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BILL ANALYSIS

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Senate Bills 446 and 447 (as reported without amendment) *(as enrolled)*
Sponsor: Senator Gilda Z. Jacobs
Committee: Appropriations

CONTENT

Several major Medicaid providers in Michigan have received a net benefit from quality assurance assessment programs (QAAPs). QAAPs provide a means to increase net Gross funding for Medicaid providers while also providing GF/GP savings for the State.

A quality assurance assessment is a tax upon an entire medical provider group. The revenue from this tax accrues to the State, supplanting General Fund dollars. In turn, the State uses most of the GF/GP savings to increase Medicaid rates paid to that provider group. When combined with Federal Medicaid match funds, the total increase in Medicaid rates exceeds the tax that was paid, leading to a net gain for the provider group as a whole.

The net gain does not mean that each individual provider in the group sees a net gain from the QAAP. A provider with a low Medicaid volume relative to other providers ends up paying more in taxes than that provider gains from the increased Medicaid rates. A provider that does not accept Medicaid at all pays the tax but receives no Medicaid increase. It is the case, however, that the large majority of providers receive a net increase in funding.

QAAPs are subject to certain Federal restrictions. The tax must be broad-based, covering an entire provider group. The tax rate may not exceed 6%. The method of distributing the Medicaid increase must meet certain statistical tests to ensure that if there are net winners and net losers, there is no "gaming" of the system to minimize the losses experienced by the losers.

There are currently three provider groups covered by QAAPs in Michigan: hospitals, nursing homes, and Medicaid health maintenance organizations. One of the quirks of Federal policy is that while provider groups such as hospitals and nursing homes are defined as distinct provider groups without any reference to Medicaid, "Medicaid managed care organizations" are defined as a provider group. This has enabled states like Michigan to tax their Medicaid health maintenance organizations (HMOs) without having to apply the tax to HMOs that are not under contract to provide Medicaid services. The advantage of this approach is that there are no net losers; all Medicaid HMOs have sufficient Medicaid volume that the amount they receive in the Medicaid rate increase greatly exceeds the 6% tax that they pay.

Medicaid health maintenance organizations are not the only provider group in Michigan that would fit the definition of "Medicaid managed care organizations" for purposes of a quality assurance assessment program. Medicaid community mental health (CMH) services in Michigan are provided under a capitated managed care model by specialty prepaid health plans.

Instituting a quality assurance assessment on specialty prepaid health plans would allow the State to increase rates for Medicaid mental health services for every specialty prepaid health plan while at the same time providing GF/GP savings for the State.

Senate Bill 446 would amend the Insurance Code to impose a 6% quality assurance assessment fee on any specialty prepaid health plan that has a managed care contract through the Department of Community Health. The assessment would be effective on August 1, 2005, and would apply to non-Medicare capitation payments. All QAAPs must be approved by the Federal government before the increased rates may be implemented. Under the bill, if the Federal government did not allow the increased payment rates financed by the QAAP, then the quality assurance assessment would not be implemented.

Senate Bill 446 would require that the revenue from the quality assurance assessment be deposited with the State Treasurer. The bill also provides that Medicaid payment rates for mental health managed care could not be reduced below those rates in effect on July 1, 2005, as a direct result of the quality assurance assessment.

Senate Bill 447 would amend the Social Welfare Act to require that specialty prepaid health plans be considered Medicaid managed care organizations as described in Title XIX of the Social Security Act. This would make it clear that the specialty prepaid health plans would be eligible for a quality assurance assessment program.

MCL 500.224b (S.B. 446)
400.109f (S.B. 447)

FISCAL IMPACT

The QAAP for Medicaid mental health managed care would take effect on August 1, 2005. During FY 2004-05, the State would tax specialty prepaid health plans $14,437,200. The State then would retain $6.0 million of the QAAP revenue while increasing Medicaid payment rates by $19,490,000. Therefore, the State would see net GF/GP savings of $6.0 million, while net payments to CMHs would increase by $5,052,800 (Medicaid payment increase of $19,490,000 less $14,437,200 in taxes).

In FY 2005-06, the State would receive $88,749,700 in tax revenue. The State would retain $35.0 million of that revenue, then use the remaining $53,749,700 along with $70,069,000 in Federal Medicaid match to increase payment rates by $123,818,700. The State would see net GF/GP savings of $35.0 million, while net payments to CMHs would increase by $35,069,000 (Medicaid payment increase of $123,818,700 less $88,749,700 in taxes). It is believed that the State and CMH benefits in subsequent years would be of similar magnitudes.

Date Completed: 6-2-05 Fiscal Analyst: Steve Angelotti

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