POLICY PAGE

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ROCKY ROAD FOR CHILDREN'S HEALTH CARE:

Transition to New Contractor, New Eligibility System Drives Down Texas Children's Medicaid and CHIP Enrollment by 108,000

Most of Loss is to Children's Medicaid

In late November 2005, a new contractor (the Texas Access Alliance, headed by Accenture) took over Texas' Children's Health Insurance Program (CHIP) operations from the original private vendor (ACS) that had handled eligibility since May 2000. This transition, the first phase in Texas' planned restructuring of public benefits eligibility systems, has been marked by multiple problems which have caused a significant reduction in health care coverage of Texas children. First, Medicaid enrollment dropped by more than 78,000 children from December 2005 to May 2006—the first decline for children in the program in nearly a decade. Second, CHIP enrollment, which had already declined every month since legislative changes (benefit cuts, shortened coverage, and higher premiums) first took effect in September 2003, saw losses worsen dramatically due to plummeting renewal rates. CHIP enrollment dropped by over 29,000 from December to June, for a combined decline in children's health coverage of over 108,000.

This *Policy Page* attempts to summarize the complex problems plaguing both the private and the public sector components of Texas' eligibility system for Medicaid and CHIP.

Recent Declines in Texas Children's Medicaid Enrollment

	December 2005	May 2006	Decline, December to May	
State total	1,838,239	1,759,387	-78,852	**-4.3%**
Bexar	139,682	133,557	-6,125	**-4.4%**
Cameron	64,339	63,780	-559	**-0.9%**
Dallas	182,954	176,400	-6,554	**-3.6%**
El Paso	98,319	94,701	-3,618	**-3.7%**
Harris	316,896	301,030	-15,866	**-5.0%**
Hays	4,953	3,812	-1,141	**-23.0%**
Tarrant	97,908	94,769	-3,139	**-3.2%**
Travis	52,667	45,540	-7,127	**-13.5%**
Webb	36,473	32,732	-3,741	**-10.3%**

Source: Texas Health and Human Services Commission

Background: Integrated Eligibility and Enrollment (IE&E)

The 2003 Legislature directed the Texas Health and Human Services Commission (HHSC) to change the way people apply for public benefits, including Medicaid, CHIP, Food Stamps, and cash assistance (Temporary Assistance for Needy Families), by cutting state workers and relying heavily on telephone call centers. HHSC was given the option to either operate or outsource the call centers, and opted to turn over a large portion of eligibility system operations to private contractors. HHSC dubbed the new system Integrated Eligibility and Enrollment (IE&E).

The state entered into a contract that included not just the new call centers, but also CHIP eligibility services, several major Medicaid contracted services, and maintenance of the new eligibility computer system (TIERS) the state had been developing for years. HHSC planned to close 99 of its 381 eligibility offices by the end of 2006, with four new call centers playing a major role in processing applications and renewals. Eventually, clients would be able to apply via the Internet as well.

Children's Problems Soon Apparent

The new contractor took over CHIP enrollment and renewal for the entire state in November 2005. Transition to the new IE&E system began in Travis and Hays counties in January 2006, and was scheduled to "roll out " (phase in) across the state over a 10-month period. (This first phase of the IE&E roll-out also affected a small number of clients who used to live in Travis and Hays counties, whose cases were processed and remain in the new TIERS system.)

Serious problems with processing CHIP renewals and new applications for CHIP and Children's Medicaid soon became apparent: Children's Medicaid enrollment dropped an unprecedented 29,000 from December 1 to January 1; CHIP renewal rates plummeted from 84% to 52%; and new CHIP enrollees diminished to half their usual level.

By early March it was clear that the Medicaid decline was not a temporary aberration, CHIP renewals remained dismally low, and disenrollments surged (see table, page 7). Child health advocates shared their concerns with HHSC officials and the press. HHSC extended CHIP coverage for about 6,000 children whose parents had not been given proper or accurate notice by the contractor of their correct enrollment fees.

