County of Santa Cruz

HEALTH SERVICES AGENCY

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HEALTH SERVICES AGENCY
ADMINISTRATION

October 11,2001 **AGENDA: November 6,2001**

BOARD OF SUPERVISORS
County of Santa Cruz
701 Ocean St., Fifth Floor
Santa Cruz, CA. 95060

SUBJECT: Report Back on Mental Health Managed Care Actuarial Data

Dear Members of the Board:

BACKGROUND:

In the 2001 budget hearings your Board reviewed and accepted the annual report on Mental Health managed care for persons with Medical. This report did not include the actuarial data analysis conducted annually by William M. Mercer, Inc because they had not received State claim data. The analysis was completed and this component of the annual report is being forwarded to your Board.

Since January of 1995, the County Mental Health Program has administered inpatient Mental Health benefits for all county residents with Medical. This was the first phase of a statewide plan to consolidate two different Medical programs addressing mental health needs, the Short-Doyle (SD) Medical program and the Fee for Service (FFS) Medical program. The SD program has been operated by the counties to serve individuals with serious and persistent mental disorders. The FFS program includes private sector providers such as hospitals, physicians, and psychologists providing inpatient and outpatient services. In June of 1998, the State added the outpatient mental health services to County Mental Health responsibilities. There still remain some components of mental health care carved out of the Medical managed care program. These "carve outs" remain in the FFS Medical system. As the Mental Health Plan for Medical, the

County Mental Health Program is functioning as the insurance company, with associated financial risk, for persons with Medical with mental health needs.

In the role of an insurance program (similar to the Central Coast Alliance for Health), County Mental Health maintains a panel of providers, processes claims for payment, evaluates patients and directs them to appropriate services, and manages financial and clinical risk related to catastrophic care. The Mental Health Plan has no reinsurance. The Medical program is an entitlement with extensive requirements in terms of performance, access, grievances, and language access. Each year the Board has reviewed a report which included risk and reserve analysis by an actuarial firm, William M. Mercer Inc. to insure the solvency of the plan and adequate planning for projected needs.

ANALYSIS:

The 2000 report received by William M. Mercer confirms the current stability of the mental health managed care program. It shows increasing use of outpatient, day treatment, and community residential options reflecting increased access to care. Through most of 2000 inpatient utilization was also lower but the trend has begun to rise in 2001. Acute hospital psychiatric care is the most costly care in the mental health system, averaging approximately $11,000 per inpatient episode. Since the County has taken over the Medical program there has been increased outpatient access in therapy services, psychiatric services, day treatment, and residential treatment services. This increased access was offset by decreased state hospital and inpatient utilization.

The report also indicates there are adequate reserves for incurred but not reported claims and general trends in terms of patient utilization.

CHALLENGES FACING MANAGED CARE PROGRAM:

The factor of medical inflation may put more pressure on the Mental Health Plan this coming year in terms of contracts with hospitals particularly Dominican which has experienced rising labor costs due to the nursing shortage. Negotiations are currently in process on the Dominican contract and will be brought to your Board for approval. Pharmacy costs are also rising rapidly and are critical to mental health stability. Last year HSA pharmacy costs cost 14.7% over the prior year. This was less than the Central Coast Alliance for Health which saw a 17% rise in pharmacy costs.

There is another major area of administrative requirements which need to be addressed in a follow up to this report. The federal government has imposed significant new standards and requirements on all health care providers and insurance companies. This set of new requirements is included in the Health Insurance Portability and Accountability Act (HIPAA). HIPAA will change all billing codes and electronic billing processes. There will also be standardization of many complex eligibility systems and processes, and there will also be new certification and identification requirements for providers which will be included in new electronic systems. Finally there are numerous new privacy rights and processes included in this law. The changes are phased in with billing changes taking

effect October 2002. HSA is hoping to change billing systems to be in compliance for this significant new change. The request of proposals for the new clinic billing system will be released in November 2002.

