CRAIN'S DETROIT BUSINESS

Detroit and Southeast Michigan's premier business news and information website

Originally Published: January 17, 2016 8:00 AM **Modified: January 18, 2016 11:25 AM**

HMOs seek mental health bids

Health plans group lobbying to get state OK to pursue exclusive contracts

By Jay Greene

A move is underway in Michigan to further privatize the public nonprofit mental health system by turning over $2.4 billion in state funding to Medicaid HMOs, some of which are owned by for-profit insurers.

The Lansing-based **Michigan Association of Health Plans** has mounted a lobbying effort to gain state approval next year to bid for the potentially lucrative contracts that now are exclusively in the public health sector.

"Is it feasible for health plans to contract with networks as behavioral providers? It certainly makes sense," said Rick Murdock, MAHP's executive director. "Should the state of Michigan look at ways to continue to improve the effectiveness of the Medicaid program? Absolutely, we think they should."

Murdock said health plans are managing medical care, behavioral health, substance abuse and developmentally disabled in other states. They include Illinois, California, Florida, New Mexico, South Carolina, Washington, Wisconsin and Texas.

On the other side, officials for the **Michigan Association of Community Mental Health Boards** have warned state officials about the dangers that could face a vulnerable and needy population by allowing health plans to take over the state's mental health system.

"This budget is pretty attractive to the health plans," said Bob Sheehan, CEO of the mental health board association. "They see that market, and they believe they can do quite well" financially.

Sheehan said the health plans underestimate the difficulty in caring for a complex population and their plans' ability to earn high profit margins in behavioral health.

"This is not a traditional market most health plans are used to serving," Sheehan said. "(We) treat the more severe cases that involve the additional complexities of poverty, housing, employment, disease and environmental concerns."

Under the state's current mental health payment system, the **Department of Health and Human Services** makes monthly per-person Medicaid payments to "prepaid inpatient health plans," commonly called mental health authorities, in 10 regions that cover about 251,000 Michiganians. Wayne, Oakland and Macomb counties each make up one region with their mental health authorities.

The mental health authorities, in turn, contract with a variety of provider organizations and community mental health agencies to deliver services that include autism, developmental, substance abuse, behavioral health and serious mental disorders. The 46 community mental health agencies, which serve 83 counties, also receive general fund dollars for services not covered by Medicaid.

The opening foray by health plans, say some observers, began last year in Wayne County when for-profit **Molina Healthcare**, based in Long Beach, Calif., acquired a minority interest in **Integrated Care Alliance**, a developmental disability provider organization.

ICA has a contract with the **Detroit-Wayne Mental Health Authority**, one of the regional agencies that contract with HHS.

In September, Molina acquired 100 percent interest in ICA, a move that led Tom Watkins, CEO of DWMHA, to terminate ICA/Molina's contract for failure to notify the authority and other contract violations. The authority's board in mid-December suspended the termination until at least Jan. 31 to study the issue.

Molina said in a statement its acquisition of ICA is part of a broader strategy to integrate physical and behavioral health care for the people it serves in Michigan and at least seven other states.

Craig Bass, a Molina vice president, said the health plan is looking nationally to improve care coordination between physical and behavioral health. He said Molina in Michigan already treats many of the patients that ICA does, so the acquisition was a natural fit.

"We want to ensure our members get the best behavioral, medical and developmentally disabled care possible," Bass said. "Frequently that doesn't happen when you have two payers who are two different entities."

Of the people served by the mental health authorities in 2015, more than 70 percent are already enrolled in a Medicaid HMO, according to the Michigan HHS and the Ann Arbor-based **Center for Healthcare Transformation and Research**.

Taft Parsons, M.D., Molina's vice president of behavioral health, said managing diabetes and other chronic conditions in conjunction with mental health conditions results in better outcomes.

"We have multidisciplinary teams that work to improve (patients') illness burden by working with local social services (and community organizations) to deliver services the member needs," Parsons said.

Cost savings

If Gov. Rick Snyder and the state Legislature agree that Michigan should change its mental health contracting system, Bass said Molina would be better able to serve that population with the experience it is gaining through ICA and a dual eligible demonstration program in Michigan where it is coordinating physical and behavioral health care for Medicare and Medicaid patients.

Sources tell *Crain's* the health plans are suggesting to Snyder and state legislators that allowing them to manage medical and behavioral health in an integrated fashion could cut costs by $200 million from 2017 to 2019.