USDA Oversight

Meanwhile, it was also becoming clear that processing of Medicaid and Food Stamps renewals and applications in Travis and Hays counties was significantly backlogged. Problems there with the IE&E pilot (run by the same contractor) included the same issues plaguing the CHIP/Children's Medicaid operations—multiple computer system issues, training deficits, flawed processes, and staffing shortfalls—but clients' woes were compounded by the acute and worsening under-staffing of HHSC's eligibility offices statewide. The U.S. Department of Agriculture (USDA, which oversees the Food Stamp Program) conducted a Program Access Review of IE&E operations in late March, which included conference calls with community groups, legal services, and anti-hunger advocates to hear their reports on the roll-out.

IE&E Roll-out Delayed for 30 Days…

On April 5, HHSC Executive Commissioner Albert Hawkins announced the agency would delay IE&E roll-out to the next planned region (Hill Country counties) in order to make technical and operational improvements and would review the system's readiness again in 30 days. HHSC cited the need for "better training for customer service representatives in the call centers, a process to more quickly resolve complicated cases, better reporting tools to track cases and workload, and improved data collection." In April legislative hearings, HHSC officials acknowledged many problems with the IE&E transition and contractor including serious state staffing deficits.[1]

Based on their review, USDA officials conveyed to HHSC in April their concerns about the project including lack of timeliness in application processing, inability of the contractor's front-end computer system to interface with TIERS (adding to backlogs), high call abandonment rates and long hold times at the call center, and lack of correct policy knowledge by contractor

staff. USDA's independent project monitor identified several fundamental concerns: inadequate readiness testing of computer functions, a roll-out timeline that was too fast to allow for identification and resolution of all problems, inadequate staffing levels, insufficient training of private contractor staff, and shortcomings in some aspects of call center technology.

On April 11, HHSC announced that a new $3 million marketing and public information campaign for CHIP and Children's Medicaid would begin in May (these activities had been largely abandoned after the budget-cutting 2003 legislative session). While notable agency efforts to improve the CHIP and IE&E processes produced a temporary improvement in call abandonment rates and hold times in April, problematic application and renewal trends and client complaints showed little if any improvement. On reaching the deadline for determining CHIP enrollment for May, HHSC faced terminating a record number of nearly 50,000 children in a single month, for a dismal renewal rate of only 23.5% (compared to a fiscal year 2005 average of 80%). The agency elected instead to continue coverage of 27,768 children for an additional month while their families were given more time to provide missing information or to submit payments.

...And Now On Hold Indefinitely

On May 4, the HHSC Commissioner announced findings of its 30-day review. Importantly, this announcement indicated that the original roll-out schedule has essentially been suspended indefinitely until problems can be resolved. HHSC would retain 1,000 of the 1,900 state eligibility workers it had planned to lay off, and the remaining layoffs would be postponed for 12 months. It is important to note that this decision did not increase the number of state staff working in the system; it simply reduced and postponed the planned reduction in staff.

Revised procedures announced by HHSC included: having state eligibility workers in the Midland call center oversee private "customer service" staff to ensure they give out correct information; returning most processing of Travis and Hays Medicaid and Food Stamp cases from contractor staff to state workers; new policy training of customer service staff; a new "escalation" process for directing complex policy questions from contractor staff to state workers, and new training for private workers on how to use the contractor's and the state's computer systems. The announcement also noted that many contractor workers were unable to locate information that was already in their system.

HHSC's May 4 announcement also detailed changes to the contractor's CHIP/Children's Medicaid operations, including extending timelines for collection of missing information and enrollment fees, allowing third-party verification of income, and accepting some missing information via telephone (rather than extended postal exchanges that cause children to lose coverage through missed deadlines). HHSC staff, the HHSC Office of Inspector General, and independent evaluators would examine various aspects of the contractor's performance and processes. The state pledged to more carefully oversee contractor correspondence with families, and to seek stakeholder input in improving those communications.