RECOMMENDATIONS:

It is therefore, RECOMMENDED that your Board take the following actions:

1. Accept and file the report on Mental Health managed care for persons with Medical.

Respectfully submitted,

Rama Khalsa, Ph.D.
Health Services Agency Administration

RECOMMENDED

Susan Mauriello
County Administrative Officer

cc: Health Services Agency Administration
Mental Health Services Administration
Local Mental Health Board
County Counsel
County Administrative Office
County Personnel

September 24,2001

Rama Khalsa Ph.D.
Director
Department of Health Services
County of Santa Cruz
P.O. Box 962
Santa Cruz, CA 95061

Subject: IBNR Risk Reserve for Medi-Cal Behavioral Health Inpatient and Outpatient Programs and Unmet Need Reserve Estimate for Medi-Cal and Indigent Populations, State Fiscal Year 2002 (SFY 2002)

Dear Dr. Khalsa:

You requested that William M. Mercer, Incorporated (Mercer) provide an estimate of **risk** "reserve" funds for Santa Cruz County's (County) Medi-Cal mental health program for SFY **2002.** The overall **risk** reserve includes the calculation for Incurred-But-Not Reported *(IBNR)* claims and unmet need estimates for the Medi-Cal and indigent populations. This letter summarizes the overall **risk** reserve findings and outlines our methodologies and assumptions in calculating the estimates.

It important to note that our unmet need reserve estimate for the indigent population is extremely conservative **and** may change due to the volatility of utilization patterns in this population and the instability of health care financing in the marketplace.

Overall Risk Reserve Estimates for SFY 2002:

IBNR Risk Reserve Estimate for the Medi-Cal Population	$	579,438
Unmet Need Reserve Estimate for the Medi-Cal Population	$	3,083,164
Unmet Need Reserve Estimate for the Indigent Population	$	986,612
Overall Risk Reserve Estimate	$	**4,649,213**

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Medi-Cal IBNR Risk Reserve Findings:

	Total Expected Incurred Claims		
	Inpatient	**Outpatient**	**Total**
SFY 1999	$1,263,929	$330,100	$1,594,030
SFY 2000	$1,129,626	$340,397	$1,470,024
Average (SFY 1999 & SFY 2000)	$1,196,778	$335,249	$1,532,027
Estimated SFY 2001	$1,343,828	$389,639	$1,733,467
Estimated SFY 2002	$1,519,525	$529,330	$2,048,855
Estimated SFY 2002 Reserve	**$491,745**	**$87,693**	**$579,438**
Estimated Months Required for Reserve	3.9	2.0	**NA**

Methodology and Assumptions:

The County provided incurred and paid data for **SFY** 1999 and **SFY 2000** for both inpatient and outpatient claims (base period data). Using the claim payment patterns with run-out data, Mercer calculated the expected Incurred-But-Not-Reported **(IBNR)** amounts for **SFY** 2001 and **SFY** 2002. In estimating the outpatient incurred and paid claims for the outpatient consolidation program, provider negotiated rates were applied to the base period data. **As** a result, the average expected incurred claims for **SFY** 1999 and **SFY** 2000 **are** $1,196,778 for inpatient and $335,249 for outpatient, respectively.

Using the prior historical claims experience, Mercer calculated the trend factors for inpatient services and outpatient consolidation programs. Since the County began the "Phase II consolidation" in June 1998, historical outpatient claims prior to **SFY** 1999 have not been used in projecting outpatient trend. **As** a result, the 10.5 percent projected trend is based on the twenty-four months ending June 2000. The inpatient trend of 2.0 percent, however, uses sixty months of claims data (July 1995 through June 2000).

In estimating the medical claims for **SFY** 2001 and **SFY** 2002 from the expected incurred claims of **SFY** 1999 and SFY 2000, Mercer blended our trend factors, and considered the

County's observations of utilization patterns and anticipated program changes for SFY 2002 (e.g., provider reimbursement fee schedule). Taken together, an 8% for SFY 2001 and 10% for SFY 2002 was applied to inpatient services, and 10.5% for SFY 2001 and 20% for SFY 2002 was reflected in outpatient consolidation services. Please note that Mercer did not include any assumption on future Medi-Cal enrollment growth in our analysis. In the event that the County experiences increase of users for behavioral health services, our estimated IBNR reserve for SFY 2002 will be understated.

