



## Analysis of the Governor's Healthy Families Proposal

Summary of Report Prepared by the Legislative Analyst's Office (LAO)

### Overview:

The Governor's 2012-13 budget plan proposes to:

1. Reduce the negotiated rates paid to the Healthy Family Program (HFP) managed care plans by 25.7 percent, on average
2. Shift the children enrolled in the HFP, currently administered by the Managed Risk Medical Insurance Board (MRMIB) to Medi-Cal, administered by the Department of Health Care Services (DHCS).

The administration expects to yield net General Fund savings of \$64 million in 2012-13 and full-year annual savings of \$91 million in 2013-14.

### Policy Context:

Under the Affordable Care Act (ACA), Medicaid eligibility will rise to 138 percent of the federal poverty level. This will cause Medi-Cal to become responsible for the lowest-income children, who qualify for HFP under current law.

At the same time, current methods will no longer be used to determine family income. Some of today's Medi-Cal children will be found to have higher family income that qualifies them for HFP.

However, because the federal government hasn't finalized applicable rules, the number of children who will move in either direction is unknown.

### Background:

**Medi-Cal:** Medi-Cal provides health care services to qualified low-income persons. In 2011-12, the administration estimates a total Medi-Cal caseload of 7.7 million beneficiaries. Health care coverage is provided through two basic types of arrangements – fee-for-service and managed care.

- fee-for-service – A health care provider receives payment from DHCS for each medical service provided to a Medi-Cal beneficiary.
- Managed care - DHCS contracts with health care plans

to provide coverage to Medi-Cal beneficiaries, and reimburses plans on a capitated basis.

**HFP:** The federal Children's Health Insurance Program (CHIP), known as the Healthy Families Program, or HFP in California, provides health coverage to children in families that are low-income, but with incomes too high to qualify for Medi-Cal. HFP currently serves about 878,000 children in California.

HFP is funded through a federal match – for every dollar the state spends, the federal government provides roughly a two-dollar match.

MRMIB provides coverage by contracting with health plans that provide dental, vision, and health benefits to HFP enrollees. The program has a tiered premium structure that specifies lower premiums for families below 150 percent of the federal poverty level, and higher premiums for higher-income families.

### **States Have the Option to Combine Medicaid & CHIP Programs:**

States are given the option to use federal CHIP funds to create a stand-alone program, such as HFP, or expand its Medicaid program to include children and families with higher incomes. The ACA also creates health care exchanges and gives states authority to integrate CHIP into the exchanges.

### Similarities & Differences of HFP and Medi-Cal

- Medi-Cal and HFP managed care benefits are largely equivalent.
- HFP only covers children, while Medi-Cal covers both parents and children.
- HFP provides managed care in all 58 counties. While Medi-Cal fee-for-service plans are in every county, Medi-Cal managed care is only available in 30 of 58 counties.
- Managed care system has more oversight and monitoring than fee-for-service.

### ACA Expands Coverage

The ACA makes broad changes to the nation's health care system. It significantly expands the Medicaid program and creates new entities called Health Benefit Exchanges through which

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individuals who generally don't have access to affordable employer sponsored coverage can purchase coverage.

## Various Considerations and Policy Issues

The Legislative Analyst's Office (LAO) notes that the Governor's proposal has merit.

- **Consolidating state health programs would improve continuity of care:** Consolidation would provide continuity of care for families whose eligibility for Medi-Cal and HFP may change from year to year based on variations in income.
- **Proposal would implement some ACA requirements early:** Under the ACA, a portion of HFP enrollees will transfer to Medi-Cal in 2014.

But also raises various budget and policy issues...

- **Administration's estimated savings in the budget year may erode:** Estimated savings are built on the assumption that MRMIB will successfully reduce the reimbursement rate of plans that it contracts with by 25.7 percent. However, it is unknown how many health plans will be willing to continue to contract with MRMIB at this reduced rate.
- **Health care services for some HFP Enrollees will be disrupted:** The transition of HFP to Medi-Cal may disrupt some enrollees' health care services.

Approximately 5 percent of HFP enrollees – those that live in areas where Medi-Cal managed care is not available – would initially transfer from their managed care plans to the Medi-Cal fee-for-service system, which is not systematically measured. It is difficult to determine where these children would receive equivalent care after being shifted into fee-for-service.

Although the Governor's plan proposes the long-term expansion of Medi-Cal managed care into all 58 counties, the short-term result would cause 43,000 children to transition to fee-for-service and back into managed care. This can disrupt continuity of care, potentially adversely impacting health outcomes for children.

- **The proposal may impact access to providers:** While benefits under HFP and Medi-Cal and largely equivalent, access to providers may differ between the two programs. Of pediatricians who currently see patients

enrolled in HFP, but not Medi-Cal, 26 percent responded that they would continue to see those patients, 29 percent said they would not be willing to enroll in Medi-Cal, and 46 percent were unsure.

However, the impact of the Governor's proposal on the provider network and beneficiary access to services is unknown.

## LAO Alternative

The LAO recommends that the children in families with incomes between 100 and 133 percent of the federal poverty level, who will be required to shift to Medi-Cal under the ACA, be transitioned in 2012-13. This shift would serve as a pilot to guide future decision making.

- **Shift select portion of HFP Enrollees to Medi-Cal in 2012-13:** Transition children in families with incomes between 100 and 133 percent of the federal poverty level, who will be required to shift to Medi-Cal under the ACA in 2014.
- **Direct MRMIB to report in Legislative Hearings on Transition Options:** Direct MRMIB to report in budget or policy hearings on the benefits and trade-offs of transitioning 186,800 HFP enrollees concurrent with their annual eligibility review.
- **Refer discussion of future structure of HFP to policy committee:** Discussion of whether HFP should continue as a stand-alone organization should be referred to the health policy committees.
- **Direct MRMIB to report at the May Revision on Rate Negotiations:** MRMIB should report to the appropriate budget committees in May on the likelihood of achieving savings from the rate reduction target of 25.7 percent.

For the full report, please visit: [www.lao.ca.gov](http://www.lao.ca.gov)