



State of Wisconsin  
Department of Health Services

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Scott Walker, Governor  
Dennis G. Smith, Secretary

August 31, 2012

Senator Kathleen Vinehout  
Co-Chair, Joint Legislative Audit Committee  
Room 316 South, State Capitol  
P.O. Box 7882  
Madison, WI 53708-7882

Representative Samantha Kerkman  
Co-Chair, Joint Legislative Audit Committee  
Room 315 North, State Capitol  
P.O. Box 8952  
Madison, WI 53708-8952

Dear Senator Vinehout and Representative Kerkman:

This letter and the attached report are in response to the Legislative Audit Bureau's (LAB) comprehensive evaluation of the Family Care program dated April 2011, and its final recommendation that the Department of Health Services provide certain information to the Joint Legislative Audit Committee by August 31, 2012.

As stated in our response to the evaluation, the Department of Health Services is committed to ensuring that the Family Care program demonstrates excellence in ensuring access to quality, cost-effective, long-term care services for the elderly and persons with disabilities, and that the Managed Care Organizations (MCOs) which administer services, have sound program and financial management practices.

The LAB report highlighted the need for additional oversight and monitoring of certain aspects of the Family Care program. The Department concurred with the recommendations and submitted responses to the initial ten recommendations on September 1, 2011. This report provides the Department's response on the current status of the program, including changes in participation rates and costs, as well as a description of initiatives that strengthen the cost-effectiveness and fiscal sustainability of the Family Care program.

In closing, I would like to express the Department's appreciation to the Legislative Audit Bureau management and staff for their efforts and recommendations to improve the management and oversight of the Family Care program.

Sincerely,

A handwritten signature in black ink, appearing to read "Dennis G. Smith".

Dennis G. Smith

Attachments

# **Report to the Joint Legislative Audit Committee on the Status of the Family Care Program**

**August 31, 2012**

## **Introduction**

In its evaluation of the Family Care program, which was released in April 2011, the Legislative Audit Bureau (LAB) identified critical questions about the ongoing fiscal sustainability and cost-effectiveness of the Family Care program. The LAB recommended that the Department of Health Services provide additional information to the Joint Legislative Audit Committee on the status of the program by August 31, 2012, including data on participation and program costs and the impact of any changes enacted as part of the 2011-13 biennial budget or administrative changes implemented by the Department.

This report provides an update on several program and financial areas raised in the Family Care evaluation, along with data on enrollment and expenditures, and initiatives the Department is pursuing to strengthen and improve the efficiency and sustainability of Wisconsin's Family Care and other long term care programs. The analyses and information provided as part of this report were critical in understanding the strategic approach and options to improve the fiscal sustainability of these LTC programs.

Therefore, the report also provides analysis and information, including:

- Detailed Cost Analysis of Family Care
- Cost-Effectiveness Analysis of Long Term Care (LTC) Programs
- Profile of People Waiting for Long Term Care Programs
- Wisconsin's Family Care Program: Lifting the Temporary Caps and Putting the Program on the Path to Long Term Sustainability
- 2011-13 Long Term Care Sustainability Plan
- Family Care Financial Summary (Ending March 31, 2012) [For more reports, see: <http://www.dhs.wisconsin.gov/LTCare/ProgramOps/fiscal/financialsummaries.htm>]
- Historical Data on LTC Expenditures and Enrollment

## **Update on Financial and Program Measures**

As indicated in April 2011 and in our subsequent report to the Committee on September 1, 2011, the Department is committed to ensuring that the Family Care program demonstrates excellence in providing access to quality, cost-effective long term care services for the elderly and persons with disabilities, that persons are provided choice and the ability to self-direct their care, and that the managed care organizations (MCOs) which administer services have sound program and financial management practices.

Over the past year, we have continued to see progress with respect to the financial solvency position of the MCOs and the ability of MCOs to offer cost-effective services within the capitation rates provided by leveraging person-centered supports that allow members to live and work in the most integrated settings in their communities. The following sections highlight the

analysis of expenditures and of the cost-effectiveness of the Family Care program, supported by the data and experience of the program in the past year.

