

## *Can Medi-Cal Expand Its Use of Managed Care?*

California has launched a new effort to expand the use of managed care within Medi-Cal, its Medicaid program. A cornerstone of this expansion is the “two-plan” model, in which each Medi-Cal enrollee in 11 counties will choose either a private commercial plan or one organized and operated by the county. Although the two-plan model is meant to enhance enrollee choice, its implementation raises key questions about the fit between Medi-Cal and private managed care. In *Medi-Cal and Managed Care: Risk, Costs, and Regional Variation*, E. Kathleen Adams, Janet M. Bronstein, and Edmund R. Becker address many of these questions, including the following:

- How do the health risks of Medi-Cal enrollees differ from those of the privately insured? Should the state consider these differences when setting its capitated rates—flat rates paid to both public and private plans for each enrolled member? Should these rates reflect regional differences in health risks as well?
- Do Medi-Cal clients differ from the privately insured in their use of health care resources? If so, do these differences vary across counties?
- Given the lower provider reimbursement levels in Medi-Cal compared to other plans, will private plans be able to recruit providers willing to serve Medi-Cal enrollees?

Using data on Medi-Cal enrollees in seven counties along with a sample of privately insured California employees, the study analyzes and compares the types of health care resources used by both groups in 1994. It also investigates Medi-Cal resource use by county, thereby allowing for regional comparisons. The authors note that this analysis should be helpful to both private plans and the state. Because commercial plans often do not participate in Medicaid markets or do so only on a limited basis, many plans remain unaware of the differences between the Medi-Cal population's needs and those of the higher-income

groups they traditionally serve. In addition to helping the state evaluate its capitated rates, this information may help persuade even more private plans to participate in the Medi-Cal market and thereby increase enrollee choice.

### *Risk Profiles and Reimbursement Levels*

The study revealed some surprising results. Perhaps the most important finding was that Medi-Cal enrollees exhibited a lower case-mix profile, or expected level of cost, than the privately insured employees in the sample. This finding suggests that, on the basis of health risk alone, commercial plans might prefer to enroll Medi-Cal clients rather than those privately insured who remain in noncapitated plans.

However, commercial plans will consider expected payments as well as health risks when making marketing and enrollment decisions. For this reason, the authors also examined provider reimbursement levels in the Medi-Cal and private programs. They found that Medi-Cal provider payments were approximately 30 percent of those paid to providers in the privately insured sample. These low reimbursement levels are likely to pose a challenge to plans as they try to recruit and retain providers to serve their Medi-Cal enrollees. Under managed care, commercial plans must keep their total expenses below total capitated payments. To do this, they will need to find providers that accept payment rates close to Medi-Cal levels. If plans pay providers higher rates to retain them, they will need to find savings in other ways.

One way to achieve savings is to reduce inefficient or unnecessary resource use, such as expensive emergency room services for routine care. The authors examined the resource use patterns of Medi-Cal enrollees and found that they differ significantly from those of the privately insured. Adjusting for health risks, the Medi-Cal population uses about 21 percent more inpatient days and about 12 percent more total professional services than would be expected for the privately insured. This higher-than-expected use of inpatient services

may be linked to the enrollment of Medi-Cal pregnant women near or at the time of delivery. Although California has separate capitated rates for pregnant women, these rates may not adequately compensate plans for the consequences of postponing prenatal care. If private plans can reduce this use of inpatient days through early enrollment and preventive care, they may be able to serve Medi-Cal clients at lower cost.

The authors also considered the more difficult problem of caring for short-term Medi-Cal enrollees, whose entry and exit is endemic to the program. Many short-term enrollees seem to enter the system with pent-up demand for health care. Furthermore, these enrollees frequently exit the system before the plans can accrue enough capitated payments to cover their costs of care. For this reason, commercial plans have strong incentives to avoid these clients. The authors suggest that California policymakers consider adjusting the capitated rates for these clients, as some states have done. Because short-term enrollees are overrepresented in California's urban areas, another option is to implement city-specific risk adjustments to cover higher-than-expected costs.

### ***Regional Variation and Adjusted Rates***

The expansion of managed care in California is proceeding county by county, and the authors therefore examined differences in health risks and resource use at that level. Medi-Cal enrollees in San Francisco had the highest expected costs and used more inpatient and outpatient days than would be expected for privately insured clients with similar health risks. Los Angeles County, which had the lowest expected cost, was the only other county in which Medi-Cal enrollees used more inpatient days than expected; however, this overuse was balanced by the underuse of outpatient facilities. In general, rural Medi-Cal enrollees, especially

those in Humboldt County, had higher expected cost profiles than their urban counterparts. In light of these and other regional differences, the authors conclude that commercial plans entering Medi-Cal markets across the state face significantly different health care needs and patterns of care.

These regional variations have significant implications for the counties that implement, manage, and retain the two-plan model. In the absence of adjusted rates, commercial plans are likely to avoid Medi-Cal enrollees in areas with high case-mix profiles, such as rural areas. The authors found that expenditure patterns for those enrolled in Medi-Cal longer than six months were stable enough to create reliable, risk-adjusted rates at the county level. Accordingly, county rates and capitated payments could reflect differences in the expected costs of enrollees. The use of risk-adjusted rates will be especially important if the elderly and disabled and those with chronic conditions are to be included in greater numbers under the two-plan model.

### ***Conclusion***

The two-plan model is working, but its long-term stability requires commercial plans willing to serve significant numbers of Medi-Cal clients. Although Medi-Cal clients have lower-than-expected costs, historically low Medi-Cal provider payment rates may discourage commercial plans and their physicians from participating more extensively in the Medi-Cal market. There is some evidence, however, that participating plans can achieve savings without depriving Medi-Cal clients of needed services by encouraging more efficient resource uses. Finally, policymakers may wish to consider risk-adjusted capitated rates for short-term and high-risk Medi-Cal clients. Without such risk-adjusted rates, commercial plans are likely to avoid areas with high concentrations of such clients and thereby hamper the continued success of the two-plan model.

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*This research brief summarizes a report by E. Kathleen Adams, Janet M. Bronstein, and Edmund R. Becker, Medi-Cal and Managed Care: Risk, Costs, and Regional Variation (2000, 92 pp., \$10.00, ISBN: 1-58213-056-6). The report may be ordered by phone at (800) 232-5343 [mainland U.S.] or (415) 291-4415 [Canada, Hawaii, overseas]. A copy of the full text is also available on the Internet (www.ppic.org). The Public Policy Institute of California is a private, nonprofit organization dedicated to independent, objective, nonpartisan research on economic, social, and political issues affecting California. This project was supported by PPIC through an Extramural Research Program contract.*

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