medi-Cal or Medicare.

Assessment of Physician Rates: Access and Quality

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- ***Physician Rates in Medi-Cal Managed Care Tend to Be Slightly Higher Compared to FFS.*** DHCS recently submitted an analysis to the federal government on rates in managed care for primary care, maternity care, and behavioral health services. This analysis generally found that managed care plans pay higher rates on average for these services than the FFS rate schedule. Managed care rates were slightly higher than FFS rates for maternity care and mental health, while for primary care, rates were close to 90 percent of what Medicare pays (more than 10 percentage points above the average in Medi-Cal FFS).
- ***Information Is Limited on Medi-Cal Rates Relative to the Cost of Care.*** In discussions with our office, stakeholders stated Medi-Cal likely pays less than the cost to provide many services. However, stakeholders also stated that there is not any research available that systematically compares physician rates in Medi-Cal or Medicare to the cost of providing care.
- ***Administration's Proposal Could Improve Access.*** The impact of the administration's proposed rate increases under the MCO tax package on access is difficult to predict. Generally, research suggests that increases in Medicaid rates are associated with improvements in a patient's ability to get an appointment, have a regular source of care, or receive timely care. This is because, all else equal, providers have greater financial incentive to serve more Medi-Cal beneficiaries when rates are more competitive relative to other payors. However, research also suggests the rate increases may have more limited impact in increasing the number of physicians who choose to newly start participating in Medi-Cal. This is in part because physician rates would continue to be lower than what is paid in the private market.

Assessment of Physician Rates: Economy and Efficiency

- ***Economy and Efficiency Aim to Ensure Rates Are Cost Effective.*** Federal law requires Medicaid payments to providers to be consistent with economy and efficiency. From discussions with stakeholders, we understand economy to mean cost—that is, not paying more than is needed to ensure access to quality health care. In the context of Medicaid rates, efficiency refers to getting the most value from services paid by Medi-Cal. Thus, economy and efficiency together aim to minimize costs and maximize outcomes.
- ***Economy and Efficiency Are Important in the Context of Limited Resources.*** Economy and efficiency are important for a few reasons. For example, Medi-Cal is a large and costly program, among the largest in the state budget. It is essential that the Legislature accomplish its objectives at a reasonable cost. Also, it is important that the public has confidence that taxpayer funds are spent wisely.
- ***Medi-Cal FFS Physician Fee Schedule Has Become Outdated.*** We understand that Medi-Cal's physician rates originally were intended to reflect the relative cost of services. That is, more costly services are intended to receive more payment. However, we also understand that the rates have not been updated for changes in costs. As such, rates likely no longer meaningfully reflect the cost of care at present.
- ***Proposal Would Use More Updated System.*** The Governor's MCO tax proposal would tie physician rates to what Medicare pays. Medicare also uses a system intended to reflect the relative cost of providing services. Compared to Medi-Cal, the Medicare rate system was created more recently and is periodically updated based on input from stakeholders. That said, researchers have raised concerns about the validity of some of these rates. Also, rates in Medicare can be subject to uncertain policy changes enacted by Congress.

Assessment of Physician Rates: Economy and Efficiency

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- ***Alternative Payment Models Could Have Promise, but More Analysis Is Needed.*** Medi-Cal FFS pays for physician services based on the volume of care delivered. This approach incentivizes the delivery of care, but not necessarily at a high quality or low cost. Some state Medicaid programs have explored alternative approaches to pay for services that incentivize quality over volume, such as by making bundled payments to cover the cost of an episode of care. However, determining how these models could be most effectively applied in Medi-Cal requires more study.
- ***State Also Has Opportunities to Explore Alternative Payment Models in Medi-Cal Managed Care.*** Managed care plans use many different approaches to pay for physician services. Some of these approaches may be more efficient than others. The state in recent years has explored directing plans to use alternative payment models. For example, the state recently piloted the Value-Based Payment Program, a Proposition 56-funded program that provided incentive payments for physicians who demonstrated improved outcomes for certain populations.

Assessment of Physician Rates: Equity

- ***Health Equity Focuses on Addressing Disparities.*** Disparities in health outcomes are present across various demographic categories, such as race/ethnicity, geography, and socioeconomic status. Health equity aims to address these disparities by measuring outcomes, considering the root causes, and evaluating how to distribute resources to historically marginalized populations.
- ***Equity Is a Key Goal of Medi-Cal.*** Medi-Cal aims to address disparities in access to care for low-income people. Expanding Medi-Cal to more people and improving the quality of services in the program can help address disparities for low-income populations. Policymakers also have sought to address disparities in health outcomes among Medi-Cal populations.
- ***Lack of Consistent Policy to Adjust Physician Rates Raises Equity Issues.*** The state's inconsistent approach to adjust Medi-Cal physician rates has resulted in some inequities. Most notably, rates have not kept pace with what is paid by other payors, potentially resulting in unequal access to care for Medi-Cal beneficiaries compared to people with other types of health insurance coverage. Also, the rates for different services vary in their competitiveness with Medicare, which can make it more challenging for certain populations to access these services. The Governor's MCO tax proposal could help address these issues by benchmarking rates to Medicare and maintaining this benchmark over time.
- ***Proposed Changes to Physician Rates Could Improve Equity, but Impact Is Difficult to Assess.*** Medi-Cal's FFS rate schedule historically has not had a direct focus on equity. The administration's proposal aims to address this in a few ways. For example, it proposes to vary rates geographically to account for regional differences in cost and the share of Medi-Cal beneficiaries in a region's population. The administration also proposes to develop a new equity-focused index that would increase base rates in certain cases. These changes could make Medi-Cal rates more equitable, though the extent of the impact is unknown because the administration has not yet released details on the proposed equity adjustment.

Assessment of Physician Rates: Simplicity and Transparency

- ***Simplicity and Transparency Are Important for Rates.*** A well-working rate system ideally would be accessible and understandable to providers and policymakers. In addition, providers should not face unnecessary burdens to claims and receive payment for delivering care to patients.
- ***While Difficult to Achieve, States Have Choices to Make Rates Simple and Transparent.*** Federal rules, market forces, service delivery models, and other factors can limit the state's ability to make rates simple and transparent. States, have some tools they can use, although, trade-offs exist. For example, states (including California) pay providers through both base and supplemental rates. Supplemental rates can come with certain fiscal advantages, but they also can increase administrative complexity.
- ***Administration's Proposals Could Simplify Physician Rates in Some Ways…*** In concept, the proposed changes under the MCO tax package could simplify Medi-Cal's physician rates. For example, the proposal would replace the Proposition 56-funded supplemental payment with base rate increases. Such an approach could simplify how payments are made to physicians and better signal the total level of payment.
- ***…But Complicate Them in Other Ways.*** The administration's proposal would make substantial changes to Medi-Cal's physician rates. It likely would take time for DHCS, managed care plans, and providers to adjust to the new system. Guidance from the department will be critical to assist plans in any new processes. Also, some aspects of the proposal (such as the proposed equity adjustment) might require methodological changes over time. Unexpected implementation challenges also could delay the timing of when payment increases are disbursed to physicians. In the long run, however, some of these initial issues may subside as the system adjusts.

Assessment of Physician Rates: Simplicity and Transparency

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- ***New Federal Rules Aim to Improve Transparency.*** Very recently, the federal government finalized a package of proposed rule changes in Medicaid managed care and FFS delivery. This package includes rules changes intended to improve transparency around provider rates. For example, states must periodically compare provider rates for certain services in their Medicaid FFS and managed care systems to rates in the Medicare program.