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Governor's Proposed Health Budget: Overview of Major Issues

Proposed Medi-Cal Redesign

1) The goal of the proposed Medi-Cal Re-design is to **significantly re-structure Medi-Cal to achieve cost-savings to the state over the next 5 years (2008-09)**, although the changes themselves would start earlier (see below). The main tools for "cost-containment" are:

   a) Cutting non-emergency **adult dental benefits** by limiting them to $1,000 of service a year;

   b) Imposing monthly **premium** payments on certain groups of children, pregnant women, the aged, blind and disabled, and other adults; and

   c) Requiring more beneficiaries to go into "**managed care** plans," which tightly control access to care.

2) Savings over the first 5years are expected to be **$332 million total state and federal funds** ($171 million in State General Funds (SGF)). Annual savings after that are expected to be **$290 million a year** ($144 million State General Funds). As even the budget proposal documents acknowledge, these are very "cautious" estimates that may well ***underestimate*** **the true extent of the reductions.**

3) Many of the proposed changes would require special permission from the federal Centers for Medicare and Medicaid Services (CMS) "waiving" Medi-Cal's usual rules. If such permission is granted, court challenges are likely to follow. If the wavier is upheld, it seems likely the **state would resort to similar types of waivers again to cut services and control Medi-Cal costs in the long-term. For example, more limits could be put on dental and other types of services, premiums could go higher or be applied to more groups, etc. In this sense, if implemented this year's proposal could drastically change Medi-Cal for generations.**

4) Big Unknown: Safety Net Hospital Funding. **An additional $900 million is at risk in funding for 240 "safety net" hospitals**—those that serve people with Medi-Cal and other public insurance as well as the uninsured—because CMS is requiring California to change its current "Inter-Governmental Transfer" (IGT) funding mechanism. The

alternative approach proposed by the State Department of Health Services, "Certified Public Expenditures" (CPEs), is being resisted by the hospitals because they fear it would seriously underfund services needed. This will be a major issue for resolution in the Legislature.

Dental Cuts In The Proposed Medi-Cal Re-Design

The proposal would limit non-emergency dental services for adults to $1,000 a year. (Two types of non-emergency services would not be subject to this cap: hospital costs associated with dental treatment; and federally mandated dental services provided by a physician instead of a dentist.)

1) **Numbers of people affected:** 3 million adults

2) **Estimated cuts in FY 2005-06: $50 million total funds** ($25 million SGF)

3) **Estimated cut in 5-years: $200 million total funds** ($100 million SGF)

4) **Administration's rationale:** Medi-Cal's dental coverage should be "aligned" with that of the private sector.

5) **Issues:** The administration's rationale overlooks that:

   a) By definition, the working poor and aged, blind and disabled people with income low enough to qualify for Medi-Cal cannot afford to pay out-of-pocket for the dental services that insurance does not cover.

   b) People on Medi-Cal generally tend to be in poorer health and to require more extensive dental care.

   c) If left untreated, gum disease and infected teeth can literally spread infection throughout the body and become life-threatening. Medical studies show that people with heart conditions are especially vulnerable to heart attacks linked to the spread of infections from the mouth; similarly, pregnant women with untreated dental disease may deliver premature, low-birthweight babies, putting the lives of both mother and newborn at risk and significantly increasing expenditures for preventable neo-natal intensive care and other hospitalization and treatment costs.

"Premiums" In the Proposed Medi-Cal Re-design: a.ka. Eligibility Rollbacks

After federal welfare reform in 1996, a series of new rules were adopted in California to make Medi-Cal more responsive to the needs of the working poor leaving welfare. The main change was that, to encourage and support work outside the home, parents living below the poverty level were allowed to earn more than poverty-level wages from a job without losing

their Medi-Cal Later, through separate initiatives, seniors and blind and disabled persons were given "share-of-cost" relief so that they could use Medi-Cal for prevention and primary health care needs rather than just for catastrophic events requiring hospitalization.

The Governor's budget proposal would rollback these major consumer-friendly reforms under the rhetoric of "premiums" and individual responsibility.

