



January 31, 2012

The Honorable Senator Peter Courtney, President
The Honorable Representative Bruce Hanna, Co-Speaker
The Honorable Representative Arnie Roblan, Co-Speaker
900 Court Street NE
S-201, H-269 State Capitol
Salem, OR 97301-4048

Re: Senate Bill 101 (2011) Report

Dear Legislators:

The 2011 Legislative Assembly passed SB 101 pertaining, in part, to implementing a new Medicaid fee schedule¹ and promoting contracts between managed care organizations (MCOs) and hospitals. The bill requires OHA to report to the Legislative Assembly no later than February 1, 2012 on the results of the contracting carried out under those provisions.

Background:

The sections of the bill pertaining to this report are sections 7 and 8. Specifically, the bill requires:

- OHA to implement the new fee schedule on September 1, 2011.
- Hospitals and MCOs to maintain their existing contracts for inpatient or outpatient hospital services, unless both parties agree to a change, until OHA implements the new fee schedule.
- Hospitals and MCOs to work in good faith to negotiate a new contract in anticipation of implementation of the new fee schedule on September 1, 2011.
- If an MCO does not have a contract with a hospital that provides 10 percent or more of hospital admissions and outpatient services to enrollees of the plan, the hospital and MCO may engage in binding arbitration. They must have completed the binding arbitration by December 1, 2011.
- Section 8 of the bill specifies MCO reimbursement rates to hospitals that do not contract with the MCO.

The intent of SB 101 is to encourage contracting between MCOs and hospitals. The bill amends rates MCOs must pay to non-contracting hospitals, with the exception of Type A and B hospitals. The bill also changed reimbursement rates from two percentage points to four percentage points less than the percentage of the Medicare reimbursement rate used to calculate the base hospital capitation payment. This change applies only to non-

¹ The "Medicaid fee schedule" referenced in the bill relates to the rates established to pay hospitals that contract with MCOs. It does not apply to reimbursements to hospitals on a fee-for-service basis.

contracting hospitals that serve 10 percent or more of a MCO's enrollees. For non-contracting hospitals that serve less than 10 percent of the MCO's enrollees, the rate remains at two percentage points less than the percentage of the Medicare reimbursement rate.

Progress to Date

Effective October 1, 2011, OHA established the capitation rates for fully capitated health plans with the base DRG hospital rate at 68% of Medicare costs. As a result, under SB 101, contracting hospitals receive a rate of 68% of Medicare costs, while non-contracting hospitals received:

- 64% of the Medicare rate if the hospital provides services to more than 10% of the MCO's enrollees; and
- 66% percent of Medicare rates if the hospital provides services to less than 10% of the MCO's enrollees.

On November 30, 2011, OHA sent a letter to all MCOs requesting them to identify all the hospitals they have a contract with. Based on responses received in December of 2011, 27 of 29 contracts were in place for hospitals having more than 10% of an MCO's admissions.

In addition, OHA's contract with MCOs includes the following two benchmarks for monitoring a MCO's contracting with hospitals:

- A minimum of 90% of a MCO's total inpatient admissions shall be provided in hospitals under contract with the MCO; and
- A minimum of 90% of a MCO's total dollars paid for all outpatient services shall be provided in hospitals under contract with the MCO.

In March of 2011, MCOs submitted Hospital Adequacy Reports indicating the percent of services provided at contracted hospitals. This report showed that 13 of 14 MCOs met the 90% threshold for inpatient services and 11 of 14 met the threshold for outpatient services. Note, as a physician care organization, Kaiser is not included in this count. By March 31, 2012, each MCO will provide a Hospital Adequacy Report that will tell us if contracting between MCOs and hospitals has reached the 90 percent benchmarks required by OHA's contract with MCOs so we can continue to monitor progress...

This report is also available online at: www.oregon.gov/OHA/legactivity/. Please do not hesitate to call with any questions.

Sincerely,



Judy Mohr-Peterson, Director
Division of Medical Assistance Programs
Oregon Health Authority

CC: Scott Burgess, Legislative Administrator
Sandy Thiele-Circka, Committee Services