



Recommendations on Rate-setting for Adult Service Providers that will Operate under an Administrative Services Organization

*Our Goal: Protect Service Quality and Access as well as the
Tax-saving Capacity of Mental Health & Substance Use Providers*

By preventing high-cost, emergency and inpatient care, non-profit mental health and substance use providers have shrunk the census of state and county psychiatric hospitals by 85% — from more than 15,000 persons in 1970 to less than 2,400 persons in 2013. ***Mental health and substance use providers save the taxpayer more than \$1 billion per year.*** As New Jersey (NJ) transitions to fee-for-service, managed care, the new contracting system should:

- (1) ***protect the tax-saving capacity of mental health and substance use providers*** – by funding the true cost of evidence-based care, with periodic adjustments for inflation;
- (2) ***expand the tax-saving capacity of mental health and substance use providers*** – by deploying evidence-based behavioral supports to reduce the cost of other chronic diseases, and to help consumers learn illness management, help-seeking and wellness skills;
- (3) ***ensure consumer health and safety*** – by eliminating restrictions on access to services; by providing rates sufficient to support effective engagement and evidence-based treatment; by eliminating conflicting regulations that create compliance problems; and by protecting the ability of mental health and substance use providers to save lives and tax dollars.

Ensure Adequate Funding to Support the Highest Quality, Evidence-Based Care

Rate-setting should start with stakeholder input into program design, service array, staffing and productivity necessary to provide the evidence-based care truly capable of producing tax-savings **and** ensuring the health and safety of consumers. Rates should also include:

▪ **Rate Increase for New Costs**

Rates determined by current costs should be increased to include new and/or additional costs that will be incurred under managed care:

- Utilization Management Staff
5% rate increase to fund \$100,000 salary/fringe, assuming \$2 million in billings 2%-5%
- Billing & IT Staff
5% rate increase to fund \$100,000 salary/fringe, assuming \$2 million in billings 2%-5%
- Compliance-related Uncompensated Care
Uncompensated care allowance for compliance errors @ 5% of total billings 5%
- Working Capital
Building financial reserves: 10% margin to be earned on billings 10%
- Capital Expenses & Other Urgent Needs (Replacing “Accrual Spending”)
2.5% rate increase to cover capital expenses and other urgent needs 2.5%

Total Rate Increase for New Costs 21.5%-27.5%

- **Increased Rate to Manage Consumer Safety Problems**

One hundred per cent (100%) rate increase to provide enhanced services for **consumers posing safety concerns**; enhanced services may include two staff on an outreach visit, additional program security, on-call support, etc.; the need for enhanced services would be justified by special circumstances, documented in the clinical record, according to the Division of Mental Health and Addiction Services (DMHAS) specifications, and subject to audit by the Administrative Service Organization (ASO).

- **Increase Rate for Apartment Repairs**

Rates for supportive housing, group homes, and other residential services should be increased by 2.5% to compensate providers for apartment damage, bed bug remediation, and other uncompensated costs that would otherwise lead to landlord-tenant problems and evictions, if these costs were not paid.

- **Realistic Productivity Expectations & Reimbursement for Consumer Engagement**

Rates should be based on realistic expectations for productivity, and recognize that consumers in the highest risk circumstances typically require extensive outreach *before* they are effectively engaged. Pre-engagement outreach should be reimbursed for up to 10 hours. Because engagement continues after intake, resulting in predictable missed appointments, cancellations, vacancies, etc., these should be reimbursed up to five hours/consumer/year.

- **Full Parity for Substance Use & Mental Health Services**

Mental health and substance use services save tax dollars, and should be reimbursed by all insurance plans at rates to encourage their use, especially Medicaid. Rates should reflect the full cost of care provided by both substance use and mental health providers, who meet higher licensing standards for quality improvement, compliance, etc. than private practitioners, and should be paid more.

Increase Tax-savings by Managing Other Chronic Diseases.

Many substance use and mental health providers offer integrated care to help consumers manage chronic diseases (e.g., metabolic syndrome, diabetes, heart disease, etc.) – despite insufficient resources to do so. Integrated care is required to reduce the health disparities confronting this population. Those with serious mental health problems die 25 years ahead of the general population, and 37 years sooner, if substance use is present.

- **Chronic Disease Management & Prevention**

Twenty per cent (20%) increase to rates to provide disease management to specific consumers diagnosed with chronic diseases or who are at high risk of chronic diseases; the rate increase will cover nursing care management and care coordination, including unreimbursed phone contacts; 20% rate increase would be based on 1.0 Nurse FTE @ \$100,000 for salary/fringe, assuming program budgets of \$500,000, to provide integrated care to 65 consumers with serious health problems served by any mental health or substance use provider functioning as the consumer's primary service provider.

- **Reduce NJ Health Costs**

Expand behavioral supports to help other populations manage chronic diseases – especially high-cost users of emergency and inpatient services. The failure of the primary care system to engage high-cost users has placed NJ among states with the highest health costs. ***Mental health and substance use providers can help the state reduce NJ Medicaid and Charity Care costs by providing outreach, engagement and treatment to high-cost users to ensure coordinated and integrated care for all health problems.***

Cash-Flow Protection

Mental health and substance use providers are cash-poor because of “deficit-funded” contracts by the State. Cash-flow protections should be implemented to prevent financial instability from escalating, resulting in service disruptions for consumers and increased costs. Options include:

- **Long-term Loan Programs**

Similar to the State’s Capital Improvement program, where a long-term cash infusion – which is collateralized by the provider’s land, buildings, etc., and recoverable by the State. Loans would be issued for 20 years to protect against cash-flow problems related to delayed payments, periods where lines of credit may be unavailable, among other problems.

- **Cash Advances**

Similar to the State’s current practice of providing monthly advances equal to 1/12 of the annual contract ceiling, these advances would continue until the provider’s cash reserves were sufficient to cover three months’ operating expenses.

- **Retention of Contract Funds**

Prior to implementing managed care, mental health and substance use providers should be authorized to build working capital reserves and address urgent capital needs via liberal retention of unspent contract funds.

Conclusion

The new managed care contracting system provides an opportunity to take full advantage of the tax-saving potential of mental health and substance use providers. These providers redirect high-cost users away from emergency and inpatient care by helping them learn evidence-based, self-management and illness management skills. While improving consumer health and reducing safety risks, mental health and substance use providers have saved the New Jersey taxpayer more than \$1 billion each year for the past 35 years. This tax-saving potential can also be targeted to reduce state spending for other chronic diseases – with even greater tax-savings likely because New Jersey is one of the highest cost states for health care.