- ❖ **Detailed Cost Analysis of Family Care.** The Department’s analysis shows that service delivery improvements aimed at helping people remain in their own homes for longer periods of time are central to financially sustaining the State’s long-term care system, while also honoring the strong preference that most have to live in their own homes among family and friends. The cost implications for Wisconsin’s system of care are enormous, given that 35% to 50% of each managed care organization’s membership resides in residential or institutional settings. The cost of care for people living in residential or institutional settings is significantly higher than for those who reside in their home or apartment. Depending upon the target groups, costs are, on average, 2 to 3 times higher for people who are not living at home.
- ❖ **Cost –Effectiveness Analysis of LTC Programs.** The Department also studied the total cost to the Medicaid program of serving individuals in three long-term care programs: Family Care; IRIS; and the “legacy” home and community-based waiver programs.
  - The total costs were studied for each person enrolled in each program and were further subdivided into two major subsets of cost:
    - Those costs covered by the long term care program (or “program costs”); and
    - Those costs that were covered by the Medicaid State Plan, or “the card,” but which were associated with program enrollees (also known as “carve out” costs).
  - Of the three programs, Family Care was the most cost-effective LTC program. For calendar year 2010, the average per member per month (PMPM) costs were \$3,188 PMPM for Family Care, \$4,159 PMPM for IRIS; and \$3,761 for legacy waivers (CIP/COP).
  - The cost differences highlight opportunities to make the State’s long term care system more cost-effective and fiscally sustainable in the future, leveraging strategies to help people remain healthy and cared for in the most integrated settings in their home and community.
- **Profile of People Waiting for LTC Services.** The Department completed a two-part analysis of people waiting for publicly-funded long term care programs in November 2011. The results of the survey show that:
  - 81% of individuals live in their own home, apartment, or a relative’s home
  - Most individuals want to stay where they currently reside once they enroll in a long term care program
  - The top three services requested by those on the wait list include:
    - Laundry or chore services
    - Personal care services (bathing, dressing, eating, toileting, grooming, etc.)
    - Transportation services
- ❖ **Temporary Enrollment Cap and LTC Sustainability Initiatives.** The 2011-13 biennial budget, 2011 Wisconsin Act 32, created a temporary enrollment cap on Wisconsin’s Family Care and related long term care programs; the cap was in place from July 1, 2011 through April 3, 2012.

The attached paper provides a comprehensive description of what individuals experienced during the time of the cap, our efforts to expedite enrollment once the cap was lifted, our strategies to build on the health care services and LTC supports provided during the period of the cap, and the LTC sustainability initiatives designed to generate savings and strengthen Family Care and our related programs in 2011-13 and in the future.

The Department continues to implement the Long Term Care Sustainability Plan, which includes:

- Reducing utilization of high cost residential settings;
- Improving program integrity, accountability, and self-direction in the IRIS program;
- Preventing nursing home and hospital stays with better medication management;
- Supporting the ability of people to relocate from nursing homes to the community;
- Promoting evidence-based models regarding chronic disease self-management, falls prevention, and Alzheimer's care; and
- Improving employment supports and transitions for young adults with disabilities.

❖ ***Recent Enrollment and Capitation Data.*** As of March 1, 2012, the statewide number of individuals reported to be waiting for our long-term care programs, was 6,263. The waiting list declined to 4,177 by the end of June. Based on information individuals provided to ADRCs, the reasons for leaving the waiting list were categorized as follows:

- 1,704 (40.8%) have enrolled into managed long-term care or IRIS
- 1,157 (27.7%) left or not yet enrolled for various reasons (not reached 18 years of age; awaiting SSI determination; or awaiting their start date in IRIS)
- 743 (17.8%) voluntarily declined services
- 391 (9.4%) were no longer financially eligible or no longer functionally eligible
- 182 (4.4%) left due to a move, death, or data entry error

As of the end of August, the wait list is now at 1,452; these individuals are in counties that are in the three-year phase-in to entitlement. A total of 19 people are in the process of eligibility determination and enrollment in entitlement counties.

Legislation lifting the cap, 2011 Act 127, became effective April 3, 2012. The cost to remove the Family Care enrollment cap is lower than previously estimated and the waiting list for long term care programs has also declined significantly. The Department's current estimate for lifting the cap in the 2011-13 biennium is \$46.9 million GPR.

The new estimate reflects updated information on enrollment and costs. The average per member per month (PMPM) cost for new enrollees since April has also been lower than projected.

It is too early to discern the post-Act 127 enrollment and cost trends in the Family Care program.

