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December 17, 2018 12:00 AM

Managed-care companies push for privatization amid losses for public mental health authorities

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Michigan's managed-care companies are pushing to speed up the privatization of the state's $2.8 billion Medicaid behavioral health managed care system, pointing to structural losses the state's public mental health authorities reported in November financial filings.

A potential state bailout of one or more of the state's public mental health authorities is under discussion this week.

Nine of Michigan's 10 regional mental health authorities, also called prepaid inpatient health plans, are running deficits this year totaling $132.8 million based on Medicaid revenue of $2.8 billion, according to an analysis of annual financial filings by the Michigan Association of Health Plans, the trade organization for the state's managed-care companies.

Over the past several years, mental health executives and officials have complained the state has underfunded Medicaid behavioral health services that they say have drained reserves, leading to the financial deficits that have forced service cutbacks to patients and reimbursement reductions to providers.

State officials with the Department of Health and Human Services have said Medicaid behavioral health funding is actuarially sound with rates approved by the CMS.

Meanwhile, the Michigan Association of Health Plans, which represents nearly a dozen Medicaid HMOs, is calling for the state to move up consideration of privatizing the state's Medicaid behavioral health system.

In February 2016, Gov. Rick Snyder proposed in his fiscal 2017 budget that the quasi-public mental health system be absorbed by private Medicaid health plans to reduce costs and better integrate physical and behavioral health services. A compromise was reached last year and three pilot programs are scheduled to test this approach over three years starting November 2019 in Genesee, Saginaw, Muskegon, Lake, Mason and Oceana counties.

But as several of the 10 regional PIHPs, led by Lakeshore Regional Entity, continue to face financial problems and possible insolvency, state legislators are being asked for a bailout in a fiscal 2018 supplemental funding bill under consideration this week in Lansing.

Sen. David Hildenbrand (R-Grand Rapids), chairman of the Senate appropriations committee, said legislative leaders are developing a plan this week to address mental health funding problems. He said no final decisions have been made.

"Mental health funding challenges were brought to my attention by Kent County as it relates to the Lakeshore Regional," Hildenbrand said in an email to Crain's on Sunday. "This was brought forward as part of the state budget supplemental discussions, but no final decisions have been made. We hope to have all state funding requests and decisions made this week."

Hildenbrand said he has been told by mental health industry officials and others that some of the other nine PIHP regions have similar mental health funding problems.

Sources who asked not to be identified tell Crain's that state legislators have received funding requests for additional mental health funding by several other counties, including some in Southeast Michigan. Crain's was unable to verify which counties on Sunday.

Integration plans underway

Three years ago, Michigan began a process intended to improve care coordination between its $9 billion Medicaid physical health system managed by health plans and a $2.8 billion Medicaid behavioral health system managed by 10 regional, quasi-public mental health authorities known as prepaid inpatient health plans, or PIHPs.

Under the state's current mental health payment system, the Michigan Department of Health and Human Services makes monthly per-person Medicaid payments to PIHPs in the 10 regions. Southeast Michigan has three regional PIHPs in Wayne, Oakland and Macomb counties.

The PIHPs subcontract with a variety of provider organizations and community mental health agencies to deliver services that include for autism, developmental issues, substance abuse, behavioral health and serious mental health disorders. Dozens of community mental health agencies, which serve all 83 counties, also receive general fund dollars for non-Medicaid covered services.

Dom Pallone, executive director of MAHP, said a PIHP bailout would only be "throwing good money after bad" and delay fixing the financial problems that have plagued the behavioral health system. He said the problem is similar to the early 1990s when managed care organizations ran into financial solvency issues. The state required the plans to be licensed HMOs and regulated by the state's solvency requirements for risk-bearing entities, he said.

"PIHPs have not adequately managed their risk and we think health plans can do better," Pallone said. "We have a record of providing quality outcomes without driving up expenses."

Pallone said MAHP has spoken with state lawmakers about early next year beginning a new discussion to roll out a comprehensive strategy to combine physical and behavioral health services under Medicaid HMO management. He said integration would include all behavioral health services, including care for those with intellectual and/or developmental disabilities and those with substance abuse problems.

"We suggested to budget staff and lawmakers that next year let's talk about a statewide (funding) approach so we are not consistently bailing out the PIHPs," Pallone said, adding that MAHP is not opposed to a one-time partial bailout this year.

But Mark Reinstein, president of the Michigan Mental Health Association, said he is opposed to privatization of the behavioral health system, especially as it pertains to the developmentally disabled population. Crain's has reported more than a dozen other advocacy groups involved with behavioral health also are opposed to an HMO takeover.

