

STATEMENT FROM KAISER PERMANENTE

First, some background might be helpful: California was first state to introduce Medicaid managed care, and at that time there was a great deal of concern among counties and county hospitals. So California came up with the two-plan option, where counties could set up county initiative, and one commercial plan could also operate. In other states, multiple plans participate in Medicaid, rather than this highly limited environment in California.

For Kaiser Permanente, the only way to participate has been to subcontract with another plan. Plans charge subcontractors an administrative fee, which used to be capped at 2%, but is no longer effectively capped. This system has worked well enough, although it adds to the complexity and confusion which members go through when transitioning onto Medi-Cal. It also limits our ability to expand our participation in Medi-Cal or the state to accurately measure quality across the network model plans.

As a nonprofit health care organization with a mission to provide high quality care and coverage, Kaiser Permanente has participated in Medi-Cal for decades as a fully integrated health plan and care provider. We do so despite incurring losses every year. In 2020 for example, financial losses as a result of our Medi-Cal participation totaled nearly \$1.8 billion. (We also provide medical financial assistance and charitable health coverage to individuals with low incomes and families who don't have access to other public or private health coverage – totaling more than an additional \$402 million for Californians in 2020.)

Kaiser Permanente participates in Medi-Cal primarily through a continuity of care model. This is of enormous benefit to people, so that a change in how they receive coverage does not result in a disruption in their relationship with their doctor. No other plan in California is committed as KP is to mitigating the disruption of coverage churn in this way. We have a large enough membership in California that there is a significant level of transition of our members from employer-based to Medi-Cal coverage to create some growth. And in fact, during the pandemic, we've grown membership from roughly 700,000 to 900,000.

We have also engaged with the safety net and FQHCs in multiple ways to support and improve quality, access and service for Medi-Cal enrollees, in addition to providing care and coverage to more people. In total, we have spent more than \$50 million on these purposes, without reimbursement. We do this as part of our mission, not to make a profit.

An [independent study](https://www.chcf.org/publication/close-look-medi-cal-managed-care-quality-trends/) published by the California Health Care Foundation found that Kaiser Permanente year in and year out is the highest performing health care plan for Medi-Cal beneficiaries (https://www.chcf.org/publication/close-look-medi-cal-managed-care-quality-trends/). In fact, through our sub-contracts with other health plans, our results improve the quality scores of those other plans.

Because we are a provider not just a plan, we are challenged to grow beyond our capacity. We need to have the providers in place in our care delivery system, in order to enroll and serve

more members. So we've always needed to be careful in growing at the right pace, to match our capacity. The State and other plans and many other hospitals have wanted us to grow more.

We have worked with state to develop sustainable approaches to increase our participation in Medi-Cal and improve the program in a variety of ways. We are committed to continuing to grow enrollment of Medi-Cal beneficiaries with Kaiser Permanente, but we also believe we can elevate quality for an even larger number of Medi-Cal beneficiaries by helping to the safety net system. Our goal is not to compete with the safety net but to support it.

- **Enrollment growth** – We will increase Medi-Cal membership in a sustainable way, in line with our growth in other enrollment, with a focus primarily on continuity of care and coverage, foster care and dual-eligible members.
- **Population health** – We are proposing to support the safety net by bringing our population health model to the FQHCs to help improve quality across the state.
- **Virtual care** – Further, as we develop our virtual care services, we are looking at ways to help expand the FQHCs' clinical and knowledge capacity so they can do more to help more people.
- **Specialty care gaps** – We will be addressing identified gaps in specialty access by piloting a limited number of in-person, ambulatory based, outpatient specialty care visits for the highest need specialties. This will be additive to the safety net system, not taking away from existing services.

Our increased participation in Medi-Cal is in alignment with our nonprofit mission, our focus on integrated care and coverage, reducing the needless complexity for our members, enhancing quality, and improving the health of our communities. It will allow for more Medi-Cal participation and greater quality improvements than would be possible if KP were to be fully open to Medi-Cal enrollment, which would be unsustainable for us, destabilizing for the safety net, and make things harder, not easier for people moving in to Medi-Cal coverage.

