When she was doing cultural anthropology research in Mexico, Judy Mohr Peterson never imagined someday she would be testifying before lawmakers explaining the substantial overhaul of a U.S. state’s health care system. But now, as Oregon’s Medicaid Director, she finds herself at the center of one of the most ambitious health care reform efforts in the nation, with the goal of improving care and sharply reducing costs for Oregon Medicaid patients—and eventually for everyone in the state.

The project, driven by Oregon Gov. John Kitzhaber’s vision, a bipartisan state legislature and a large state budget deficit, aims to provide an integrated package of health care services to beneficiaries through local coordinated care organizations (CCO). The focus is on delivering better, more efficient, and more affordable care that is individualized for each person, particularly for patients with chronic illnesses who account for the bulk of Medicaid costs. And the spotlight is on Medicaid.

“We’re looking at this as an amazing opportunity to pay for services differently and get better value,” says Mike Bonetto, the governor’s health policy advisor.

Unlike now, beneficiaries in the proposed Medicaid system would receive their medical, dental, mental health, and chemical dependency services through one CCO, which would receive a global payment—based on value and good health outcomes—to provide all services for the assigned beneficiary population. Low-income and disabled seniors covered by both Medicaid and Medicare would be included. The total budget for each CCO would be capped at a set amount each year, a feature no other state currently offers. Approved in early March, the new system is scheduled to start in August 2012.

**Medicaid at the Crux of Oregon’s Health System Transformation**

Over two months in early 2011, Mohr Peterson helped lead a group of 45 legislators, providers, health plan...
representatives, consumer advocates, and other stakeholders in devising an outline of the proposed system transformation. A few months later, the Oregon Legislature passed and the governor signed a reform bill, HB 3650, endorsing that blueprint with a goal of reducing Medicaid spending by nearly $300 million over two years.

Mohr Peterson played an integral role in the new CCO legislation, heading one of four work groups assigned by the governor to flesh out the details needed for the final implementation bill, which was passed on March 2, 2012. Now that the legislation has passed, Mohr Peterson is leading Oregon’s implementation of CCOs. On a parallel track, Mohr Peterson and the state are seeking federal approval to modify Medicaid and Medicare rules via a state waiver, including combining funds from the two programs to serve individuals who are eligible for both programs, and to establish a global budget for the CCOs. The idea of capping Medicaid spending is innovative and has never been approved by the federal government.

Stephen A. Somers, president of the Center for Health Care Strategies (CHCS), said Oregon leaders are seeking to use the leverage of the huge Medicaid program to drive dramatic system-wide change in organizing and delivering care. Other states, ranging from California and Colorado to New York and Vermont are making similar moves. Every state is squeezed between the imperatives of closing budget deficits and gearing up for the major Medicaid expansion in 2014 envisioned by the Affordable Care Act.

During this demanding process, Mohr Peterson received leadership coaching through the Medicaid Leadership Institute, a professional development program for state Medicaid directors run by CHCS and funded by the Robert Wood Johnson Foundation. The Oregon reform effort was her on-the-job practicum during her recently-completed 2010-2011 Institute fellowship.

The Institute provides each Fellow with a leadership coach. Mohr Peterson found that “working with an outside advisor on a regular basis, thinking through the issues and how to move forward” was an invaluable part of her leadership training.

**Building on Oregon’s History of Medicaid Reform**

Oregon’s transformation project is its latest effort in two decades of pioneering Medicaid reform work, much of it under John Kitzhaber. In the early 90s, Oregon received a widely noted federal waiver to cover all residents earning up to 100 percent of the poverty level by limiting benefits to services that had demonstrated clinical effectiveness and value. Then, in 2003, with Kitzhaber in his second term as governor, the state again expanded the Oregon Health Plan—the state’s name for its Medicaid program—to cover pregnant women and children in households earning up to 185 percent of the poverty level. But rising health costs and budget shortfalls prompted the state to impose significant cost sharing on beneficiaries, which led to many leaving the program.
Some experts believe that this could have been averted if the Oregon Health Plan had been able to reorganize care and truly control costs.

Drawing lessons from these early cost control efforts, Mohr Peterson learned what is necessary to transform the system. Due in part to the challenging economy, enrollment in the Oregon Health Plan had grown to more than 600,000 and the state faced a large budget shortfall for Medicaid. While some traditional cost-cutting methods were implemented, the severity of the budget shortfall created an imperative for a more efficient, integrated care system. A third-party analysis found that by implementing CCOs, Oregon could save a significant portion of projected Medicaid costs in the short- and long-term. Savings would potentially be more than $1 billion (total funds) within three years and more than $3.1 billion (total funds) over the next five years.