"The information provided by the MAHP is not evidence that we need to turn to the (Section) 298 (privatization) approach," Reinstein said in an email. "The PIHPs and (community mental health agencies) are partially victims of legislative appropriations, actuarial determinations that may not always be reliable, MDHHS policy, and their own management mistakes."

Reinstein said MDHHS is also a poor monitor and enforcer of state regulations and cannot be relied upon to regulate the Medicaid health plans. "The Medicaid health plans have no solid experience with individuals with serious mental illness," he said.

Funding cuts hit bottom line

Stan Stek, board chair of Lakeshore Regional Entity, said a significant amount of its projected $14 million 2018 operating deficit is due to "systemic underfunding by the state including a failure to properly fund the reserve system and distributing inadequate revenue to cover Healthy Michigan and autism services."

Stek said Lakeshore is working with community partners, including Kent County, to help address its deficit. He said Lakeshore has also discussed with state legislators the need for funding from a supplemental budget "all in hopes of covering the deficit without being in technical default of the state contract."

On Nov. 30, MDHHS notified Lakeshore Regional that it is in default on its contract and asked for a new turnaround plan.

Reinstein said the association supports a supplemental budget that addresses cuts facing community mental health agencies over the past four years. But he said Lakeshore should be either taken over by the state or required to find another contractor.

"We hope the new administration (in 2019) will consider cutting the numbers of PIHPs (10) and community mental health service providers (46) by more than half in each case," he said. "In today's technological world, we don't need the current numbers. (There are) too many bureaucratic layers right now for consumers and families to deal with and too much of all the different players spending money on the same things. It will also then be easier to create statewide uniformity on policies, practices and procedures."

Willie Brooks, CEO of Detroit Wayne Community Mental Health Authority, said Detroit Wayne and other PIHPs are facing uncertain state Medicaid budgeting. DWMHA is facing a $19 million structural deficit, MDHHS said.

"There is a tremendous need to serve the community so most PIHPs will budget to the total projection of revenue to maximize community benefit. If that budget is subsequently reduced it causes problems," Brooks said in an email to Crain's.

Detroit Wayne faced several unexpected state rule changes from its initial budget projections, he said. For example, DWMHA initially received $12 million less than expected and then another $25 million in reductions due to death enrollment calculations, Brooks said.

"We consequently received revenue adjustments to make up for some of the deficit, but not all of it," he said.

Brooks said Detroit Wayne used reserves to make up for unexpected revenue reductions in 2018. He said the PIHP is restructuring to reduce expenses and streamline operations to prepare to contract with Medicaid health plans.

"It is critical that all PIHPs receive more defined revenue and that PIHPs be allowed to balance reserves to manage risk," Brooks said. "As (behavioral health and HMOs) begin to have closer partnerships, the reality of the impacts of uncertain budgets and budget shortfalls becomes more apparent. This is not an issue of mismanagement, it is more of an issue of required revenue to meet demands and controlling the uncertainty of fluctuating budgets."

Anya Eliassen, CFO of Oakland Community PIHP, said the interim financial statement for 2018 for Oakland Community Health Network that showed a $58 million operational deficit is misleading because it does not include all revenue from contracts and grants. She said total revenue for Oakland won't be tallied until February, when a final accounting is due to MDHHS.

Eliassen said Oakland is projecting a $160,000 surplus for fiscal 2019 that began Oct. 1.

"We will have a deficit in 2018 (when all accounting is completed). It was an intentional use of reserves the state asked us to do over the past two years to transition to outcomes-based contracting," Eliassen said.

On asking for additional funding, Eliassen said Oakland Community and other PIHPs have asked the state for assistance to boost direct caregiver wages and make up for a shortfall in funding for the disabled, aged and blind Medicaid population. She said Oakland Community has not asked Oakland County for additional revenue this year.

"The key issue is the reduction in revenue," she said. "We can't manage a budget when the funding doesn't match the services. We are not able to stop medically necessary services" to patients.

Pallone disagrees that the DAB population has been mistakenly enrolled into Healthy Michigan Medicaid, as the PIHPs have alleged.

"While the capitated payment to a PIHP is far less (about $200 less per person, per month), the fact is that the health plans would have been affected but this alleged mistake in enrolling," he said. "We simply haven't seen it be any worse now than it ever has been before."

Eliassen said MAHP's analysis of Oakland and other PIHPs' financial condition is misleading.

"One would hope that during a time when deaths by suicide and substance use overdoses are increasing across our country, all health care organizations, including the Medicaid health plans, would focus their attention on saving lives instead of discrediting public mental health partners," Eliassen said in an email.

"Sharing these figures out of context creates a distraction from a widely known challenge — funding reduction," she said. "In the past five years, more than $500 million has been removed from Michigan's public mental health system."

*"**Managed care companies push for privatization amid losses for public mental health authorities**" originally appeared in **Crain's Detroit Business**.*