Analysis

Item 14: Oregon Health Authority

Quality Incentive Pool

Analyst: Tom MacDonald

Request: Appropriate $28,071,954 General Fund and increase the Federal Funds expenditure limitation by $83,048,385 to support one-time costs associated with incorporating the coordinated care organization (CCO) quality incentive pool into the CCO rate structure.

Analysis: The Oregon Health Authority (OHA) requests $28.1 million General Fund and $83 million in Federal Funds expenditure limitation as a one-time expense to transition the CCO quality incentive pool funding model to a "withhold" of monthly CCO capitation rates. Currently, quality incentive pool payments are funded in OHA's budget outside of the monthly capitation rates. The one-time cost results from an unanticipated six-month overlap of the date in which OHA must begin recording expenditures for the monthly rate withhold amounts and the date the agency must make the final quality incentive pool payment under the program's prior funding model. As explained in more detail below, this six-month overlap relates to a difference in the accounting methodology OHA must follow to operate the rate withhold compared to the prior funding model.

Background: Starting in 2013, OHA has operated a quality program to incentivize CCOs to improve the health of Oregon Health Plan (OHP) members and measure CCOs' progress over time. The program rewards CCOs with payments for reaching specific health care quality and outcome measures adopted annually by a nine-member metrics and scoring committee. The overall number of quality incentive measures adopted each year by the committee has ranged from 17 to 19 and has included, for instance, measures related to adolescent well-care visits, control of diabetes, and prenatal care, among others.

The quality incentive pool used to fund the incentive payments has traditionally been defined as a percentage of annual aggregate CCO capitation payments, which has grown from 2% ($47 million) in 2013 to 4.25% ($213 million) in 2020.

Annual CCO Quality Incentive Pool as Percentage of Total Capitation Payments

2013	2014	2015	2016	2017	2018	2019*	2020
2%	3%	4%	4.25%	4.25%	4.25%	3.5%	4.25%
$47 million	$128 million	$168 million	$179 million	$178 million	$188 million	$166 million	$213 million

The performance period used for the quality incentive program is the January 1 through December 31 CCO contract year. Given this payment cycle, OHA's biennial budget supports two quality incentive pool payments, with incentive payouts occurring six months after the close of each performance

*As a one-time adjustment, OHA reduced the 2019 amount of the quality incentive pool from 4.25% of CCO payments to 3.5% to help offset increased costs due to higher-than-anticipated CCO capitation rates.

period. The payouts for the 2017-19 biennium, for example, occurred in June 2018 for the 2017 CCO performance period and June 2019 for the 2018 CCO performance period.

<u>Transition to Rate Withhold Model</u>: Since its inception, funding for the quality incentive pool has been funded separately from the monthly CCO capitation rate structure. As part of the next five-year CCO contractual period ("CCO 2.0") beginning January 1, 2020, OHA decided to change the quality incentive pool funding model to a withhold from the capitation rates. This means the quality incentive pool will be funded as a component of the capitation rates but withheld from CCOs each month until the incentive payments are made according to the same June payout schedule used under the original model.

OHA decided to pursue the rate withhold model through the CCO contractual process in light of certain advantages gained under federal Medicaid rules. These advantages include:

- Improved calculation of the minimum medical loss ratio (MMLR). When funded outside of the rates, CCOs can use incentive payouts for higher profit margins without returning funds to the state. By changing the model to a rate withhold, the revenue received from incentive payments becomes part of CCOs' MMLR calculation.
- Encouraging quality pool spending. CCOs will have more of an incentive to spend quality pool payments on core health care programs and services in order to have those expenditures captured as part of the rate development process in subsequent years.
- Increased flexibility for other incentive programs. By moving the incentive pool into the rate structure, OHA has more flexibility under federal rules to establish additional programs inside the rate structure, such as for value-based payments and social determinants of health.

<u>Budget Shortfall to Implement Rate Withhold</u>: Although the rate withhold model will maintain the existing June quality incentive payout schedule, accounting principles and federal rules require OHA to account for the rate withhold on a cash basis starting January 1, 2020 as opposed to the accrual basis applied under the original funding model. This change in accounting methodology causes a one-time overlap of six months in terms of the funding needed to support the June 2020 quality incentive payout accrued for the calendar year 2019 CCO performance period and the funding needed to properly account for expenditures that are required to be recorded for the rate withhold beginning January 1, 2020.