Grave Concerns Remain in Early June

Advocates and providers welcomed HHSC's decision to postpone the rollout, and support its efforts to improve the system and involve advocates in these activities. However, grave concerns remain for CHIP, Medicaid, TANF and Food Stamps for several reasons.

CHIP applications and renewals—and a significant share of new applications for Children's Medicaid—are still being operated exclusively by the new contractor, because CHIP eligibility has always been primarily operated by a private contractor. Thus, state workers cannot step in to fix the problems, and HHSC's contingency plans to stop the dramatic decline in CHIP must instead rely largely on the contractor's ability to resolve the problems.

On May 25, the Texas CHIP Coalition submitted a letter to HHSC Commissioner Hawkins detailing recommended steps needed to reverse the decline in CHIP and Children's Medicaid enrollment. The letter (located at (http://www.cppp.org/research.php?aid=534) noted that the new contractor's CHIP performance has *"serious and as yet unresolved*

problems", which did not bode well for the same contractor's take-over of major responsibilities for Medicaid and Food Stamps under IE&E, potentially affecting more than 4 million Texans (thirteen times the size of the CHIP program) including children, the aged, and Texans with disabilities. The Coalition urged HHSC to make successful reversal of the problems with CHIP a prerequisite for any further roll-out of the IE&E model.

Detailed CHIP statistics have not yet been released for June 2006, but preliminary data show that CHIP enrollment fell to 293,564, a drop of 5,212 children from May. On June 2, HHSC issued a press statement announcing that it would continue to extend deadlines for enrollment fees and missing information to protect children form losing their health coverage and give the agency and the contractor more time to correct the problems causing the decline.

Meanwhile, parents continue to report applications and renewals that appear to have been lost or delayed for months. In the third week of May, the "call abandonment" rate for IE&E was over 22%, and for the CHIP/Children's Medicaid line was over 41% (average hold times were 6 and 15 minutes, respectively).

How Children's Medicaid and CHIP Eligibility are Linked in Texas

In Texas, application and renewal of coverage for CHIP and Children's Medicaid are inter-connected. An understanding of the basic interactions is helpful in understanding the latest declines in children's coverage.

New Applications

New applications for CHIP and Children's Medicaid are linked. When Congress created CHIP it required states to make sure that every child applying was screened for Medicaid, and Texas passed SB 43 in 2001 (effective January 2002) to make the application processes for children truly unified. Since then, parents have been able to submit a mail-in application for either Children's Medicaid or CHIP to the CHIP contractor. If the child is eligible for Medicaid, the application is referred to a state worker for completion, and the child is supposed to be enrolled without delay and with only minimal additional steps for the parents. Parents also may apply for Children's Medicaid by visiting a local HHSC eligibility office. So, since the creation of CHIP, there have been two ways for children to enter Texas Medicaid: through the HHSC state-operated eligibility system, or through the CHIP contractor's "joint application" process.

Renewals

While renewals remain segregated—with the state system processing Children's Medicaid renewals and the contractor doing CHIP renewals—each month many children are transferred from one program to the other when their parents' income changes. In theory, children are supposed to be transferred between programs transparently and without gaps in coverage.

The Transfer of Children Between CHIP and Children's Medicaid

As of May 2006, Medicaid served about 1.75 million Texas children, compared to CHIP's nearly 299,000. A common myth is that CHIP children are in working families and Medicaid children are not. In fact, the vast majority of children on Medicaid are in working families. Only 7% (about 124,000) of the 1.75 million children covered in May were in TANF cash assistance families. Another 5% were children with serious disabilities and fewer than 1% were pregnant teens; even in these groups a majority have working parents. Of the remaining 1.5 million, about 1.2 million are in a worker-headed family, and the other 300,000 are composed largely of families where a parent is disabled, or children rely on child support from a working non-custodial parent.

