Economic Impact Analysis
Virginia Department of Planning and Budget

12 VAC 30-10; 50; 120 –Waivered Services: Program of All-Inclusive Care for the Elderly (PACE)
Department of Medical Assistance Services
December 22, 2006

Summary of the Proposed Regulation

The proposed regulations will establish an innovative model known as All-Inclusive Care for the Elderly (PACE) to deliver health care and long-term care services to the elderly and disabled persons.

Result of Analysis

The benefits likely exceed the costs for all proposed changes. A different design would likely yield greater benefits at the same cost for at least one proposed change.

Estimated Economic Impact

These regulations establish a program known as All-Inclusive Care for the Elderly (PACE). The program integrates the delivery of health care and long-term care services to the elderly and disabled persons. PACE program combines at least two desirable service delivery characteristics. It provides services in the community which compares favorably to the traditional way of providing services in an institutional setting such as a nursing home. It is also a full-risk program where the provider assumes responsibility for all healthcare costs for a monthly capitation payment. In order to receive services, an individual must be 55 or older, meet nursing facility criteria, reside in a service area of a provider, and agree to the terms of participation.

In 1973, the original PACE program started in San Francisco's Chinatown by On Lok Senior Health Services. The driving force behind the PACE was the Asian community's unwillingness to place their elders in nursing homes as it was culturally unacceptable. The original program was successful and led to a Medicare and Medicaid demonstration program option in 1987. Later in 1997, the Balance Budget Act legislated PACE to be considered on a

state-by-state basis as a permanent Medicaid waiver program. Virginia has had in place a pre-PACE program since 1998.

In this program, the services are delivered primarily at a day health center though in-home services are also available. The recipients are transported to the center to receive services during the day and returned home at night. The number of days spent at the center depends on the individuals needs assessed by a multidisciplinary team. The multidisciplinary team which is central to the PACE program composed of, at a minimum, a primary care physician, nurse, social worker, physical therapist, occupational therapist, recreational therapist or activity coordinator, dietician, day health center supervisor, home care liaison, health workers/aids, and drivers. The team assesses the needs, develops care plans, and directly delivers or coordinates the delivery of services. The types of services include primary care, nursing, social work, rehabilitation therapy, recreation therapy, nutrition counseling, personal care, chore services, transportation and escort, medications, and meals or help with meal preparation.

One of the main economic benefits of the PACE program is the overall improvement in the quality of life and in the health status of the recipients. Even though we are unaware of a formal study assessing the quality of health and life improvements specifically, the literature offers abundance of anecdotal case specific examples of consumer satisfaction. More importantly, enrollment into PACE is completely voluntary and clients can end their participation in PACE at their choosing. The voluntary nature of participation is a mechanism that would lead to overall life and health improvements at the aggregate as clients who are not satisfied with the program would not continue their participation.

The other main economic benefit is the expected fiscal savings to the state. PACE offers an alternative to nursing home care at capitation rates. Being a waiver program, one of the federal requirements is that the cost of providing care through PACE be less than or equal to providing care without it (i.e. through nursing homes). The estimated fiscal savings compared to nursing home care is about 12% in the literature. Whether the same magnitude of fiscal savings would actually be realized in Virginia is not known. However, for the continued federal approval of PACE program, the costs must be less than or equal to cost of providing same services in a nursing home which suggests that the Commonwealth is likely to realize some savings.

The PACE program will also have various economic effects on the providers. They will have to assume full risk related to the recipients healthcare needs for a monthly capitation payment. The lower the actual healthcare costs, the more profitable their operation would be. Thus, it is in the best interest of the providers to maintain or improve health status of their clients. One way this incentive may manifest itself is through increases in preventive care. For example, the providers will be inclined to provide appropriate air conditioning in the hot summer months to prevent congestive hart failures or install grab bars in client's homes to avoid falls. This model's integrated care approach through the interdisciplinary team may also provide synergies in the diagnosis and delivery of care and reduce the actual costs. For example, a driver may realize that head pain a recipient is experiencing may be the result of braided hair the client started wearing since a recent trip to a hair saloon and avoid expensive MRI or CAT scans.

Furthermore, PACE provides a Medicaid eligible customer base to the providers to rely on. Albeit lower, Medicaid will also pay capitation rates to dually eligible (Medicaid & Medicare) recipients. The FY 2007 capitation rates are expected to be about $2,722 for dually eligible recipients and $3,997 for Medicaid only eligible recipients. With a reliable Medicaid and Medicare customer base, a provider may stabilize its operations and can start offering services to private pay recipients. In this sense, the PACE will help this type of service delivery get started in the Commonwealth. Along the lines of this objective, the 2006 General Assembly went further and provided $1.5 million in state grants, to fund the start up costs of six PACE sites in 2007. The six new programs and the existing program will have capacity to serve 215 recipients in 2007, 403 recipients in 2008, and 637 recipients by in 2009.

