



COLORADO

Department of Corrections

Priority: R-2

*Medical Per Offender Per Month Rate Increase
FY 2014-15 CHANGE REQUEST*

Cost and FTE

- The Department requests a net General Fund increase of \$2,808,553 in FY 2014-15 in the Medical Services Subprogram appropriations. The funding will address increasing Per Offender Per Month (POPM) rates in the Purchase of Medical Services from Other Facilities and Catastrophic Medical Expenses lines.

Current Program

- The Department is statutorily mandated to provide medical care for offenders. The recipients of medical services are offenders housed in correctional facilities (both State and private), including those in the Youthful Offender System (YOS), less jail, return-to-custody, and community corrections populations. Private prison and pre-release parole revocation populations are further excluded to calculate the eligible recipients of pharmaceuticals.
- For FY 2014-15, the Department projects an eligible population of 17,233 offenders for medical purchased services and 13,681 for pharmaceuticals.

Problem or Opportunity

- Costs for medical services continue to escalate. The Department estimates an increase of \$1.51 in the Purchase of Medical Services POPM rate compared to the FY 2013-14 funded levels, along with an increase of \$15.60 in the Catastrophic Medical Expenses POPM.
- The offender population continues to age; in FY 2011-12, 40 percent of the population was over age 40 and 17 percent was over age 50. In comparison to FY 2006-07, 36 percent of the population was over age 40 and 11 percent was over 50. In FY 2001-02, those figures were 32 percent for age 40+ and 9 percent for age 50+.
- As offenders age, their medical needs increase. In FY 2011-12, 23 percent of offenders had medical needs levels of M3-M5 (with higher levels indicating more needs), as compared to 17 percent in FY 2010-11 and 15 percent in 2009-10.

Consequences of Problem

- Without the requested increase in funding, the Department risks overexpenditure in its Total Purchase of Medical Services from Other Medical Facilities and Catastrophic Medical Expenses lines.
- The Department is mandated by the Colorado State Statute to provide a full range of health care to offenders; not providing medical coverage puts the Department at risk for litigation.

Proposed Solution

- This request for additional funding to meet increasing medical POPM needs will allow the Department to provide statutorily-mandated health care to the offender population.

This page intentionally left blank

FY 2014-15 CHANGE REQUEST
Priority R -2: Medical Per Offender Per Month Rate Increase
Request Detail

Problem or Opportunity:

The Department of Corrections (DOC) requests an overall increase of \$2,808,553 in FY 2014-15 in the Medical Services Subprogram appropriations based upon projected Per Offender Per Month (POPM) cost increases for medical services (including catastrophic expenses) and a decrease in the pharmaceutical costs.

Prison population changes affect services and drive caseloads. The Department of Public Safety's Division of Criminal Justice (DCJ) Summer 2013 report projects increases in the medical services (including catastrophic) and pharmaceutical populations for FY 2014-15, as compared to FY 2013-14 funded population levels (Table 1). DOC's request for FY 2014-15 projects an increase of 31 offenders for the medical services and catastrophic populations and an increase of 383 offenders for the pharmaceutical population when compared to the FY 2013-14 funded levels (Table 2).

With the projected population changes, funding adjustments are required in order to maintain adequate service levels to provide offender health care. Although the Department projects a decrease in the pharmaceutical POPM based on decreased actual expenditures in the previous year, Correctional Health Partners (CHP), DOC's medical third-party administrator, projects rate increases for both medical services and catastrophic expenses. The rate for medical services will increase \$1.51, from \$96.11 POPM to \$97.62 POPM. The POPM rate for catastrophic expenses will increase \$15.60, from \$59.52 to \$75.12. These increased external medical costs and higher utilization of medical services necessitate a funding increase of \$2,808,553 above the FY 2013-14 funded level.

Medical services are structured to function like other managed care organizations, providing a full range of health care services. Primary medical care and dental care are provided within the prisons. Ancillary care and provider support are available through traditional services such as pharmacy, laboratory, and radiology. Healthcare services outside of DOC facilities are provided through a managed care network of specialty and institutional providers under contract with CHP. The Purchase of Medical Services line item includes the specialty and inpatient care provided to offenders under the CHP contract.