In other words, OHA's 2019-21 budget was developed assuming status quo financing for the two quality incentive pool payments during the biennium—occurring June 2020 and June 2021. The agency's budget, however, does not account for the six-month overlap of cash expenditures attributed to implementing the capitation rate withhold amounts on January 1, 2020 with the expenditures accrued for the 2019 performance period paid. While OHA's plan to transition to the withhold model was conceived prior to the start of the 2019 legislative session, the agency did not bring this issue forward as part of the 2019-21 budget development process because it was unaware of the need to change its accounting methodology under the rate withhold.

This overlap creates a one-time budget shortfall of $28 million General Fund and $83 million in corresponding federal matching funds to maintain the capitation rate withhold as planned by the agency in 2019-21. Not considering the policy implications, this cost would be extremely difficult to resolve by reversing the policy change to the rate withhold. In doing so, OHA would need to seek federal approval, revise and recertify the 2020 CCO capitation rates, and amend all of the signed CCO contracts for 2020. Because this process would likely take months, a more realistic but still challenging scenario would be to continue with the rate withhold for 2020 and return to the original funding model in 2021, which would eliminate the withhold cash expenditures for the last six months of 2019-21.

Given the strong policy reasons to fund the quality incentive pool as part of the CCO rate structure, OHA continues exploring options with the state's Medicaid actuary to maintain the withhold while mitigating the one-time transitional costs. Absent any such solutions, the one-time $28 million General Fund will remain part of the OHA's budget requests for the 2020 legislative session, with the general options being to fund the agency's request in whole or in part (if possible), direct the agency to return to the original quality incentive pool funding model, or delay a decision on the request to continue exploring potential solutions.

In addition to the issue of cost, policy and process questions remain regarding how the withhold amounts from the final six months of each biennium will carry forward to the next biennium. For example, General Fund withhold amounts from the final six months of 2019-21 will need to be carried forward into 2021-23 to pay for the 2021 performance period in June 2022. OHA is currently exploring options for how this would be done.

Legislative Fiscal Office Recommendation: The Legislative Fiscal Office recommends that the Joint Interim Committee on Ways and Means defer action on the request to the 2020 legislative session, with instruction to the agency to explore additional options to mitigate the one-time cost of the quality incentive pool withhold model.

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Oregon Health Authority
Heath

Request: Appropriate $28,071,954 General Fund and increase Federal Funds expenditure limitation by $83,048,385 in order to change the accounting treatment of the Coordinated Care Organization quality pool.

Recommendation: Consider the request during the 2020 Legislative Session.

Discussion: The Oregon Health Authority is requesting $28.1 million General Fund and $83.0 million Federal Funds expenditure limitation to operationalize its revised model for administering the Coordinated Care Organization (CCO) contracts, called CCO 2.0. The new CCO contracts focus on efforts to improve behavioral health, focus on health equity and the social determinants of health, pay providers for value instead of for services provided, and ensure the Oregon Health Plan spending remains sustainable.

An important component of these new contracts, directly related to the Department's new emphasis on value-based payments, is a change in how the CCO incentive payments are made. Through the end of the 2019 calendar year, the current structure of the incentive payments will continue, with incentive payments made in December 2019 based on the CCO's ability to meet certain performance targets. The current incentive payments are not included within the CCO rates that are paid per member per month but are in addition to those amounts. The new model proposes to fold the incentive payments into the CCO rates but rather than disbursing them on a per member per month basis, the incentive payments will be withheld from those rates every month. The incentive payments will only be made if the CCO meets certain performance targets specified by the Metrics and Scoring Committee. The Department has $379.1 million total funds budgeted for the quality pool in the 2019-21 biennium and the new model does not propose to change the total amount available for the incentive pool.

The Department has identified several advantages to the new model for CCO incentive payments. First, it allows for a more accurate calculation of the minimum medical loss ratio, which currently allows CCOs to have a significantly higher profit margin without refunding money to the state. Second, it will encourage CCOs to spend their quality pool incentives instead of retaining them as profits. Finally, this method will allow OHA more flexibility in establishing additional programs inside of its capitation rates to potentially further increase value based payments or investments in the social determinants of health.

