



State of Wisconsin  
**Department of Health and Family Services**

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Jim Doyle, Governor  
Helene Nelson, Secretary

July 15, 2003

Senator Carol A. Roessler and  
Representative Suzanne Jeskewitz, Co-chairpersons  
Joint Legislative Audit Committee  
State Capitol  
Madison, Wisconsin 53702

Dear Senator Roessler and Representative Jeskewitz:

I am writing to offer the Department of Health and Family Services' response to the report released today by the Legislative Audit Bureau concerning the Family Care program. The report, *Wisconsin Family Care Final Evaluation Report*, was prepared by The Lewin Group and represents the first complete independent evaluation of the effects of the Family Care program. Family Care is a critical component of Wisconsin's efforts to control costs and ensures quality in long-term care for the elderly and adults with physical or developmental disabilities.

We recognize the challenge The Lewin Group faced in striving to identify meaningful program results in the early stages of implementing such a complex program. The Lewin Group exercised appropriate care to avoid inappropriate extension of any findings from those early stages to the present or to the future. For example, in its conclusions on page 109, the Lewin Group notes that "the spending data available...for this report reflected only the first year of the program's implementation and as a result failed to capture the ultimate impact of the program."

Nevertheless, The Lewin Group found, even in its early stages, that Family Care has been successful in achieving many goals. The Lewin Group concluded:

- Family Care has substantially met the goals of increasing choice and access and improving quality through a focus on social outcomes;
- Family Care has successfully eliminated the waiting lists in the Family Care counties;
- Family Care has improved access to long-term care information for the target populations, in part because outreach activities of the Resource Centers "have moved beyond the traditional approaches;"

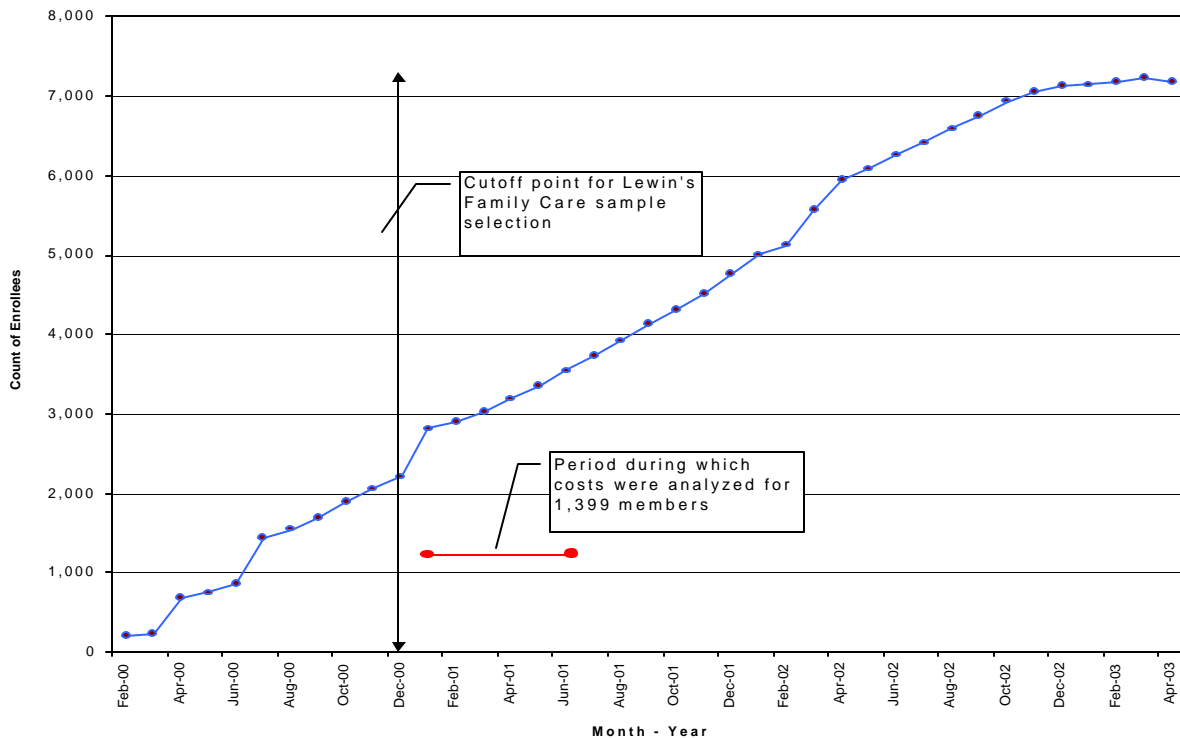
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- Virtually all of the Resource Centers have met or exceeded Department standards for contacts per capita for all target groups; and
- Consumer choice, and consumer satisfaction with choices available, have increased under Family Care, largely as the result of Care Management Organizations (CMOs) taking steps such as increasing the number of contracted services and increasing the range of service made available in the package of services.

