THE POLICY PAGE

An Update on State and Federal Action

Center for Public Policy Priorities

900 Lydia Street, Austin, Texas, 78702 PH: 512.320.0222 FAX: 512.320-0227 www.cppp.org

July 7, 2005 Contact: Celia Hagert, hagert@cppp.org No. 248

HHSC AWARDS CALL CENTER CONTRACT

On June 30, the Health and Human Services Commission announced a 5-year, $899 million contract with Accenture, LLP to revamp and take over operation of the state's eligibility and enrollment systems for Medicaid, CHIP, Food Stamps, and TANF cash assistance. The contract includes maintenance of TIERS (the computer system that will support eligibility determination) and an enrollment broker program for Medicaid managed care and CHIP clients. The contract is the latest development in the state's plans to move to a more automated system for enrolling people in these benefits and will lead to the use of four call centers and an Internet application, with fewer eligibility staff and local offices. Many important details about the contract and the new system have not been released yet, including the location of office closures, whether necessary federal approvals have been granted, and the timeline for employee lay-offs and call center implementation. This Policy Page shares what we know so far about these latest developments in the state's plans to use private call centers to enroll people in public benefits.

Nuts and Bolts:

Four call centers will be established to help people apply for and recertify for public benefits. Staffed primarily by Accenture employees, the call centers will be open from 8 a.m. to 8 p.m., Monday through Friday, with the ability for callers to leave a recorded message after hours. The 2-1-1 system, the state's information and referral network for social services, will be the portal to the call centers. One call center will be located in Austin, where the CHIP call center is now (this call center's duties will be folded into the new call center). The location of the other three has not been announced, although San Antonio, Tyler, and Odessa are rumored to be candidates.

In the new system people will be able to apply for benefits over the Internet or via a call center, as well as to check the status of their application through an automated phone system. Some clients will still be required to appear in person at a local office to complete their application. HHSC staff have said previously that only those clients with a finger imaging requirement (the majority of the 900,000 households on Food Stamps) will have to go to a local office. In addition, clients who request an in-person interview with a caseworker will be granted one. Emergency requests for Food Stamps (state law requires benefits to be delivered within 24 hours) are expected to be processed at local offices, rather than through the call center. The local workforce centers that assist HHSC clients with employment services (administered by the Texas Workforce Commission through a system of locally run regional workforce development boards) will still provide these services and monitor whether clients are complying with program work requirements.

One hundred (100) offices will be closed, leaving 281 open. HHSC had originally proposed closing 217 offices. An announcement about office closures is expected this month.

Role of Community-Based Organizations:
When the state's plans to use call centers were first announced in March 2004, HHSC proposed using 600 volunteers and relying on over one million volunteer hours per year from nonprofit and faith-based organizations, prompting an outcry from nonprofits about their inability to take on this responsibility without compensation. Recent conversations with HHSC confirm that there is a specific role for community-based organizations in the new system. However, no more details have been provided about the nature of this involvement, nor on whether CBOs will be compensated for taking on new responsibilities. HHSC has created a unit within its Office of Eligibility Services to focus on CBOs and their role in the new system.

Savings:
HHSC claims the contract will save the state $646 million over five years, for a cumulative savings of 22.3% compared to the current system. To put these savings into perspective: if we stuck with the current system, the state would spend, on average, $577 million annually over the next five years on eligibility determination and enrollment for these programs, or 2.8% of the projected $20.4 billion in annual benefits distributed. Under the proposed contract HHSC estimates it will spend, on average, $448 million annually over the next five years to administer these programs. Administrative costs as a percentage of benefits distributed will fall to 2.1 %, or .7% less than Texas would spend under the current system.

