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December 22, 2009

TO: Each Supervisor

FROM: John F. Schunhoff, Ph.D.
Interim Director

SUBJECT: **COMMUNITY HEALTH PLAN DATA AND RISK-ADJUSTED RATES (Agenda Item #17, December 22, 2009)**

At your Board's December 15, 2009 meeting, during discussion of a Board Letter requesting approval of a replacement Medi-Cal Managed Care Program Services Agreement between L.A. Care Health Plan and the Department of Health Services' (DHS) Community Health Plan (CHP), your Board requested information on actions DHS is taking to improve data capture to demonstrate disease burden among CHP membership. DHS also received a request from Supervisor Yaroslavsky to include information on the impact of the contract reductions to CHP on DHS' fiscal forecast. This report is in response to those requests.

BACKGROUND ON RISK-ADJUSTED RATES AND CHP DATA

L.A. Care has implemented a Risk-Adjusted Rate (RAR) methodology with capitation rate adjustments for Plan Partners based on the Medicaid Rx disease classification system. For Year 1, Pharmacy encounters and member eligibility are being used to determine the risk to each Plan Partner. The risk adjustment is phased in at 20% for the first contract year (2009-10), 60% the second contract year (2010-11), and 100% the third contract year (2011-12). With the risk-adjusted rates, Plan Partners displaying higher risk scores receive higher capitation payments.

CHP has basic pharmacy, over-the-counter, and prescription data through its Pharmacy Benefits Manager (PBM). However, CHP has significant RAR financial exposure because it does not currently collect injectable and high-cost drug data from DHS facilities or its contracted medical groups. CHP's contracted medical groups, including DHS, are pre-paid via capitation to provide injectable and high-cost drugs, and therefore, do not submit fee-for-service claims for those services. CHP's contracted medical groups have not been required to submit ancillary services encounter forms. As a result, pharmacy data used in calculating RAR for CHP does not include the drugs used for the highest acuity patients and may not accurately reflect the disease burden of its member population.

Over the last year, in support of Health Plan Effectiveness Data Information Set (HEDIS) reporting, CHP made great strides to improve data quality and to collect all pertinent data residing in DHS information systems. Injectable and high-cost drug data, however, were out of scope for HEDIS. CHP will need to collect this data to accurately reflect CHP's risk-adjusted rate position.

IMPROVING DATA CAPTURE RELATED TO RAR

In the replacement agreement, L.A. Care will assess its rate calculations for Year 2 (October 1, 2010 through September 30, 2011) based on data received as of July 15, 2010. L.A. Care may also adjust CHP's rate calculations on a semi-annual basis commencing October 1, 2010. To improve CHP's Year 2 and 3 risk scores, CHP is pursuing the following actions to improve data capture to most accurately reflect the acuity level of its membership and ultimately receive an adjusted risk score and corresponding capitation payment rate increase. CHP projects that these measures will be likely to provide modest improvement in our risk score in Year 2 and increased improvement in Year 3.

- Complete analysis to determine if CHP can financially assume the risk for injectable drugs from our contract medical groups and DHS, so that they would need to bill CHP to receive payment. If yes, then assume the risk. (in progress)
- If risk cannot be assumed, CHP will need to work with each contracted medical group, including DHS, to obtain injectable and high-cost drug encounter data on a regular basis. (in progress)
- Work with DHS Information Technology (IT) Pharmacy Administration to better understand where DHS injectable drug data resides and the best way to mine it. (in progress)
- Mine injectable drug data from DHS information systems. (in progress)
- Mine injectable drug data from the County's Internal Services Department Pharmacy Stock Control and Audit System (PSCAS). (in progress)
- Request ongoing access to specialty pharmacies used by CHP's medical groups. (completed)
- Create a Pharmacy Data Mart in the CHP Data Warehouse to store all injectable drug data, as well as all pharmacy data from CHP's Pharmacy Benefit Management vendor. (target Spring 2010)
- Make Data Mart available to CHP Medical Informatics and CHP Financial Analytics to perform the necessary analysis to understand CHP's risk position. Query the Data Mart based on the Medicaid Rx model. Use diagnosis, inpatient/outpatient pharmacy claim/encounter and member eligibility. (to start after Data Mart in place)
- Contract with an actuarial service. (in progress)
- Provide the same data set to an actuarial service to evaluate and calculate CHP's financial risk exposure. (to start after actuarial contract in place)
- The proposed contract language states that L.A. Care may choose to use diagnosis from claims/encounters for risk-adjustment instead of pharmacy data. In preparation for that possibility, CHP will actively contact all contracted medical groups to submit more complete encounters. (in progress)
- Launch pay-for-performance with CHP's Medi-Cal medical groups which requires a baseline encounter data submission rate to even qualify for program participation. Pay-for-Performance will be another tool to improve data capture from the contracted providers. (pending Board approval on January 12, 2010)

FISCAL IMPACT OF CONTRACT CHANGES

As previously reported on November 30, 2009, the projected annual Medi-Cal capitation revenue reduction is $6.6 million resulting from the rate and compensation changes in the proposed contract for Year 1 with L.A. Care. This calculation was based on the August 2009 enrollment profile. For Fiscal Year 2009-10, the estimated revenue reduction is $5.0 million (rates effective October 1, 2009).

When the Department presents its next fiscal forecast on January 19, 2010, it will report a net negative impact on the 2009-10 forecast of $1.8 million for CHP because the $5.0 revenue reduction is partially offset by revenue from increased enrollment and projected cost savings.

NEXT STEPS

As reported on November 30, 2009, L.A. Care has offered to partially backfill the loss of revenue in the first year through support of County safety net services. DHS is reviewing options for a DHS-wide effort to improve data capture and will present a proposal to L.A. Care by the end of January.

We will keep your Board informed of progress in these efforts. Please contact me if you have any further questions on this matter.

JFS:tl

c: Chief Executive Officer
Acting County Counsel
Executive Officer, Board of Supervisors