Enabling Sustainable Investment in Social Interventions:

A Review of Medicaid Managed Care Rate-Setting Tools

North Carolina Institute of Medicine
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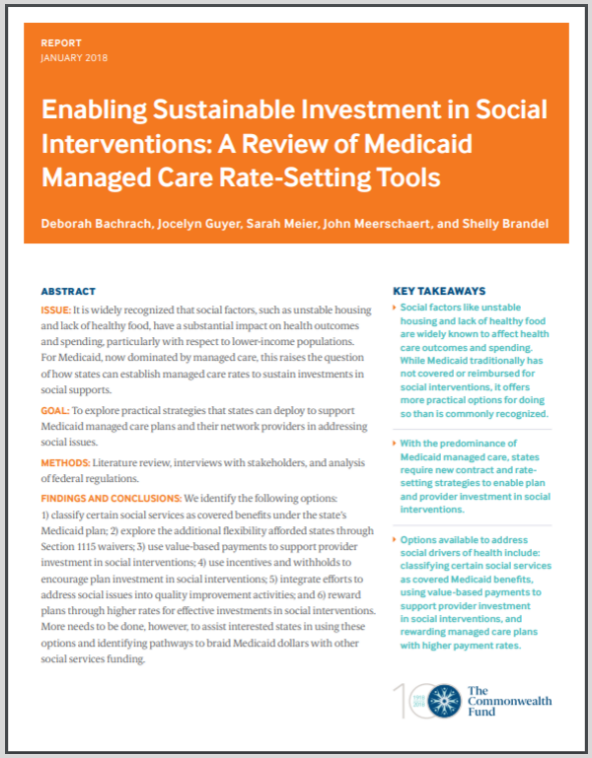
Project Background

- This presentation is based on findings from Manatt's January 2018 report with Milliman for The Commonwealth Fund, *Enabling Sustainable Investment in Social Interventions: A Review of Medicaid Managed Care Rate-Setting Tools*
- Support for this project was provided by The Commonwealth Fund



REPORT
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Enabling Sustainable Investment in Social Interventions: A Review of Medicaid Managed Care Rate-Setting Tools

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ABSTRACT

ISSUE: It is widely recognized that social factors, such as unstable housing and lack of healthy food, have a substantial impact on health outcomes and spending, particularly with respect to lower-income populations. For Medicaid, now dominated by managed care, this raises the question of how states can establish managed care rates to sustain investments in social supports.

GOAL: To explore practical strategies that states can deploy to support Medicaid managed care plans and their network providers in addressing social issues.

METHODS: Literature review, interviews with stakeholders, and analysis of federal regulations.

FINDINGS AND CONCLUSIONS: We identify the following options: 1) classify certain social services as covered benefits under the state's Medicaid plan; 2) explore the additional flexibility afforded states through Section 1115 waivers; 3) use value-based payments to support provider investment in social interventions; 4) use incentives and withholds to encourage plan investment in social interventions; 5) integrate efforts to address social issues into quality improvement activities; and 6) reward plans through higher rates for effective investments in social interventions. More needs to be done, however, to assist interested states in using these options and identifying pathways to braid Medicaid dollars with other social services funding.

KEY TAKEAWAYS

- Social factors like unstable housing and lack of healthy food are widely known to affect health care outcomes and spending. While Medicaid traditionally has not covered or reimbursed for social interventions, it offers more practical options for doing so than is commonly recognized.
- With the predominance of Medicaid managed care, states require new contract and rate-setting strategies to enable plan and provider investment in social interventions.
- Options available to address social drivers of health include: classifying certain social services as covered Medicaid benefits, using value-based payments to support provider investment in social interventions, and rewarding managed care plans with higher payment rates.

