

Performance-Based Funding Model Cost Analysis

(FY2016 Appropriation Act - Public Act 84 of 2015)

September 30, 2016

Sec. 503 (3). *By September 30, 2016, the department shall complete a full cost analysis of the performance-based funding model with respect to the current fiscal year, including relevant information on the actuarial rate-setting process, and provide a report on the analysis to the senate and house appropriations subcommittees on the department budget.*



Michigan Department of
Health & Human Services

RICK SNYDER, GOVERNOR
NICK LYON, DIRECTOR

Performance-Based Funding Model Cost Analysis

The Michigan Department of Health and Human Services (MDHHS) and the West Michigan Partnership for Children (WMPC) are currently in the infrastructure building phase of implementation of the performance-based funding model, therefore a full cost analysis is not available at this time.

MDHHS has progressed the actuarial rate setting process. MDHHS contracted with Public Consulting Group (PCG) and Lewis & Ellis (L&E) to determine the full cost of care for children and youth placed in out-of-home-care in Kent County and to develop case rate options that aligned with the goals of the performance-based funding initiative. The calculated rates include annual, semi-annual, quarterly, and monthly case rate options. Each case rate modality presents different risks and benefits to both MDHHS and the WMPC. MDHHS and WMPC are recommending moving forward with either the semi-annual or quarterly case rate payment modality.

Each modality is based on an analysis of the prospective cost per case in Kent County. Historical service and cost data from the previous five fiscal years, 2010-2014, was used and adjusted forward to the implementation period. A combination of data from the following sources was utilized:

- SWSS (Services Worker Support System) and MiSACWIS (Michigan Statewide Automated Child Welfare Information System).
- MDHHS payments outside of SWSS/MiSACWIS.
- Kent County Child Care Fund expenses.
- Private provider cost reports.

The average cost per case was then calculated by dividing the total Kent County child-related expenses (for all services) from reported cases between FY2010 and FY2014. The project team worked with MDHHS and each provider member of the WMPC to identify the number of cases in Kent County over the five fiscal years. The historical data was adjusted for inflation in the cost of providing services and for newly implemented programs that were not fully captured in the historical data. A 0.5% annual inflation factor was applied for seven years to bring FY2010 to FY2014 expense data current with the anticipated full implementation. This data was used to calculate the average length of a case and all historical costs associated with these cases resulting in an estimated average cost per case in Kent County.

The PCG and L&E team adhered to generally accepted actuary principles in both developing and testing the sufficiency of the rates. The following tests were completed to help determine the adequacy of the rate calculations:

- **Stochastic Model Simulation:** Estimates potential outcomes using probability distribution. A 100,000 case trial amount was used.

Performance-Based Funding Model Cost Analysis

- ***Seriatim Testing:*** Reviews the case rate in real time to assess cash flow risks by comparing actual payments to hypothetical case rate payments.
- ***Incentive Study:*** Tests the outcomes of incentive payment applications. This test involves rerunning the Seriatim Testing with reduced placements (by two months).

The Seriatim Testing reviewed the case rate payments in real time to assess the cash flow risks associated with the case rate options. After initial Seriatim Testing, it was determined that the case rate did not fund the full cost of care. This was mainly due to:

- 1) A significant number of cases that are expensive initially and then cost less near the end of the case.
- 2) A significant number of cases that are higher risk and higher cost and were not being appropriately compensated.

Based on these observations, the case rate structure was altered to account for the duration of a case, increasing initial payments and to account for cases that were already active at the case rate implementation. The incentive study also led to further increasing the case rates in order to better align the rate with performance goals of reduced lengths of stay in care and/or limiting the need for and use of high cost placements.

During the phased implementation, the project team is continuing to work on the details and update data as necessary. Additional testing will be conducted with new data to continue to monitor and verify that the case rates will adequately fund the cases and provide flexibility for providers as they work toward better outcomes.