Federal law forbids states to enroll Medicaid-eligible children in CHIP (to prevent states from abusing the better CHIP matching funds rate). Children whose family incomes or assets are higher than Texas Medicaid allows, but still less than twice the federal poverty income (200% FPL), can enroll in CHIP. It is important for states to have a good process for moving children between the two programs, because the

earnings of low-income families tend to frequently fluctuate, and most kids on public health insurance have parents that work. This means that children move back and forth between Medicaid and CHIP quite a bit, and despite Texas laws directing the programs to eliminate gaps in coverage when these transitions occur, disruptions are still a very common problem.[2] This is mostly because CHIP was set up with a separate privately contracted enrollment and computer system, so children transitioning between programs must literally have their enrollment data moved from one computer and system to another. One eventual goal of IE&E is to have both programs in a common system and computer, but that goal is toward the end of the currently suspended IE&E timeline.

When HHSC did a special study of movement between programs it found that during fiscal year 2003 about 75,000 children moved from Medicaid to CHIP, but about 139,000 children moved from CHIP to Medicaid (trends for 2002 and part of 2004 were similar). **So, more children go from CHIP to Medicaid than the reverse.** In fact, HHSC statistics for CHIP show that the average number of children on CHIP moving directly to Medicaid every month was 6,800 in fiscal year 2003 and 7,800 in 2004.

The CHIP contractor has a major impact on Children's Medicaid enrollment, because it (1) processes a major stream of new Medicaid applications and (2) is responsible for moving children from CHIP to Medicaid every month. Thus, the same problems—staffing, training, computers, and correspondence—that disrupted CHIP enrollment and renewals in recent months, also disrupted those flows into Children's Medicaid.

How State Worker Shortages Affect Children's Medicaid Enrollment

But the recent unprecedented decline in Children's Medicaid is not entirely due to the deficiencies of the new contractor. Medicaid's computer systems are programmed to automatically close a child's case after six months if a renewal is not entered by an eligibility worker by a certain deadline. This means that if state workers fall behind in processing renewal forms, children are cut off the rolls by the computer. HHSC (and the predecessor eligibility agency, DHS) had problems with this in the past (in 2003 and 2004), and modified its systems to ensure adequate resources were dedicated to children's renewals and new applications.

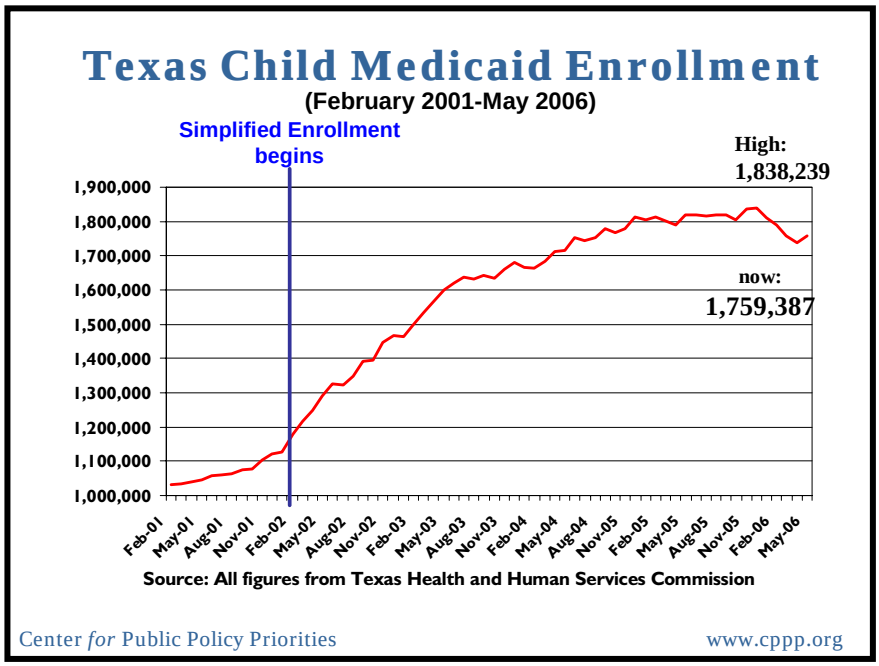
However, the launch of the IE&E system has been marked by the loss of thousands of eligibility staff seeking new work before impending lay-offs, and the reassignment of tenured staff to new locations. In 2002, the eligibility system consisted of 9,100 workers serving an average of 450 clients per worker. By March 2006 the number had dwindled to 5,800 workers statewide (900 of them temporary) serving nearly 1,000 clients per worker. Shortages were especially bad in the Travis-Hays area, where office closures and lay-offs for IE&E were first scheduled to occur. As a result, the Children's Medicaid rolls have dropped across the state due to staffing shortages, but in Travis and Hays counties have dropped much more dramatically (13.5% in Travis and 23% in Hays, compared to 4.3% statewide).

