Medi-Cal Value Strategy

Public Webinar

DHCS
CALIFORNIA DEPARTMENT OF HEALTH CARE SERVICES

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- If you have specific questions after the webinar, please email vbp@dhcs.ca.gov

Agenda

- Why is a Medi-Cal Value Strategy Needed?
- Value in Health Care
- Where Medi-Cal is Today
- Medi-Cal Value Strategy
- “Fireside Chat” with Health Plan of San Mateo
- Questions and Answers

Why is a Medi-Cal Value Strategy Needed?

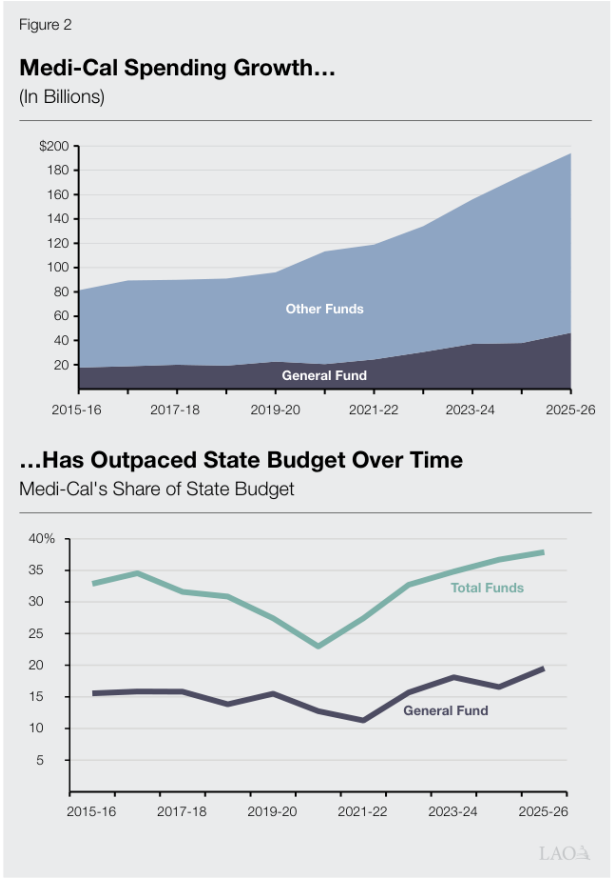
Growth in Costs and Financial Pressures

Medi-Cal Is a Major Part of the State Budget

- Medi-Cal provides **health care coverage to >14 million Californians**
  - Covers medical, behavioral health, pharmacy, dental, long-term care, and other services
- **Largest state program** based on total costs
- Medi-Cal accounts for the following:
  - **~40% of total state spending** (when including federal funds)
  - **~20% of California General Fund** spending, which is the second largest General Fund program, after Proposition 98 for K-12 education

Rapid Growth in Medi-Cal Costs

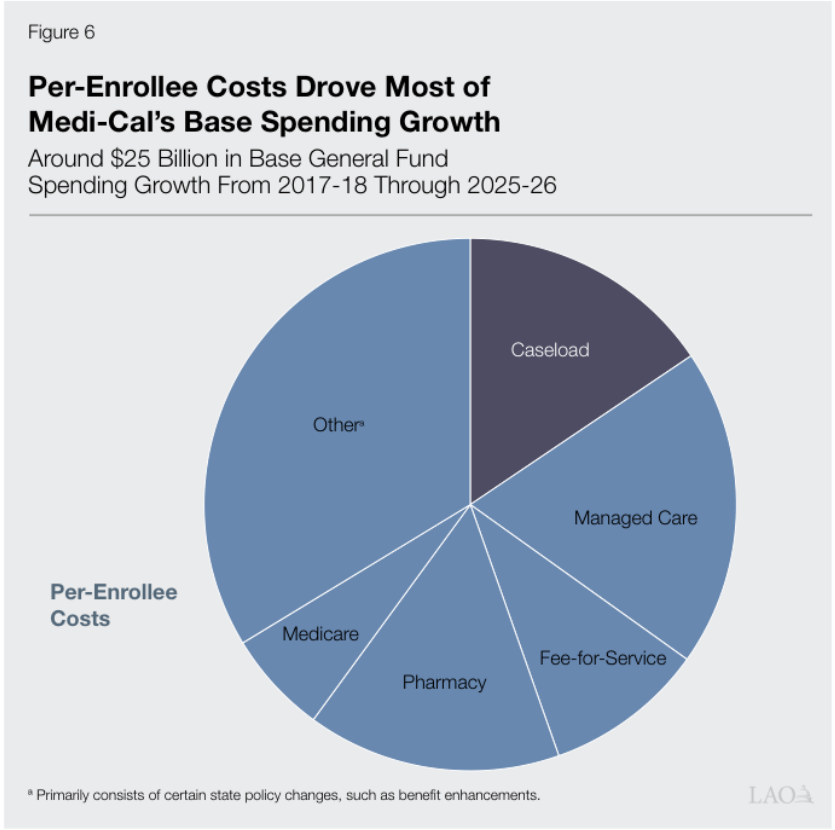
- **Spending has more than doubled** over the last decade
- Medi-Cal is becoming a **larger portion of the state's budget** over time
- Spending is **projected to reach an all-time high** in fiscal year 2026-2027