The Commonwealth Fund

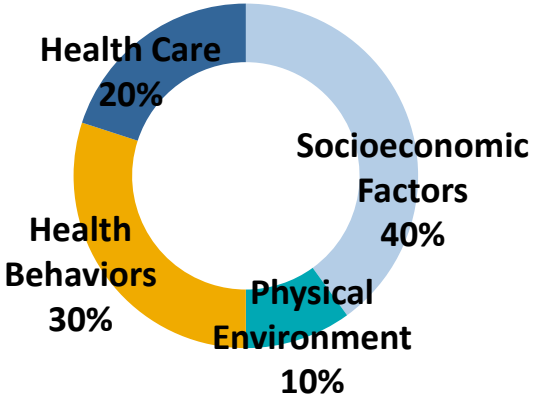
Agenda

- Introduction
- The Basics of Medicaid Managed Care Rate Setting
- State Options for Incentivizing or Requiring Plan Investment in Social Interventions
- State Strategies for Driving Plan Investment in Social Interventions

Introduction

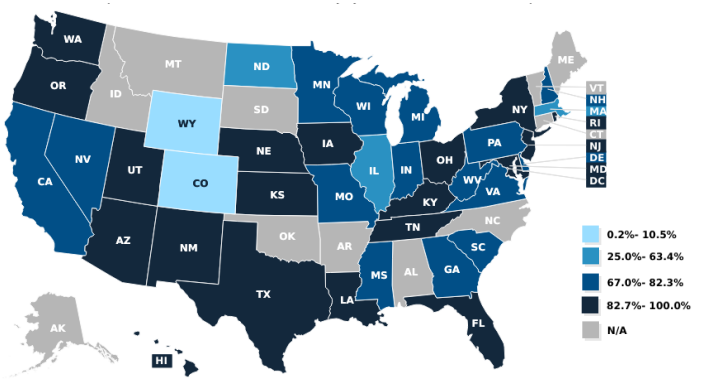
Medicaid is Focusing on Social Determinants of Health

Increasing recognition that social factors, such as unstable housing and lack of healthy food, have a substantial impact on health care outcomes and spending [1]

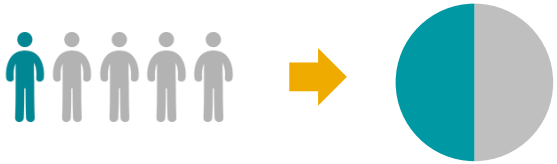


Medicaid is increasingly focusing on how the program can cover and reimburse for nonclinical interventions when cost-effective, particularly in managed care – now the dominant service delivery model in Medicaid [2]

% of Medicaid Population in Managed Care Organization (MCO) [3]



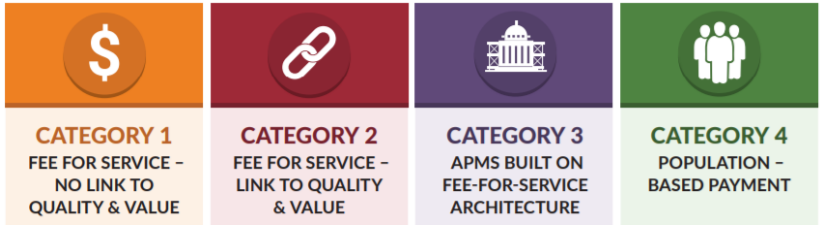
High prevalence of mental illness and substance use, particularly among expansion adult enrollees [4]



1 in 5 beneficiaries had behavioral health diagnoses, representing ~50% of total Medicaid expenditures [5]

Increasing authority for states to require plans to engage in value-based payments (VBP) and other delivery system reforms

Alternative Payment Model Framework [6]



The Basics of Medicaid Managed Care Rate Setting

Medicaid Managed Care Rate Setting Process

Review recent claims experience (with respect to covered benefits)

Apply appropriate trend adjustments

Apply appropriate non-benefit costs

Make reasonable adjustments, as necessary

Consider historical and projected medical loss ratio (MLR)

Apply risk adjustment methodology, if used

? Where do plan investments in social interventions fit in Medicaid managed care rate setting?