Travis and Hays Hit Hardest

Essentially, these two counties were hit not only by the problems plaguing the changeover in CHIP contractors (which disrupted one of the two streams of new Medicaid applications, plus transfers to Medicaid from CHIP at renewal), but also by the more extreme staffing shortages and backlogs that resulted from the launch of the IE&E pilot in these counties. It appears that a backlog of applications and renewals for Travis and Hays was handed by the state offices to the IE&E contractor in January, and the contractor was unable to process the cases promptly because of its own staffing, training, computer, and process shortcomings.

As this report is published, one hopeful sign is that the statewide trend in Children's Medicaid actually improved from April to May, as HHSC re-targeted resources in the state worker system to stem the loss of children (the statewide enrollment of children on April 1 was more than 99,000 below the December rolls). However, Travis and Hays counties have not yet been so fortunate; their enrollment declined even further from April to May. Reportedly, state workers in Travis and Hays (including those assigned to call centers) are focusing on processing the children's cases, so it is possible the downward trend may be arrested before long.

Decline in Children's Medicaid Enrollment



Texas Children's Medicaid enrollment had grown steadily since CHIP outreach first began in 2000. Occasionally, a month of reduced enrollment occurred, usually followed by a rebound month in which the enrollment set-back was "made up." There has not been a decline lasting more than 3 months in nearly a decade. In three earlier instances since 2000 when there were 2 consecutive months of decline, the largest 2-month combined decline was 22,500. In contrast, the decline for December 2005 alone was over 29,000 and the 5-month total is 78,852. Very large enrollment gains must occur in upcoming months if enrollment is to rebound.

Impact of IE&E on Adult Medicaid Enrollment

Statewide, the total number of adults on the Texas Medicaid rolls grew by over 3,300 from December 2005 to May 2006 (less than one-half of one percent growth). This net increase was largely due to continued slow growth in enrollment by the elderly and residents with disabilities (who account for 79% of adults on Texas Medicaid) and women with maternity coverage. In contrast, parents covered by Medicaid (i.e., not elderly, disabled, or pregnant) dropped by over 11,700 (12%). This is consistent with a very large decline in parents covered by Medicaid which has been ongoing since 2003, and is more attributable to harsh TANF sanction policies enacted as part of HB 2292 than to the IE&E rollout.

Of greater concern are the statistics for Travis and Hays counties. In those counties, every category of adult Medicaid client has declined since December 2005, included significant drops among the aged, blind, disabled, and pregnant women. Travis county shows a drop of 1,417 clients (6%), while Hays county has lost 398 clients (15%). It appears that the disruptions to the eligibility system related to the attempted implementation of IE&E in those two counties have been significant. Local community-based organizations and legislative offices have reported high incidences of requests for assistance from all kinds of Medicaid clients in recent months. These enrollment numbers seem to confirm the incidence of those problems, and to underscore the need for great caution in moving forward with IE&E.

