REPORT OF THE
JOINT COMMISSION ON HEALTH CARE

STUDY OF THE IMPACT OF MEDICAID MANAGED CARE ON DURABLE MEDICAL EQUIPMENT COMPANIES AND PHARMACY SERVICES PURSUANT TO SJR 62 OF 1996

TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA

SENATE DOCUMENT NO. 25

COMMONWEALTH OF VIRGINIA
RICHMOND
1997

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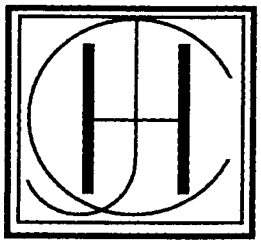

Preface

Senate Joint Resolution (SJR) 62 of the 1996 Session of the General Assembly directed the Joint Commission on Health Care to study whether the effects of the Department of Medical Assistance Services' (DMAS) managed care programs on durable medical equipment companies and pharmacy services. In addition, the Joint Commission was directed to evaluate the results of DMAS' Medallion II program and assess whether the program can be expanded to other Medicaid recipients across the state.

Based on our research and analysis, we concluded the following:

- The combined impact of House Bill 2304 (1995), which repealed the "freedom of choice" provisions relating to ancillary service providers, and the Medallion II program has reduced the number of durable medical equipment (DME) companies providing service to Medicaid recipients.

- The major impact of the Medallion II program on pharmacy services has been a reduction in the level of reimbursement received by pharmacies; however, the reimbursements paid by Medallion II HMOs appear to be similar to other pharmacy benefit payers.

- An extensive quality assurance program has been implemented to monitor the Medallion II program; this program should identify any problems regarding accessibility or quality of care.

- An independent evaluation of the Medallion II program concluded the program could be expanded to other areas of the state in essentially its current form; DMAS records indicate few enrollee complaints regarding durable medical equipment or pharmacy services.

- DMAS should continue to work with various provider groups and the Medallion II HMOs to resolve any problems regarding claims payments or other issues.

Three policy options were presented in the draft issue brief for consideration by the Joint Commission.

Option I. Take No Action

Option II: Request the Department of Medical Assistance Services to track recipient complaints about DME and pharmacy services over a given period of time and report its findings to the Joint Commission on Health Care.

Option III: Request the Department of Medical Assistance Services to work with the DME and pharmacy associations and the Medallion II HMOs to resolve any claims/payment processing problems regarding services which are covered by Medicaid but traditionally have not been covered by the HMOs for other commercial groups.

Our review process on this topic included an initial staff briefing which you will find in the body of this report followed by a public comment period during which time interested parties forwarded written comments to us on the report. In many cases, the public comments, which are provided at the end of this report, provided additional insight into the various topics covered in this study.

Jane N. Kusiak
Executive Director

February 18, 1997

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I.
Authority for Study

Senate Joint Resolution (SJR) 62 of the 1996 Session of the General Assembly directed the Joint Commission on Health Care to study the effects of the Department of Medical Assistance Services' pilot managed care programs on durable medical equipment companies and pharmacy services. In addition, the Joint Commission was directed to evaluate the results of the Tidewater pilot program and assess the expansion of the managed care programs to provide such managed care services to Medicaid recipients across the state. A copy of SJR 62 is provided at Appendix A.

II.
Background

The Department of Medical Assistance Services Has Implemented Three Managed Care Programs For Medicaid Recipients

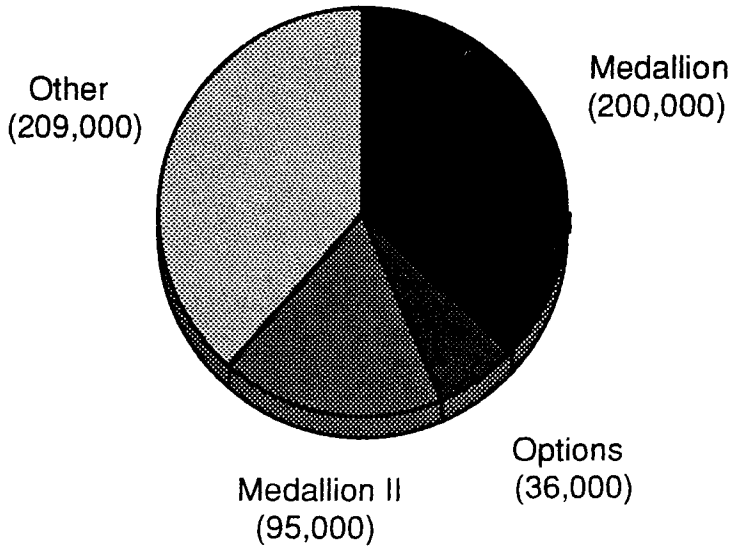
In response to legislation passed by the General Assembly, the Department of Medical Assistance Services (DMAS) has implemented three managed care programs for Medicaid recipients since 1992. These three programs are: (i) Medallion, a primary care case management system; (ii) Options, a voluntary program in which eligible Medicaid recipients can choose to enroll in a Health Maintenance Organization (HMO) instead of choosing a Medallion primary care physician; and (iii) Medallion II, a mandatory program in the Tidewater area in which recipients must choose an HMO from among several which contract with DMAS.