The cost savings then could help pay for state general fund transfers mandated by the $1.2 billion Michigan road bill, which Snyder recently approved and begins in 2017. Most of the road improvements will be paid by higher gas and license taxes, but $150 million must be shifted by 2018, rising to $600 million by 2020 and after.

Murdock acknowledged savings could accrue if the HMOs managed all care. But he said benefits to the state also could help to address the following over a three-year period: the pending shortfall of state revenue in fiscal year 2017 for the Medicaid program.

The shortfall, which could tally more than $1 billion, includes the potential loss of provider taxes that support the Medicaid program, rising specialty drugs costs and $150 million in 2017 in general funds to support Healthy Michigan, Murdock said.

"If we are truly interested in treating the whole person, we should move toward more of an integrated approach," Murdock said.

James Haveman, former community health director, said he supports the health plan's effort to coordinate both physical and behavioral health.

"I am in favor of anything that streamlines the current structure. We need to shrink the administrative costs," said Haveman, president of the **Haveman Group**, a consulting firm based in Grand Haven.

"The current structure ... has multiple levels of administration. I have come to the conclusion we need to lessen that so we can get out more services," he said.

Evolving care, financing

Over the past 50 years, Michigan's mental health delivery system has changed drastically. Starting in 1987, the state began closing 11 of 16 psychiatric hospitals and moved more into the outpatient arena.

In 1996, Michigan carved out behavioral health from physical health reimbursement under a federal waiver when the state began contracting with Medicaid HMOs.

"Now we are preaching integrated care. You can't preach that unless you carve back in those services," Haveman said. "I support the carve-in (to Medicaid HMOs). The community mental health board model has to change."

To reduce costs, Snyder in 2013 reorganized mental health delivery by funneling state dollars into geographic regions in no-bid contracts to 10 mental health authorities.

At the same time, Lt. Gov. Brian Calley headed the **Mental Health and Wellness Commission** to evaluate and recommend changes in the state's mental health system.

One still unmet recommendation is to "improve coordination of behavioral health and physical health."

This recommendation could mean more streamlining in the public mental health system to eliminate administrative duplication.

But mental health professionals told *Crain's* they fear Snyder could be persuaded to allow for-profit HMOs like Molina, **Aetna Inc.**, **Total Health Care** and **Meridian Health Plan** to take over the public system.

Officials for Snyder's office did not return several calls for comment.

Making a case

If Medicaid HMOs take over the system, said Willie Brooks, CEO of the **Oakland County Community Mental Health Authority**, the drive for profits by the health plans could take up to 10 percent of payments from an already underfunded mental health system.

Brooks explained that Medicaid HMOs' retain an average of about 15 percent of revenue as administrative overhead and profits. Nonprofit mental health agencies retain about 5 percent or less as overhead.

"Whenever you don't have to worry about shareholders' profit, the money goes back to the people," Brooks said. "HMOs' goal is to avoid risk, and they make more money by avoiding risk. Our goal is to approach risk and minimize the long-term affects by providing services."

Watkins, who is at the center of the for-profit versus public nonprofit mental health debate, said he is not opposed to further privatization of the mental health system.

"I am anti-profiteering," Watkins told *Crain's* in an email in a reference to the move by health plans to take over the public mental health system.

But Haveman said there is enough money in the system to allow for-profit HMOs to generate their return on investment and integrate care.

"Community health boards have sizable reserves," he said. "HMOs can contract with the people who know how to provide the services. (HHS) can write the regulations to ensure services are delivered to the people."

While opposing HMO takeover plans, Elmer Cerano, executive director of the federally funded consumer advocacy group **Michigan Protection & Advocacy Service**, agreed that the state mental health code would have to be modified to closely regulate for-profit HMOs.

"The concern we have is because there are high-cost users and there will be a temptation by for-profit companies to reduce services" to create adequate profit margins, Cerano said. "We are opposed to organizations taking profits out of the system because this removes needed resources."

Cerano said the 10 mental health authorities are capable of squeezing out more efficiency by reducing the number of community mental health agencies under contract.

"We don't need 46. They should be more aligned with the (mental health authorities) to reduce the administrative overstructure," said Cerano, noting that Detroit Wayne already has consolidated operations.

John Kinch, executive director of **Macomb County Community Mental Health**, said he also believes the public system can improve to reduce costs and deliver greater services to patients.

"We have come a long way (since the 1960s) to improve care for patients," he said. "It is silly to put that at risk."

Jay Greene: (313) 446-0325. Twitter: @jaybgreene

Use of editorial content without permission is strictly prohibited. All rights Reserved 2016
www.crainsdetroit.com