Mercer determined an estimate of the expected incurred inpatient and outpatient claims for SFY 2002 using historical claims experience and blended trend factors. Trending the base period claim cost to SFY 2002 results in an estimated inpatient cost of $1,519,525 and outpatient cost of $529,330. Assuming the required reserve is 3.9 months for inpatient and 2.0 months for outpatient claims, an estimated IBNR reserve of $579,438 will be required.

Unmet Need Reserve Estimate for Medi-Cal and Indigent Populations:

Mercer also calculated reserve amounts for Medi-Cal eligibles and the medically indigent population who have not historically used County mental health services but are in need of services. It is important to establish a reserve for this group in SFY 2002 due to the increased demand for services in recent years as reported by the County of Santa Cruz Mental Health Department. In SFY 2001, there has been an expansion in demand for outpatient "consolidation" and inpatient services. The County has gone from almost no access to Fee-For-Service Medi-Cal outpatient care to a projected cost in SFY 2001 of over $389,000 in new outpatient services. The County expects to see this program component stabilize, but it may continue to increase for several years due to a much higher, ongoing utilization level. For this reason, we recommend additional reserves be anticipated for Fiscal Years 2001 – 2002 and beyond. Planning for these additional funds is essential to the financial stability of the Mental Health Plan.

The recommended unmet need reserve level was developed according to the following methodology. Mercer applied annual prevalence rates from national epidemiological studies to the SFYs 1998, 1999 and 2000 annual unduplicated counts of Santa Cruz Medi-cal eligibles by age group and gender. Mercer estimated annual unduplicated Medi-cal eligibility counts by multiplying the average monthly eligibility counts by a factor of 1.2. The annual unduplicated counts had to be estimated because the California Department of Health Services only reports monthly (but not annual) Medi-Cal eligibility counts. Age and gender groups were used due to the differential prevalence rates by age/gender group and the availability of Medi-Cal eligibility within these demographic breakdowns.

The application of the prevalence rates to the Medi-Cal eligibles resulted in an estimated annual count of Medi-Cal eligibles who are in need of treatment and are likely to request access to mental health specialty services. By subtracting the annual unduplicated counts of Medi-Cal eligibles served by the County Mental Health Department from the annual estimated need counts, Mercer estimated the Medi-Cal annual "unmet need" counts by age/gender group in SFY 1998,1999, and 2000. Based on the ratio of County mental health expenditures for Medi-Cal versus the indigent population, Mercer estimated the indigent annual unmet need counts by age/gender group by multiplying the Medi-Cal unmet need counts by about 32 percent. The estimated annual service costs for these unmet need groups were calculated by multiplying the annual cost per Medi-Cal user in Santa Cruz by the unmet need counts. The recommended reserve amounts were calculated by trending the SFY 2000 unmet need costs forward to SFY 2002 to account for upward trends in unit cost and utilization. Lastly, a fifty percent adjustment was applied to the Medi-Cal group to account for the fifty percent federal match on Medi-Cal services.

There are a number of assumptions inherent in the above methodology. First, it is assumed that the national prevalence rates reflect the local prevalence rates in Santa Cruz County. The second underlying assumption is that the unmet need ratio for Santa Cruz indigent recipients is the same as the unmet need ratio for Santa Cruz Medi-Cal recipients. For example, let's say we estimate that 20% of Santa Cruz Medi-Cal eligible adults age 18-21 in need of mental health services were not historically served. We are then assuming that 20% of Santa Cruz indigent adults age 18-21 in need of mental health services were not historically served. The third major assumption is that the average cost per user (within age/gender groups) for the indigent population is the same as the average cost per user for the Medi-Cal population. Lastly, we are assuming that there are no significant revenue sources for the indigent population (i.e., the cost of their care is the responsibility of the County Mental Health Department).

The results of the above methodology suggest a SFY 2002 unmet need reserve level of $3,083,163 for the Medi-Cal population and $986,612 for the indigent population.

Should you have any questions regarding our analysis, please do not hesitate to call Donn Flores at 202 331 2639, Kai Wong at 602 522 6569 or me at 415 743 8840

Sincerely,

Kathy Sternbach/cp

Katherine Sternbach M.Ed, MBA
Principal

KS/cp

cc: Donn Flores
Kai Wong