As illustrated in Figure 1, 331,000 of the total 540,000 Medicaid recipients (61%) are enrolled in one of the three DMAS managed care programs.

Medallion: The Medallion program, which was Virginia's first large-scale managed care program, was implemented in January, 1992. Medallion is a primary care case management program in which recipients select a primary care physician (PCP) who provides or arranges for the recipient's health care services. Medallion currently operates in 128 of the Commonwealth's 135 localities. Medallion is administered by DMAS staff.

Figure 1

Number of Medicaid Recipients Enrolled in Medicaid Managed Care Programs (1996)



Source: DMAS, Virginia Medicaid's Managed Care Programs, December, 1996

Options: The Options program was implemented in January, 1995. Through Options, eligible recipients can choose to enroll in an HMO rather than selecting a PCP through the Medallion program. Options enrollees receive all of their care through the HMO. Currently, there are six HMOs providing services to 36,000 clients in 34 localities.

Medallion II: DMAS implemented the Medallion II program on January 1, 1996. Medallion II is a program in which most Medicaid recipients are required to enroll in one of five HMOs which have contracted with DMAS to provide health care services. The program currently is operating in seven localities in the Tidewater area. There are several special populations which are excluded from participating in the program. Accordingly, the program is comprised primarily of children, single parents and expectant mothers. There are also some disabled recipients and a few elderly recipients. At the present time, there are approximately 95,000 recipients enrolled in Medallion II.

The Medallion II program is expected to be phased into other areas of the state during 1997 and subsequent years. However, language in the 1996 Appropriation Act requires that DMAS delay the expansion of the program into northern Virginia until May 1, 1997.

III.
Impact of Medicaid Managed Care on Durable Medical Equipment Companies and Pharmacy Services

The Combined Impact Of House Bill 2304 (1995) And The Medallion II Program Has Limited The Number Of Durable Medical Equipment Companies Providing Services To Medicaid Recipients

According to the Virginia Association of Durable Medical Equipment Companies, the combined impact of House Bill 2304 (1995) and the implementation of Medallion II has limited the number of durable medical equipment (DME) companies providing services to Medicaid recipients in the Tidewater area.

In 1995, the General Assembly passed House Bill (HB) 2304 which repealed the "freedom of choice" provisions which applied to ancillary service providers, such as DME companies. Prior to HB 2304 becoming effective, insurers and HMOs were prohibited from denying or reducing the benefits of an enrollee for receiving ancillary or pharmacy services outside the provider network so long as the non-participating provider agreed to accept the insurer's/HMO's reimbursement as payment in full. The "freedom of choice" provisions which apply to pharmacy services are still in effect.

With the passage of HB 2304, insurers and HMOs no longer have to provide benefits for ancillary services received from providers (e.g., DME companies) outside of their provider networks. The impact of HB 2304, coupled with the implementation of Medallion II, which requires Medicaid recipients to receive their health care through an HMO, has resulted in a number of DME companies no longer being able to provide services to Medicaid recipients. By serving fewer Medicaid patients, the total client population of some DME companies has been reduced.

The Impact Of Medallion II On Pharmacy Services Has Been Somewhat Less; Primary Impact Is On Level Of Reimbursement

Because "freedom of choice" provisions still apply to pharmacy services, the impact of Medallion II on pharmacies has been somewhat less than on DME companies. Medicaid recipients can receive pharmacy services from any pharmacist at the same benefit level as long as the pharmacy accepts the HMO's reimbursement as payment in full. Thus, Medallion II has had a lesser impact on pharmacies with respect to the number of Medicaid recipients being served.