1) Major proposal elements known to date:

   a) **Individuals—including pregnant women and children**—with family income $1 or more **over 100% of the poverty level** ($1,306 for a family of 3).

      i) At present, after qualifying for Medi-Cal at the poverty level limit, a family is allowed to increase income through work up to 155% of the poverty level ($2,024) for a family of 3) without being penalized by losing Medi-Cal benefits or having to pay a "share-of-cost." **The premium proposal amounts to rolling back the "recipient" eligibility rules.**

      ii) **The Governor's budget proposal also appears to include the 133% Medi-Cal program for children ages 1-5 years and the 200% Medi-Cal program for pregnant women in the premium proposal; we are seeking clarification**. Over the past decade, Medi-Cal's income eligibility limit for pregnant women has increased to 200% of poverty to help ensure that low-income uninsured women have access to medical care and thereby prevent premature deliveries and low-birthweights that put the health and even life of both mother and newborn at risk. The strategy has been very successful, as many recent studies reviewing California's progress in this area show (although ensuring entry into prenatal care during the first trimester remains a challenge, as does addressing the disproportionately high infant mortality rates among African American and Native American babies).

   b) **Persons who are aged, blind or disabled** and have family income over the SSI/SSP limits ($805 for a single person; $1,422 for a couple as of January 1, 2005). At present, such individuals can qualify for Medi-Cal without a share-of-cost with income up to 130% of the poverty level ($1,006 per month) and 134% for a couple ($1,399 per month).

   c) **Amount of proposed premiums:** $4 per month per child (defined as a person under 21) and $10 per month per adult (defined as a person over 21), with a cap of $27 per month for the whole family. Premiums would start January 2007.

   d) **How paid:** By check through the mail; with credit cards over the phone; automated payroll deductions; automated bank account withdrawals; or physical locations to make cash payments. 25% discount for people who use automated payment systems

or pay three months in advance. "Sponsors" can pay on behalf of the Medi-Cal beneficiary (as in Healthy Families at present).

e) **When due:** At the time eligibility is determined. But the premium will be applied prospectively, and no premium will be charged for the months between the month of application and the month of the final eligibility determination. And there would be no premium for "retroactive Medi-Cal" (up to 3 months prior to the date of application.)

f) **Disenrollment for non-payment of premiums.** People who miss premium payments for two consecutive months will be terminated from Medi-Cal. To get back on, they will first have to pay missed premiums, but we need clarification for what time period.

g) **People exempt from premiums**: CalWORKs participants; infants under the age of one year; individuals in Medi-Cal "share-of-cost" programs; Alaskan Natives; and Native Americans.

2) **Numbers of people affected:** 460,000 parents and children, plus 90,000 seniors and persons with disabilities (total of **550,000**).

3) **Estimated *cost* to the state in FY 2005-06: $2.3 million** ($650,000 SGF) to set up the bureaucracy for premium collection.

4) **Estimated savings to the state over 5-years: $200 million total funds** ($100 million SGF). These are "savings" to the state from the amount of premiums collected from poor people and the anticipated termination of Medi-Cal benefits for the many who drop off for non-payment of premiums.

5) **Administration's rationale:** Paying premiums will align Medi-Cal with the private sector and remove "stigma"; the premium levels are the same as those in the Healthy Families program; premiums will cost only 1-2% of annual income.

6) **Issues:**

a) Low-income working parents rely on Medi-Cal for their family's health care coverage when they are in jobs that do not provide health benefits. The proposal would punish families with children for the parents' working and create incentives for parents to reduce work hours.

b) If the proposal also includes pregnant women in Medi-Cal's 200% program, it can be expected to increase Medi-Cal costs to treat problems at and after the birth—studies show that for every $1 spent on prenatal care, at least $3 is saved-- and to have tragic consequences in the form of poorer birth outcomes and increased maternal and newborn mortality rates.

c) Low-income aged, blind and disabled persons have greater needs than most people for medical care and yet have fewer resources to pay for it.