Calculating the MLR

$$\text{MLR} = \frac{\text{Claims} + \text{Quality Improvement Expenses} + \text{Fraud Prevention Expenses}}{\text{Premiums} - \text{Taxes + Fees}}$$

- States must set their capitation rates at a level that results in plans, on average, being projected to incur a MLR of at least 85%
- The MLR calculation is designed to ensure plans are spending a sufficient amount of their capitation funds on services for beneficiaries
- As a result, it is key to assess where the cost of social interventions fits into the MLR calculation

Value-Added Services and "In-Lieu-Of" Services: Treatment in Rate Setting

Value-Added Services

- Services not covered under state plan that a managed care plan can spend capitation dollars on to improve quality and/or reduce costs
- Costs cannot be included in capitation rates but can be included in the numerator of the MLR if part of a quality initiative

"In-Lieu-Of" Services

- Cost-effective alternative to a covered service referenced in contract; not covered in state plan or managed care contract
- Costs accounted for when setting capitation rates and in the numerator of the MLR

Key Questions

Where do plan investments in social interventions fit in Medicaid managed care rate setting?

1. How can the cost of social interventions be built into a plan's capitation rate?
2. How can the cost of social interventions be considered part of the numerator of a plan's MLR?
3. What options are available to states to respond to concerns about "premium slide" – the reduction in future managed care rates due to plans successfully utilizing non-clinical interventions to lower medical spending?

State Options for Incentivizing or Requiring Plan Investment in Social Interventions

Option 1. Classify Certain Social Services as Covered Benefits Under the State's Medicaid Plan

States may classify a range of social supports as Medicaid plan benefits.

- States can include these services in plans' benefit packages and build costs into managed care rates
- Plan payments to providers are classified as part of "claims" and are included in the numerator of the MLR
- Federal Medicaid law permits Medicaid coverage of:
  - **Linkages to social service programs** that offer help with food assistance, rent, and childcare costs
  - **Stable housing support** provided through services that help people find and remain in homes
  - **Assistance in finding and retaining employment**, particularly for people with disabilities
  - **Peer support** offered by individuals who come from a beneficiary's community or who have had similar experiences

Option 1. Considerations

Considerations

- Medicaid "statewideness" and "comparability" requirements apply
  - Social service needs and resources are highly community-specific
- Benefits may carry unique requirements and obligations
  - States who offer services as part of "case management" or "targeted case management" (both optional Medicaid benefits) must ensure that managed care plans also meet federal requirements
- Some key social supports, such as direct costs of food and housing, cannot be classified as Medicaid benefits

Option 2. Explore the Additional Flexibility Afforded States Through Section 1115 Waivers

1115 waivers offer broad authority to waive provisions of the Medicaid statute and finance services not otherwise included in Medicaid.

- Services offered through 1115 waivers must further the purposes of the Medicaid statute and be budget-neutral to the federal government
- States have frequently used 1115 waivers in recent years for Medicaid delivery system reform and sought to encourage investments in social interventions
    - Oregon established Coordinated Care Organizations (CCOs) that are given a global budget to provide physical health, behavioral health, and "health-related" services (HRSs)

Option 2. Considerations

Considerations

- Negotiating a waiver with CMS can be time-consuming and complex
- 1115 demonstrations are not permanent; innovation occurring under the waiver is expected to gradually be built into Medicaid managed care contracting strategy
- It is not clear whether CMS will approve 1115 waivers to cover the cost of social interventions; recent guidance on work requirements indicates that supportive services will not be matched by the federal government via waiver

Option 3. Use VBP to Support Investment in Social Interventions

States may incentivize or mandate plans to make VBP to providers that, in turn, can use these payments to invest in social services.