The CHIP Problems

With the current set-backs in coverage, as of May 1, 2006, Texas is covering more than 96,800 fewer children in Medicaid and CHIP combined, compared to September 2003. Unlike Children's Medicaid, CHIP enrollment had been dropping every month since September 2003. The Legislature in 2005 approved policies intended to reverse that decline: restoring dental and vision benefits to CHIP, and creating a more affordable enrollment fee structure. Funds were appropriated to let the program grow, and a contingency rider provided for additional funds if needed.

Despite these legislative actions, the CHIP decline continued, and worsened considerably with the change in contractor and the simultaneous imposition of new enrollment policies in December 2005. HHSC elected to begin collecting the new enrollment fees approved in May 2005 without any prior

outreach or public education to educate families about the new policies. Since HHSC had stopped terminating CHIP cases for non-payment in January 2004 and declared an official moratorium on premium collection in August 2004, families were unaccustomed to making payments (other than the co-payments to doctors and pharmacies).

In addition, HHSC imposed on CHIP applications and renewals two policies that had been in effect for Children's Medicaid since 2003. First, HHSC ended a policy know as "EZ" renewal, in which families were provided all their original application information and simply asked to update it; parents now had to record and document anew their income and "resources" (bank accounts, vehicles, liquid resources). Second, HHSC had the novice private contractor employees perform "third-party data broker" checks on the income and resource information provided by parents.

At this point it seems that some significant CHIP enrollment disruption would have occurred even without the HHSC policy changes, due to contractor staffing, training, computer, and process problems. However, the contractor's shortcomings also made it impossible for them to implement the new HHSC policies accurately. In one example, despite written HHSC application instructions to provide the single most recent paycheck, contractor staff told one parent to provide his last four paychecks. In another, families' applications were delayed while the contractor demanded information about family vehicles despite the fact that the families were exempted from resource limits altogether.

Texas CHIP Enrollment and Renewal History

	Enrollment	Renewal Rate
Fiscal Year 2002 Average	**497,688**	69.2%
September 2003	**507,259**	91.6%
December 2005	**322,898**	83.6%
May 2006	**298,776**	57.1%

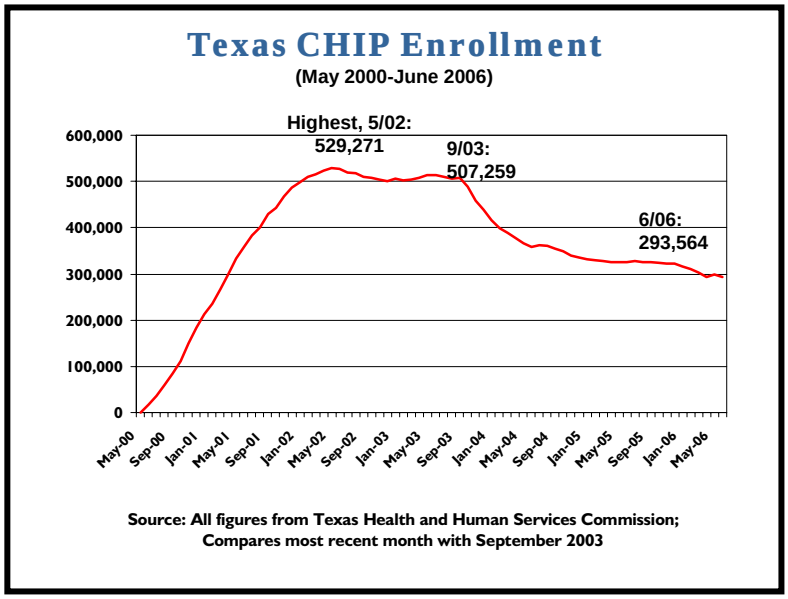
Source: Texas Health and Human Services Commission

While some have suggested that the CHIP decline has been purely a result of improved "program integrity" measures (i.e., to keep ineligible children from being enrolled), this explanation is highly implausible as evidenced by actual program history. First, Children's Medicaid did not decline when identical program integrity policies were implemented in 2003 (though the state did discover that it needed to allow more time and staff to accommodate the new procedures), as the graph on page 6 illustrates.