d) $27 a month or 1-2% of annual income may not seem like a lot, but for the working poor and the aged, blind and disabled subsisting at near-poverty levels, these are significant sums, especially in the context of the budget's proposed SSI/SSP and CalWORKs COLA elimination, the CalWORKs grant level reduction, the reduction of the CalWORKs earned income disregard, and other "taxes" proposed for the poor. Moreover, establishing the precedent of premiums for low-income people in Medi-Cal would likely mean that premiums will increase over time. Last year, the state increased premiums in the Healthy Families program to help close the budget gap. These are the Californians who can least afford to pay. A balanced approach to the budget situation would look to revenues from those with higher incomes than families on Medi-Cal or Healthy Families have.

e) There have been pervasive, persistent, on-going problems with initial collection of premiums and disenrollment for alleged non-payment of premiums in the Healthy Families program: the state just hasn't been able to keep accurate count in this relatively small program. Extending these problems to more than a half-million lower income families, seniors and people with disabilities will only grow the bureaucracy while compounding the state's failure to properly manage and administer the premium collection and crediting process for all families and individuals involved.

f) The "stigma" in Medi-Cal comes not from the quality of the insurance, but from the degrading bureaucracy of the eligibility determination process. Making poor families, seniors, and people with disabilities pay premiums won't change that.

Managed Care In the Proposed Medi-Cal Re-design

Certain Medi-Cal beneficiaries must enroll in "managed care plans" in 22 counties at present. This proposal would require families with children and pregnant women in the following 13 additional counties to participate in Medi-Cal managed care: El Dorado, Imperial, Kings, Lake, Madera, Marin, Mendocino, Merced, San Benito, San Luis Obispo, Sonoma, Placer and Ventura.

In addition, seniors and the blind or disabled who are new to Medi-Cal would have to enroll in managed care in the total of 35 managed care counties (22 existing plus 13 proposed counties.)

This proposal would be phased in starting January 2007 and is estimated to take twelve to eighteen months to complete.

1) **Number of people affected:** 262,000 parents and children**;** 554,000 aged, blind or disabled persons (**816,000** total).

2) **Estimated *costs* to the state in FY 2005-06: $7.6 million** total funds ($3.3 million SGF). The cost is to hire 48 new staff people to set up the bureaucracy.

3) **Estimated savings to the state over 5-years: $177 million** total funds ($89 million SGF)

4) **Administration's rationale:** 22 counties already rely on Medi-Cal managed care; managed care is more efficient and cost-effective and promotes access to quality care.

5) **Issues:**

   a) Few rigorous studies have been done on whether managed care has improved access for Medi-Cal beneficiaries or the quality of their care.

   b) A recent study found the opposite: Medi-Cal managed care "reduced the quality of prenatal care and increased low birth weight, prematurity, and neonatal death. Our results suggest that the competitive FFS [fee-for-service] system provided better care. . [¶] Ultimately, it appears that these poor, uneducated women did a better job of navigating the FFS system than the government was able to do for them." Aizer, Currie, Moretti, *Competition In Imperfect Markets: Does It Help California's Medicaid Mothers?*, National Bureau of Economic Research (April 2004) (at pp. i and 4). For abstract or full text, go to: www.nber.org/papers/w10429

   c) Seniors and the disabled are especially at risk in managed care, where access to services is tightly controlled in order to contain costs and often overlooks individual patient needs and physician recommendations.

Other Elements of the Proposed Medi-Cal Re-design

1) **Processing children's Medi-Cal applications at the "Single Point of Entry" (SPE) in Sacramento.** About 120,000 children's Medi-Cal applications are received each year at the SPE, where they are screened for preliminary eligibility and then sent to the county of the child's residence for a final eligibility determination. The proposal is to have the SPE complete the final eligibility determination and then send the child's case to the county, for a savings to the sate of $1.2 million (SGF).

   a) Issues:

      i) There have been major problems for a long time with the preliminary screening for children's Medi-Cal as well as the final processing of Healthy Families applications through the SPE: will the system improve sufficiently to handle the increase in workload in a way that is family-friendly? Or will it just add to the delays and incorrect denials families now face for their children?

ii) What about accountability? Will local consumer advocates be able to access administrative staff in faraway Sacramento to address the inevitable problems that will arise?

iii) Has giving the counties the authority to grant a child "accelerated enrollment" into Medi-Cal been considered? This approach would eliminate the need for the application to go to the SPE in the first place. If counties were required to review and grant AE within a strict 10-day maximum time limit, and this turnaround requirement were enforced, the efficiency of the overall enrollment system would be greatly improved, reducing state costs and serving children better.

