Minnesota Department of **Human Services**

December 16, 2004

The Honorable Matt Entenza
Minnesota House of Representatives
267 State Office Building
St. Paul, MN 55155-1298

Dear Representative Entenza:

Thank you for your follow-up letter regarding the impact of the managed care delivery system on the State's payment for health care services and on payment rates for Minnesota Health Care Program (MHCP) providers.

In your letter you asked for a specific response regarding the amount of savings that is attributable to managed care contracts. The Department of Human Services (DHS) has been contracting with managed care organizations (MCOs) to serve clients on the MHCP for a number of years. We began enrolling certain Medical Assistance (MA) and General Assistance Medical Care (GAMC) eligible individuals in managed care in 1987. In 1996, we began enrolling the MinnesotaCare eligible population. There no longer remains a credible comparison group of fee-for-service recipients against whom to compare the groups now enrolled in managed care. We do not have a methodology that could accurately assess whether managed care has cost us more or less than fee-for-service. The managed care rates do reflect managed care experience, but DHS also takes into consideration overall spending in MCHP. In 2004, rates for MCOs contracting for MHCP increased just over 6 percent overall. For 2005, the rate increase will be approximately 7.5 percent overall. This is well within the projected range of 8 to 12 percent for commercial plans for this timeframe.

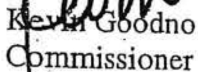
There are a number of benefits to managed care that accrue both to enrolled recipients and to the State. Managed care organizations are required to provide access to all medically necessary covered services. Under fee-for-service (FFS) there is no comparable requirement for an enrolled provider to serve all recipients who present for care. Managed Care Organizations provide customer services, nurse triage services, care coordination and are required by state and federal law to have in place a structure to provide quality assurance for the care delivery process. In addition, from the State's point of view, we are better able to predict costs under a managed care structure because we know exactly what the State's cost will be for an individual of a specified age, gender and living arrangement.

You also asked for specific information regarding the differences between rates paid by the DHS fee-for-service (FFS) program and the rates paid by health plans. Each MCO negotiates its own

contracts with its provider network. The Department of Human Services does not have complete, comparable data regarding payment by the managed care plans. We do collect information regarding charges; however, the reported payment amounts are not necessarily comparable either to FFS payment amounts or to actual amounts paid by MCOs. For instance, DHS pays for office visits on the basis of a set fee for a certain procedure code; a managed care organization may pay for the same service on a specified fee basis, or the MCO many have a capitation arrangement under which it pays a monthly fee to a clinic for each enrollee who has chosen that clinic as their primary care site, regardless of what services are used by an individual enrollee in a given month. In order for you to gain more detailed information regarding MCO payment rates, I would recommend that you contact each health plan.

If you would like assistance in setting up appropriate contacts, Karen Peed, a member of Department staff, would be happy to work with your staff. Ms. Peed can be reached at

Yours sincerely,



Kevin Goodno
Commissioner