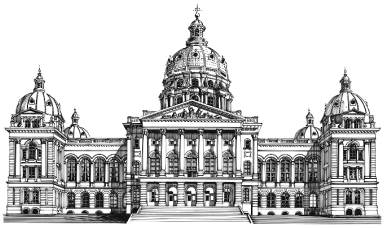
ISSUE REVIEW

Iowa Legislative Fiscal Bureau



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Update On Implementation Of DHS Medicaid Initiatives

ISSUE

Progress on legislatively mandated changes to generate immediate and long-term cost savings in the Medical Assistance Program (MAP).

AFFECTED AGENCIES

Department of Human Services (DHS)

Department of Commerce - Insurance Division

CODE AUTHORITY

HF 518, the Human Services appropriations bill, as enacted by the 1993 General Assembly.

SF 394, Transfer of Assets, as enacted by the 1993 General Assembly.

SF 63, Long-Term Care Insurance, as enacted by the 1993 General Assembly.

BACKGROUND

Concern regarding rapidly increasing MAP expenditures led to the creation of the Department of Management (DOM) Medicaid Task Force. This task force met during 1992, and released its report with recommendations in December 1992. Several of these were incorporated into the Governor's FY 1994 budget and policy recommendations. The 1993 General Assembly enacted some of these recommendations and others.

CURRENT SITUATION

The following areas of change were legislatively mandated during the 1993 session of the General Assembly.

Prior Authorization

The DHS may require prior authorization for a prescription drug if it can be shown that doing so will maintain the level of quality of access to health care. Before a drug is added to the list for prior authorization, a report is to be submitted to the Governor and the Legislative Fiscal Committee. This report will include an analysis of the potential impact on recipient access to

prescription drugs, the cost savings to be realized, and the potential impact on utilization of other institutional health care resources.

Prior authorization focuses on evaluating the prescribed use of targeted prescription drugs for medical necessity. The Drug Utilization Review Commission is to provide assistance in selecting drugs for expansion. Prior authorization only became effective for certain prescription drugs in October 1992. At the time of the DOM Medicaid Task Force report, FY 1993 State savings of $388,700 were projected for prior authorization, and it was estimated that expanding the Program would save an additional $461,600 in State funds in FY 1994. When the Legislative Fiscal Bureau (LFB) requested detail on how this estimate was derived, none was available from the DHS.

Administrative rules relating to prior authorization are currently being drafted and will be presented to the Human Services Committee during their July meeting. These rules will be effective August 1, 1993. No reports are expected until September or October 1993.

Over-the-Counter Drugs

The DHS is required to expand the list of over-the-counter drugs covered under the MAP where that would result in savings. A physicians' prescription is necessary for Medicaid to pay for any drug, including those available over-the-counter. The cost savings estimated by the DHS for the DOM Medicaid Task Force to expand the list of over-the-counter drugs was $389,350 in State funds in FY 1994. When the LFB requested detail on how this estimate was derived, none was available from the DHS.

Administrative rules to expand the list will be adopted in final form to become effective July 1, 1993.

Managed Care Programs

The DHS is required to expand the managed care programs within the MAP to increase enrollment in managed care as much as possible. The DHS is also to develop cost-effective reimbursement methodologies for the managed care providers under the MAP.

Managed health care plans are based on the concept that by capping payment, physicians will be motivated to keep patients healthy by emphasizing preventive measures and avoiding more expensive care at later stages of intervention.

It was estimated by the DHS for the DOM Medicaid Task Force that expanding managed care to the fullest extent possible would yield a net State savings of $1.0 million in FY 1994. This estimate is based upon an additional 30,869 eligibles with a savings of $100.08 per year.

The DHS has hired Paramax as a consultant to implement managed care statewide for Medicaid clients. Necessary changes in administrative rules are expected to be effective August 1. The contract with Paramax is structured with enrollment goals and financial penalties for failure to meet these goals. The first enrollment goal is to have an additional 10,000 eligibles enrolled by October 1, 1993. It is expected that this goal will be met.

Emergency Room Services

The DHS is required to revise the payment policy for hospital emergency room services to provide a lower reimbursement rate for nonemergency services when the referral has been made by a physician. The estimated State savings prepared by the DHS for the DOM Medicaid Task Force was $235,650 for FY 1994. This is based upon an estimate that 32,000 claims in 1 year would have a physician referral, but not an emergency diagnosis.

Administrative rules revising this policy will be adopted in final form to become effective July 1, 1993.