2) **Improving "bridging" for children:** Another proposal is to make it easier for children to keep their health insurance coverage when family income changes and the child is "transferred" from Medi-Cal to Healthy Families, or vice versa. We are awaiting details on this proposal.

3) **Monitoring county compliance with "performance standards."** Will this create pressure for counties to more quickly deny or terminate cases without adequate review of individual circumstances?

4) **Third-party liability reform**: Some low-income people have private health insurance that does not provide all necessary services and so they use Medi-Cal for the missing benefits; for example, pregnant women often have limited private policies and use Medi-Cal for their pregnancy-related care. The state must attempt to collect from the private insurer (the "third party") for any services that the private plan does cover. Often, the Medi-Cal beneficiary gets caught in the middle. Will the existing problems that such individuals experience when trying to access their Medi-Cal benefits when the state seeks to collect from liable third parties get worse under this reform? What precautions to protect consumer rights will be included in the proposed reform?

5) **Revising the joint Medi-Cal/Healthy Families application for children:** Will consumer advocates be involved? In the past, important questions would have been omitted, while unnecessary, burdensome questions would have been added, without consumer input on this form.

6) **Federal funding for prenatal care**: At present, for some women the state provides non-emergency pregnancy-related care without any federal matching funds through Medi-Cal's 200% Program (emergency services, including labor and delivery care, are also provided, but there already is federal match for these services). For women with family income between 200% and 300% of poverty, pregnancy-related care is provided through the Access for Infants and Mothers (AIM) program, with no federal match.

A recent federal regulation allows states to draw down federal funds at a two-thirds matching rate to cover "fetuses." The budget proposes to apply this rule and seek a total of $242 million in federal funds to "backfill" state spending in Medi-Cal and AIM.

a) Issues:

i) What would be the impact of this proposal on women's reproductive rights in other areas?

ii) Where would the $242 million in new federal money go? To pay for the budget's deficit in, for example, the Department of Corrections? Shouldn't these funds go to *expanding* health care?

Other Health Issues In the Proposed Budget

1) **Reinstating "application assistance fees":** The proposed Healthy Families budget includes an increase of $8.9 million ($5.9 million SGF) to restore fees for certified application assistors. Will this include only a $50-per-successful-application reimbursement, or will it also include a planning process to recognize the need for retention efforts, targeted outreach to hard-to-reach groups, and enrollment in and referrals to programs other than Medi-Cal and Healthy Families (such as CCS, county-based programs, etc)?

2) **New staff positions at MRMIB:** $2.5 million ($867,000 SGF) for 27.5 new staff positions to process Healthy Families application appeals (which are seriously backlogged) and for other administrative activities.

3) **Cal Rx:** This proposal would provide $4 million in state funds for an Internet-based drug discount program for uninsured people with income at or below 300% of poverty. The program relies primarily on drug manufacturers voluntarily making certain prescription drugs available for free and pharmacists providing other drugs with a 40% discount. Is this measure adequate to really meet the needs for affordable prescription drugs? Will drug manufacturers and pharmacists voluntarily come through?

4) **Support for local children's health insurance initiatives:** The proposal here is to add staff to MRMIB to: (a) help counties seeking to establish their own local children's health insurance initiatives, as 8 counties have already done; and (b) allow counties to avail themselves of the Healthy Families infrastructure by "buying into" the program as a way of providing coverage for children in the county who do not qualify for Healthy Families either because of immigration status or family income being over 250% of poverty.