



## **Understanding the Slow Growth in Medi-Cal and Healthy Families Premiums, 1999-2008**

*Richard Kronick*

Over the last decade, health care premiums for enrollees in California's two public sector managed care programs, Medi-Cal and Healthy Families, increased much more slowly than premiums for enrollees in employer-sponsored insurance. Some of the same health plans contracting with the Medi-Cal and Healthy Families also contract with California's large private employers. Approximately 530,000 Medi-Cal beneficiaries are enrolled in HealthNet, and approximately 488,000 are enrolled in Blue Cross plans. Over 60% of the 893,000 Healthy Families children are enrolled in Blue Cross (280,000), HealthNet (135,000), or Kaiser (141,000).

The low rates of premium increases for Medi-Cal and Healthy Families enrollees are all the more remarkable because these premiums were quite low at the beginning of the decade. In 1998, Medi-Cal managed care premiums were among the lowest of any state in the country, largely because Medicaid spending per beneficiary in California is lower than in most other states.

The purpose of this policy brief is to understand why the same health plans that have demanded and received relatively large premium increases from private employers have been willing to contract with Medi-Cal and Healthy Families at much lower rates of premium increase. The research raises, although does not fully answer, the questions of whether the Medi-Cal or Healthy Families contracting models provide a sustainable method of controlling expenditure increases while also providing access to high quality health care.

### **Background**

In determining premiums, both private employers and Healthy Families rely heavily on the bids made by health plans while Medi-Cal, at least in the two-plan counties, uses a largely formula driven process. For large private employers, health plans quote the premium they wish to receive. The employer

negotiates with the plan, and, if unhappy with the prices offered, the employer can shop around in an attempt to find other plans offering a better combination of price and product.

In the Healthy Families program, health plans submit bids for medical, dental, and vision benefits in each county. The Major Risk Medical Insurance Board calculates a "family value package" amount in each county. The family value package amount is 7.5% above the average of the two lowest priced combinations of health, dental, and vision plan bids in each county. With the exception of budget-driven interventions, the maximum that Healthy Families will pay is constrained by the bids made by participating health plans.

The Medi-Cal rate setting process in the two-plan counties is entirely different from the bidding processes used by private employers and Healthy Families. The Medi-Cal program uses historical data on services delivered to Medi-Cal beneficiaries and a variety of assumptions about trends and other factors to calculate the rates that it will pay to health plans in each county. The state announces the rates that it will pay, and health plans decide whether or not to participate at those rates.

### **Methods**

This study used a mixed methods approach. We used a variety of data from Department of Health Care Services (DHCS), Center for Medicare and Medicaid Services (CMS) and Major Risk Medical Insurance Board (MRMIB), to estimate the rates of premium increases for Medi-Cal and Healthy Families, and to estimate the increase in fee-for-service "wrap-around" expenditures for managed care enrollees. As in much research, the data are often incomplete and sometimes inconsistent, but it seems likely that the results presented below are reasonably accurate. In addition, we conducted interviews with state program staff, representatives of managed care organizations, and actuaries familiar with Medi-Cal and Healthy Families managed care to gain a better understanding of the data, and to understand the dynamics that allowed health plans to cope with much lower rates of premium increases in the public sector than in the private sector.

For Medi-Cal, we focused on rates paid in the two-plan counties for family enrollees.

## **Findings**

**As anticipated by the conventional wisdom, our study found that premium increases in the public sector were much lower than in the private sector.**

**Specifically, our study found that:**

- From 1999-2008, private sector premiums increased by 138%, while over a similar time period, Medi-Cal premiums for family enrollees increased by only 23%, and Healthy Families premiums by 38%. On an annual basis, private sector premiums increased by an average of 10.1% per year, Medi-Cal premiums by only 2.3% per year, and Healthy Families by 3.6%. Differences this large are extraordinary. At a time when payers throughout the United States are struggling to figure out methods of controlling expenditure growth, the Medi-Cal and Healthy Families programs appear to have been singularly successful.

One explanation for the seemingly remarkable difference between public and private sector premium increases is that the comparison is biased, i.e., it is not an “apples to apples” comparison. This type of explanation suggests that: 1) trends in expenditures for children are different than trends for adults, and most publicly sponsored enrollees are children; or, 2) that the public sector rates were too high to begin with; or 3) that there was leakage of expensive people or expensive services out of managed care.

**When examining the possible explanations for public and private premium rate differences, we found the following:**

- Trends in Expenditures for Children and Adults: Analysis of data from the Medical Expenditure Panel Survey (MEPS) shows that health care expenditures increased at similar rates for children and adults from 1997-2006. Thus, the observation that 100% of Healthy Families enrollees and two-thirds of Medi-Cal enrollees are children cannot account for lower premium increase rates for public program enrollees than for the privately insured.
- Public Sector Rates Initially Too High: Many Local Initiative plans did build up substantial reserves when contracting with Medi-Cal and Healthy Families in the early years; however, premiums increased 100% more among private employers than in Healthy Families or Medi-Cal from 1999-2008. Even if the public sector rates were

somewhat higher than needed in 1999, they were certainly not double what was needed.