[The 2026-27 Budget: Medi-Cal Fiscal Outlook]

Spending Growth Not Caused Only by More Enrollment

- **Increasing costs per member*** have driven much of Medi-Cal's spending growth
- In part, increases are caused by expanded services in Medi-Cal over time
- **A value strategy can help ensure <u>resources invested result in sufficient improvements in health and wellness</u>** for members



*DHCS refers to people enrolled in Medi-Cal as "members"

[The 2026-27 Budget: Medi-Cal Fiscal Outlook]

Multiple Major Financial Pressures

- **Multiple factors** are converging:
  - **Reduced federal funding**: federal policy changes under HR1 are reducing federal support; this includes limits on Medi-Cal eligibility, financing, and payment levels, and other changes
  - **Changed to federal regulations**: the 2024 Final Rule means state directed payment (SDP) programs must change; SDPs are a major source of funding for Medi-Cal providers, especially hospitals
  - **State budget constraints**: recent state budgets have included multiple changes to coverage and benefits in Medi-Cal
  - **Base spending continues to grow**: annual costs in Medi-Cal are rising
- These **financial pressures mean a value strategy is urgent**; we must determine how to ensure high-quality services and good outcomes despite financial constraints

What are State Directed Payment (SDP) programs?

- Specific payment arrangements that allow DHCS, in limited circumstances, to **require managed care plans (MCPs) to pay providers in a specific way**
- All SDPs must be **approved by CMS**
- SDPs provide a **major funding source**, especially to hospitals
- CMS requires SDPs **support DHCS' Comprehensive Quality Strategy**

2024 Managed Care Final Rule and HR1: Impact on SDPs

» **2024 Final Rule**:

- CMS releases regulations (a "Final Rule") to establish requirements of State Medicaid agencies and Medicaid health plans
- This 2024 final rule requires **multiple changes to SDPs**:
  - **Limits how Medi-Cal can pay managed care plans (MCPs)** which then impacts how providers are paid
  - Increases **requirements of Medi-Cal to show SDPs are achieving goals** in the Comprehensive Quality Strategy

» **HR1:**

- Federal law signed on July 4, 2025
- **New SDPs are limited to 100% of Medicare payment** rates
- "**Grandfathered" SDPs: must reduce by 10% per year** (starting 2028) until Medicare payment rates reached
- **Provider tax regulations changed** to prevent new or increased taxes and require a redesign and/or reduction of current taxes

Future State of SDPs

- While hospital SDPs provide critical funding to preserve access to hospital care, **many SDPs have historic elements that currently incentivize high-cost services** like hospital admissions and ICU stays. For example:
  - Total Medi-Cal managed care payments average 150 to 200 percent of Medicare for hospital inpatient services but tend to be roughly at or below Medicare for hospital outpatient service
  - Most hospital SDPs tie payment to the volume of services rather than the quality of care or members' health outcomes
- **SDPs must be re-designed to ensure they support Medi-Cal's value strategy** to comply with new CMS requirements, make the best use of limited Medi-Cal funding, and align financial incentives with the central goal of improving member health

Broader Momentum to Drive Value

- There are **multiple federal and statewide efforts to work on value** in health care broadly
- State public purchasers work together across DHCS, Covered California, CalPERS and the Office of Health Care Affordability (OCHA)

Linking Payment to Results & Outcomes

Payment Must Be Connected to Results & Outcomes

The current environment requires a more deliberate approach to payment

- How does payment improve care delivery?
- Does payment incentivize services that improve members' health and wellness?
- Does payment support access, quality, improving population health, and care coordination?
- How does payment help manage overall cost while ensuring members get the care they need?

