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Fiscal Implications for the 1115 Waiver Renewal

LEGISLATIVE ANALYST'S OFFICE

Presented to:
Senate Health Committee
Hon. Elaine Alquist, Chair

November 18, 2009

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State's Fiscal Outlook and Medi-Cal Growth Projections

☑ ***Huge State Operating Shortfalls Expected.*** The state must address a General Fund budget problem of $20.7 billion between now and the time the Legislature enacts a 2010-11 state budget plan. The budget problem consists of a $6.3 billion projected deficit for 2009-10 and a $14.4 billion gap between projected revenues and spending in 2010-11. Our forecast shows this budget shortfall lingering around $20 billion through the next five years.

☑ ***Steady Medi-Cal Caseload and Expenditure Growth Projected.*** We estimate that the cost per person of Medi-Cal health care services will grow at an average annual rate of 4.5 percent. We also project that the overall Medi-Cal caseload will grow nearly 2 percent annually commensurate with increases in state population and other underlying trends.

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Historical *Overall* Medi-Cal Growth

☑ Overall state and federal Medi-Cal spending in 2008-09 is estimated at about $38 billion, including expenditures in the Department of Health Care Services (DHCS) as well as components of Medi-Cal administered by the Department of Developmental Services, Department of Mental Health, Department of Social Services, and the Department of Alcohol and Drug Programs. Expenditures for Medi-Cal budgeted in DHCS' sister departments represent about 20 percent of total program expenditures. Overall Medi-Cal spending grew at 8 percent annually between 2004-05 and 2008-09, while spending in DHCS' sister departments grew at an average annual rate of about 13 percent.

State and Federal Medi-Cal Spending

(2008-09 Estimated)

	Average Annual Growth	Percent of Total Expenditures
Medi-Cal—DHCS	6.8%	79.1%
Medi-Cal—other departments[a,b]	13.2	20.9
Totals	**8.0%**	**100.0%**

[a] Excludes county funds and related federal funds.

[b] Includes Department of Developmental Services, Department of Social Services, Department of Mental Health, and the Department of Alcohol and Drug Programs.

DHCS = Department of Health Care Services.

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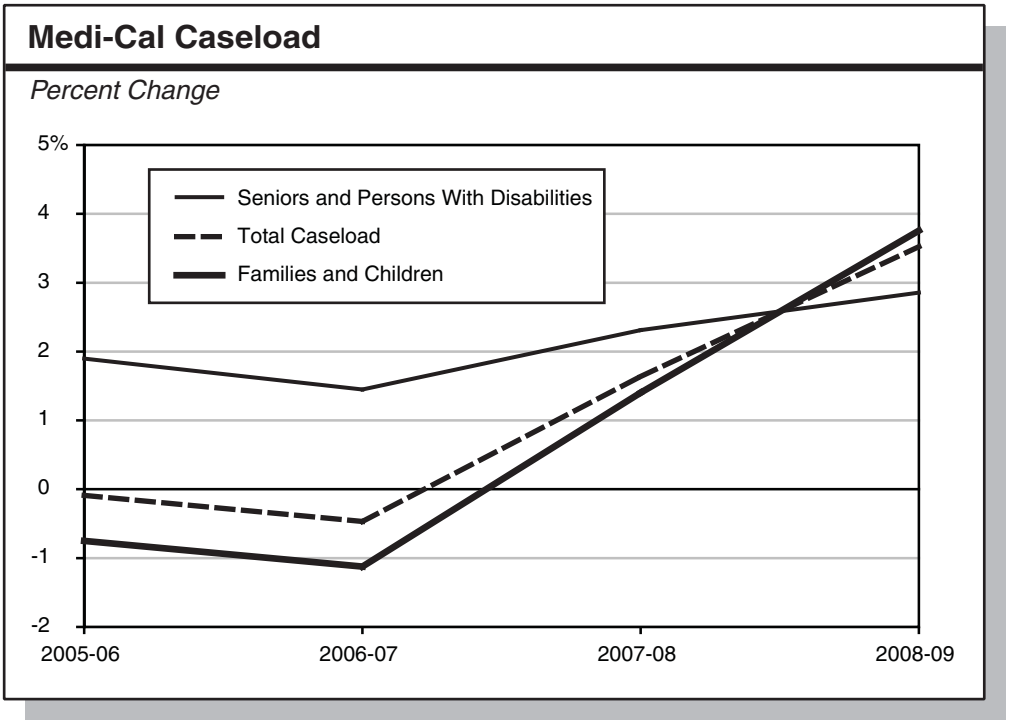
What Drives Medi-Cal Costs?