While the Medallion II program has not lessened significantly the number of Medicaid patients being seen by pharmacists, the Virginia Pharmacists Association has expressed concern that the level of reimbursement that pharmacies receive for Medallion II enrollees is significantly lower than the fee-for-service reimbursement previously received under the Medallion program. As a result of lower reimbursement for these services, pharmacists realize a reduction in overall income.

Prior to Medallion II, the reimbursement received by pharmacies was the Average Wholesale Price (AWP) less 9%, plus a $4.25 dispensing fee. The reimbursement for pharmacy services under Medallion II is included in the overall capitation rate paid by DMAS to the HMOs. Thus, DMAS does not control the amount paid by the HMOs to the pharmacies. The Virginia Pharmacists Association estimates that the current reimbursement paid by the HMOs ranges from AWP-12% to AWP-18% plus a dispensing fee that ranges from $.75 to $2.50.

While the rates paid to pharmacies under Medallion II are lower than that previously paid by DMAS under the Medallion program, the current rates are similar to those paid by some other benefit programs, and reflect a competitive market for pharmacy services. A DMAS survey of the Medallion II HMOs found that the rates paid by the HMOs to pharmacies under the Medallion II program are the same rates that are paid for the HMOs' commercially insured enrollees. Another indication that the current reimbursement rates are reflective of the current market is the reimbursement paid under the state employees' health benefits program. Currently, the state program pays AWP-12%, and a $2.25

dispensing fee for brand name drugs, and AWP -20% and $2.75 dispensing fee for generic drugs.

A Somewhat Lesser Impact Of Medallion II On DME Companies And Pharmacy Services Has Been In The Payment Of Some Services Which Are Covered Under Medicaid But Traditionally Have Not Been Covered Under Most HMO Benefit Plans

The Virginia Association of DME Companies and the Virginia Association of Pharmacists indicated that another impact of the Medallion II program has been on the payment of benefits for certain services that are covered under Medicaid but traditionally have not been covered under most HMO plans. Examples cited by these two associations include payments for Marinol (chemotherapy), Monistat derm cream, and saline for nebulizer use. According to these associations, when claims or requests for payment are submitted for these services or products, the claim often is denied because the HMO does not pay for the service/product for their other groups. In most instances, payment eventually is received; however, the provider or patient must appeal the decision to receive payment.

IV.
Oversight And Evaluation Of Medallion II

An Extensive Quality Assurance Program Has Been Instituted For Medallion II

To ensure that Medicaid recipients receive the level of benefits and care to which they are entitled under Medallion II, an extensive quality assurance program has been instituted by DMAS and the contracting HMOs. The following initiatives have been implemented:

* HMOs must implement a quality assurance program, and must seek accreditation by the National Committee for Quality Assurance (NCQA);

* HMOs must submit encounter data and other reports for analysis by DMAS and its quality assurance consultants;

* HMOs must submit information on sentinel events (a health outcome that may be indicative of under-utilization of services) within 48 hours of occurrence;

* DMAS has contracted with two external review organizations, the Virginia Health Quality Center (VHQC) and the Williamson Institute, to conduct quality assurance activities;

* The VHQC assesses the quality of care provided by HMOs and reviews the sentinel events information provided by the HMOs;

* The Williamson Institute assesses client satisfaction and access to care with its annual survey of randomly selected Medicaid managed care clients;

* DMAS established the Agency Quality Review Committee to have oversight responsibility for internal quality assessment and to manage the studies and case reviews undertaken by outside contractors;

* DMAS has hired an enrollment broker to handle HMO enrollments and to staff a complaint hotline; and

* The HMO Oversight Group, composed of representatives from different state agencies, provider groups, and the Virginia Association

of HMOs, reviews all of the internal and external quality assessment and improvement activities.

Few Complaints About Pharmacy and DME Services Have Been Identified

DMAS reports that very few complaints have been received from recipients on pharmacy or DME issues. Regarding pharmacy issues, DMAS indicates that only two complaints have been identified; both of which have been resolved. Regarding DME services, DMAS reported that they have received no recipient complaints.

A Six-Month Evaluation Of Medallion II Found Few Significant Problems

In response to language included in the 1996 Appropriation Act, DMAS hired an independent contractor to conduct a six-month evaluation of the Medallion II program. The study addressed six areas of potential concern:

* consumer satisfaction;
* preliminary fiscal impact;
* reliability and completeness of HMO encounter data;
* HMO enrollment and disenrollment figures and patterns;
* consumer and provider complaints; and
* HMO affiliations with public providers.

