In-Lieu-Of Services and Value-Added Benefits

Implications for Managed Care Rate Setting

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Overview

• Background
  – Commission’s work to date
  – In-lieu-of services flexibility
  – Role of value-added benefits
  – Emerging 1115 waiver flexibility

• Findings
• Discussion
• Next Steps
Background
Commission’s Work to Date

- September and October public meetings discussed prior MACPAC research into the managed care rate setting process
  - Capitation rate development and risk mitigation mechanisms
  - State directed payment arrangements
  - Accounting for access in rate setting and actuarial soundness
- Commissioners also previewed anticipated rulemaking from CMS
  - Rules will likely address key topics covered in MACPAC’s rate setting work
- Commissioners identified in-lieu-of services (ILOS) as a priority area for further discussion
  - Other priority areas (access and directed payments) were discussed in October
In-Lieu-Of Services Flexibility

• ILOS allows states to cover medically appropriate, cost-effective substitutes of state plan services
  – e.g., delivery of medically tailored meals to prevent hospitalization
• Utilization and costs associated with ILOS are considered in capitation rate development and in MLR calculations
• 2016 managed care rule made a significant exception to the ILOS flexibility
  – Permitted coverage of services in an institution for mental disease (IMD) with certain limitations
  – Utilization can be factored into rate development, but IMD costs cannot
Role of Value-Added Benefits

• Managed care also provides states and health plans with the opportunity to provide value-added benefits (VABs)
  – Offered in addition to covered Medicaid state plan services
  – Typically non-medical and can include wellness activities
  – Plans are increasingly using this flexibility to offer services addressing social determinants of health (SDOH)

• VABs are usually funded by health plans’ administrative dollars
  – Costs are excluded from capitation rate-setting process

• Some VABs may be counted in the MLR if they are considered activities that improve health care quality
Emerging 1115 Waiver Flexibility

- States and CMS are using 1115 waiver authority to pursue ILOS and other SDOH-related services and supports
  - e.g., California’s CalAIM demonstration
- Recent 1115 waiver approvals support state efforts to pursue SDOH-related services (e.g., nutrition- and housing-related supports)
  - CMS has included notable policy changes that bolster support for these efforts (e.g., minimum payment levels in managed care and fee for service)
- Pursuing 1115 waivers can provide states with pre-approved ILOS that can be delivered through managed care
  - e.g., non-medical ILOS
Findings
Federal and Professional Actuarial Guidance Provide Limited Detail on the Inclusion of ILOS

- CMS’s annual rate development guide provides clarity on incorporating cost and utilization of ILOS into rates
  - IMD ILOS exception treated differently
- Actuarial Standards of Practice (ASOPs) describe how actuaries should capture covered services, including ILOS
- No insight is provided into which non-medical services may or may not qualify as an ILOS for the purposes of rate setting
  - Some interviewees noted this can pose challenges for actuaries when developing rates
Limitations in the Definition of ILOS Can Pose Challenges for State Population Health Efforts

• Numerous states have implemented the IMD exception to ILOS flexibility
  – Fewer states have pursued ILOS flexibility for other services (e.g., SDOH)
• MACPAC research found states using other approaches
  – VABs or investment of excess profit to reduce MLR remittances
  – Some states are requiring VABs in managed care contracts; others encourage but do not require VABs
• Interviewees indicated an interest in CMS clarifying what VABs may be considered reasonable substitutes for state plan services
Unclear How Far State Flexibility Under Actuarial Soundness Certification Can Be Applied

- States use flexibilities under managed care and actuarial soundness to pursue program objectives
  - e.g., add benefits, increase provider payment, invest in SDOH
- Federal guidance on managed care flexibilities is clear in some cases and vague in others
  - Unclear the extent to which states can pursue non-medical ILOS through rate-setting instead of waivers
- Interviewees highlighted potential areas where clarity could strengthen the rate setting process
  - e.g., guidance on what can or cannot be included in rate calculations, guidance on types of non-medical ILOS that could be quickly approved
State Discretion in Determining MLRs Have Implications for the Use of ILOS

• States are using different approaches to spur investment in services and supports that balance efficiency, access, and value
  – e.g., higher profit margins with required investments in VABs, MLR remittances

• Stakeholders indicated that states can face challenges encouraging or requiring investments in SDOH-related services
  – Beneficiary churn can affect savings from population health improvements
  – Lower-cost ILOS can reduce capitation rates in the long-term

• States may determine strategies for pursuing ILOS based on these factors
Discussion
Areas for Potential Consideration

- Should CMS consider providing new guidance on what distinguishes a service as ILOS or as a value-added benefit, as well as what types of non-medical ILOS could be quickly approved?
- Are there concerns regarding the widespread availability of ILOS that could be addressed by CMS?
- Should CMS provide more clarity on how non-medical ILOS and other SDOH-related services should be treated in MLR calculations?
- Is more clarity needed regarding the documentation of ILOS in rate certifications?
- Are there ways CMS can help states implement ILOS consistent with how states prefer to operate their Medicaid programs?
Next Steps
Next Steps

• Commissioner discussion
  – Key questions pertaining to the treatment of ILOS
  – Priority areas for potential comment
  – Areas for additional analysis ahead of proposed rule

• Future discussion of potential comment letter
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