



Oregon

Theodore R. Kulongoski, Governor

Department of Human Services

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December 14, 2009

The Honorable Peter Courtney, Co-Chair
The Honorable Peter Buckley, Co-Chair
Joint Committee on Ways and Means
900 Court Street NE
H-178 State Capitol
Salem, OR 97301-4048



Re: Budget Note Report on Primary Care Valuation; SB 5529

Dear Co-Chairpersons:

Nature of the Report

The attached report is submitted in response to the following budget note from Senate Bill 5529:

The Department of Human Services (DHS) is directed to explore effective strategies that could be employed in the Oregon Health Plan managed care rate-setting process to encourage reimbursement for primary care services at levels that fully represent the value of those services in current and future health care delivery models. The department shall report to the Emergency Board or the Joint Committee on Ways and Means, no later than December 31, 2009, on implementation strategies, including cost, and the likely effectiveness of those strategies in providing reimbursement to fully value primary care services.

Report Summary

The budget note reflects the concern that Oregon Health Plan (OHP) payments for primary care services are below the cost of providing



those services. The OHP Benchmark report, prepared by Mercer & Associates, notes that OHP managed care capitation rates for physician services in calendar years 2008 and 2009 were at 65 percent of the cost of the service.

Based on the work of two advisory committees, the department recommends two strategies, subject to available funds:

1. Increase the payment on procedure codes representing primary care services to 150 percent of Medicare payment rates. The estimated cost would be \$11.1 million in General Funds and \$50.6 million in Total Funds for a 12 month period.
2. As an interim step, increase the payment on select procedure codes representing primary care services to 125 percent of Medicare payment rates. The cost would be \$5.6 million in General Funds and \$25.3 million in Total Funds for a 12 month period.

The department anticipates increased payments for primary care services will result in increased access to primary care for OHP enrollees, reduced hospital emergency department utilization for conditions treatable in primary care settings and fewer hospital admissions for chronic conditions more effectively managed as outpatient treatments. Another benefit is the potential decrease in specialty care as a substitute for primary care.

After implementation of primary care value payments, it will be possible to track and evaluate changes in utilization for these categories of care and to estimate any associated offsets to additional funding for primary care.

Action Requested

The department requests the Joint Committee on Ways and Means acknowledge receipt of the attached report.

Legislation Affected

The attached report responds to a Budget Note in Senate Bill 5529.

Sincerely,

A handwritten signature in black ink, appearing to read 'Jim Scherzinger', with a stylized flourish at the end.

Jim Scherzinger
Deputy Director of Finance

Attachment

CC: John Britton, Legislative Fiscal Office
Sheila Baker, Legislative Fiscal Office
Blake Johnson, Department of Administrative Services
Kelly Freels, Department of Administrative Services



Primary Care Valuation Report

December 2009

Background

The 2009 Legislative Assembly's budget note in Senate Bill 5529 directed the Oregon Department of Human Services, Division of Medical Assistance Programs, to explore strategies in the Oregon Health Plan (OHP) managed care rate setting process to encourage reimbursement for primary care services at levels that fully represent the value of those services. The budget note directed the department to explore these strategies for current and future health care delivery models, as well as their cost and likely effectiveness.

The department used two standing advisory committees, the Policy Advisory Panel and the Actuarial Services Technical Advisory Panel, to carry out the mandates in this budget note. The advisory committees consist of representatives from physical, mental and dental health managed care organizations, as well as relevant divisions from the department. The advisory committees appointed a Primary Care Subcommittee to explore and recommend strategies to the two standing committees. The subcommittee met 11 times between July and October 2009, and continues to address ongoing issues in determining a value for primary care services.

The Medicare payment rate methodology is the industry standard for payment of physician services. Various payers establish a conversion factor to apply to the Medicare rates. Oregon Medicaid currently uses Medicare rates for establishing managed care capitation rates.

The Consumer Price Index indicates that 150 percent of Medicare corresponds to 100 percent of provider service cost. Likewise, the OHP Benchmark report prepared by Mercer & Associates estimates that OHP managed care capitation¹ unit rates for provider services in

¹ Capitation is a set amount paid monthly per person for medical services made available to a group of persons under a group health care contract.

calendar years 2008-2009 were at 65 percent of cost, with 100 percent correlating closely with 150 percent of Medicare payment levels.

Results in brief

The budget note reflects the concern that OHP payments for primary care services have fallen over time to levels below the cost of providing those services.

