

## **Concepts for California's Next Medicaid Waiver Renewal July 2014**

### **Background – California's 2010 Medicaid Waiver**

California's existing section 1115 "Bridge to Reform" Waiver is a five-year demonstration of health care reform initiatives that invest in the state's health care delivery system to prepare for the significant changes spurred on by the Affordable Care Act (ACA). California is currently in the fourth year of its 1115 Waiver. With the flexibilities and federal support afforded by the Waiver, the state was able to prepare for successful implementation of health care reform through an early expansion of Medicaid, test innovations in health care delivery and financing, and support safety net providers who are critical to the Medicaid program. Through this Waiver, California has amassed a valuable set of experiences and lessons learned that can be built upon in future years to help ensure success of the Affordable Care Act (ACA) throughout the state.

The Bridge to Reform Waiver enabled California to engage in delivery system reform and expand our Medi-Cal managed care program aimed at improving health care delivery and reducing the cost growth of our Medicaid program. Through the Waiver, California successfully enrolled 650,000 individuals in an early expansion of the ACA provision to expand Medicaid eligibility to adults under 138% of the poverty level. This early coverage expansion will be a critical component of CA's success in 2014 and beyond. In addition, the Waiver provided CA's safety net with critical funding to support its continued viability as well as its transformational efforts to improve care delivery at a lower cost with higher quality.

### **California's Medicaid Waiver Renewal**

California's 1115 Waiver embodies the shared commitment between the state and the federal government to support the successful realization of some of the ACA's most critical objectives. As California continues to be a leader in implementing health care reform, our state requires additional support to ensure that strides made towards delivery of quality, cost effective care can be further expanded and sustained over time. A Medicaid Waiver Renewal is a fundamental component to California's ability to continue to successfully implement the ACA beyond the primary step of coverage expansion. To that end, California is seeking a Waiver Renewal that will build on the approaches and successes of the existing 2010 Waiver as we move forward with expanding and improving our Medi-Cal program through delivery and payment system transformation. Current Waiver initiatives such as the delivery of care for Seniors and Persons with Disabilities through managed care and the state's Coordinated Care Initiative, would continue through Waiver Renewal.

Because of the successes of the Bridge to Reform Waiver, California is in a position where we are primed to focus our efforts on other critical components to the success of health care reform such as expanding access, improving quality and outcomes, and controlling the cost of care. Continuance of the federal government's commitment to the implementation of the ACA in CA through a successor 1115 Waiver will allow the state to move to the next phase in health care reform and better care for the lives served by our Medicaid program.

California is also pursuing a grant opportunity through Center for Medicare & Medicaid Innovation for multi-payor health care reform initiatives through California's State Innovation Model (CaSIM). The

1115 Waiver could serve as a vehicle to support the goals of the CalSIM in the Medicaid delivery system with the potential to positively impact other sectors.

The focus of the Waiver Renewal will be on improving and reforming our Medi-Cal payment and delivery systems and ensuring ongoing support for the safety net. These objectives are essential to improve the quality of care provided to beneficiaries and reduce the cost trend in the Medi-Cal program, which will help ensure the long-term viability of the program and the Medi-Cal expansion.

The Waiver Renewal will also need to be innovative in developing sources of non-federal share as CA has done in prior years through partnerships at the local level with counties and public hospital systems.

The Department has developed several concepts for consideration as part of the Waiver Renewal to achieve the goals identified above. This paper provides a brief overview of the concepts that have been developed thus far:

*Federal/State shared savings initiative*

California has been a leader in ensuring cost efficiency in the Medicaid program. A critical component to the success of the Affordable Care Act will be the ability for states to slow the cost growth of the Medicaid program while also ensuring access to high quality health care. Absent flexibilities and innovations California is seeking under this 2015 Waiver, we expect that costs would not only continue to grow but would grow at an increasing trend, in part due to the significant expansion of coverage in both Medicaid and through the health insurance exchange that puts significant pressure on access and provider rates. Under a new Medicaid Waiver, California would seek federal support to promote cost efficiency and access through a shared savings initiative.