There are some technical issues regarding the request that still need to be resolved. First, the incentive payment for which OHA will begin to withhold funds during the final six months of the 2019-21 biennium will not be paid until June of 2022. This is outside of the 6-month period at the end of the biennium in which to make expenditures that will be attributed to the 2019-21 biennium. It is not clear how the Department proposes to carry the General Fund requested to the new biennium but regardless, it cannot be paid out of the Department's 2019-21 budget in the manner proposed. The Department may also need to rebate interest on the federal revenues in the withhold account to the federal government due to the length of time the Department will hold the federal funding before distribution.

The options available appear to be to either commit $28.1 million General Fund to the new model of incentive payments, or to maintain the status quo on the incentive payment model and forego the policy benefits identified by the Department, or to require the Department to renegotiate its provider rates to remain within existing resources while maintaining the new model. Before appropriating the $28.1 million General Fund, the Department of Administrative Services Chief Financial Office recommends the Oregon Health Authority work with the Chief Financial Office and the Legislative Fiscal Office to clarify the budgetary and accounting framework for the new model.

Office of the Director

Kate Brown, Governor

Oregon Health Authority

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December 9, 2019

The Honorable Senator Betsy Johnson, Co-Chair
The Honorable Senator Elizabeth Steiner Hayward, Co-Chair
The Honorable Representative Dan Rayfield, Co-Chair
Interim Joint Committee on Ways and Means
900 Court Street NE
H-178 State Capitol
Salem, OR 97301-4048

Dear Co-Chairpersons:

Nature of the Request
The Oregon Health Authority (OHA) requests a $28,071,954 General Fund and $83,048,385 Federal Funds limitation for the 2019-21 biennium to implement the coordinated care organization (CCO) quality pool as a withhold from CCO capitation rates.

Agency Action
In the 2019-21 Legislatively Adopted Budget, the Legislature approved OHA's policy option package, known as CCO 2.0, to further advance the coordinated care model. An element of CCO 2.0 is transitioning the CCO quality pool from an add-on incentive to capitation rates to a withhold from the capitation rates.

Under the current CCO quality pool structure, the OHA budget is built to support two quality pool payouts each biennium. For example, in the 2017-19 biennium, OHA paid out the 2017 quality pool in June 2018 and the 2018 quality pool in June 2019. According to accounting principles and CMS federal claiming rules, a withhold is a component of each monthly capitation rate paid for each member and must be recorded as an expenditure each month.

This means for a January 1, 2020 implementation, the OHA 2019-21 budget—besides including the June 2020 and June 2021 quality pool payments—will need to include the withhold amounts from capitation payments made to CCOs for January 2021 through June 2021, requiring $28 million in additional General Fund.

This is a one-time budget adjustment removing what was previously a six-month lag to a current budget need.

OHA is transitioning to a withhold methodology for the following reasons:

- Accurate minimum medical loss ratio (MMLR) calculation – If the quality pool is paid as an incentive, the MMLR calculation is skewed. CCOs get credit for quality pool spending, but quality pool revenue is not considered in calculating CCO income under newer federal guidance. This allows CCOs to have significantly higher profit margins without refunding money to the state.
- Encouraging quality pool spending – Moving the quality pool inside the capitation rates helps incentivize CCOs to invest their quality pool earnings on programs and provider incentives in their community. Specifically, quality pool expenditures are reflected in future years' rates development, whereas quality pool funds retained in profits do not feed into future years' rates development.
- Flexibility for incentive programs – Funding the quality pool through a withhold allows OHA to increase the share of CCO global budgets that is tied to performance. CMS guidelines restrict incentive programs to no more than 5% of capitation rates. Adjusting the quality pool operation to a withhold allows OHA to create additional programs inside the capitation rates. This in turn could increase the percentage of payments to CCOs that reward quality, value, or efficiency, as well as fund investments in social determinants of health and health equity.

Action Requested
Acknowledge receipt of the report.

Legislation Affected
Oregon Laws 2019, Chapter 695, Section 1, Subsection (1).
Oregon Laws 2019, Chapter 695, Section 4, Subsection (1).

Sincerely,

Patrick M. Allen
Director

EC: Tom McDonald, Legislative Fiscal Office
Ken Rocco, Legislative Fiscal Office
Kate Nass, Department of Administrative Services
George Naughton, Department of Administrative Services