Economic Impact Analysis
Virginia Department of Planning and Budget

12 VAC 30-120 – (360-420) – Medallion II Program
Department of Medical Assistance Services (DMAS)

April 16, 2002

The Department of Planning and Budget (DPB) has analyzed the economic impact of this proposed regulation in accordance with Section 9-6.14:7.1.G of the Administrative Process Act and Executive Order Number 25 (98). Section 9-6.14:7.1.G requires that such economic impact analyses include, but need not be limited to, the projected number of businesses or other entities to whom the regulation would apply, the identity of any localities and types of businesses or other entities particularly affected, the projected number of persons and employment positions to be affected, the projected costs to affected businesses or entities to implement or comply with the regulation, and the impact on the use and value of private property. The analysis presented below represents DPB's best estimate of these economic impacts.

Summary of the Proposed Regulation

DMAS proposes to amend the regulations governing its Medallion II managed care program to 1) allow expansion of the program into regions that have only one contracted MCO, 2) shorten the pre-assignment process, and 3) remove language pertaining to the carve-out of mental health services provided in Northern Virginia. Other editorial and clarifying changes are also included. The proposed regulations will supercede emergency regulations that went into effect December 1, 2001.

Estimated Economic Impact

Expansion of Medallion II

The Medallion II program, authorized by the 1995 General Assembly, requires mandatory enrollment in managed care organizations of most Medicaid clients. The main exceptions are long-term care recipients who are in institutions and those recipients enrolled in separate home and community-based care waiver programs. The emphasis of the program is to

provide access for preventive and coordinated care, thereby reducing expenditures over the long term by improving health outcomes.

Initial implementation of the Medallion II program took place on January 1, 1996, in the Tidewater community and has since expanded into Central Virginia, including Richmond, Fredericksburg, Charlottesville, and their surrounding counties. In order to fulfill the legislative mandate to implement the Medallion II program statewide, DMAS requested and received federal approval to allow expansion into areas with only one contracting managed care organization (MCO) by allowing recipients to alternatively choose to enroll in the area's Primary Care Case Management (PCCM) program. Previously, the federal waiver had required there to be at least two contracting MCOs in an area to provide recipients with freedom of choice. The agency expanded Medallion II into 48 localities on December 1, 2001 under emergency regulations. Danville, Roanoke, and Northern Virginia operate with only one MCO in the region. Approximately 83,000 Medicaid recipients were affected by this expansion.

The capitation rates for the Medallion II program are set five percent below the estimated per person per month cost in the Medicaid fee-for-service program. Providing MCOs with a lump sum payment creates incentives to provide care efficiently and to invest in resources that could prevent costly hospitalizations and emergency room use. This arrangement encourages better disease and disability management strategies to maintain the health and functional status of enrollees. The Medallion II program also generates an increase in provider access as the plans encourage commercial providers to accept Medicaid patients.

Findings from an independent assessment of Virginia's Medicaid managed care program indicates that Virginia's managed care program does provide improved health comes at a lower cost.[1] For example:

- The number of recipient complaints dropped from 11.2 per 1,000 recipients in 1997 to 0.6 per 1,000 recipients in 1999. In calendar year 2000, this number rose to 3.1 per 1,000 due to managed care expansion efforts.
- Medicaid MCO activities reduced neonatal intensive care unit use, increased WIC enrollment, increased prenatal care visits, and reduced pre-term births.
- Compliance with the Early and Periodic Screening Diagnosis Treatment (EPSDT) schedule increased from 59% in 1998 to 72% in 1999. In calendar year 2000, this number rose to 75%.
- MCO disease management activities resulted in:

[1] *Health Care Financing Review Virginia's Medicaid Managed Care Waiver Independent Assessment Report,* George Mason University Center of Health Policy Research and Ethics, June 2000.