Under this approach, California would establish per beneficiary payments per year for the Medi-Cal beneficiary categories covered under the Waiver. These per beneficiary amounts would be developed in a manner consistent with the 2010 Waiver budget neutrality and would include cost trend factors intended to incentivize the state to slow the cost trend in California's Medicaid program relative to the cost trend the state would face absent the Waiver. California would receive these pre-established per beneficiary payments to deliver whole-person, coordinated care for these beneficiaries. Periodically, and at the end of the waiver period, the state and federal government would perform reconciliation of these per-beneficiary-per-year payments to California's actual expenditures under the Waiver. If California's actual expenditures were below the pre-established per beneficiary amounts, the state would retain the federal funding for the difference between the actual expenditures and the pre-established beneficiary amounts.

This shared savings initiative would provide California with the incentive to slow the growth of cost in the Medicaid program while also enabling the state to use the shared savings to invest in our delivery system to help ensure access and quality for California's Medicaid beneficiaries, such as in the potential initiatives outlined below.

Payment/Delivery Reform Incentive Payment Programs

California is interested in reforming our payment and delivery systems to encourage increased care coordination, case management, and initiatives such as patient centered medical homes, readmission/ED visit reductions that will reduce the overall cost trend and impact the total cost of care as well as improve overall health care outcomes.

Incentive payment programs for our managed care plans and/or Medi-Cal providers could be developed that would measure the total cost of care and quality for Medi-Cal beneficiaries enrolled in accountable care-like programs or risk-based delegated health home models wherein primary care, specialty care, hospital care, etc, are all coordinated under a single entity. Incentive payments would be available to the accountable care group (whether that be a health plan or providers within a health plan) if quality and outcome measures are achieved and the actual total cost of care of the beneficiaries was lower than the projected total cost of care.

Similarly, the State is interested in developing incentive payment programs aimed at better integrating behavioral health care provided through our County mental health and substance use disorder treatment plans with the medical care provided by our Medi-Cal managed care plans. Again, incentive payments based on total cost of care reductions and performance on quality and outcome measures could be provided to help drive better alignment and care coordination between the mental health and the physical health care delivery systems. Incentive Payments could target specific initiatives such as reducing ED visits and overdose prevention.

Safety net payment reforms that support coordinated and cost effective care for the remaining uninsured

California's 21 public hospital and clinic systems are critical to the state's safety net for all Californians, but particularly those who will remain uninsured post-ACA implementation. For the last two Medicaid Waivers, these systems have receive partial reimbursement for their care to uninsured through California's Safety Net Care Pool as well as nearly all of the state's DSH funding. These systems have claimed reimbursement under these two funding sources through a cost-based system that has not necessarily provided the best levers to drive coordinated or cost effective care.

Under a Waiver Renewal, California seeks to explore innovative payment reforms that more appropriately align incentives for these safety net providers to better coordinate the care for the uninsured populations. We are interested in a global payment approach that provides federal flexibility to integrate Medicaid DSH and Safety Net Care Pool funding for these systems. The funding pool could be structured as a bundled payment for an episode of care. The global payment approach would support the public hospital systems' efforts to integrate care for the remaining uninsured by supporting comprehensive care that includes primary care in lower cost outpatient settings. This could ultimately help achieve reduced emergency and inpatient services, and lower costs. This more flexible payment structure would improve access and quality for the uninsured who seek services in California's public hospital systems by moving away from traditional cost-based reimbursement. The structure allows for more efficient use of funds that would otherwise pay for emergency and inpatient services by redirecting some of these monies to outpatient primary and specialty care.