- Enrollment levels for the last two quarters have not been finalized. In addition to people enrolling off waiting lists as the result of Act 127, several hundred individuals leave the program for various reasons in any given month. For this reason, it will take additional months before the enrollment figures have been finalized.

- The more moderate PMPM costs reflect the enrollment of individuals from the wait list that have never been enrolled in legacy waiver programs combined with the projected acuity of that member. However, actual expenditure data in the coming months will be needed to finalize these projections.
  
- ❖ ***MCO Financial Solvency.*** The financial solvency of the MCOs has improved significantly since the time of the LAB evaluation.
  - As of March 2012, MCO working capital increased by \$46 million compared to the first quarter of 2011.
  - Restricted reserves are fully funded by eight of the nine Family Care MCOs.
  - The MCO solvency fund, which is a pooled and segregated fund, is within \$340,000 of full funding with eight of nine MCOs currently meeting the requirements. Overall MCOs have funded 95% of their solvency fund requirement.
  - MCOs that do not meet capital requirements are under fiscal corrective action that requires monthly financial reporting.
  
- ❖ ***Family Care Capitation Rates.*** Family Care is expected to generate a savings of 15%, on average over time, compared to the higher cost legacy waiver system based on the experience of the pilot MCOs.
  - A primary goal of Family Care is to support member outcomes while making sure public money is used in the most efficient way possible. MCOs work with members to develop an individually-tailored care plan that meets their members' outcomes. Being cost-effective means using the least costly options that are efficient and effective in supporting a member's outcomes.
  - Another goal of Family Care is to purchase services cost-effectively. Over the past year, MCOs have worked to improve transparency, equity, objectivity, and alignment of provider rates with both costs and acuity of their members.
    - Under legacy waivers, payments to providers were not based on the functional needs of members and often varied widely for individuals with similar needs, even within a county or region.
    - In contrast, Family Care payments reflect each member's functional needs and acuity and the alignment of payments to ensure that providers serving people with similar needs are paid similar rates, which increases the equity of payments among providers.
  - Family Care is structured to leverage innovation and market competition to support people in their own homes and/or with family, where they are best able to be involved with their community. The LTC Sustainability Initiatives, along with many MCO initiatives and best practices, are building upon existing efforts to further strengthen and support the ability of people to live safely and independently in their own homes or apartments.
  - Changes in capitation rates show that:

- As of March 2012, the average capitation revenue decreased by 0.3% on a PMPM basis, relative to the first three months of 2011.
  - The average per member per month (PMPM) cost has declined in each of the past two years, from \$2,997 in 2010, to \$2,897 in 2011 and \$2,887, to date, in 2012.
- ❖ ***MCO Procurement.*** The Wisconsin Department of Health Services (DHS) has released a request for proposals from entities seeking certification by DHS to contract as managed care organizations (MCOs) for the delivery of the Family Care and Family Care Partnership programs in five regions of the state.

One of the LTC sustainability initiatives is to increase choice within geographic service regions by having a choice of managed care organizations available to enrollees. This RFP is designed to increase choice and competition in additional counties and geographic service regions.

- ❖ ***Historical Data on LTC Expenditures and Enrollment.*** This section provides detailed expenditure and enrollment data for the State's LTC programs, including home and community-based waiver programs and nursing home care. The data and graphs show that:
- Medicaid expenditures on LTC programs have declined as a proportion of overall Medicaid expenditures in the last decade, falling from 53% in SFY 02 to 43% in SFY 11, and the average growth rate in LTC spending was also more moderate than overall Medicaid spending during this time.
  - Since SFY 02, LTC spending for institutions, such as nursing homes and ICFs, have declined from 62% of the budget to 31%, while spending for Family Care and community services has grown from 38% to 69% of LTC expenditures.
  - After the significant increase in enrollment with expansion in 2010, Family Care PMPM costs have fallen in the past two years.
  - While the people eligible for LTC programs has increased somewhat since SFY 04, enrollment has been driven by enrolling people in Family Care and IRIS who were previously on the wait list.
  - Over the last decade, expenditures for Medicaid LTC programs have transitioned from primarily fee-for-service payments for institutional services, such as nursing homes, to managed care programs that enable people to live in their own homes and community-based settings.
  - The majority of individuals enrolled in a LTC program reside in a community-based setting or their own homes. A key to ensuring cost-effectiveness and fiscal sustainability is to strengthen supports to ensure that people are safely cared for in their own homes as long as possible.