On the important question of whether Family Care has been a cost-effective approach to providing quality long-term care services, The Lewin Group could not be conclusive because the analysis it performed was “too early to draw conclusions regarding the program’s ability to create a cost-effective system for the future.” The study’s cost-effectiveness analysis was limited to costs incurred in the first six months of 2001 and to only those members who had enrolled by the end of 2000 -- two and a half years ago. Below is a graphic illustration of the study period within the experience of the Family Care program.



The Lewin Group reports some encouraging signs:

- Average CMO spending for new enrollees -- those who had not been served in the waiver programs before joining Family Care -- was 58 percent of the average amount

that CMOs spent on enrollees who 'rolled over' from the existing waiver programs into Family Care;

- The increase in per-person CMO spending during the 2001 study period was greater than that in the balance of the state, but was comparable to spending increases in four 'matched' counties operating traditional waiver programs; and
- Family Care is less expensive than care in nursing facilities, when costs are compared for each level of care. For example, for enrollees at the skilled nursing level of care, community-based care was 65.3% of nursing-facility care for similar individuals.

As noted on page 109, The Lewin Group concludes that the study's findings are largely mixed, and results depend on the data being compared and on assumptions made.

Furthermore, per-person spending increases reported for individuals included in the Lewin study did not occur in subsequent years or for the whole Family Care membership. The Lewin Group notes on page 95 that "since 2001, none of the CMO monthly capitation rates have increased more than three percent annually, and Portage County saw a 5 percent decline in rates in 2003." Capitation rates represent the actual per-person cost of Family Care to the State's Medicaid budget. These rates -- including the first-year rates -- were set based on the CMO members' previous years' costs, as verified by an independent actuary, plus a small inflation adjustment. Given these limited rate increases since 2001, if costs had increased at a double-digit pace as report for the six-month period studied, the individual CMOs would have lost money, and the CMOs would be experienced serious financial troubles. In fact, operating within these capitated rates, all five CMOs have had revenue in excess of costs.

Care management organizations are a new type of business for Wisconsin's counties, and managed long-term care is a new product. As with any new business delivering a new product, the CMOs could not be expected to reach their full potential for cost-effectiveness promptly after their creation. CMOs have developed many mechanisms to control costs and achieve cost-effectiveness. It is important to emphasize that Family Care was designed to achieve cost-effectiveness in two stages. Only the first stage -- high-level changes in the Medicaid long-term care delivery system -- had been largely completed by June 2001 at the end of Lewin's study period. During this stage, CMOs had been created and given authority to manage a wider range of long-term care services. The Family Care program had established a funding arrangement of flat capitated payments for each member that places the CMO at risk for financial losses if the CMO does not deliver services economically, rather than the State Medicaid program.

The longer, second stage of systems change occurs as the local organizations respond to the new incentives by adopting new business practices for the delivery of cost-effective managed long-term care. This second stage was just getting underway in June 2001 and is not yet fully completed. While there is still room for improvement, we believe the

cost-effectiveness of the Family Care CMOs has improved since the close of the Lewin study period. The CMOs have been responding to the new incentives and business environment by changing many business practices. Some of the many changes include:

- Family Care care management teams include nurses who monitor members' health, coordinate services with the members' medical providers, and support the members' caregivers to prevent or delay functional decline requiring more costly care.
- Family Care care management teams use a decision-making tool that guides care-planning decisions to consider both cost and effectiveness.
- CMO fiscal and client-service staff work together with the care management teams in making cost-effective decisions.
- CMOs have increased incentives and ability to negotiate rates and service quality standards with the providers from whom they purchase services for their members. CMOs have created a more competitive local market for long-term care services and increased accountability for providers.
- The CMOs are developing improved internal management reports, more flexible personnel practices, better ways to identify and correct unauthorized purchases, improved collection from third-party payers, and other techniques to manage risk and costs.

Finally, we recognize legislative interest remains high in determining Family Care's success in achieving cost-effectiveness goals. Because it had to focus on the early years of program implementation, the Lewin Group study simply could not be conclusive on this point. However, the Department will be able to provide the Legislature and the general public with more current information and analysis of the results of the Family Care program later this year. We have contracted with APS Healthcare, Inc., to perform an independent assessment of Family Care's cost-effectiveness, as required by the federal Centers for Medicare and Medicaid Administration. This analysis, which will be released in September 2003, relies on cost data through 2002 and is making extensive use of comparison methods that adjust for differences in the level of care needs among individuals, so that the costs of serving Family Care members can be compared to groups of people who are matched in age, disability level, and other factors.

In conclusion, we appreciate The Lewin Group's extensive analytical efforts and thoughtful conclusions about the early stages of Family Care's implementation and results. We also appreciate the continued legislative interest in, and support for, the Family Care program. Wisconsin needs to find a way to reform long-term care so that the growing needs of the target populations are met in a cost-effective manner.

Senator Carol A. Roessler and  
Representative Suzanne Jeskewitz, Co-chairpersons  
July 15, 2003  
Page 5

Forthcoming analyses should contribute to determining the extent to which Family Care has made progress in achieving this goal.

Sincerely,

A handwritten signature in black ink, appearing to read 'Ken', with a long horizontal flourish extending to the right.

Kenneth Munson  
Deputy Secretary