Questions and Answers

Q1. By negotiating a separate contract with the state, Kaiser Permanente is effectively bypassing the reprocurement. Why is it better for KP not to submit bids like all the other commercial Medi-Cal plans?

Kaiser Permanente operates a high quality, integrated health care delivery system, which is unlike the network model plans that are competing in the reprocurement.

We are not competing with the other plans for members. We are not seeking to turn a profit off Medi-Cal enrollment. Kaiser Permanente participates in Medi-Cal because it is part of our mission to improve the health of the communities we serve. We participate in Medi-Cal despite incurring losses every year. In 2020 for example, financial losses as a result of our Medi-Cal participation totaled nearly \$1.8 billion.

Within our integrated delivery system, we do not contract with any willing provider, we do not market our Medi-Cal product, and we do not have unlimited capacity for membership growth. Our participation in Medi-Cal is designed to provide continuity of care and coverage to our members as they transition from Kaiser Permanente's other forms of coverage, such as when they lose employer-based coverage.

Given Kaiser Permanente's constraints on membership growth, options for Kaiser Permanente would have included either subcontracting under another Medi-Cal plan that may be bidding in multiple counties, or bidding directly but with restrictions on the number of Medi-Cal members we could serve. Neither option is good for DHCS or other commercial Medi-Cal plans, not to mention it wouldn't be good for enrollees. Evaluating KP as a subcontractor of another commercial Medi-Cal plan complicates the overall evaluation process and would likely result in bid protests. Evaluating Kaiser Permanente as a direct contractor puts DHCS in a predicament of either turning away its highest quality Medi-Cal plan today, or else selecting our plan but thereby creating only one option for enrollees who are not eligible for Kaiser Permanente membership (under the state's rather unique two plan model). Keeping Kaiser Permanente separate from the procurement process levels the playing field for all network model commercial plans, and decreases the likelihood of bid protests that would be associated with comparing apples to oranges.

Q2. Is this new state contract a statewide deal to directly serve Medi-Cal patients, or would it only be in counties KP currently operates in? Or would the contract allow KP to start with the current counties it does business in, with the potential to expand in future years statewide?

Kaiser Permanente would contract directly with DHCS. Under that contract, Kaiser Permanente will continue to serve its existing Medi-Cal members in the counties it operates in today, and in counties where it previously participated in Medi-Cal, but had its subcontract terminated, such as Fresno, Kings, and Madera counties. In addition, Kaiser Permanente will have the opportunity to serve Medi-Cal members in counties where Kaiser Permanente has not previously been able to do so, such as in Stanislaus and Santa Cruz counties. In total, the alignment with Kaiser Permanente's overall health plan coverage areas will allow for the best member experience – providing continuity of care and coverage when members transition into and out of Medi-Cal – everywhere that Kaiser Permanente operates in California.

Under the current system, in counties where Kaiser Permanente is a subcontractor, our members are forced to navigate a needlessly complex route, and manage multiple plan memberships, just to stay with their Kaiser Permanente care providers when they wish to enroll in Medi-Cal. (See for example the great article about this in California Healthline in December, "[Layers of Subcontracted Services Confuse and Frustrate Medi-Cal Patients.](#)") This undermines the benefit Kaiser Permanente offers to mitigate the risk that coverage churn can disrupt a relationship an individual has with a doctor.

Q3. With the new contract, would KP simply convert to a direct Medi-Cal contractor in counties where you are currently subcontracting or also enter other counties where you have no Medi-Cal presence?

Please see the response to the question above.

Q4. Would KP direct contracts in San Diego and Sacramento remain intact or be supplanted by the new statewide contract? In other words, will you be staying in San Diego and Sacramento as one of the directly contracted health plans? If so, will KP be one of two plans in San Diego and Sacramento or one of three?

Kaiser Permanente will continue to participate in San Diego and Sacramento. Its current contracts will be terminated and replaced with the single direct contact with DHCS. We defer to DHCS in terms of the total number of Medi-Cal managed care plans that will operate in Sacramento and San Diego.