Catastrophic medical expenses include those offenders who have exceeded \$50,000 of expenses within a year for patient care provided. Once an offender's medical expenses reach the \$50,000 threshold, all expenses for that offender are transferred from the Purchase of Medical Services line item to the Catastrophic Medical Expenses line, which results in catastrophic expenses trending upward in the latter months of each fiscal year. The increase in the catastrophic services POPM drives the largest proportion of the requested funding increase for FY 2014-15. A large driving factor behind the increase in catastrophic expenses is the increasing age of the offender population. In FY 2011-12, 40 percent of the population was over age 40 and 17 percent was over age 50. In comparison to FY 2001-02, those figures were 32 percent for age 40+ and 9 percent for age 50+. When comparing medical claims for catastrophic and non-

catastrophic claimants, there is a larger proportion of catastrophic claims in the older age groups than is the case for the non-catastrophic claims. In recent years, the greater shift of catastrophic claims to the older populations indicates a possibility that many offenders with chronic conditions are aging in prison, rather than being released from prison. Additionally, given the increasing trend in offender age, it can be expected that a higher instance of chronic disease (e.g. kidney disease requiring dialysis, chronic obstructive pulmonary disease) will exist among the offender population; with an increase in chronic disease comes an accompanying increase in catastrophic expenses since a catastrophic claimant is one who accrues more than \$50,000 per fiscal year in medical expenses. Many individuals with chronic conditions do not suffer from just one illness, but are often afflicted with co-morbidities over time; this correlation also leads to increases in catastrophic expenses since they are measured on a per-offender basis. Many of these chronic diseases will not be covered by the recent Medicaid expansion as treatment frequently does not involve hospital stays over 24 hours.

Another significant contributing factor to the high catastrophic POPM trend is the quantity and severity of acute (i.e. non-chronic) catastrophic claims, some of which include lengthy inpatient stays. For example, some of the more expensive recent claims include \$469,000 for septicemia (40-day hospital stay), \$369,000 for heart attack and subsequent thoracic surgery (41-day hospital stay), and \$176,000 for pneumothorax (27-day hospital stay). With the expansion of Medicaid eligibility parameters due to Senate Bill (SB) 13-200, it is possible that once those program changes are in place in January 2014, some of these high-dollar catastrophic claims may be covered by Medicaid rather than by DOC if the resulting hospital stays are greater than 24 hours. However, that remains unclear until the Medicaid changes are fully implemented and it is determined what types offenders will be covered by the Medicaid expansion.

The Purchase of Pharmaceuticals line item includes all pharmaceuticals expenses for offenders in DOC facilities including the Youthful Offender System (YOS). Not included are offenders that are housed in private prisons, jails, and other non-DOC facilities (Table 1). The POPM is based on the cost of the Department's pharmaceutical formulary and pharmaceuticals prescribed by providers for offenders. The requested FY 2014-15 pharmaceutical POPM of \$60.91 reflects a decrease of \$6.69 from the FY 2012-13 funded level of \$67.60. One factor contributing to this change is decreased actual expenditures year-over-year, partly due to some highly-utilized anti-psychotic medications becoming available in generic form. Additionally, the inflation factor in the Consumer Price Index (CPI) for prescription drugs averaged two percent from July 2012 through June 2013, as compared to the four percent CPI inflation factor used in the calculation of the previous fiscal year's pharmaceutical POPM.

Compounding the funding dilemma for purchased medical expenses are the changing demographics of offenders under the custody of the Department. Based on the most recent data, the offender population is trending upward in both age and medical need. The percentage of offenders with higher levels of medical acuity increased from 15 percent in FY 2009-10 to 23 percent in FY 2011-12. Chart 1 outlines these changes. Each offender is categorized with an "M code" (medical code) ranging from 1-5: level 1 indicates that an offender has no ongoing medical needs, whereas levels 2 through 5 indicate increasing medical needs from mild/minor to severe. These changes in medical acuity indicate that as time passes, offenders are presenting more serious medical conditions that require more expensive care.

Additional trends contributing to higher medical expenses for offenders are the increase in both inpatient and outpatient authorizations per 1,000 offenders, and the number of bed days, which are both metrics used to monitor utilization of services. In short, offenders are requiring medical services at a more rapid pace and for longer periods of time. Table 6 reflects these increases in utilization, comparing the months of July through June for fiscal years 2011-12 and 2012-13.

The General Assembly passed S.B. 13-200, which expanded Medicaid eligibility, during the 2013 session. As a result of the bill, estimated savings for FY 2014-15 in the Medical Services from Other Medical Facilities and Catastrophic Medical Expenses lines are \$1,900,000 and \$3,100,000 respectively. However, the significant projected increase in the catastrophic POPM still necessitates additional funding needs for offender medical services. Without the Medicaid expansion, the overall medical expenditure forecasted need would have been \$5 million higher.