Comparison of Overhead Costs in the Current and Proposed (IE) Eligibility Systems

	Admin. Costs Related to Eligibility Determination*	*Value of Benefits (Fiscal 2006)*	*Overhead*
Current system (no change)	$577.4 million	$20.4 billion	2.8%
IE system	$448.1 million	$20.4 billion	2.1%
Difference	-$129.3 million	NA	-0.7%

*Average annual cost, 2006-2010
SOURCES: Title XIX and Title XXI history files as reported by HHSC to CMS on May 15, 2005 (payments are for medical care only); HHSC Legislative Appropriations Request for 2006-2007; SB 1 conference report, 79th Legislature, Regular Session; HHSC's "Comparison of Baseline Budget to State-Operated IEE to Contracted IEE, FY 2006-2010," prepared June 29, 2005.

With the contract announcement, HHSC also issued a one-page summary of its cost comparison of the estimated savings possible through a state-operated integrated eligibility system versus a contracted system. HB 2292, the 2003 law that directed the state to evaluate the cost-effectiveness of using call centers, also required HHSC to determine whether the state or a private company could offer the greatest savings. HHSC's analysis claims that the contracted system offers the state 8.6% more in savings, or roughly $210 million over five years. The cost comparison attributes 1.5% of these additional savings to the difference in the cost of employee benefits under a contracted system. The source of the remaining additional savings is not identified in the summary.

The savings identified by HHSC last week when the contract was announced are higher than originally projected in the March 2004 business case, which claimed $389 million in savings. At the same time, the total number of staff proposed for the new system has risen from 3,377 (proposed in March 2004) to 5,398. There are other inconsistencies between last year's business case analysis and the documents HHSC released last week when the contract was announced, including differences in the "baseline" budget (the cost if we stuck with the current system) projections for 2006-2010. We anticipate HHSC will release information shortly to clarify these differences.

Staff Reductions:

According to an HHSC presentation to eligibility staff last month, the *total* number of staff in the new system – including public and private employees – will drop from 5,824 current employees (as of June 1, 2005) to 5,398. The schedule for laying off state workers and achieving the overall reduction in force has not been announced. Out of the 5,398 remaining staff, 2,500 jobs will be held private call center employees, which means the same number of state staff will lose their jobs (HHSC is committed to finding these employees different jobs within the HHS system; Accenture also has indicated a hiring preference at the call centers for former state workers). In addition to the private sector employees, there will be 2,898 state staff: 298 will be assigned to the call centers, 1,800 to the remaining field offices, 600 outstationed at hospitals and clinics, and 200 assigned to traveling "SWAT" teams that will respond to fluctuations in staffing needs throughout the state.

The total number of workers in the new system will be 37% higher than originally projected in HHSC's March 2004 cost-effectiveness study, which proposed staffing the new system with only 3,377 employees.

Although the planned reduction in staff represents only a 7% reduction over current staff, this number is misleading given that the number of "current" staff does not include hundreds of temporary staff hired since the proposed staff reductions were announced 16 months ago. In addition to natural attrition, since the announcement was made the prospect of mass lay-offs has caused many eligibility workers to quit over uncertainty about their jobs. If you compare the total number of employees (both public and private) in the new system to staffing levels from November 2004, when there were 6,921 HHSC eligibility workers including the temporary staff, the proposed cuts climb to 22%. The cuts represent a 58% reduction in the eligibility workforce over 1997 levels, when caseloads and workloads in these programs were significantly lower.

Although the proposed staffing levels are far higher than originally anticipated, the number may still be inadequate to deal with the growing workload in the system, even if the improvements anticipated from better technology and a more automated enrollment process are actually realized. Staff reductions over the last eight years have caused disruptions in services to clients and breaches in customer service, resulting in lawsuits. These cuts were made despite growing caseloads and workload and have badly damaged the foundation for the current eligibility system. Inadequate resources have been compounded by complicated eligibility rules that vary across programs, a hard-to-serve clientele, and a constantly changing policy environment. All told, the proposed renovation faces a great deal of major repairs. While the new system may resolve some of these shortcomings, no system, no matter how efficient or modern, can make up for shortages in the workforce.

