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660 J STREET, SUITE 300
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July 20, 1983

P-086

Honorable Art Agnos
Chairman, and Members of the
Joint Legislative Audit Committee
State Capitol, Room 3151
Sacramento, California 95814

Dear Mr. Chairman and Members:

This report discusses the status of the Department of Health Services' (department) implementation of the Medi-Cal co-payment demonstration project.

The Medi-Cal co-payment demonstration project, which requires Medi-Cal beneficiaries to pay a nominal fee, has been in effect since May 10, 1982. Data from the providers of Medi-Cal services indicate that about 50 percent of the providers are collecting co-payments. For those who choose to collect co-payments, the frequency of collections varies from less than 25 percent of the time to over 75 percent of the time. Some providers reported a decline in Medi-Cal use that may have been caused by the co-payment program, but we could not isolate the effect of this program on Medi-Cal use because of numerous other recent changes in the Medi-Cal program. The department has just begun to analyze the effectiveness of the co-payment concept. However, because it may be difficult to isolate the effects of the co-payment program on Medi-Cal utilization from the effects of other Medi-Cal policy changes that may also affect utilization, we do not believe that it will be possible for the department to demonstrate conclusively whether the co-payment project is effective.

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Background

In response to Medi-Cal budget reductions in fiscal year 1981-82, the Legislature passed two Medi-Cal reform bills: Assembly Bill (AB) 251, Chapter 102, and AB 1260, Chapter 1163. These bills included several items designed to reduce overall Medi-Cal expenditures. One of the requirements in AB 251 was the Medi-Cal co-payment system, which requires that Medi-Cal recipients, with certain exceptions, pay a nominal fee, or "co-payment," for most outpatient services, nonemergency use of emergency room services, and prescribed drugs. Co-payments are intended to lower Medi-Cal costs by reducing the number of unnecessary visits made by beneficiaries to providers of Medi-Cal services. Under the co-payment system, beneficiaries pay \$1.00 for each visit to providers of outpatient services, \$5.00 for each visit to emergency rooms for nonemergency services, and \$1.00 for each drug prescription. The provider collects or is obligated the co-payment fee, which is in addition to the usual Medi-Cal reimbursement, at the time the provider serves the beneficiary. Because the co-payment fee is optional, the provider may waive it at his or her discretion.

To implement the Medi-Cal co-payment demonstration project, the department requested and received a waiver from the Federal Health Care Financing Administration (HCFA) that allows California three years to demonstrate the effectiveness of the co-payment concept. The HCFA approval was required because the HCFA shares the cost and administrative responsibilities for the program with the State. After the waiver was approved, the department notified both Medi-Cal beneficiaries and providers of the new procedures for co-payment and informed them that the co-payment system would become effective on May 10, 1982.

Implementation Status

To determine the extent to which providers were participating in the co-payment project, the department sent questionnaires to 1,600 providers. While the department was still collecting some of the later responses, we reviewed approximately 1,200 of the early replies and found that about 50 percent of the providers said that they were collecting some co-payments. However, the frequency of collection varied over a wide range. For example, the largest number of providers said that they collected co-payment fees less than 25 percent of the time.

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The remaining providers were somewhat evenly distributed among the following ranges: collections made 25 to 49 percent of the time, 50 to 75 percent of the time, and over 75 percent of the time.

We also reviewed the questionnaire responses for indications that implementation of the co-payment project resulted in a decline in visits by Medi-Cal beneficiaries. Some providers who were collecting co-payments indicated that a decline in beneficiary visits did occur. However, without offering explanations, some providers who were not collecting co-payment fees also reported a decline in visits by Medi-Cal beneficiaries.

Since the co-payment project began, there have been numerous other changes in the Medi-Cal program that may also cause a decline in the use of Medi-Cal services. For example, changes as a result of AB 799 (Chapter 328, Statutes of 1982) and SB 2012 (Chapter of 1594, Statutes of 1982) that affected the Medi-Cal program included reductions in Medi-Cal benefits and eligibility; and the transfer of medically indigent adults from the Medi-Cal program to county administration. As a result of these changes, we cannot conclude how much, if any, of the decline in beneficiary visits is a result of the co-payment project.