Medical POPM appropriations are based on offender caseload and current medical costs, inflation, and contract fees. The Department is requesting funding adjustments to continue to provide adequate inpatient and outpatient medical services to the total number of offenders placed under the jurisdiction of the Department. Within the Medical Subprogram, the Purchase of Medical Services from Other Medical Facilities, Catastrophic Medical Expenses, and Purchase of Pharmaceuticals appropriations are adjusted during the change request process based on the actual and projected offender caseload. For this FY 2014-15 funding request, the POPM adjusted numbers are based on contractual increases, updated expense projections from CHP, and the most recent population projections provided by DCJ.

Proposed Solution:

The Department requests \$2,808,553 increased General Fund for FY 2014-15 to account for the projected adjustments in population and the POPM cost increases to allow for efficient and effective management of offender health needs. These funding increases will allow the Department to provide essential inpatient and outpatient medical care to offenders based on projected population changes and anticipated POPM rate changes.

If the requested funding changes are not implemented, the Department would be underfunded in the Purchase of Medical Services and Catastrophic Medical Expenses line items, resulting in a decreased ability to provide appropriate and statutorily-mandated health care to the entire offender population.

No statutory changes will be necessary to Sections 17-1-113.1 C.R.S. or 25-1.5-301 C.R.S. to allow for the additional funding from the General Fund.

Anticipated Outcomes:

The request for increased appropriations in the Purchase of Medical Services and Catastrophic Medical Expenses lines will allow the Department to reflect the anticipated need for essential inpatient and

outpatient medical care for offenders. The reduction in appropriations in the pharmaceuticals line will allow the Department to more accurately reflect required funding levels for prescriptions for offenders.

Assumptions and Calculations:

Health care costs fluctuate every year due to the increased medical acuity levels of offenders, increases in the utilization of medically necessary health care services by offenders, and changes in offender caseload. Division of Criminal Justice (DCJ) and Legislative Council Staff (LCS) provide adult prison population projections annually. DCJ published interim projections in August 2013, which were used to develop this funding request.

The medical costs described on a POPM basis are used in the evaluation of efficiency and effectiveness of the medical subprogram. Purchased medical services from other medical facilities expenditures are a component of this measure. Utilization is another key indicator and is measured by total number of authorizations, authorization turn-around time, total number of appeals, appeal turn-around time, and number of offenders whose healthcare costs exceed \$50,000 (catastrophic high-cost claimants).

The Department calculates the medical services and pharmaceutical caseloads based on the most current population projections published by DCJ in August 2013. The Department calculates the projected POPM rate based on actual billing charges, projected contractual increases, inflation, and anticipated healthcare costs.

A managed care contract to Correctional Health Partners LLC as a third party administrator provides the Department with continuity of care, trending data, and offender medical cost analysis. For this FY 2014-15 request, the Department used a four percent increase over the FY 2013-14 actual administrative fee of \$8.90 for a POPM of \$9.26, and a three percent increase for the security contract ($\$3.31 + 3\% = \3.41). These are inflationary increases in the managed care and security contracts.

Appendix:

Table 1 summarizes the offender population projections from Division of Criminal Justice (DCJ) to determine the Medical Services caseloads and the Pharmaceutical caseload. The table begins with the DCJ August 2013 Summer Interim Prison Population projections to determine June 2014 and June 2015 average daily population. That number is reduced by jail backlog, return-to-custody populations, and Community Corrections populations to determine the Medical Services caseloads. The Medical Services caseloads are then reduced by the private prison population and the Pre-release Parole Revocation population to determine the Pharmaceutical caseload.

| Table 1: Summary of Offender Population Estimates for Line Items in the Medical Services Subprogram Based on August 2013 DCJ Projections | |
|---|----------------------------|
| | Offender Population |
| DCJ June 2014 Projections | 20,149 |
| DCJ June 2015 Projections | 20,135 |
| Avg. Daily Population* | 20,142 |
| Plus YOS Population (rolling 12-month average) | 217 |
| DOC Jurisdictional Population | 20,359 |
| Jail Population (rolling 12-month average) (<i>reduction</i>) | (543) |
| Return to Custody Population (rolling 12-month average) (<i>reduction</i>) | (226) |
| Community Corrections Population (11.8%) (<i>reduction</i>) | (2,357) |
| Medical Purchased Services Population | 17,233 |
| Private Prison Population (<i>reduction</i>) | (3,030) |
| Pre-release Parole Revocation Population (<i>reduction</i>) | (522) |
| Pharmaceutical Population | 13,681 |