Based on the work of the Primary Care Subcommittee and the two standing committees, the department recommends, in order of priority, and subject to available funds:

1. Increase the payment on procedure codes representing primary care services to 150 percent of Medicare payment, or
2. As an interim step, increase the payment on procedure codes representing primary care services to 125 percent of Medicare payment.

Discussion

From its inception, the Oregon Health Plan has embraced the importance of primary care. This philosophy is evident with primary care services ranking high on the prioritized list of health services, and determining OHP benefit packages, within available funding.

Managed care, as an approach to financial management and health care delivery, depends on the management role of the primary care provider to coordinate all health care, including referral to specialty care, hospital admission and discharge. The number of primary care providers available is adversely affected when the payment to providers is less than the value of their service. Without adequate primary care access, the managed care model loses its effectiveness.

The managed care delivery system provides a medical home for its patients. The opportunities inherent in the medical home model generate widespread interest in Oregon and the nation. This model places increased emphasis on the role of primary care regarding physical setting, coordination of care and financial incentives.

Mental and dental health care services

Mental health and dental health are important components of primary care and are integral to a medical home model in coordinating the delivery of primary care services to OHP clients. The department investigated and preliminarily defined primary care in dental and mental health services.

At this time, the department is not recommending changes in payments for these services. The department will recommend reimbursement changes for primary care for mental and dental services after designing and developing the medical home model. The development of the medical home model is expected to clarify how dental and mental health primary care can be fully integrated and coordinated for more effective and efficient patient care.

Recommendations

The department recommends these strategies, in priority order:

1. Reimburse physical medicine primary care services at levels that fully represent the value of those services by increasing the payment on select procedure codes representing primary care services to 150 percent of Medicare.
2. As an intermediate step to fully valuing primary care if budget constraints make full valuation unworkable, increase the payment on select procedure codes representing primary care services to 125 percent of Medicare payment.
3. Should the Legislature want additional flexibility in staging the full valuation of primary care services in managed care, it would be possible to increase reimbursement for specific service categories, such as maternity care, preventive care for adults, preventive care for children and primary care associated with ambulatory care sensitive hospital admissions.

The following table shows the estimated costs of recommendations one and two if implemented for a 12-month period of January through December 2010. Note that these estimates are for a period when the State is receiving enhanced stimulus match from

the federal government. Once the stimulus match ends, beginning January 2011, the state cost would increase.

Estimated costs of Recommendations 1 and 2

Recommendation	General Funds	Other Funds (Insurer Tax)	Other Funds (Hospital Tax)	Federal Funds	Total Funds
Change to 150% of Medicare	\$11.1 million	\$1 million	\$1.6 million	\$36.9 million	\$50.6 million
Interim change to 125% of Medicare	\$5.6 million	\$0.5 million	\$0.8 million	\$18.5 million	\$25.3 million

Conclusions

All three options provide the Legislature flexibility in reflecting the value of primary care in OHP managed care reimbursement. The first two recommendations are immediately available and provide for a phased implementation as necessary to meet budget constraints. The third option could potentially provide a phased implementation of Medicare payment levels based on select primary care categories. However, this option requires considerably more analysis than could be completed for this report to determine its budget impact.

The department anticipates increased payments for primary care services may result in increased access to primary care for OHP enrollees. This augmentation of primary care will result in reduced emergency department utilization for conditions treatable in a primary care setting. The department also expects reduced hospitalizations for some chronic conditions that are effectively managed as outpatient treatments. Another benefit is the potential decrease in specialty care as a substitute for primary care.

A study² of utilization levels for Medicare patients before and after an increase in primary care services showed reductions in emergency care and in hospital services. In Oregon, an augmentation of primary care services by CareOregon health plan in seven group practices was successful enough that the health plan implemented the augmentation more widely.

² Baicker, Katherine and Chandra, Amitabh (April 7, 2004). Medicare Spending, the Physician Workforce, and Beneficiaries' Quality of Care. *Health Affairs Data Watch*, W4-184. DOI: 10.1377/hlthaff.W4.184

Along with the increase in payments to provider practices, CareOregon made concerted efforts to coordinate care through a team-based approach.

Department staff can establish baseline utilization levels for these categories of care and for other categories that may be sensitive to an increase in access to primary care. It is expected the changes in utilization for these categories of care will begin to manifest six to 12 months after implementation of increased primary care payments. It will be possible to track and evaluate these changes to subsequently estimate any associated savings to offset additional funding for primary care.