- ?? A shift in recipients with Stage II Hypertension to Stage I;
- ?? A decrease in asthma inpatient admissions and emergency room visits;
- ?? Increased number of diabetics receiving retinal eye exams; and
- ?? Increased number of recipients receiving timely follow-up after a mental health admission.

Based on these findings, the expansion of the Medallion II program contained in the proposed regulations is likely to represent a net economic benefit for Virginia, while maintaining freedom of choice for Medicaid recipients.

Shortening pre-assignment process

Item 319.J of the 2000 Appropriation Act (Chapter 1073) directed DMAS to modify the process by which Medicaid recipients are enrolled into managed care programs. The current regulations allow recipients 45 days to select a managed care provider. The proposed regulations shorten that period to 30 days. This change expedites the enrollment of recipients into managed care programs and as a result, is expected to result in savings of $1.5 to $2 million per month. Emergency regulations containing this provision were implemented Dec 1, 2001 and, according to DMAS, there have been no indications so far that the 30-day waiting period is insufficient to provide recipients adequate time to select a managed care provider.

Based on experience so far, the proposed change can be expected to result in a net economic benefit by enrolling recipients into managed care plans sooner and generating the associated cost savings, while still providing recipients sufficient freedom of choice.

Removing NOVA mental health carve out language

In expectation of the planned 1997 Medallion II expansion into Northern Virginia, budget language, requested by Northern Virginia Community Service Boards (CSBs), was passed to address concerns about the provision of mental health services under a managed care program, which at that time had only six months of experience. A provision was then put into the regulation that directed that mental health services to recipients in Northern Virginia were to be provided outside ("carved-out") of the MCO network on a fee for service basis. Due to several factors, the 1997 expansion into Northern Virginia did not occur. In the five years since then, the Medallion II program has been implemented in several other regions of the state with the

inclusion of mental health services. According to DMAS, there have been no adverse comments or concerns with this delivery system, which provides cost savings and continuity of care.

Emergency regulations, effective Dec 1, 2001, removed the mental health services carve-out provision, which had expired in 1999, and expanded the Medallion II program into the Northern Virginia region. Medicaid recipients in the Northern Virginia region eligible for managed care enrollment have the option of choosing either the one contracted MCO in the region or selecting to enroll in the area's Primary Care Case Management (PCCM) program. In the PCCM program, mental health services continue to be provided on a fee-for-service basis.

The proposed regulations permanently remove the expired carve-out language, allowing the Medallion II expansion into Northern Virginia to be fully implemented. Based on experience over the past six years with Medallion II programs in other regions of the state, including mental health services into the Medallion II program in Northern Virginia is unlikely to have any negative consequences, especially since recipients have the option to continue to use the provider of their choice by selecting the PCCM program.

Other changes

The proposed regulation revises language relating to emergency services to make the regulation consistent with the broader definition of emergency that has been used for the past two years. Case management services are removed from the list of provider responsibilities to eliminate any confusion since Medicaid does not reimburse those services. The proposed regulations specify that, consistent with current practice, individuals enrolled in residential treatment or treatment foster care programs are excluded from managed care enrollment. Lastly, the regulations remove the exclusion of individuals with comprehensive group or individual health insurance, except Medicare, from managed care enrollment. The agency has had the federal waiver authority to enroll these individuals since 2000, however this policy is not expected to be implemented until 2003 due to delays in shifting to a new computer system. At that time, approximately 10,000 to 15,000 Medicaid recipients will be moved from fee-for-service into the managed care program.

Businesses and Entities Affected

As of February 2002, there were 238,937 individuals enrolled in a Medicaid managed care program.

Localities Particularly Affected

DMAS expanded Medallion II into 48 localities, including Danville, Roanoke, and Northern Virginia, on December 1, 2001 under emergency regulations.

Projected Impact on Employment

The proposed changes to this regulation are not anticipated to have a significant effect on employment.

Effects on the Use and Value of Private Property

The proposed changes to this regulation are not anticipated to have a significant effect on the use and value of private property.