

Office of Health Transformation **Reform Health Plan Payments**

Background:

In December 2012, 1.6 million Ohioans received Medicaid health care benefits through a managed care plan and Ohio Medicaid paid those plans \$6.4 billion (SFY 2012) to arrange for care and provide a comprehensive set of medically necessary services. Ohio Medicaid pays the health plans monthly, per person, using a “capitation rate” similar to health insurance premiums. Health plan capitation rates are set annually using a combination of actual cost data and medical cost inflation data to establish reasonable costs for services and administration.

Over the last year, Ohio Medicaid initiated several significant changes to its managed care program. The following reforms represent the state’s commitment to using managed care as a core strategy to improve health outcomes for Medicaid beneficiaries and to reduce costs for taxpayers:

- ***Consolidate health plan regions and populations to be more efficient.*** Ohio Medicaid will reduce the number of managed care service regions from eight to three, and within each region combine coverage for families and children and aged, blind and disabled populations. This new design will increase individual choice and competition by offering five plan choices, up from two or three currently. This change will also deliver efficiencies envisioned in the state budget because having fewer service regions reduces the administrative burden on the state and on health plans. It also increases competition in the managed care marketplace. In June 2012, Ohio Medicaid announced the health plans competitively selected to serve the new regions beginning July 2013.¹
- ***Link health plan payments to performance.*** New health plan contract language, based on model health plan contract language created by Catalyst for Payment Reform, will move the Medicaid health plans from paying for volume to paying for value.² To accomplish this, health plans will be required to develop incentives for providers that are tied to improving quality and health outcomes for enrollees. Additionally, the new contracts will increase expectations around nationally recognized performance standards health plans must meet to receive financial incentive payments.
- ***Integrate care delivery for Medicare-Medicaid enrollees.*** In December 2012, Ohio Medicaid reached agreement with the federal government to implement a new Integrated Care Delivery System (ICDS) for individuals who are eligible for both Medicare (because they are over age 65 or disabled) and Medicaid (because they have low income). Ohio will implement the ICDS as a three-year demonstration project in

¹ Ohio Medicaid, [Medicaid Managed Care Procurement](#) (updated June 7, 2012)

² [Catalyst for Payment Reform Website](#).

seven geographic regions covering 29 Ohio counties and approximately 114,000 individuals. In August 2012, Ohio Medicaid announced the health plans competitively selected to serve the new ICDS regions beginning September 2013.³

- **Provide more accountable care for children with disabilities.** Beginning July 2013, approximately 37,000 Ohio children who are currently served in the Medicaid fee-for-service system will have a choice among five health plans that were competitively selected to serve this population. These children often have long-term, complex conditions but currently receive little assistance in accessing services or with care coordination. In a managed care delivery system, these children will continue to have access to all medically necessary services but also benefit from the availability of a 24/7 nurse advice line, support from member services, and access to care management for children and families who need extra assistance.

Executive Budget Proposal and Impact:

Medicaid managed care enrollment through private-sector health plans is expected to increase 37 percent to 2.3 million by June 2015.⁴ The related economies of scale, combined with efficiency-minded changes described above, are expected to generate significant administrative savings per enrollee, and the Executive Budget proposes to adjust capitation rates accordingly, resulting in total savings of \$646 million (\$239 million state share) over the biennium.

- **Reduce the administrative component of the rate.** Given the maturity of Ohio's Medicaid managed care program and the economies of scale expected to result from increased enrollment, health plan rates will reflect a one percent adjustment in the component of the capitation rate that is driven by projected administrative costs. This provision is expected to save \$140 million (\$52 million state share) over the biennium.
- **Reduce the prescription drug component of the rate.** The Executive Budget will provide health plans with greater flexibility to manage pharmacy costs and make a five percent adjustment in the component of the capitation rate that is driven by projected prescription drug costs. This provision is expected to save \$136 million (\$50 million state share) over the biennium.
- **Cap the overall growth in capitation rates.** The Executive Budget holds the overall growth in capitation claims trend to three percent per year. This provision is expected to save an additional \$370 million (\$137 million state share) over the biennium.

³ Ohio Medicaid, [Ohio's Integrated Care Delivery System Procurement](#) (updated August 27, 2012)

⁴ Ohio Medicaid estimates Medicaid managed care enrollment will increase from 1,641,989 enrollees in December 2012 to 2,250,269 enrollees in June 2015 as a result of Medicaid expansion, woodwork, eligibility simplification, and implementation of an Integrated Care Delivery System for Medicare-Medicaid enrollees.

- ***Link more health plan payments to performance.*** The Executive Budget authorizes Ohio Medicaid to increase up to two percent the amount of health plan payments it withholds pending the plan's ability to demonstrate certain performance outcomes are met. The performance payment withhold will be implemented for both the current children and families program and the new Integrated Care Delivery System (ICDS) for Medicare-Medicaid enrollees. Because the ICDS involves Medicare services, the federal government will have input on the design of ICDS quality incentives. This provision is budget neutral.

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