STRENGTHENING THE DECISION-MAKING PROCESS IN TEXAS MEDICAID RATE SETTING

BACKGROUND

Over 93 percent of Texas' Medicaid population receives covered services under the managed care model.[1] In Medicaid managed care, the Health and Human Services Commission (HHSC) contracts with managed care organizations (MCOs) and pays them a monthly per member per month (PMPM) rate for the delivery of covered health services to members enrolled in their health plan. This monthly amount paid to the MCOs is a called a capitation rate. Per federal regulation, Medicaid capitation rates must be actuarially sound and approved by the Centers for Medicare and Medicaid Services (CMS).[2] These requirements help to ensure reasonable and appropriate payment to each MCO for the covered services provided to enrolled Medicaid clients.

OVERVIEW

Since the vast majority of Medicaid members are enrolled in managed care, MCO capitation rates are the primary way the state pays for services. At the request of HHSC's Executive Commissioner, the OIG independently assessed HHSC's Medicaid capitation rate setting process in 2017 to identify any inefficiencies in the process and safeguard the use of state resources in the capitated managed care model.

The OIG's assessment did not identify any issues relating to the actuarial soundness of the current rate setting process and identified potential opportunities to strengthen the decision-making processes involved in the capitation rate setting process by providing management focused insight early in the rate setting process. This could bolster decision-makers' ability to proactively weigh and determine potential impacts of policy, program, cost and utilization changes and trends on rate development.

DECISION SUPPORT IN THE RATE SETTING PROCESS

The OIG's assessment confirmed the Texas Medicaid rate setting process for setting annual rates as of state fiscal year 2017 involved sufficient and effective coordination among all relevant parties for the purpose of setting rates. As of the OIG's 2017 assessment, HHSC's capitation rate setting process essentially involved four steps: (1) data collection, (2) trend setting, (3) adjustments based on policy and contract changes, and (4) external approval. For reference, this process is demonstrated in Figure 1 and all parties involved in the process are listed by step in bold underlined font. Dates are approximate.

[1] Medicaid and CHIP MCO Enrollment by SDA, Preliminary (August 2018).

[2] 42 CFR 438.4 (b).

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Figure 1. General Timeline of Decision Support in Texas' Current Annual Rate Setting Process[3]

1: Data Collection (November-February)

HHSC Actuarial Analysis (AA), Financial Reporting, System Forecasting, and **Operations Management** gather, reconcile, and validate pertinent data (financial statistical reports, enrollment files, recipient month data, encounter data, and supplemental data requests) for rate setting.

2: Trend Setting (March-April)

HHSC AA and HHSC Program define policy/program/contractual changes. **HHSC Program** and **MCOs** review experience data and make final adjustments. Trends and adjustment factors for each program rate cell are developed, with **AA** and **contracted actuaries** populating the actuarial model.

3: Adjustments Based on Policy and Contract Changes (April-May)

HHSC Program and Finance review the rate impact of policy/contract changes, adjusting as needed.

The **HHSC Executive Commissioner** reviews and approves preliminary rates to provide final guidance on program/policy changes. **AA, HHSC Program**, and **contracted actuaries** receive input from **MCOs** on preliminary rates and prepare final rates. The **HHSC Executive Commissioner** reviews and approves final rates.

4: External Approval (June-September)

HHSC submits the preliminary rates and supporting documentation, to the **Governor**, and **Legislative Budget Board (LBB)** within 7 calendar days of establishment. 45 days prior to the effective date of the rate change, HHSC submits final rates to these State offices, as well as the **Centers for Medicare & Medicaid Services (CMS),** for final approval.[5]

OPPORTUNITIES TO ENHANCE DECISION SUPPORT IN THE RATE SETTING PROCESS

While the OIG found that the actuarial soundness of the rates should continue to be the top priority of the rate setting process, it also offered the following considerations for HHSC to potentially improve the decision-making processes involved in the Texas Medicaid rate setting process for MCOs.

The OIG found HHSC should focus on: (1) communicating significant rate-related information and updates to HHSC leadership on a regular basis; (2) analyzing trends and performance along key business drivers more granularly by risk group and service delivery area; (3) generating additional management input earlier in the rate setting process; and (4) integrating insights, trends, and other significant information more formally into the rate setting process.
In the effort of further enhancing the decision-making process involved in rate setting, the OIG provides HHSC actuarial staff the amount of recoveries for fraud, waste and abuse semi-annually, for consideration in the rate setting process.