Health Care Licensure

The DHS is required to charge the MAP for a portion of costs associated with health care licensure which can be attributed to the Program. The DHS is to determine the portion of administrative costs associated with health care licensure which can be attributed to medical assistance, while the Department of Public Health (DPH) is to identify the funds associated with health care provider licensure necessary to qualify for matching federal medical assistance funding. It was estimated during the 1993 legislative session by the DHS that an additional $200,000 in federal funds will be received in FY 1994.

At this time, neither the DHS or the DPH has begun work on this.

Drug Utilization Review

The DHS is required to expand the contract for drug utilization review and implement a program of prospective drug utilization review through the Pharmacists Association Drug Utilization Review Commission. Currently, 4,800 drug profiles are reviewed annually, and it is estimated that this could be expanded to 7,200. The estimated net State savings prepared by the DHS for the DOM Medicaid Task Force was $336,000 for FY 1994.

The DHS is drafting a new contract which will be effective July 1, 1993, with the new requirements to expand the review process.

Inpatient Reimbursement Methodology

The DHS was directed to modify the hospital reimbursement methodology to reduce the variations in capital reimbursements. It was estimated by the DHS for the DOM Medicaid Task Force that this would save $920,500 in State funds in FY 1994.

This recalculation of the Diagnostic Related Group reimbursement methodology has been completed and administrative rules have been adopted in final form to become effective July 1, 1993.

Outpatient Reimbursement Methodology

The DHS was directed to conduct a study of outpatient hospital charges and develop a new reimbursement methodology to take outpatient charges from a cost basis methodology to one that is more efficient and cost effective. The cost of this study will be $50,000.

The Request for Proposal for a consultant to conduct this study is scheduled for release in July or August 1993. The potential savings have yet to be determined.

Point-of-Service Claims Transmission

The DHS is to continue the point-of-service claims transmission system for prescription drugs and implement the point-of-service claims processing systems for other components of MAP.

The DHS is on target and the systems should be operational during the first quarter of FY 1994.

Small Area Analysis

The DHS is required to use small area analysis to identify differences in utilization of physician and hospital services and seek to revise reimbursement methods to equalize rates among providers. The DHS is required to identify incentives to reward efficient, effective and quality care.

Currently, the DHS contracts with the Iowa Foundation for Medical Care to conduct small area analysis of inpatient hospital data to look at unusual diagnosis. Those with high frequency, high cost, and a high degree of physician variability are examined to establish DRGs which require

preadmission reviews before hospital admittance. It is not clear at this time how small area analysis will be used to achieve the intent language contained within HF 518, but the DHS will be examining this.

Long-Term Care Insurance

Senate File 63 established a long-term care asset preservation program to provide incentives to insure against the costs of providing for one's own long-term care. The DHS was directed to seek approval of a waiver from the United States Department of Health and Human Services relating to this program. The Division

of Insurance was directed to adopt rules for the certification of any long-term care policy.

The DHS and the Division of Insurance are currently developing standards and have processed rules for FY 1994 implementation.

Transfer of Assets

Senate File 394 establishes the right of the DHS to recover a debt due for medical assistance resulting from a transfer of assets within 5 years prior to application for medical assistance. This is to prevent elderly from divesting themselves of assets so that Medicaid pays their nursing home costs.

The DHS is establishing procedures and developing rules for implementation in FY 1994. The DHS has requested a federal waiver to expand the look back period from 30 to 60 months to determine if an applicant for Medical Assistance transferred resources for less than fair market value in order to qualify for Medicaid and is waiting for a response.

ALTERNATIVES

This issue review is presented for informational purposes only.

BUDGET IMPACT

The estimated net savings of the recommendations enacted by the 1993 General Assembly for FY 1994 and detailed in this issue review is $3.5 million. The FY 1994 MAP appropriation was based upon those savings being implemented. Although this is less than 1.0% of the total FY 1994 MAP appropriation, some of the policy changes such as long-term care insurance could result in considerable savings in years to come. The DHS will monitor cost savings initiatives throughout the fiscal year.

The following table shows the various savings initiatives and the estimated savings estimates that were available from the DHS when they were adopted.

SAVINGS INITIATIVE	FY 1994 ESTIMATED SAVINGS
Prior Authorization	$ 461,600
Over-the-Counter Drugs	389,350
Managed Care Programs	1,000,000
Emergency Room Services	235,650

Health Care Licensure		200,000
Drug Utilization Review		336,000
Inpatient Reimbursement Methodology		920,500
Outpatient Reimbursement Methodology		TBD
Point-of-Service Claims Transmission		TBD
Small Area Analysis		TBD
Long-term Care Insurance		TBD
Transfer of Assets		TBD
Total	$	3,543,100

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