



State of California—Health and Human Services Agency
Department of Health Care Services



EDMUND G. BROWN JR.
GOVERNOR

October 11, 2017

The Honorable Ron Johnson, Chairman
US Senate Committee on Homeland Security and Governmental Affairs
340 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Senator Johnson:

We received your letter dated September 27, 2017, requesting information on California's Medicaid expansion. We appreciate the opportunity to tell California's story of success in improving health security while reducing per capita costs and improving quality of care.

California's implementation of the Medicaid expansion has enabled more than 3 million Californians to obtain health coverage through both public and private health plans. We dramatically reduced the uninsured rate in the state, from 15 percent in 2013 to 8 percent in 2016¹. We have ongoing quality improvement initiatives that range from tobacco cessation, controlling high blood pressure, and better diabetes care. Lastly, we have worked to maintain a high level of accuracy and program integrity in our eligibility determinations.

California's Medicaid Expansion Per Capita Costs Declined by 11.9 percent Between 2014 and 2015

Based on our expenditure data, California saw an 11.9 percent annual per-enrollee cost decrease for the expansion population between calendar years 2014 and 2015². Based on data for the first two quarters of calendar year 2016, per-enrollee costs declined an additional 10.5 percent. Due to the lack of finalized rates and claims lag, we are unable to provide applicable data beyond that time period; however, as demonstrated in the attached information regarding our capitation rates for health plans for the subsequent 2016-17 fiscal year, the rates decreased approximately 9 percent for that period as well. California is a cost efficient Medicaid program as evidenced by our \$6,181 per-enrollee cost in 2015, which is below the national average of \$6,365 per-enrollee published by the Centers for Medicare and Medicaid Services (CMS), Office of the Actuary.

¹ Henry J. Kaiser Family Foundation, State Health Facts, Accessed September 30, 2017

² Please note the calculations differ from your letter since, as noted by CMS on its website, the state expenditure data in your cited reports is not representative of the total amount of federal funds associated with services provided to individuals in the new adult group. Specifically, for California we generally report expenditures based on date of payment, not date of service. In addition, we have adjusted our reported expenditures through prior period adjustments in later reporting periods.

Generally, California reviews costs on a per-member-per-month (PMPM) basis, so we provided the requested data in that format. Between 2014 and 2015, PMPM costs declined from \$585 to \$515 (11.9 percent decrease), and for the first two quarters of 2016, it has declined to \$461 (10.5 percent decrease). We have provided additional detail on our calculations in the attached table in the appendix.

California's Medicaid Expansion Enrollment Has Stabilized

While Medicaid expansion enrollment in California increased significantly in 2014 and 2015, it has remained stable from early 2016 to the present. At the same time, our managed care capitation rates for this population have declined significantly since 2014 (as noted above and shown in the attached materials), in part due to the increased risk pool. This combination of a large risk pool, stable enrollment, and reduced rates makes California's Medicaid expansion a high-value program for the state and the nation.

California's Medicaid Expansion Rate Development Follows Applicable Standards

California's Medicaid managed care rates are developed, certified, and peer-reviewed by professional actuaries employed or contracted by the California Department of Health Care Services (DHCS), and are subject to review and approval by CMS actuaries. DHCS pays health plans actuarially sound capitation rates. Rates are projected to be reasonable and appropriate to cover the financial risk of providing covered services to enrolled members. In the rate development process, DHCS considers actual historical expenditures and projected costs, and sets appropriate and reasonable rates. In order to do this, DHCS reviews health plan revenues, expenses, and profits/losses as part of the process to evaluate each plan's financial data, and uses these data to inform future rate setting.

For the Medicaid expansion population in 2014, there was limited historical data specifically for this population to be used for rate setting purposes. Due to the limited information, DHCS blended historical data from known populations, which was approved by CMS, to create a rate based on assumed utilization levels. The state and CMS also agreed to a specific risk mitigation strategy given the degree of uncertainty by requiring a minimum Medical Loss Ratio (MLR) for each health plan for the expansion population, designed to limit the state's and plans' financial exposure to a reasonable level.

California's Medicaid Rules Comply with Federal Requirements, and Our Modernized Eligibility System Relies on Federal Electronic Databases to Verify Eligibility

Eligibility thresholds for the Medicaid expansion in California and other states were established under the provisions of the Affordable Care Act (ACA), along with federal regulations and oversight by CMS. The language of the federal statute specifies that childless adults are Medicaid-eligible with "modified adjusted gross income" (MAGI) at or below 133 percent of the Federal Poverty Level (FPL). The law's MAGI calculation is based on adjusted gross income (AGI) as defined in the Internal Revenue Code, §36B(d)(2). However, §2002(a)(14)(l)(i) of the ACA permits use of an additional 5 percent income disregard, which

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is added to the highest FPL level for which a person may qualify, thereby effectively increasing the income limit for the New Adult Group to 138 percent of the FPL.

In 2013, California received approval from CMS for our Medicaid State Plan Amendment (SPA) 13-0028-MM1, which incorporated federal eligibility requirements for the Medicaid expansion into our Medicaid State Plan. This and other related SPAs are available in the attached documents.

Our eligibility policies and systems achieve streamlined, accurate and timely eligibility determinations. The ACA modernized eligibility verification procedures to rely primarily on electronic data sources while providing states flexibility to determine the usefulness of available data before requesting additional information from applicants, and simplifying verification procedures for states through the operation of a federal data services "hub" that links states with federal data sources.

To verify eligibility for Medicaid, California relies primarily on information available through federal data sources (e.g., the Internal Revenue Service, the Social Security Administration, the Departments of Homeland Security and Labor) rather than paper documentation. Moreover, our eligibility system builds a seamless system of coverage, so that Medicaid, Children's Health Insurance Program, and Covered California, our State's Health Benefit Exchange, work together to coordinate eligibility determinations and coverage decisions. CMS requires each state to develop an eligibility verification plan; our plan is posted on the CMS website and the report is available in the attached documents.

Additionally, the most recently completed federal audit of California's Medicaid eligibility determinations, performed by CMS in 2016, which reviewed and included all of our Medicaid enrollees, found a low error rate of 2.1 percent in a sample of our MAGI-based determinations. We have attached the completed audit for your reference.

For further information about California's experience with the Medicaid expansion, please see the attached reports from DHCS and Covered California to the California Legislature as required by state law and pursuant to ABX1 1 (Chapter 3, Statutes of 2013).

Sincerely,



Jennifer Kent
Director

Enclosures

cc: The Honorable Claire McCaskill
The Honorable Dianne Feinstein
The Honorable Kamala Harris