*DCJ projections do not include YOS

Table 2 demonstrates the changes in the Medical Services and Pharmaceutical populations from FY 2013-14 funded levels to the FY 2014-15 projections from Table 1.

| Table 2: Changes in Offender Populations Covered by Medical Services and Pharmaceutical | | | |
|--|-------------------------------|---------------------------------|----------------------|
| | Funded ADP* FY 2013-14 | Projected ADP FY 2014-15 | Change in ADP |
| Pharmaceutical | 13,298 | 13,681 | 383 |
| Medical Services | 17,202 | 17,233 | 31 |
| Catastrophic | 17,202 | 17,233 | 31 |

*ADP = Average Daily Population

Table 3 reflects the comparison of POPM rates from the funding request for FY 2013-14 to the projections for FY 2014-15.

| Table 3: Change in POPM Rate | | | |
|---|----------------------------|--|---------------------------------|
| | FY 2013-14 POPM | Projected FY 2014-15 POPM | Rate Change POPM |
| Purchase of Pharmaceuticals* | \$67.60 | \$60.91 | (\$6.69) |
| Purchase of Medical Services from Other Medical Facilities** | \$83.90 | \$84.95 | \$1.05 |
| Administrative Fees*** (FY 2013-14 Rate \$8.90 + 4% = \$9.26) | \$8.90 | \$9.26 | \$0.36 |
| Security Contract**** (FY 2013-14 Rate \$3.31 + 3% = \$3.41) | \$3.31 | \$3.41 | \$0.10 |
| Total Purchase of Medical Services from Other Medical Facilities | \$96.11 | \$97.62 | \$1.51 |
| Catastrophic Medical Expenses** | \$59.52 | \$75.12 | \$15.60 |

* Projected FY 2014-15 POPM is based on pharmacy Amerisource Bergen expenditures through June 30, 2013

** Projected FY 2014-15 POPM Rates for both Purchase of Medical Services and Catastrophic Medical Expenses are based on June 30, 2013 Incurred But Not Received (IBNR) projections from Correctional Health Partners

***Administrative Fee anticipated contractual increase of 4% over FY 2013-14 rates.

****Security Contract anticipated contractual increase of 3% over FY 2013-14 rates.

Table 4 calculates the overall projected total funding need for FY 2014-15 Medical POPM based on the projected POPM rates shown in Table 3 and the projected caseload as shown in Table 2.

| Table 4: Caseload and POPM Changes | | | |
|---|--|--------------------------------------|-----------------------------------|
| | Projected POPM Rates FY 2014-15 | Projected Caseload FY 2014-15 | FY 2014-15 Projected Need* |
| Purchase of Pharmaceuticals | \$60.91 | 13,681 | \$9,999,717 |
| Purchase of Medical Services from Other Medical Facilities | \$84.95 | 17,233 | \$17,567,320 |
| Administrative Fees** (estimated 4% increase per contract) | \$9.26 | 17,233 | \$1,914,931 |
| Security Contract*** (estimated 3% increase per contract) | \$3.41 | 17,233 | \$705,174 |
| Managed Care Incentive Cap**** | | | \$400,000 |
| Total Purchase of Medical Services from Other Medical Facilities ^ | \$97.62 | | \$20,587,425 |
| Catastrophic Medical Expenses ^ | \$75.12 | 17,233 | \$15,534,516 |
| Total | | | \$46,121,658 |

* Calculation: Projected POPM Rate * Projected Caseload * 12 months = Projected Need

**Administrative Fee anticipated contractual increase of 4% over FY 2013-14 rates.

***Security Contract anticipated contractual increase of 3% over FY 2013-14 rates.

****Incentive cap for Correctional Health Partners for managing medical costs

^ These figures do not include the impacts of SB 13-200 (Medicaid expansion).