Q5. Under current arrangements, both as subcontractor and direct contractor, Kaiser Permanente is allowed to accept only Medi-Cal enrollees who were KP members in the recent past and to decline default assignments. Will this continue to be the case in the new statewide contract, or does KP contemplate a significant increase in its Medi-Cal enrollment?

Because Kaiser Permanente's participation in Medi-Cal is focused on continuity of care and coverage for its members, the existing enrollment process will stay in place: Our members with recent Kaiser Permanente coverage or family additions may join Kaiser Permanente for Medi-Cal coverage. As is the case today, Kaiser Permanente will not participate in the auto-enrollment program.

Kaiser Permanente is committed to increasing its participation in the Medi-Cal program, with a focus on foster care children and dually eligible members. Such growth outside of Kaiser Permanente's normal enrollment process will be in alignment with the capacity of Kaiser Permanente's integrated delivery system.

Q6. Other health plans say the ability to limit their enrollment numbers in that way is a form of cherry picking and gives KP an unfair advantage in the form of a healthier Medi-Cal risk pool? What do you say to this argument?

Kaiser Permanente's Medi-Cal engagement is focused on providing continuity of care for existing members who lose their other coverage, such as employer-based coverage. This does not allow for 'cherry picking' the healthiest members, since our membership represents the entire spectrum of Californians. Rather, Medi-Cal members are enrolled if they have recent Kaiser Permanente coverage or if they are a family addition – the member's underlying medical conditions are never taken into consideration. Kaiser Permanente is modeling what many health experts regard as exemplary in terms of making sure that our multi-payer system has a

way to ensure that when the source of coverage changes this does not disrupt the relationship between patients and their doctors. The Netherlands and other high performing health care systems in Europe use this approach nationwide to eliminate the potentially harmful effects of coverage churn.

In addition, Kaiser Permanente is committed to increasing its participation in the Medi-Cal program, with a focus on some of the most vulnerable people in the state -- foster care children and dually eligible members.

As part of our non-profit mission, Kaiser Permanente will continue to support the safety net, and will make significant additional investments to help improve quality and the member experience in the safety net. These include investments in the DHCS Population Health Management initiative, and a commitment to provide specialty care to non-Kaiser Permanente Medi-Cal members in areas where access gaps exist in the Medi-Cal program (specific areas are to be determined by Kaiser Permanente and DHCS).

Q7. Will KP be held to all the same performance and reporting requirements that are expected to be contained in the new contract everyone else will be signing? What is in the new KP contract that's not in the one everyone else is signing?

Kaiser Permanente will be held to the same performance and reporting requirements that all Medi-Cal managed care plans will be held to, when this takes effect on 1/1/2024. In addition, Kaiser Permanente is committed to making significant new investments in the Medi-Cal program. These include Kaiser Permanente's commitment to DHCS's Population Health Management initiative, and Kaiser Permanente's commitment to providing specialty care to non-Kaiser Permanente Medi-Cal members in areas where access gaps exist in the Medi-Cal program (specific areas are to be determined by Kaiser Permanente and DHCS).

Q8. The other commercial Medi-Cal plans have spent lots of time and resources over the past many months planning their reprourement strategies and some feel that the playing field is suddenly being tilted at the last minute. What would you say to mollify them?

First of all, nothing in this state contract should affect the current reprourement process. Kaiser Permanente operates a high quality, integrated delivery system, which is unlike the network model plans who are competing in the reprourement. Given Kaiser Permanente's constraints on membership growth, options for Kaiser Permanente would have included either subcontracting under another Medi-Cal plan, potentially in multiple counties, or bidding directly but with restrictions on the number of Medi-Cal members we could serve. Neither option is good for DHCS or other commercial Medi-Cal plans, as discussed above. Our contract does not interfere with their operations or change the competition. In fact, it levels the playing field to include only network model plans in the procurement. In addition, we are seeking to support the safety net with additional investments, which in turn will benefit other plans.

Q9. Can you confirm that as part of the deal, you have agreed to donate \$1 billion to the state's safety net facilities? What type of facilities does this include?

