Economic Impact Analysis
Virginia Department of Planning and Budget

12 VAC 30-50 §§ 10, 50, 140, 150; 12 VAC 30-120 §§ 61-68
Program of All -Inclusive Care for the Elderly (PACE)
Department of Medical Assistance Services

November 23, 1999

The Department of Planning and Budget (DPB) has analyzed the economic impact of this proposed regulation in accordance with Section 9-6.14:7.1.G of the Administrative Process Act and Executive Order Number 25 (98). Section 9-6.14:7.1.G 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. The analysis presented below represents DPB's best estimate of these economic impacts.

Summary of the Proposed Regulation

The proposed regulations add the Program of All-Inclusive Care for the Elderly (PACE) to services provided by Virginia's Medicaid program. PACE is a fully integrated, managed care system that provides long-term care for frail, elderly Medicaid recipients.

Estimated Economic Impact

The Program of All-Inclusive Care for the Elderly (PACE) is a nationwide replication of the comprehensive service delivery and financing model of long term care for the frail elderly pioneered by On Lok Senior Health Services in San Francisco in the 1970s. PACE provides a community-based health care plan as an alternative to nursing home care, unless a nursing home is the appropriate level of care required. PACE integrates all aspects of care including primary, medical and specialty care, nursing, social services, personal care, in-home support services,

rehabilitative therapies, meals and nutritional care, transportation, hospitalization, and nursing home care. Services may be provided at home, at a PACE center or licensed adult day care center, or, if needed at a hospital or other institutional setting. Payment for these services is made on a capitated, rather than a fee-for-service, basis using pooled Medicare and Medicaid funds. Participation in the PACE program is voluntary. In order for an individual to qualify for PACE services, he or she must: be age 55 or older; not be eligible for Medicaid under the "medically-needy" provision, be certified for nursing home care; be residing in the PACE provider service area; and agree to all the conditions and terms of participation.

Under waiver authority from the federal Health Care Financing Administration (HCFA), various states have implemented PACE services. The 1997 Balanced Budget Amendment gave states the option of providing PACE services as part of their State Plan for Medical Assistance (State Plan). The 1998 Virginia General Assembly chose to provide PACE services as an optional state plan service, and DMAS promulgated emergency regulations.

The proposed establishment of a PACE program is expected to produce two economic effects: cost savings for DMAS/Commonwealth and improved quality of life for participants.

Cost Savings

Cost savings result from the pooling of Medicare (Title XVIII) and Medicaid (Title XIX) funding in a care coordination model that allows the PACE provider to manage the care within the program payment limits while providing a full range of services. There are currently 13 PACE sites operating under dual Medicare and Medicaid capitation. According to the National PACE Association, Medicaid capitation payments to PACE yield states an estimated 5% to 15% savings relative to their fee-for-service expenditures for a comparable nursing home certified population. In 1998, the median Medicaid capitation rate for PACE was $2,109 per enrollee per month, with a range of $1,750 to $4,301 depending on locale.

DMAS reports that the average Medicaid capitation rate for PACE in Virginia is $1,938 per enrollee per month. The average cost per person enrolled in PACE is $23,257 per year. This represents 5% savings relative to the average cost for that individual in fee-for-service setting, $24,419. Given these figures, DMAS can expect to save $1,163 per year for each Medicaid recipient who enrolls in the proposed PACE program.

Quality of Life

PACE providers successfully control enrollees' use of high-cost inpatient services by providing preventative and supportive services. National information from existing PACE programs indicates that[1]:

- Despite PACE enrollees' level of frailty, their rate of hospital use is lower than that of the Medicare 65-plus population which includes healthy older persons -- in 1997, 2,158 days/1000 PACE enrollees/annum vs. 2,080 days/1000 Medicare beneficiaries/annum (*HCFA Bureau of Data Management and Strategy, 1997*).

- PACE enrollees have shorter lengths of stay in the hospital than the aged Medicare population as a whole -- 4.5 vs. 6.6 days (*HCFA Bureau of Data Management and Strategy, 1996*).

- Although all PACE enrollees are certified eligible for nursing home care, only 6% resided in nursing homes at the end of 1996.

In 1997, Abt Associates, Inc., retained by HCFA to evaluate the PACE replication, reported PACE enrollment to be associated with improved health status and quality of life, including lower mortality rate, increased choice in how time is spent, and greater confidence in dealing with life's problems.

Businesses and Entities Affected

In order for an individual to qualify for PACE services, he or she must: be age 55 or older; not be eligible for Medicaid under the "medically-needy" provision, be certified for nursing home care; be residing in the PACE provider service area; and agree to all the conditions and terms of participation. In FY 1998, an average of 90,644 aged individuals were eligible for Medicaid services. Of those individuals eligible for services, 32,064 (35%) received nursing facility, personal care, or adult day care services. The number eligible for PACE will be somewhat smaller than this due to the exclusion of the medically needy eligibility category.

There is currently only one Pre-PACE provider under contract – Sentara Senior Community Care in Virginia Beach. It is unknown how many of the estimated 32,064 elderly Medicaid recipients eligible for PACE enrollment live in the Tidewater area. However, as of August 1999 the Pre-PACE program served 105 individuals.

[1] Source: *"Success to Date of the PACE Replication,"* The National PACE Association, 1997.

Localities Particularly Affected

No localities are particularly affected by the proposed regulation.

Projected Impact on Employment

The proposed regulation is not anticipated to have a significant effect on employment.

Effects on the Use and Value of Private Property

The proposed regulation is not anticipated to have a significant effect on the use and value of private property.

Summary

The proposed regulations add the Program of All-Inclusive Care for the Elderly (PACE) to services provided by Virginia's Medicaid program. Empirical evidence on PACE programs in other states has shown PACE enrollment to be associated with improved health status and quality of life. Cost savings result from the use of a capitated payment model for provider reimbursement rather than a traditional fee-for-service payment model. Since program participation in a PACE program is voluntary, we can assume that there exists a net economic benefit for each individual who chooses to enroll. The cost savings alone amount to approximately $1,163 per year per person. Taking into account the improved health outcomes, the net economic benefit of the program is probably significantly higher than that measured by the cost savings alone.