The table on the following page shows the percentage of providers who reported that they were collecting co-payments and the percentage who reported a decline in beneficiary visits. The table also shows that from 27 percent to 34 percent of the providers reported a decline in beneficiary visits for insignificant health problems; 16 to 24 percent reported a decline in preventive care visits; and 15 to 26 percent reported a decline in necessary care visits.

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PROVIDERS COLLECTING CO-PAYMENTS AND
 REPORTING A DECLINE IN BENEFICIARY VISITS

<u>Category of Providers</u>	<u>Number of Questionnaires Received</u>	<u>Number (Percent) of Providers Who Collect Co-Payments</u>	<u>Percent of Providers Who Collect Co-Payments and Reported a Decline in Beneficiary Visits</u>		
			<u>Insignificant Health Problems</u>	<u>Preventive Care</u>	<u>Necessary Care</u>
Physicians Treating the Majority of Medi-Cal Beneficiaries	321	165 (51%)	32%	24%	19%
Other Physicians	147	62 (42%)	34%	16%	15%
Other Providers ^a	373	133 (36%)	27%	23%	26%
Hospital Emergency Rooms	<u>373</u>	<u>242 (65%)</u>	b	b	b
Total	<u>1,214</u>	<u>602 (50%)</u>			

^a This category consists of all other providers such as occupational therapists, physical therapists, speech therapists, and chiropractors.

^b Hospital emergency room providers were asked if co-payment fees deterred nonemergency visits and emergency visits. Fifty-five, or 23 percent, said nonemergency visits were deterred; 11, or 5 percent, said emergency visits were also deterred.

Currently, the department is in the preliminary stages of evaluating the effectiveness of the Medi-Cal co-payment project. To compare the frequency of beneficiary visits before and after implementation, the department is analyzing information on paid Medi-Cal claims that was collected both before and after implementation of the co-payment project. The department plans to determine if co-payment fees will deter beneficiaries from seeking unnecessary care without deterring them from obtaining care for significant health problems. As of May 23, 1983, the department was also developing a methodology for separating the effects of other recent changes to the Medi-Cal program from the possible effects of the co-payment program. However, because of the wide range of changes in the Medi-Cal program, we do not believe that the department will be able to demonstrate conclusively the effectiveness or ineffectiveness of the co-payment project.

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We conducted this audit under the authority vested in the Auditor General by Section 10500 et seq. of the California Government Code and according to generally accepted government auditing standards. We limited our review to those areas specifically contained in the audit request.

Sincerely,



THOMAS W. HAYES
Auditor General

Audit Completion Date: July 18, 1983

Staff: Richard C. Tracy, Audit Manager
Murray Edwards

Attachment: Response to the Auditor General's Report
Health and Welfare Agency



HEALTH and WELFARE AGENCY

OFFICE OF THE SECRETARY
1600 NINTH STREET, ROOM 460
Sacramento, California 95814

(916) 445-6951
July 13, 1983

Thomas W. Hayes, Auditor General
Office of the Auditor General
660 J Street, Suite 300
Sacramento, CA 95814

Dear Mr. Hayes:

We have reviewed the draft of your report to the Joint Legislative Audit Committee on the "Department of Health Services Implementation of the Medi-Cal Co-Payment Demonstration Project". We are in agreement with the report's conclusions.

The report addresses the difficulties in attempting to isolate the impact of co-payment from other Medi-Cal reforms.

The Department is therefore focusing part of its evaluation efforts toward the period of May 10, 1982 through September 1, 1982. During this period copayment was in effect but the majority of the AB 799/ SB 2012 reforms did not become effective until September 1, 1982. By analyzing beneficiary utilization during this period, the Department can obtain more reliable information regarding the impact of co-payment. Further, efforts are also being made to identify specific services or procedures billed to Medi-Cal not affected by the Medi-Cal reform to determine if co-payment has resulted in reduced utilization of these services.

Sincerely,

A handwritten signature in black ink, appearing to read "D. Swoap".

DAVID B. SWOAP
Secretary