With PACE, nursing home eligible recipients will have more options to choose from. Currently, there may be some Medicaid nursing home eligible individuals who are not utilizing available services to them because they do not like the idea of being institutionalized in a nursing home. These individuals may now prefer participating in a PACE program. Additionally, those currently in a nursing home for lack of other alternatives may choose to join a PACE program. If they realize it is not for them, they can always decide to go back to a nursing home.

The proposed regulations may also create a potential adverse economic incentive for providers if a specific provision which provides the Department of Medical Assistance Services (DMAS) authority to exclude service areas already covered under existing PACE program

agreements is exercised. This authority is provided under federal regulations in order to avoid unnecessary duplication of services and also avoid impairing the financial and service viability of an existing program. Although federal regulations require a potential provider to define a service area and conduct a feasibility analysis for a given service area they appear to allow overlapping service areas. Thus, the Commonwealth seems to have the flexibility to allow overlapping service areas provided Centers for Medicare and Medicaid approval is obtained.

The federal regulations suggest that the exclusion of service areas already covered under existing service areas would avoid duplication of services and help financial and service viability of services. However, this view does not take into account the potential costs of prohibiting overlapping service areas. Prohibition of overlapping service areas would provide a protected market for the providers and give them a monopoly power in their approved service areas preventing competition. A monopolistic market produces economic outcomes much less desirable than those would be produced in a competitive market.

Because the providers will not have full control over their pricing but instead negotiate a capitation rate, the economic concerns are somewhat mitigated. Given the capitation reimbursements, the economic losses would be mainly in terms of suboptimal service quality as providers would not be competing against another provider. Even though one could argue that a client can always stop enrollment in a PACE program, this type of consumer response would undermine the goals the PACE program is trying to achieve. Also, it should be noted that there are direct and more effective ways available to ensure the financial viability of providers compared to achieving this goal by prohibiting competition. Additionally, there is nothing in economics that we are aware of that suggests prohibiting competition in order to avoid duplication of services in this case would produce net economic benefits.

Businesses and Entities Affected

The proposed regulations apply to PACE providers and recipients. Currently there are six potential and one existing PACE provider in the Commonwealth. The number of recipients will depend on the actual participation, but the seven providers will have the capacity to serve 215 recipients in 2007, 403 recipients in 2008, and 637 recipients by in 2009. The proposed regulations may also have an indirect impact on nursing homes located in approved PACE

service areas if some of their current customers decide to leave nursing homes for participation in a PACE program.

Localities Particularly Affected

The proposed regulations apply throughout the Commonwealth.

Projected Impact on Employment

The proposed regulations may cause switching of some recipients from nursing homes to PACE programs. If this occurs, nursing homes would be expected to experience a reduction in demand for labor while PACE providers would be expected to experience an increase for demand for labor. The magnitude of the net employment effect cannot be estimated with certainty but is unlikely to be significant.

Also, the availability of PACE programs in Virginia may prompt individuals who are nursing home eligible but not utilizing services available to them to enroll in PACE programs. This is likely to increase demand for labor at PACE sites. Similarly, availability of PACE program may attract private paying clients who is currently staying at home to enroll in a PACE program causing an increase in demand for labor.

Effects on the Use and Value of Private Property

If switching of some recipients from nursing homes to PACE programs occurs, nursing homes would be expected to experience a reduction in their revenues and consequently a reduction in their use and asset values. Conversely, switching to PACE programs would be expected to increase use and revenues of PACE providers and their asset values.

To the extent the availability of PACE programs in Virginia prompt individuals who are nursing home eligible but not utilizing services available to them to enroll in PACE programs, we would see an increase in the use and asset values of PACE programs. Similarly, to the extent availability of PACE program attracts private paying clients who is currently staying at home to enroll in a PACE program, we would see an increase in their use and asset values.

Small Businesses: Costs and Other Effects

The proposed regulations will primarily affect six potential and one existing PACE programs all of which could be considered as small businesses. While compliance with the

PACE regulations will introduce costs, the net economic effect on the providers are not expected to be negative.

Small Businesses: Alternative Method that Minimizes Adverse Impact

The proposed regulations are not expected to create any adverse impact on providers.

Legal Mandate

The Department of Planning and Budget (DPB) has analyzed the economic impact of this proposed regulation in accordance with Section 2.2-4007.H of the Administrative Process Act and Executive Order Number 36 (06). Section 2.2-4007.H requires that such economic impact analyses include, but need not be limited to, the projected number of businesses or other entities to whom the regulation would apply, the identity of any localities and types of businesses or other entities particularly affected, the projected number of persons and employment positions to be affected, the projected costs to affected businesses or entities to implement or comply with the regulation, and the impact on the use and value of private property. Further, if the proposed regulation has adverse effect on small businesses, Section 2.2-4007.H requires that such economic impact analyses include (i) an identification and estimate of the number of small businesses subject to the regulation; (ii) the projected reporting, recordkeeping, and other administrative costs required for small businesses to comply with the regulation, including the type of professional skills necessary for preparing required reports and other documents; (iii) a statement of the probable effect of the regulation on affected small businesses; and (iv) a description of any less intrusive or less costly alternative methods of achieving the purpose of the regulation. The analysis presented above represents DPB's best estimate of these economic impacts.

Related Literature

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