DMAS contracted with the Virginia Health Quality Center (VHQC) to conduct the study. While the evaluation results should be considered preliminary, VHQC found that, overall, Medallion II enrollees' perception of the quality of care they receive as generally the same as that reported by Medallion enrollees. Regarding consumer and provider complaints, VHQC concluded that these complaints constitute a very small fraction (<1%) of the total number of managed care Helpline calls received by DMAS. (VHQC cautions, however, that DMAS records for the first four months of the program may not have been complete.) VHQC further concluded that taking into consideration the results of all six areas of inquiry, it appears the Medallion II program can be expanded to other areas of the Commonwealth in essentially its current form.

The VHQC included several recommendations in its report, including a recommendation that DMAS ensure the enrollment broker provides weekly analyses of complaints by HMO type, program designation and complaint type, and that DMAS work closely with the HMOs to improve the reliability and completeness of the patient encounter data.

V.
Conclusions

The Combined Impact Of HB 2304 (1995) And Medallion II Has Reduced The Number Of Durable Medical Equipment Companies Providing Services To Medicaid Recipients

Senate Joint Resolution 62 directed the Joint Commission to study the effects of the Medallion II program on DME companies and pharmacy services to Medicaid recipients. The combined effect of Medallion II and the repeal of the "freedom of choice" provisions relating to ancillary service providers has reduced the number of DME companies which are able to provide services to Medicaid recipients. As a result, a number of DME companies have seen a reduction in the amount of business they receive from Medicaid patients.

The Major Impact Of The Medallion II Program On Pharmacy Services Has Been A Reduction In The Level Of Reimbursement Received By Pharmacies; However, The Reimbursements Paid By Medallion II HMOs Appear To Be Similar To Other Pharmacy Benefit Payers

Pharmacies have not seen the reduction in Medicaid patients as reported by DME companies. However, the major impact on pharmacies appears to be a reduction in the level of reimbursement received under the Medallion II program. However, while the current reimbursement amount paid by Medallion II HMOs is lower than that previously paid under the Medallion program, the Medallion II rates appear to be similar to the rates being paid by other pharmacy benefit payers.

An Extensive Quality Assurance Program Has Been Implemented To Monitor The Medallion II Program; This Program Should Identify Any Problems Regarding Accessibility Or Quality Of Care

In response to concerns expressed by the General Assembly and others, an extensive quality assurance program has been implemented to monitor the quality of services that Medicaid recipients receive under the Medallion II program. The components of this program should be able to identify and resolve any problems regarding accessibility or quality of care.

An Independent Evaluation Of The Medallion II Program Concluded The Program Could Be Expanded To Other Areas Of The State In Essentially Its Current Form; DMAS Records Indicate Few Enrollee Complaints Regarding DME Or Pharmacy Services

The Virginia Health Quality Center (VHQC) recently completed a six-month evaluation of the Medallion II program. While the VHQC recommended several actions for DMAS to pursue to ensure the program is meeting its stated objectives, its overall conclusion was that the program could be expanded to other parts of the state in essentially its current form. While the VHQC evaluation did not focus specifically on DME and pharmacy services, the study did not uncover any significant issues with respect to these services. Moreover, DMAS records indicate very few enrollee complaints regarding DME or pharmacy services.

DMAS Should Continue To Work With Various Provider Groups And The Medallion II HMOs To Resolve Any Problems Regarding Claims Payments Or Other Issues

Concerns have been voiced by some DME companies and pharmacists regarding payment of some products or services which are covered by Medicaid but traditionally have not been covered by HMOs in their other lines of business. DMAS should investigate this issue and work with the provider groups and the HMOs to resolve any existing problems.

VI.
Policy Options

The following policy options are offered for consideration by the Joint Commission on Health Care in deciding what actions, if any, to take regarding the impact of Medallion II on DME companies and pharmacy services.

Option I. **Take No Action**

Option II: **Request the Department of Medical Assistance Services to track recipient complaints about DME and pharmacy services over a given period of time and report its findings to the Joint Commission on Health Care.**

Option III: **Request the Department of Medical Assistance Services to work with the DME and pharmacy associations and the Medallion II HMOs to resolve any claims/payment processing problems regarding services which are covered by Medicaid but traditionally have not been covered by the HMOs for other commercial groups.**

APPENDIX A

SENATE JOINT RESOLUTION NO. 62

Directing the Joint Commission on Health Care to study the effects of the Department of Medical Assistance Services' pilot managed care programs on durable medical equipment companies and pharmacy services to Medicaid recipients.