This is absolutely not accurate. Kaiser Permanente has not committed to a specific dollar amount, but we are developing plans to make substantial new investments in the Medi-Cal program. These include Kaiser Permanente's commitment to DHCS's Population Health Management initiative, and Kaiser Permanente's commitment to providing specialty care to non-Kaiser Permanente Medi-Cal members in areas where access gaps exist in the Medi-Cal program. In addition, Kaiser Permanente's commitments to membership growth under this contract represent additional investments in the Medi-Cal program, since we lose significant amounts of money each year on our Medi-Cal engagement, and that will continue.

We are not seeking to turn a profit off Medi-Cal enrollment. Kaiser Permanente participates in Medi-Cal because it is part of our mission to improve the health of the communities we serve. We participate in Medi-Cal despite incurring losses every year.

We've also provided tens of millions to the safety net system, to help build clinics, install electronic medical health records, and more.

Q10. Does your new agreement with the state envision allowing KP to become a direct contractor in the COHS counties? It appears this could be legally tricky because of statute pertaining to COHS. Do you anticipate potential legal challenges on this point?

Yes, Kaiser Permanente would become a direct contractor in the COHS counties. Our understanding is that this will require a statute pertaining to the COHS counties, but we feel DHCS is best positioned to respond to these questions.

Q11. The following document (https://www.kpihp.org/wp-content/uploads/2020/01/ca_medicaid_flyer_July2020.pdf), dated July 2020, shows 22 counties where KP participates in Medi-Cal and breaks them down by whether KP is a subcontractor in two-plan counties and COHS counties, or a direct contractor in GMC counties. We know the enrollment numbers have risen somewhat (according to DMHC data), but can you confirm whether the number of counties, and the breakdown of the counties according to direct contracting or subcontracting, is still accurate? If not, can you provide updated information?

This information is still accurate.

Q12. What do you say to critics who say that KP is being given a special sweetheart deal from the Newsom administration that allows it to circumvent quality and accountability requirements that other plans have to comply with – and as one of the governor's biggest political allies, the company is being given an unfair advantage in the Medi-Cal space.

Through this state contract, Kaiser Permanente is committing to more financial losses in Medi-Cal, along with making significant new investments to help improve the overall Medi-Cal program. Even with additional financial losses, we are committed to advancing quality for a broader number of Medi-Cal beneficiaries including those covered by other plans, increase the stability and quality of care of the safety net system, and provide additional value beyond enrolling more Californians in KP Medi-Cal.

We will be subject to the same contract and oversight that all other Medi-Cal managed care plans will be subject to – e.g., DHCS audits, reporting, and submissions are all the same. Directly contracting will hold Kaiser Permanente even more accountable to DHCS, as DHCS will have a much clearer view into Kaiser Permanente’s Medi-Cal program in all counties, which is not possible currently, where we operate as a subcontractor. It will also give DHCS a better view into the quality of the Medi-Cal managed care plans that Kaiser Permanente has been subcontracting with, as Kaiser Permanente’s quality scores will no longer factored into their overall performance. The most important thing we’d say is that this is the best thing we can do for our members – it simplifies the member experience and allows members to keep their Kaiser Permanente providers when they need to transition to Medi-Cal without navigating through an added health plan layer that is confusing and adding no additional value. Again, we would refer to the clear explanation of the current, frustrating complexity for enrollees in December’s California Healthline article on Medi-Cal.

Q13. What is the effective date of the new contract?

January 1, 2024. In advance of this, Kaiser Permanente will go through the same readiness review as other new Medi-Cal managed care plans with contracts beginning January 1, 2024.

Q14. Does KP envision using this new contract to pick up the dual-eligible, special-need population? [D-SNPs will require](#) a Medi-Contract under current state policy so will KP be positioned to serve that population?

Kaiser Permanente is committed to serving more vulnerable dually eligible members, and operates a 5-Star Medicare plan. We are fortunate that this change allows Kaiser Permanente’s Medi-Cal coverage to meeting the “exclusively aligned enrollment” requirements for D-SNP plans. This allows Kaiser Permanente’s Medicare members to have the full integration option that they deserve – better coordination their care, member materials, and overall experience. And, as noted above it will simplify the enrollment process for this vulnerable population as they won’t have to navigate through an added health plan layer that is confusing and adding no additional value.