Every Part of Health Care Delivery System Has a Role

- **Primary care** is essential to prevent illness, manage chronic conditions, and coordinate care
- **Behavioral health** is necessary to comprehensively address issues early and prevent negative health and social outcomes
- **Care management and Community Supports** help address members' social needs and risk
- **Specialists** are needed to address more complex health issues in a timely and cost-effective manner
- **Maternity care providers** are essential to ensure high-quality birthing care
- **Hospitals** are necessary to provide high-quality emergency and acute care when those services are needed
- **Long-term care and home- and community-based services** are necessary to provide long-term skilled or custodial care in an institutional setting or equivalent services that enable members to live in the community
- And more…

What a Medi-Cal Value Strategy Does

- **A value strategy provides a framework for <u>how to ensure funding and payment align with improving members' health and wellness</u>** as effectively as possible
- The goal is a system where **payment is tied to improving and protecting**:
  - **Timely access** to comprehensive care
  - **Coordination** of care
  - A focus on **prevention**
  - Improved member and population health **outcomes**
  - Economic and efficient **use of Medi-Cal funds**
  - High-quality **emergency, hospital, and skilled nursing facility care** when needed, while **preventing need for these services when avoidable or not needed**

Value in Health Care

What is Value?

- "Value" means **better results and outcomes** at a **cost the Medi-Cal program can sustain**
- "*The right care, at the right time, in the right place, at the right cost*"

Linking Results/Outcomes and Costs

Value focuses on the two-way link between (1) services, results, outcomes, and (2) the resources needed to sustain services

Improving the following

- Access
- Quality
- Member experience
- Care coordination
- Health outcomes
- Health disparities
- Ensuring a capable workforce

Sustainable use of resources = Managing cost responsibly

- Fewer avoidable care gaps and delays
- Fewer preventable complications and events like hospitalization
- Ensuring needed care is protected

What Does Managing Costs Mean?

- What it ***does* mean**:
  - Managing costs means **using financial resources more effectively and efficiently**
  - Getting **more impact for each dollar** spent
  - Supporting a **more sustainable** health care system
- What it **does *not* mean:**
  - **Withholding** necessary care
  - **Worse** care
  - Assuming **costs go down** for all providers and/or all services

Where Medi-Cal Is Today

Medi-Cal Has Already Made Major Commitments

- Medi-Cal has made **major moves to improve** value:
  - **Expanded managed care** in Medi-Cal
  - **Expanded coverage** in prior years to additional populations
  - **Holding plans accountable** to quality measure expectations
  - **Aligning many expectations** across Medi-Cal, Covered California, and CalPERS
  - **Increasing programs** that pay based on quality performance
- DHCS has also **engaged stakeholders in many strategic conversations** about improving value, including leaders of managed care plans and provider organizations

Framework for Mapping Current Programs & Policies to Value

All approaches below can apply to plans or providers

Level 1: Payment Not Tied to Results and Outcomes

Paying without considering whether outcomes or results improve (not the goal of the Value Strategy)

Level 2: Foundational Programs

Programs to build capacity to improve outcomes and results at the right cost

Level 3: Incentives and Accountability

Tying payment to measures of outcomes and results at the right cost

Level 4: Advanced Value-Based Payment

More advanced payment approaches tying payment to outcomes and results at the right cost

Next Step: Ensure Programs/Policies Fully Align with Value Strategy

Current State

Future State Under a Value Strategy

Medi-Cal Value Strategy

Value Strategy Guiding Principles

- Promote **high-value services**:
  - Incentivize high-value services (e.g. preventive services, behavioral health care)
  - Decrease high-cost, low value services (e.g. avoidable ED visits and hospital stays)
- Improve **member and population health outcomes**
- Improve **member experience**
- **Reduce administrative burden** and **improve provider experience**
- **Align efforts** with state public purchasers and key partners

Goal and Strategies

Goal:

Improve member health and wellness by delivering the right care at the right cost

Overarching Strategies

- Provide foundational support
- Invest in primary care
- Align expectations across plans and providers
- Scale value-based payment