- Unlike fee-for-service, VBP arrangements reward providers for delivering higher value care and improving enrollee health, thereby incentivizing investments in effective social interventions
- Of the 36 state Medicaid managed care contracts reviewed by Manatt, 27 require plans to engage in VBP with providers; two additional states encourage or otherwise incentivize plans to engage in VBP but do not require it
    - For example, New York requires plans to meet specific VBP targets and places a portion of their premium at risk if they fall short. In order to meet some of the targets, plans' VBP arrangements with providers must include at least one community-based organization offering services that address social drivers of health

Option 3. Considerations

Considerations

- Plans need an effective way to measure and reward performance outcomes
- States need an effective system to monitor how performance outcomes measures are included in VBP and ensure that care is not being withheld to cut costs
- States will over time need to consider how VBP are accounted for in rate setting

Option 4. Use Incentives and Withholds to Encourage Plan Investment in Social Interventions

States can make incentive payments or use withholds to reward plans for improving outcomes for beneficiaries.

- States can indirectly encourage investments in social supports by linking incentive and withhold payments to outcomes that can be improved by offering social supports
  - **Incentive payments** are a payment mechanism under which plans receive additional funds for meeting targets in the contract; excluded from the MLR calculation
  - **Withhold arrangements** are any payment mechanism under which a portion of a plan's capitation payment is withheld unless a plan meets performance targets; treated as part of plan revenue and included in the denominator of the MLR
- Option 4 can be combined with Option 3 to reinforce plan incentives to participate in VBP arrangements

Option 4. Considerations

Considerations

- Incentive payments are an “add-on” to capitation payments and require additional funding ; may be unreliable, short-term revenue sources
- Withhold arrangements are not considered a reliable funding mechanism for sustained social investments by plans, because such arrangements depend on plans meeting targets and in some cases are only available to plans that outperform other plans
- Metrics need to incentivize plans’ investments in social supports

Option 5. Integrate Efforts to Address Social Issues Into Quality Improvement Activities

States have the authority to include the cost of quality improvement activities in the non-benefit portion of their managed care rates.

- States can include the costs of activities that improve health care quality in the numerator of the MLR
- Quality improvement activities are defined as activities that improve health quality, increase likelihood of desired health outcomes, and are grounded in evidence-based medicine, best practice, or issued criteria [7]
- States must ensure that the activity is primarily designed to improve health outcomes
- Certain social interventions may qualify as quality improvement activities

Option 5. Considerations

Considerations

- Unclear which initiatives CMS will recognize as quality improvement activities
  - Certain activities, such as efforts to connect individuals with serious mental illnesses to housing, may be considered part of a quality initiative aimed at reducing unnecessary readmissions
- Classifying too many activities as "quality" could undermine effectiveness of the MLR in limiting spending on profits and administrative costs

Option 6. Reward Plans with Effective Investments in Social Interventions with Higher Rates

States may provide plans that invest in social interventions with a cushion against the impact on their rates if the interventions drive down costs.

- Options 1-5 offer plans resources to finance the cost of social interventions but do not address premium slide
- States may provide a higher profit and risk margin to plans that demonstrate that they have lowered medical costs through investments in social interventions
- States may also establish a MLR above 85%, then offer relief from this higher standard to those plans that invest in social interventions and succeed in driving down medical utilization

Option 6. Considerations

Considerations

- States will need to design criteria to establish which plans should receive a higher profit margin — or relief from the MLR standard — and determine how best to monitor and evaluate plan compliance with the criteria
- It may be challenging to publicly justify a higher profit margin for selected plans
- Plans are likely to push back on MLRs greater than 85%

And One More Option…

States may require plans , as part of their care coordination /care management responsibilities, to address enrollees' social needs.

- Case management is an optional benefit that states may determine to cover and include in the managed care benefit; this is different than care coordination/care management which is a central feature of Medicaid managed care and required of all plans
- Under federal regulations, plans minimally must coordinate the services that they provide to a beneficiary with the services the beneficiary receives from community and social support providers.
- States may amplify plan care coordination/care management requirements in their contracts with plans or through state rules
- For example, states can expect their MCO plans to connect people with social services as part of their care coordination responsibilities

State Strategies for Driving Plan Investment in Social Interventions

Arizona's Multipronged Approach to Addressing Social Issues

Arizona employs a multi-pronged approach to encourage integrated delivery systems – known as Regional Behavioral Health Authorities (RBHAs) – to address social issues.