Agreed to by the Senate, February 29, 1996
Agreed to by the House of Delegates, February 27, 1996

WHEREAS, the health and safety of citizens of the Commonwealth is a paramount concern of public policy; and

WHEREAS, the Medicaid program in Virginia costs the Commonwealth nearly one billion dollars per year and continues to grow in cost yearly; and

WHEREAS, for this reason, Virginia Medicaid has begun the process of examining and piloting managed care programs known as Medallion and Options, with a view towards providing needed services while containing costs; and

WHEREAS, treatment with prescription drugs has proven to be among the most important and cost-effective means of treating human ailments; and

WHEREAS, however, the pharmaceutical program has been, in recent years, one of the fastest growing costs of the Medicaid program; and

WHEREAS, the Department of Medical Assistance Services, on January 1, 1996, initiated a pilot program for the provision of services, including durable medical equipment services and pharmacy services to Medicaid recipients in the Tidewater area through managed care organizations; and

WHEREAS, significant concerns have been voiced concerning the impact of the managed care program on the quality of and access to services for patients and competition among providers; and

WHEREAS, it is important to determine the efficacy of expanding such services throughout the state; and

WHEREAS, although small companies want to participate in these programs, many of them believe they are being shut out and may face economic hard times or even bankruptcy; and

WHEREAS, small companies frequently pride themselves on delivering personal and sensitive care to their customers and some of the affected individuals fear that their patients will not receive the concerned care that their companies aver they deliver; now, therefore, be it

RESOLVED by the Senate, the House of Delegates concurring, That the Joint Commission on Health Care be directed to study the results of the Department of Medical Assistance Services' pilot managed care programs on durable medical equipment companies and pharmacy services to Medicaid recipients. The commission is requested to evaluate the results of the Tidewater pilot program and assess the expansion of the managed care programs to provide such managed care services to Medicaid recipients across the state.

The Joint Commission on Health Care shall provide staff support for the study. All agencies of the Commonwealth shall provide assistance to the commission, upon request.

The commission shall complete its work in time to submit its findings and recommendations to the Governor and the 1997 Session of the General Assembly as provided in the procedures of the Division of Legislative Automated Systems for the processing of legislative documents.

APPENDIX B

Joint Commission on Health Care

Summary of Public Comments on Draft Issue Brief 9: Study of the Impact of Medicaid Managed Care on Durable Medical Equipment Companies and Pharmacy Services

Comments regarding the Study of the Impact of Medicaid Managed Care on Durable Medical Equipment Companies and Pharmacy Services Brief were received from the following four interested parties:

Americair of Hampton Roads
Community Pharmacy Coalition
Sentara Family Care
Virginia Association of Durable Medical Equipment Companies

Policy Options Presented in Issue Brief

The following policy options were offered for consideration by the Joint Commission on Health Care in deciding what actions, if any, to take regarding the impact of Medallion II on DME companies and pharmacy services.

Option I. Take No Action

Option II: Request the Department of Medical Assistance Services to track recipient complaints about DME and pharmacy services over a given period of time and report its findings to the Joint Commission on Health Care.

Option III: Request the Department of Medical Assistance Services to work with the DME and pharmacy associations and the Medallion II HMOs to resolve any claims/payment processing problems regarding services which are covered by Medicaid but traditionally have not been covered by the HMOs for other commercial groups.

Summary of Individual Public Comments

Americair of Hampton Roads

Jeni Kendall did not comment specifically on any of the policy options, but stated that it opposes the Medicaid managed care program due to patients' continuity of care being disrupted and the adverse impact the program has on its business.

Community Pharmacy Coalition

Cindy Warriner expressed strong support for Option II and III. Regarding Option II, Ms. Warriner suggested that the Joint Commission recommend an independent group to receive, compile and evaluate the complaints.

Sentara Family Care

Don Gilmore and Patti Forrester expressed support for Option I and stated that because DME and pharmacy complaints are already being tracked by DMAS, no further report is needed. They also commented that providers already have mechanisms with both DMAS and the HMOs to appeal claims payment issues and that a special task force is not needed.

Virginia Association of Durable Medical Equipment Companies

Samuel Clay, Jr. expressed support for Option II and III.

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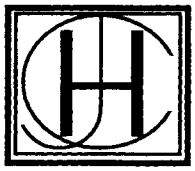
Mamie V. White