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TO: Chairman Louis D. Greenwald, Assembly Budget Committee

FROM: Wardell Sanders, Esq.
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RE: Assembly Budget Hearing, March 24, 2009
MCO capitation rates for State FY2010

Chairman Greenwald and Members of the Assembly Budget Committee:

My name is Wardell Sanders, and I am the President of the New Jersey Association of Health Plans (NJAHp). The NJAHp is a non-profit organization which represents all of the major health plans in New Jersey, including all five Medicaid managed care organizations (MCOs) contracted with the State. Our member health plans include Aetna, AmeriChoice, AmeriGroup, AmeriHealth, Cigna, HealthNet, Horizon Blue Cross Blue Shield of New Jersey, United Health Care, and University Health Plans.¹

Purpose of Testimony

My testimony is directed at the capitation rates for State Fiscal Year 2010 paid to the five MCOs contracted with the State to serve the Medicaid and NJ FamilyCare beneficiaries. The purpose of my testimony is to encourage you to assure adequate funding for the Medicaid and NJ FamilyCare Programs for fiscal year 2010. This issue becomes even more important as we are likely to see increased eligibility and enrollment in public programs given the volatility in the economy. In his budget address last year, Governor Corzine talked about the “need to maintain access to health care for our most vulnerable.” Adequate funding is necessary to ensure this access.

¹ The five MCOs contracted with the State to serve the Medicaid and NJ FamilyCare beneficiaries are: AmeriChoice, AmeriGroup, HealthNet, Horizon NJ Health, and University Health Plans.

Managed Medicaid: Improving Access While Reducing Costs

Since the inception of the Medicaid Managed Care program in the 1990s, our Medicaid MCOs have partnered with the State to improve access to health care for Medicaid and NJ FamilyCare beneficiaries and to effectively manage state dollars. As you may be aware, approximately 85% of New Jersey's Medicaid and NJ FamilyCare beneficiaries are now receiving their health care services through the Medicaid MCOs. We understand that in this difficult economic climate the State will continue to depend on its partners to continue to deliver high quality health care for the publicly insured at costs much lower than could possibly be delivered without the Medicaid MCOs.

Actuarially Sound Rates

The Balanced Budget Act of 1997 and federal regulations require that states set their payments to MCOs "on an actuarially sound basis." Last year the State provided a rate increase of approximately 2%. Our actuaries believed those rates that were not "actuarially sound," were flawed, and included an unsubstantiated "efficiency adjustment" that far exceeded prior adjustments. We stand firmly by that assessment. We also noted that for the same period the State Health Benefits Program trend was in the range of 5% to 10%. When the State Health Benefits Plan and commercial carriers are able to realistically address medical trend that's increasing at 7% or more, the State's failure to provide for the same in the Medicaid Managed Care program unnecessarily disadvantages the lower-income families and people with disabilities who depend on that program for their health care services. For numerous reasons, including and especially reimbursement levels, it is already a challenge to convince hospitals and provider groups to serve the Medicaid population. Please understand that over 85% of the funding paid to MCOs are distributed to providers and facilities to provide care. To ask them to do so without adequate program funding is a very real threat to the stability of the NJ FamilyCare Program, the foundation of Governor Corzine's plans for covering all kids.

Increased Federal Funding Should Be Directed to Ensure Access to Care

Importantly, the American Recovery and Reinvestment Act (ARRA), the stimulus law, includes increases in the percentage the federal government reimburses each state for Medicaid expenditures. Section 5000 of ARRA provides that the purpose of the funding is "to protect and maintain State Medicaid programs during a period of economic downturn, including by helping to avert cuts to provider payment rates and benefits or services." These Federal Medical Assistance Percentages (or "FMAP") signal the federal government's intention to *increase* funding for State Medicaid programs. Under the federal law, New Jersey will receive an additional \$1.01 billion in SFY2010 for a total FMAP increase of \$2.2 billion. It would be incongruous for New Jersey to accept increased FMAP funding without passing along such funding to the NJ FamilyCare Program, including rates that are adequate to enable the Medicaid MCOs to maintain robust networks for the members they serve.

SFY2010 Rates

The State has advised the MCOs of the tentative capitation rates for SFY2010, and the State will be hosting a meeting with its consulting firm to present those rates formally on March 25, 2009. In short, we learn more about the State's proposal later this week. As a

result, we are not in a position to opine at this time on the adequacy of the State's proposed rates. At the end of the day, each plan will have to consider whether the rates proposed are sufficient to allow them to continue to adequately serve the Medicaid and NJ FamilyCare beneficiaries. Please understand that increased capitation rates that do not keep pace with medical inflation are *de facto* cuts. Our goal today was to make sure you were aware of the nexus between capitation rates and access to care, and the important role that the MCOs play in increasing access to care for beneficiaries and in doing so in a cost-effective manner. We encourage you to fight for adequate rates to ensure access to care for our most vulnerable populations.

Thank you for your consideration of our comments.