Table 5 calculates the estimated difference in FY 2013-14 funded levels in each appropriation and the FY 2014-15 projected need as shown in Table 4. This table also incorporates the funding impacts of Senate Bill (SB) 13-200.

| Table 5: Estimated Need | | | | | | | | | |
|---|-------------------------------------|---|-----------------------------------|---|------------------------------------|-----------------------------------|---|--|---|
| | FY 2013-14 Long Bill Funding | SB 13-200 Impact on FY 2013-14 Funding | Revised FY 2013-14 Funding | SB 13-200 Impact on FY 2014-15 Funding * | Base Funding for FY 2014-15 | FY 2014-15 Calculated Need | SB 13-200 Impact on Calculated FY 2014-15 Need | Revised FY 2014-15 Projected Need | Estimated Difference in FY 2014-15** |
| Purchase of Pharmaceuticals | \$10,787,338 | n/a | \$10,787,338 | n/a | \$10,787,338 | \$9,999,717 | n/a | \$9,999,717 | (\$787,621) |
| Total Purchase of Medical Services from Other Medical Facilities | \$20,239,411 | (\$950,000) | \$19,289,411 | (\$950,000) | \$18,339,411 | \$20,587,425 | (\$1,900,000) | \$18,687,425 | \$348,014 |
| Catastrophic Medical Expenses | \$12,286,356 | (\$1,550,000) | \$10,736,356 | (\$1,550,000) | \$9,186,356 | \$15,534,516 | (\$3,100,000) | \$12,434,516 | \$3,248,160 |
| Total | \$43,313,105 | (\$2,500,000) | \$40,813,105 | (\$2,500,000) | \$38,313,105 | \$46,121,658 | (\$5,000,000) | \$41,121,658 | \$2,808,553 |

*incremental difference; total estimated savings per SB 13-200 fiscal note is \$5,000,000

** Estimated difference in FY 2014-15 equals Revised FY 2014-15 Projected Need minus Base Funding for FY 2014-15

Chart 1 outlines changes in offender demographics, reflecting increases in age and medical need.

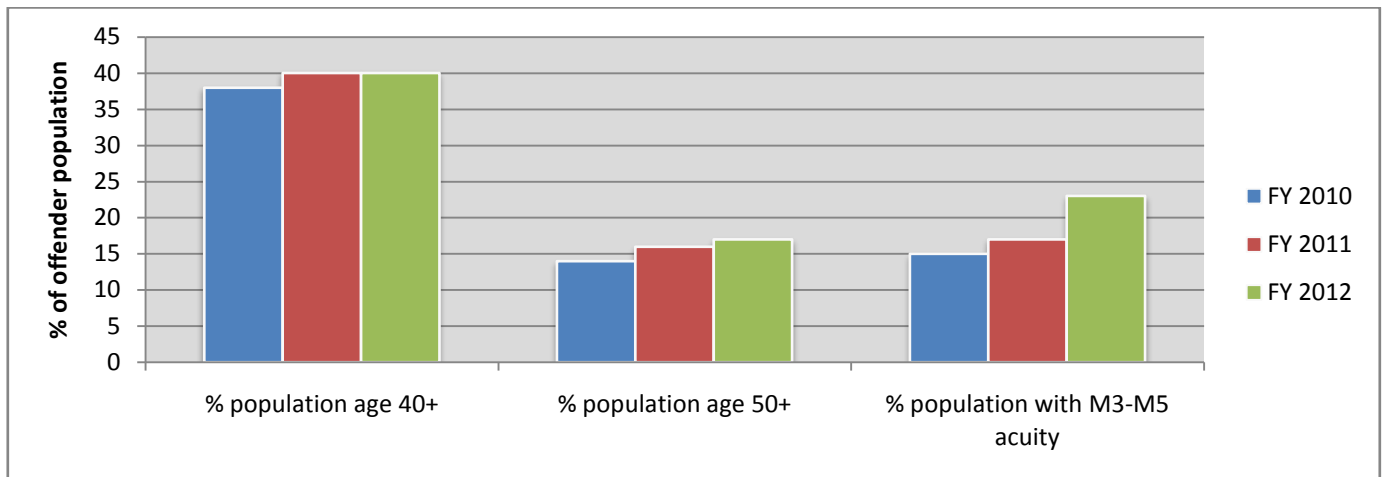


Table 6 reflects the trend in higher utilization of medical services by offenders, comparing fiscal years 2011-12 and 2012-13.

| Table 6: Utilization of Medical Services | | | |
|---|--|---|--------------------------|
| | Inpatient Authorizations per 1,000 - Per Month Average | Outpatient Authorizations per 1,000 - Per Month Average | Bed Days Monthly Average |
| FY 2011-12 | 37.5 | 531.2 | 146.7 |
| FY 2012-13 | 42.6 | 555.6 | 166.4 |
| % increase | 14% | 5% | 13% |

This Page Intentionally Left Blank