TEXAS
Health and Human
Services Commission

# House General Investigating Committee

August 6, 2004

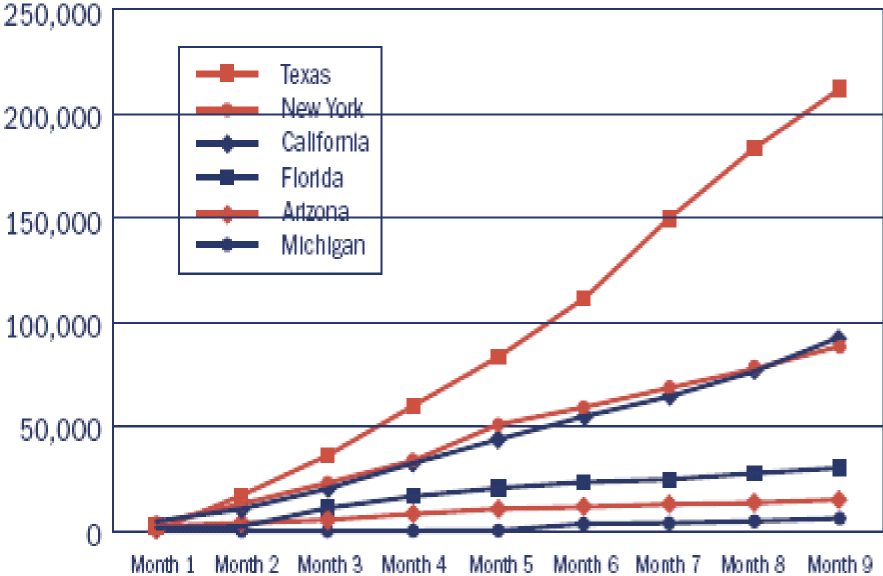
# CHIP Background

- 1997 - Federal law authorized the CHIP program
- May 1999 – State law authorized the Texas CHIP program
- Leadership guidance, including committees with jurisdiction
  - Privatize
    - Do not bring “in-house”
    - Do not use existing Medicaid fee for service infrastructure
  - Expedite implementation – Summer 2000
  - Implement statewide

# Decision to Use EPO Model and Clarendon

- Challenges for Rural Managed Care
  - ➢ No existing rural Medicaid managed care model
  - ➢ First solution - consider PPO model
    - CMS disapproves approach due to cost-sharing structure
- Solution for Rural Managed Care
  - ➢ TDI suggests EPO model
    - Clarendon only bidder with "non-responsive" bid
    - HHSC required to go straight to negotiations with Clarendon to meet implementation deadline
- HHSC negotiations with Clarendon (Contract Period 1):
  - ➢ Negotiated rate comparable to other HMO CHIP plans (average premium rate: $87.85)
  - ➢ Full risk as with CHIP HMOs in urban areas

# First Year Implementation (Contract Period 1) and Enrollment Timeframes




During the program's first nine months, Texas enrolled more uninsured CHIP-eligible children than states comparable in size and demographic diversity.

*Data Source:*
*Texas Health & Human Services Commission.*

# Contract Period 2
# (May 2001 through September 2002)

Primary issues = Continuing coverage and affordability

- Clarendon reports over $11 million loss in Contract Period 1
  - Requests 67% rate increase
  - HHSC negotiates to 50% increase – still unaffordable
- State Options:
  - Extend contract at 50% rate increase ($52 million over 10 months) and transition to:
    - State administration of functions; or
    - New vendor through reprocurement;
  - Agree to 50% rate increase ongoing; or
  - Pursue self-funding with modest risk transfer through reinsurance & penalties for higher than expected medical costs
- Decision = Pursue self-funding with modest risk transfer

# Contract Period 3
# (October 2002 through August 2003)

Primary issues = Continuing coverage, affordability, reducing risk

- Implemented additional risk sharing provisions
  - Risk transferred through reinsurance for claims for any one individual above $150,000, subject to deductible.
  - HHSC risk limited to 112% of expected claims; Contractor penalty is payment of 100% of claims exceeding 112%.
- Began EPO reprocurement
  - Draft Published July 2003
  - Not initiated earlier- not enough experience history to attract competitive response.

# Contract Outcomes – EPO Model

- Maintained coverage through managed care in rural Texas
  - For 100,000 enrollees by end of Contract Period 1 (unprecedented growth)
  - For 150,000 enrollees by end of Contract Period 2
- Quality Care provided
  - Met or exceeded other CHIP plan quality indicators for 5 of 6 measures
  - Highest rating for providing care quickly

# Contract Outcomes – EPO Model (cont'd)

- Medical costs lower than expected
- Decrease in medical costs over 4 contract periods compared to double-digit increases in commercial health insurance programs
  - $63.35 PMPM in Contract Period 1; $55.92 PMPM in Contract Period 4 (September 2003 through August 2004)

# Improvements Implemented for Contract Management and Oversight

- Initiated reprocurement and strengthened RFP
- Strengthened evaluation tools
- Established more effective and clearly defined contract provisions, such as performance matrices, liquidated damages, and corrective actions
- Established standard terms and conditions in contracts
- Established contract administration unit
  - Developed, implemented and trained staff on new policies and procedures
- Implementing Automated Contract Tracking System

# Improvements Implemented for Contract Management and Oversight (cont'd)

- Re-engineered Business Processes in Medicaid/CHIP Division
- Re-organized Medicaid/CHIP Division
- Hiring and maintaining staff with specific skills needed to manage contracts
- Elevated critical contract oversight to level commensurate with risk