Service Line-Specific Value Strategies

- Skilled Nursing Facility
- Primary & Maternity Care
- Hospital

Strategy 1: Provide Foundational Support

- In many cases, **providers and plans may need support** to implement approaches which increase value
  - Building **capacity and readiness**: **practical, real-world examples** and addressing real or perceived **policy limitations**
- DHCS and other state partners are **committed to providing**:
  - **Technical assistance**
  - **Enabling support** where budget allows
  - Consideration of **policy changes**
- **Plans may also be a reasonable source** of support to providers

Strategy 2: Invest in Primary Care While Managing Overall Costs

- **Robust primary care** is linked to lower mortality, improved outcomes, and lower total cost of care
- U.S. primary care spending (4-7%) lags high-performing nations (12-15%); California data is similarly low
- This strategy focuses on **increasing spending on primary care** and other high-value services (e.g., behavioral health, preventive care, care coordination, addressing social needs, etc.)
- **Decrease unnecessary and preventable spending on what we want to see less of** (i.e., lower value services like avoidable hospital admissions and ICU stays)

Decrease Spending on **Lower Value Care**

Increase Spending on **high-value services** including **Primary Care**

[Investing in Primary Care: The Missing Strategy in America's Fight Against Chronic Disease]

[Investing In Primary Care State Level Analysis]

Coming Soon: All Plan Letter (APL) on Primary Care Spending and VBP Adoption

- DHCS will soon issue an APL that **will require MCPs to meet specific expectations for increasing primary care spending and VBP contracting with providers**
- MCPs are expected to achieve these goals not by increasing overall costs but rather by rebalancing spending toward what drives value and reduces costlier, avoidable services
- These targets will largely **align with the Office of Health Care Affordability's (OHCA) framework**

Strategy 3: Align Expectations Across Plans and Providers

- Ensuring all parts of the healthcare system are **working together toward the same goal** is essential for success
  - **Incentives and accountability must be similar** across plans and providers wherever possible
  - While DHCS has already done work in this area, **more alignment is necessary**
- One way to ensure alignment: a single list of common **Key Performance Indicators (KPIs)** to measure value across all plans and providers
  - Creates a common starting point for new policies and programs, rather than today's siloed, program-specific measure selection.
  - Expands beyond quality measures alone (e.g., HEDIS) to the **broader concept of "value"**
- DHCS has begun this process; the **KPI list will be published in the future**

Potential Structure of KPIs: Overall and Service-Line Specific

Short List of Key Overall KPIs

(e.g., timely access, primary care continuity, preventable emergency department visits & hospital admissions, follow up after admission, total cost of care, etc.)

- **Outpatient:** short list of specific KPIs
- **Acute Care (ED/hospital):** short list of specific KPIs
- **Post-Acute Care (Skilled Nursing Facility, etc.):** short list of specific KPIs

Strategy 4: Scaling Value-Based Payment Across Plans and Providers

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Service Line-Specific Value Strategies

Skilled Nursing Facility Value Strategy

Status: underway, active work with stakeholders

Primary Care & Maternity Value Strategy

Status: underway via Population Health Learning Center (PHLC) work on a primary care VBP model & Transforming Maternal Health (TMaH) project

Hospital Value Strategy

Status: Request for Information (RFI) closed, and DHCS finalizing selection of potential contractor; work to start later in 2026

Conclusion

A Cohesive Strategy to Drive Value

- Medi-Cal is facing **unprecedented financial pressures**
- A **value strategy is needed to make sure each dollar** spent in Medi-Cal **is used efficiently to improve member health and wellness**
- The Medi-Cal Value Strategy **provides a clear framework to drive value** across plans and providers over many years to come
- DHCS intends to **monitor and evaluate** whether efforts under the Value Strategy are working and/or having unintended consequences, adjusting strategies when needed

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Next Steps

- **Stakeholders should review** the Value Strategy and **consider** the following:
  - What **readiness supports** do plans and providers need?
  - What is **each stakeholder's role** in advancing the Value Strategy?
  - **Where can payment better support** members' health and outcomes?
- **DHCS** will do the following:
  - **Engage** with stakeholders
  - **Finalize a list of KPIs** with stakeholders
  - Develop and **implement service line-specific strategies**
  - **Work to align** all programs and policies with this Value Strategy
  - **Refine** the Value Strategy and **potentially release a written value strategy** in the future

“Fireside Chat” about Health Plan of San Mateo

Chris Esguerra and Colleen Murphey

(slides in this section not posted due to not meeting accessibility requirements; please watch recording)

Question and Answer Session

Please use Q&A button to submit questions, not the chat

DHCS

Thank you for joining!

DHCS