- **Maximize use of Medicaid coverage for nonclinical services:** Arizona includes several nonclinical services in its Medicaid benefit package, including respite services and care management
- **State and local funding for nonmedical services:** Arizona provides approximately $35 million in state-only grants for housing to RBHAs
- **Reinvestment requirements:** Arizona requires RBHAs to reinvest 6% of their profits back into the community
- **Leverage equity requirements:** Arizona allows plans to use a share of their equity as a line of credit to invest in low-income housing
- **Value-based payments:** Arizona's VBP strategy allows for plans and providers to provide a continuum of health and social services

Using VBP to Provide a Continuum of Health & Social Services: An Example in Circle the City

Circle the City, an Arizona-based nonprofit community health organization, uses shared-savings payments from plans to finance a comprehensive array of medical and social services.

- Medicaid managed care plans establish shared-savings arrangements with organizations such as Circle the City, an organization that works with people who have been or are currently homeless
- Shared-savings payments made by plans to Circle the City and other such organizations are part of a plan's medical claims and are included in the numerator of the MLR

VBP Example Leveraging Integration

Mercy Maricopa Integrated Care (MMIC) Forensic Assertive Community Treatment (F-ACT): August 1, 2017 through September 30, 2016 – 3 teams

- 31% reduction in psychiatric hospital admissions
- 18% reduction in the number of members who use ED
- 19% reduction in the number of homeless members
- 76% reduction in the number of jail bookings
- 84% increase in the percent of members who have seen a medical provider at least once per year

Oregon's Section 1115 Waiver: Using Medicaid to Provide "Health-Related" Services (HRSs)

Using an 1115 waiver, Oregon operates its Medicaid program through CCOs, community-based partnerships of managed care plans and providers that manage physical, behavioral, and oral health services.

- CCOs are encouraged to offer HRSs – services not otherwise covered by Medicaid that affect health. These include "flexible services" (targeted to individual members) and "community benefit initiatives" (community-level interventions)
- To be considered a HRS, the service must meet requirements for activities that improve quality under 45 CFR 158.150 or be an expenditure related to health information technology and meaningful use under 45 CFR 158.151; HRSs are included in the numerator of the MLR
- Oregon considers the costs of HRSs in rate development within the non-benefit load of the CCO's rate if they result in a decrease in the rate of the CCO's per-capita expenditure growth over time
- Oregon is considering mechanisms by which it can reward CCOs that invest in HRS that increase quality and efficiency, ultimately resulting in decreased growth in the capitation rate

What Health-Related Services Can Be Offered?

HRSs Include:

- Training and education for health improvement or management
- Care coordination, navigation, or case management activities not otherwise covered under State Plan benefits
- Home and living environment items or improvements not otherwise covered by 1915 Home and Community Based Services waiver
- Transportation not covered under State Plan benefits
- Programs to improve community or public health
- Housing supports related to social determinants of health
- Assistance with food or other social resources

Frequently Provided Flexible Services

Equipment

- Bath scale
- Blood pressure cuffs
- Pill minders and medication dispensers
- In-home exercise equipment (e.g., exercise bike)

Memberships

- Gym memberships
- Pool memberships
- Parks and recreation memberships
- YMCA punch card

Shelter

- Hotel rooms for recovery or as a bridge for hospital discharge
- Rental assistance
- Temporary housing

Group & Community-Level Services

Education

- Cribs for Kids education program
- Health classes
- Community cooking classes
- Parenting programs

Health & Wellness

- Abuse prevention
- Tobacco cessation for pregnant women
- Wellness center (behavioral health/pain management)
- Community health worker hub

Social Support

- Farmer's market
- Drop-in center for peer support
- Community youth programs
- Employment services for substance use disorder
- Homeless shelter

Thank You

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6. Health Care Payment Learning & Action Network.
7. See 45 CFR § 158.150 for more details.