Second, the original CHIP contractor did not suffer the kinds of dismal renewal rates that CHIP has seen since January 2006. Even in the months from May 2000 to January 2004, when premium payments were a routine part of CHIP, renewal rates averaged over 70%.

Finally, many children with special health care needs—whose parents are conscientious about complying thoroughly and promptly with all program requirements, because so much is at stake—have lost coverage. Despite doing all that was asked of them, many found their children's coverage inexplicably interrupted or delayed.

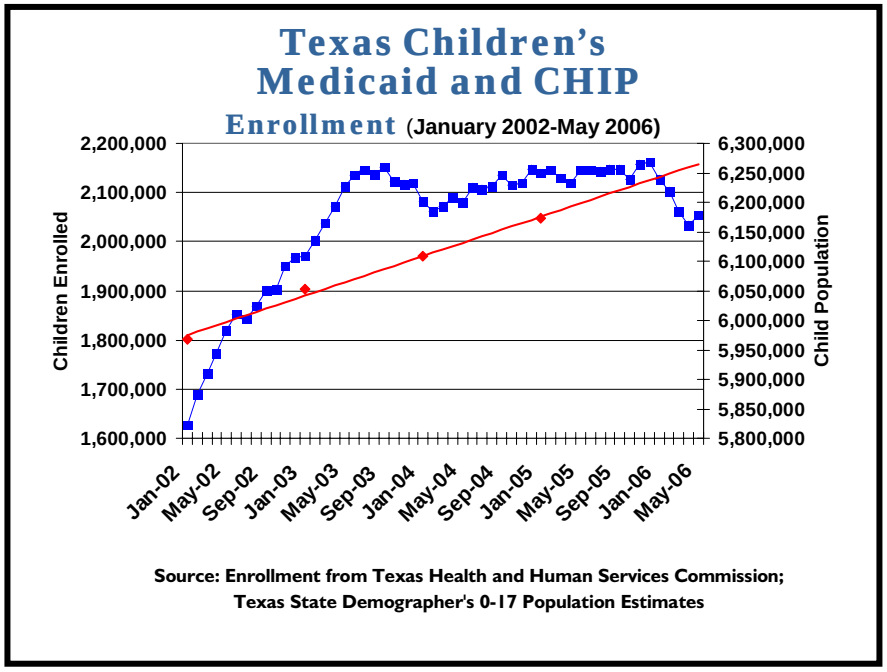
When the new contractor can reach or exceed the performance levels of the original contractor, one important benchmark that CHIP is back on track will have been achieved.



Where There is a Will, There is a Way

National research and Texas experience have shown that when state governments want to encourage robust participation in children's health care programs by legitimately eligible families, they can and do succeed. Indeed, when CHIP was created in Texas, it was estimated that there were (in 1999 population numbers) at least 600,000 uninsured Texas children who were likely eligible for Medicaid but not enrolled. Reforms of the Children's Medicaid application and renewal process in Texas to make it more like CHIP's resulted in Children's Medicaid enrollment growing from 1.1 to 1.8 million children. Allowing working poor parents to apply and renew by mail reduced the old "welfare stigma." Families who preferred to use face-to-face assistance in the DHS/HHSC eligibility offices found a new welcoming attitude that was in no way inconsistent with the concurrent commitment to program integrity.

Texas can simultaneously encourage maximum child enrollment, exercise solid program integrity oversight, and minimize hassle and red tape for parents. We can overcome the recent losses in children's coverage and move toward a day when every Texas child can get the health care he or she needs in a real medical home.



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1 See http://www.hhsc.state.tx.us/news/presentations/IEE_HAC041706.pps for 4/17/06 presentation.

[2] See Texas Human Resources code § 32.0262 and Health and Safety Code § 62.104.