[3] Figure 1 illustrates the process for setting annual rates, as opposed to mid-year rate adjustments, at a high level. The actual process is complex, iterative and contains many interdependencies. For example, rate development for annual rates are net of policy, reimbursement, and benefit changes and cannot be finalized until all adjustments have been incorporated. Mid-year rate adjustments typically start at step 3, and do not involve collecting data or setting trends.

[5] 85th Leg, SB1, Article II, Special Provision 17 requires external approval of preliminary rates. This provision is new and was not in place at the time OIG reviewed the SFY 2017 rates.

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INITIAL STEPS TO POTENTIALLY ENHANCE DECISION SUPPORT IN THE RATE SETTING PROCESS

The OIG identified five initial steps HHSC could take to strengthen the integration of insights, trends, and other significant information across HHSC divisions throughout the rate setting process. Since OIG's review of the SFY2017 rates, HHSC has made significant progress in each of these areas. As applicable, recent improvements are listed under each recommended step:

1. **Define rate setting analytic activities that could help identify and communicate early warnings of anomalies in costs and utilization trends.** Trend analysis could highlight aberrant patterns for an extensive and thorough investigation by Medicaid CHIP Services (MCS), Center for Analytics and Decision Support (CADS) and others as warranted.

   Recent improvements: HHSC has implemented various workgroups and monthly meetings to address Medicaid and CHIP costs and trends.

   - Data Collaboration Workgroup: Per Texas' 85th Legislative Session, Senate Bill 1, Rider 33, HHSC formed a Data Collaboration Workgroup to ensure "collaboration between the Medicaid and CHIP data analytics unit and the HHSC actuarial staff to investigate and analyze any anomalies in the expenditure data used to set rates and to ensure the expenditure data being used to set rates is sound." The workgroup includes staff from across HHSC, including the OIG.
   - Medicaid Chip Data Analytics Unit (MCDA)/Actuarial Analysis and CADS/OIG Monthly Check-In: These monthly meetings allow for the exchange of updates on data analysis observations and findings.
   - Service Utilization Workgroup: Significant collaboration between Actuarial Analysis and MCDA occurs through the Medicaid CHIP Division's (MCD's) Strengthening Clinical Oversight Initiative. This workgroup was designed under this initiative to provide a venue for Actuarial Analysis to offer guidance on areas of interest for MCDA to investigate for potential data variations and for MCDA to bring results back to the group. This workgroup includes staff from MCS, CADS, Data Analytics, Actuarial Analysis, and the Texas Medicaid Office of the Medical Director.

2. **Consider revising the rate setting process timeline to incorporate earlier HHSC leadership review of costs, utilization, and other trends that could possibly impact capitation rates.** While the current process is driven by internal and external deadlines for approving draft and final rates, and these deadlines should continue to be the top priority of the process of approving rates, earlier communication in the review of the variables involved in rate setting could strengthen HHSC leadership's related decision-making processes.

3. **Develop dashboard templates for ongoing monitoring of rate development inputs at both the service delivery area and risk group levels of analysis, incorporating specific utilization and unit cost trends.** In this effort, the OIG recommends defining the role of CADS in support of rate development and monitoring (e.g., dashboards) to provide key information during rate development to HHSC leadership.

   Recent Improvements: MCDA creates and maintains a library of dashboards displaying healthcare utilization by select service topics. The Consolidated Service Utilization dashboard constitutes a complete library of service utilization dashboards, including the following topics: emergency department visits; inpatient stays; physical, occupational, and speech therapies; private duty nursing; personal care services; and durable medical equipment. MCDA is nearing completion of additional dashboards to examine trends in programs and other services.

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4. **Incorporate "look-back" assessments of rate setting estimates vs. actual experience to continue to improve rate setting accuracy and potential program impacts.** Understanding the primary drivers of deviation between expected and actual performance could help prioritize areas for revision. While the actuaries are currently apprised of actual experience through the review of the Financial Statistical Reports (FSRs), and review every quarter, additional "look-back" assessments could improve the understanding of current and previous rates and improve future rate setting decision-making processes. This additional feedback could also provide HHSC leadership information needed to modify programs as appropriate.

5. **Formalize and define an enhanced engagement model for integrating additional insights from HHSC leadership into the rate setting process.** Developing a formal communication plan to effectively engage these parties on a more frequent basis (e.g., distribute a quarterly briefing, regular meetings with HHSC Executive Leadership) could help to ensure the generation of management insight throughout the rate setting process. It is important to note that the OIG did not analyze any potential fiscal impact of developing this enhanced engagement model.