☑ ***Caseload Growth.*** Between 2004-05 and 2008-09, Medi-Cal caseload grew at an average annual rate of about 1.2 percent. Several factors have contributed to enrollment growth, including increases in the life expectancy of beneficiaries and a decline in employer-based insurance, due in part to increased unemployment.

Medi-Cal Caseload



☑ ***Utilization of Services.*** Utilization of such high-cost services as inpatient hospitalization, psychiatric services, prescription drugs, and long-term care have also been Medi-Cal cost-drivers.

☑ ***Medical Inflation.*** Between 2004-05 and 2008-09, the cost for health services nationally grew at an average annual rate of about 6.3 percent. Medical inflation has, in part, been driven by advances in medical therapies and technology.

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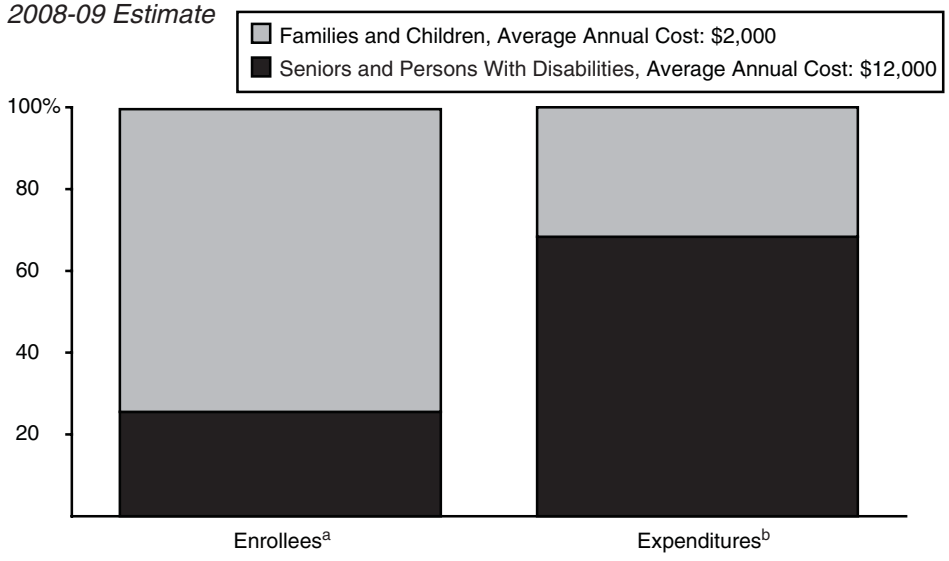
Most Medi-Cal Enrollees Are Families and Children, Yet Most Spending Is for Seniors And Persons With Disabilities (SPDs)

☑ While the largest group of beneficiaries (about 74 percent) is families and children, a disproportionate share of Medi-Cal spending (about 68 percent) is for SPDs.

Medi-Cal Enrollees and Expenditures



[a] Enrollees total 6.9 million estimated individuals.
[b] Expenditures total about $31 billion for benefits, all funds excluding those budgeted in DHCS sister departments.

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Medi-Cal Managed Care and Fee-for-Service (FFS)

☑ Medi-Cal beneficiaries receive services generally under two payment arrangements: (1) managed care, in which the state pays a per-person capitated rate and (2) FFS, in which providers are reimbursed for each good or service provided.

- ***Most SPD Enrollees Not in Managed Care.*** About half of Medi-Cal enrollees, representing mostly families and children, are enrolled in a managed care plan, while most SPDs are in FFS.
- ***Not All Benefits Are Covered in Medi-Cal Managed Care.*** For those enrolled in managed care many high-cost services such as certain long-term care, pregnancy care, in-home personal care, adult day health services, and prescription drugs are generally "carved out" of the managed care capitated rate and mostly paid on a FFS basis. However, the extent of these carve outs vary by county. For example, most county organized health system plans include comprehensive long-term care services.

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Quality of and Access to Care in Medi-Cal

☑ ***Managed Care Plans Have Access Requirements and Undergo Quality Reviews.*** Under program rules, Medi-Cal patients enrolled in managed care must be ensured access to a network of primary care and specialist health care providers. In addition, managed care plans undergo several types of reviews of the quality of the services they provide, including performance measurement according to Health Plan Employer Data and Information Set quality indicators.

☑ ***Quality and Access to Care Largely Unknown for FFS.*** Under FFS, Medi-Cal care quality and access are not systematically measured by the state. Because many high-need beneficiaries are in FFS Medi-Cal, such as SPD beneficiaries, the quality of their care and their access to care are not measured in any systematic way.