Timeline:

The first call center is expected to begin operations in Austin in November 2005, with remaining call center operations and system changes phased in beginning in January 2006. The statewide roll-out is estimated to be complete by the end of 2006. This 14-month timeline may not allow adequate time to test the new technology needed to support the system or to assess clients' ability to grapple with a more automated approach to enrollment. Although pressure from the legislature – the final state budget for 2006-2007 assumed a reduction of more than 4,000 HHSC eligibility staff – may be driving such an aggressive timeline, a slower, more rational approach to such drastic changes would produce a better system in the long run while mitigating the risks of going too fast.

The Pros and Cons of Privatization:

CPPP acknowledges that private companies may offer innovations and savings the state could not achieve on its own. However, although the additional 5-year savings of $210 million achievable through privatization (versus a state-run, revamped system) sounds impressive, much of these projected additional savings are likely the result of reductions in salary, health benefits, and pension plans. To make room for these savings, thousands of well-paying state jobs with family-supporting health, vacation, and retirement benefits will be replaced with lower-paying private sector jobs with fewer benefits. Most notably, according to HHSC's presentation to eligibility staff, Accenture will not contribute to dependent health benefits such as the state does for its employees, opting instead for a flexible spending account option that allows employees to set aside their own pre-tax income to pay for dependent health premiums and other out-of-pocket medical costs. The loss of employer-sponsored dependent health coverage may lead to an increase in need for publicly funded health insurance – increasing these costs for the state – or more uncompensated care that will be borne by local governments and taxpayers.

With privatization also comes increased risk, which may outweigh the savings associated with outsourcing. Caseload growth and inflation are likely to increase the cost of administering these programs, at which point the state may have to amend the cost of this contract (reducing projected savings) or let services to clients suffer, which could lead to costly litigation. At this point, turning to the "competition" for cheaper options won't be an alternative, since there is no competitive market for eligibility determination; Accenture will have, in essence, assumed monopoly power over the market. The same will be true when it comes time to renew the contract. Having dismantled our public system, the state will be over a barrel in negotiating a price, even if Accenture has performed poorly.

While a state-run system would face similar challenges as caseloads and costs increase, it is more likely that the state could tighten its belt – without letting services to clients suffer too much – than could a private company. Regardless of the innovations it offers, a private company is not likely to do more, as well, for less.

Other Issues and Concerns:
In addition to the concerns mentioned above, many of the questions raised last year by advocates and service providers, when HHSC first proposed these changes, remain unresolved. For example, many of the assumptions driving the success of the new model for eligibility determination have not been tested, including the ability of the 2-1-1 network to handle the increased call volume, the potential of clients to access a computer and apply for benefits online, and the availability and reliability of certain technology (including TIERS, which has not yet proven itself a viable tool for determining eligibility in the current system). To read more about these concerns, see our original analysis of the state's call center proposal at http://www.cppp.org/research.php?aid=44&cid=3&scid=7.

It is also unclear whether HHSC has received the necessary approvals from the federal agencies that administer these programs and share the cost of the benefits they provide. These agencies will have to approve the cost-reimbursement methodology in the contract, the allocation of costs to the federal agencies that administer these programs, and the decision to privatize the eligibility system, which could require a waiver of federal law that HHSC has not requested. Both the federal Food Stamp and Medicaid statutes require public employees to determine eligibility for these benefits.

Although HHSC has always argued that state employees will make the final eligibility decision in the privatized system (as well as other decisions that affect benefits including denials, terminations, and sanctions), the federal Food Stamp agency (FNS - Food and Nutrition Services) has yet to sign off on the state's plans for privatization. When HHSC submitted to FNS its original plans and request for proposals from the business community, FNS gave the state tentative approval to move forward. However, the new system cannot be implemented until FNS grants its final approval. FNS may also require HHSC to submit a formal request to waive the federal law requiring state workers to make eligibility decisions. In this event, even if such a waiver were granted, it is likely HHSC would have to scale back its plans. Federal law waivers of this kind generally require states to conduct a "demonstration project" to test the system in a limited geographic area and evaluate the results before permitting statewide implementation.

Stay tuned for more information.