*FQHC Payment/Delivery Reform*

Efforts and discussion are already underway on the topic of FQHC payment and delivery reform. The Waiver Renewal could be an opportunity to further support or expand the efforts to transform FQHC payment/delivery away from a volume based model to a risk-based model that provides FQHCs the incentives and flexibilities to provide care in the most cost-effective and patient-centered manner possible. FQHCs serve a high volume of Medicaid members and are essential to ensuring and expanding access in California's safety net. Payment and delivery system reforms at the clinics have the potential to control the rising cost trends in the Medi-Cal program and incent more efficient and coordinated care. The inclusion of these efforts under the Waiver would be intended as further support of the goals of reducing overall costs, California would not be seeking to waive the requirements of PPS or Alternative Payment Methodology requirements.

*Successor Delivery System Reform Incentive Payment program*

The 2010 DSRIP has been critical in supporting the public hospital and clinic system safety net in anticipation of health care reform. Under this program, the 21 public hospital systems have built a strong foundation of delivery system transformation that will help ensure access to quality healthcare for California's Medicaid beneficiaries. Building on the lessons learned from the 2010 DSRIP, a successor program would be more outcomes- and value-oriented, particularly with respect to population health, and would seek to demonstrate advancement of Triple Aim goals more consistently across the 21 public hospital systems. This successor program is a critical component in ensuring that the growing Medicaid population in California will continue to have access to high quality, cost-effective care. Key areas of interest to the Department include patient safety, complex patients and prevention.

The successes and lessons learned from the current DSRIP could also be built upon to create a DSRIP program for the state's Non-Designated Public Hospitals (NDPHs). These hospitals are already embarking on transformation to their payment systems by moving away from cost-based or per-diem payments to a Diagnosis Related Group (DRG) payment methodology. An NDPH DSRIP would further support delivery system transformation through quality improvement projects that meet the goals of the Triple Aim.

*California Children's Services (CCS) Program Improvements*

As part of the Waiver Renewal, the Department would also like to explore options at improving care delivery, quality and cost in the CCS program. Similar to other initiatives described above, the Waiver could include pay for performance programs, efforts to move toward a more coordinated and organized delivery system. Any such efforts would be aimed at improving the CCS program while still recognizing the important value of the specialized care these beneficiaries require and the certified providers that provide this care.

*Medicaid funded Shelter for Vulnerable Populations*

Shelter is an integral component of ensuring the success of the state's efforts to coordinate whole-person care for particularly vulnerable populations, such as those in our Coordinated Care Initiative and beneficiaries with behavioral health issues. The Department would like to explore demonstration options for testing how funding for shelter through Medicaid can also contribute to increased quality, ensure continuity of care, deliver better health outcomes, and reduced total cost of care.

Workforce Development

The Medicaid expansion now underway is likely to add over 2 million people to the Medi-Cal program. Many of the additions are people who have never had access to reliable primary care, and have tended to seek medical attention when they need it in hospital emergency rooms. If the system contemplated by the ACA is to work, the primary care delivery system will need to be substantially transformed and expanded to meet the needs of these new Medicaid enrollees and change the way they seek care.

At the same time that this new demand for primary care emerges, there will be enhanced competition for the time and resources of the health care provider community from other payor sources--primarily the commercial sector. Commercial payors have tended to be significantly higher payers than the Medicaid program, which means that doctors and other providers are likely to be more resistant to caring for Medicaid patients, since they can be fully occupied serving insured patients at a higher level of compensation. The state must be able to attract new providers into the Medi-Cal programs given the market factors across payors. At the same time, California must also seek incentives to retain existing providers in an environment where a greater volume of patients with potentially higher acuity and pent up demand are presenting need for services.

Under this Waiver, California could offer subsidies for malpractice insurance premiums of doctors who are willing to devote significant portions of their practices to low income patients. The malpractice insurance premium subsidy program will provide subsidies that are related to the percentage of the doctors' practices devoted to low income populations. The subsidies will be provided as capitation supplements paid to Medicaid managed care organizations based on their reports of the level of business done with doctors in their health plans. The MCOs would be required to pass the supplements through to the doctors. The federal matching portion would be a blend of the regular and the enhanced FMAP rate based on the proportions of the overall capitation payments matched at each rate.