- Leakage of Expensive People/ Services Out of Managed Care: Leakage occurs because public health plan capitation payments do not cover services delivered to children with special needs (CCS) or with serious mental health needs (SED) and, in Medi-Cal, some high-cost patients are exempt from mandatory managed care enrollment. However, taking into account leakage of CCS and SED services that are paid on a fee-for-service basis, the differential between public and private rates of growth appears to narrow to 5%-6% per year, but remains very large.
- The clearest evidence that managed care contracting is associated with very low premium rate increases comes from analysis of data on Medi-Cal expenditures per enrollee that includes both fee-for-service and capitation payments. Analysis of data from the Medicaid Statistical Information System (MSIS) shows that expenditures per enrollee increased by only 1.4% per year for adults from 1999-2006, and by 3.9% per year for children. These rates are substantially below the average private sector premium rate increases of 10.1% over a similar time period, and also substantially below the annual increases of 7%-8% for Medi-Cal disabled and aged beneficiaries.

**When examining the main factors accounting for the willingness of health plans (other than Kaiser) to contract with Medi-Cal and Healthy Families at very low rates of premium increase, our study found the following:**

- It appears that many hospitals and physicians are willing to accept lower rates of increase in reimbursements (often including no rate increase at all) when contracting with health plans for Medi-Cal and Healthy Families enrollees than when contracting with health plans for employer-sponsored enrollees. The willingness of providers to accept very low (or zero) increases in reimbursement rates apparently results from the restraint created by the Medi-Cal contracting process with hospitals, the lack of increase in fee-for-service Medi-Cal rates, and the greater willingness in the public sector than in the private sector to tolerate shrinking provider networks. It is not clear how long these very low rates of increase in Medi-Cal and Healthy Families premiums are sustainable. Eventually, if premiums continue to increase so much more slowly in the public sector

than in the private sector, health plans will find that they can no longer deliver “medically necessary care” to Medi-Cal and Healthy Families enrollees. Also, eventually safety net providers will find that they can no longer provide access to reasonable quality care if they do not receive rate increases that allow them to attract and maintain high quality workers and to purchase new technology. However, the evidence from the past decade is that both Medi-Cal and Healthy Families have been singularly successful in restraining expenditure increases in their managed care contracting. And while only limited information is available on quality of care in managed care (either in the public or private sectors), both Medi-Cal and Healthy Families have put substantial effort into measuring and improving quality delivered by contracting health plans. The information currently available, albeit limited, primarily suggests that the quality of public sector managed care is either stable or improving over time.

- The Medi-Cal and Healthy Families rates analyzed in this project are prior to the budget-driven rate actions of 2008-2009 and 2009-2010. In the Healthy Families program, the State reduced rates by 5% in 2008-2009, and budgetary limitations restrained rate increases for 2009-2010. As a result, Anthem Blue Cross, HealthNet, and Blue Shield have exited some counties, requiring a transfer of 80,000 children into other health plans. Additionally, some plans in 2009-2010 are being paid at 2007-2008 rates. Assuming that rates were reasonable and adequate in 2007-2008, they clearly are not reasonable for 2009-2010. The State has been successful in using managed care to restrain expenditure increases from 1999-2007, but is likely to continue to lose managed care capacity, and to harm quality and access if it does not pay health plans at reasonable rates.

## **Policy Recommendations**

The results of this study show that public sector premium increases were substantially lower than private sector premium increases from 1999-2008, and remain substantially lower even when adjusted for “leakage” of expensive people and services from public sector managed care.

- **The State should be cognizant of the success of Healthy Families and Medi-Cal in restraining premium growth, keeping it in mind during future rounds of health reform discussions.**

The micro-simulation modeling of reform proposals typically assumes that publicly subsidized premiums will grow at the projected rate of national health expenditure growth, but the experience in California from 1999-2008 suggests that this assumption leads to overestimates of the costs of reform.

- **The State should increase its efforts to monitor access to care and quality of care delivered by contracting health plans.** The collection and analysis of HEDIS and CAHPS data represents a good start. However, the State should also analyze health plan supplied encounter data to monitor utilization of services, particularly for patients with chronic illness. In addition, the state should consider fielding a Medi-Cal version of the Medicare Current Beneficiary Survey to better measure access to care and utilization of services.
- **The State should collect and make publicly available standardized information on health plans’ networks of contracted providers.** This measure would allow the state to more easily monitor how networks of contracted providers shrink (or expand) over time. This information could include average payment rates to providers, and detailed financial results for the Medi-Cal and Healthy Families lines of business.
- **The State should collect more detailed information on the financial operations of contracting health plans.**
- **The State should assure that Medi-Cal and Healthy Families rate increases are large enough to meet the reasonable costs of efficiently operating health plans.**

*Richard Kronick, PhD, is a Professor of Family and Preventive Medicine at UC San Diego.*

*For more information, contact:*

*Richard Kronick, PhD*

*Professor of Family and Preventive Medicine*

*UC San Diego*

*9500 Gilman Drive*

*La Jolla, CA 92093-0622*

*Phone: (858) 534-4273*

*Fax: (858) 534-4642*

*E-mail: [rkronick@ucsd.edu](mailto:rkronick@ucsd.edu)*

*Web: <http://famprevmed.ucsd.edu/>*

*Funding for this study was provided by the California Program on Access to Care (CPAC), an applied policy research program administered by UC Berkeley School of Public Health in cooperation with University of California, Office of the President. The author's views and recommendations do not necessarily represent those of CPAC, UC Berkeley's School of Public Health, or the Regents of the University of California.*

**California Program on Access to Care**

UC Berkeley School of Public Health • University of California Office of the President  
1950 Addison Street #203, Berkeley, CA 94704-2647 • Tel: 510-643-3140 • Fax: 510-642-7861  
Web: <http://cpac.berkeley.edu/>