“We needed to make rate reductions and benefit reductions to address our immediate budget shortfall, and then have the coordinated care organizations achieve the rest of those savings in the second year,” Mohr Peterson said. “That’s fast action. But we know the health care system isn’t working for Medicaid or patients in general, and now is the time for a real health care transformation.”

Framework for Oregon’s Medicaid Transformation
In March 2011, the Oregon Health Policy Board handed a conceptual outline of the reform plan to the Legislature. The plan is built around contracting with a CCO in each local area, with the local entity receiving a global payment to provide medical, dental, mental health, and chemical dependency services. The CCO could be a single corporate entity or a network of providers tied by contract.

The Oregon Health Plan already contracts with 15 health plans around the state that provide medical care to over 80 percent of the Medicaid population. But CCOs would be different because they would integrate care for mental health services and dental care, which now are provided separately. Mental health conditions are the state’s second largest cost area, after maternity/newborn care.

The new law requires CCOs to offer Oregon’s prioritized Medicaid benefit package. Patients would have a choice of providers within the CCO network, including federally qualified health centers and other safety-net clinics. The CCOs would feature a strong primary and preventive care approach modeled on the patient-centered primary care home. A priority would be working with high-need patients with chronic conditions, mental illness, and chemical dependency, and organizing their care to reduce emergency room and hospital use.

To encourage a focus on health care quality, the CCOs would shift to paying providers based on patient health outcomes rather than volume of services. The health plans would be required to share savings from more efficient delivery of care with their providers. The state would develop accountability measures for evaluating the CCOs in terms of quality of care, financial, and community health performance.
Medicaid Leadership Institute: Helping Medicaid Directors Hone CEO Skills

Having served as a state budget analyst for many years, Judy Mohr Peterson had limited experience speaking to large groups. But when she became Oregon’s Medicaid director in 2009, she found herself testifying before the state legislature and appearing routinely in the public spotlight. Last year, when she was chosen for the national Medicaid Leadership Institute’s (MLI) year-long fellowship, she began working with a leadership coach provided by the Institute to improve her presentation skills.

“It’s not an area where I’m personally comfortable,” she says. “But I immediately put those suggestions in practice, and people told me there was a visible difference in my connection with the audience. Now I think about those lessons each and every time I speak.”

That is just one of the many skills Mohr Peterson and 17 other state Medicaid directors have developed during the Institute’s first three years of existence. The program, created by the Center for Health Care Strategies (CHCS) and funded by the Robert Wood Johnson Foundation, helps Medicaid directors develop the leadership skills and expertise needed to manage and improve their programs and transform the nation’s health care system.

The fellows -- who have come from Alabama, Arizona, California, Colorado, Illinois, Iowa, New Hampshire, New Jersey, New Mexico, New York, Oklahoma, Oregon, Pennsylvania, Rhode Island, Tennessee, Texas, and Washington -- receive expert support in executing an on-the-job practicum they personally design. During the program year, the fellows attend four intensive seminars featuring noted health care, management, and economic experts such as Harvard’s Michael Porter and Princeton’s Uwe Reinhardt and Eldar Shafir. In between, they consult regularly with their personal leadership coach and program faculty and staff about their practicum project and the ongoing professional challenges they face.

“MLI draws from so many national experts who can help with problems and decisions,” says Carolyn Ingram, a 2009-2010 fellow when she was New Mexico’s Medicaid director who now serves as MLI co-director and CHCS senior vice president. Ingram notes that the fellowship is invaluable because while Medicaid directors are essentially the CEOs of the largest health plan in their states, few have previously received formal leadership training. Yet in their critical role, they must effectively manage large departments, master complex health care policy and delivery issues, and be savvy political operators working with governors, cabinet officials, legislators, and interest groups in a time of intense budget pressures.

Mohr Peterson, whose practicum provided the foundation for Oregon’s major Medicaid transformation, says the Institute’s leadership training has been indispensable. “The Institute helps you step back and be self-critical about how you can be a better leader,” she says. “If you want to be successful, that’s what you have to do.”
A major challenge for the state, notes Mohr Peterson, will be developing a method to calculate a global budget for each CCO. That calculation must take into account the health status of each CCO’s enrolled population, health care use, and sustainable growth in enrollment and costs. The global budget would establish sustainable, fixed year-to-year spending targets.

Even if the final Oregon reform legislation is implemented rapidly, some transformation team participants say it will take time to dramatically reorganize how health care is provided. “We have to move physicians from just thinking about patients individually to thinking about the wellness of all their patients,” said Sen. Alan Bates, D-Medford, who works as a primary care physician. “That seems straightforward to us [on the transformation team], but it’s not easy for doctors.”

Mohr Peterson acknowledged that tough challenges lie ahead now that the bill has been signed into law, but is energized at the opportunity for Medicaid to lead a statewide transformation in health care delivery. “Now the real work has begun,” she said. “People recognize that doing nothing is not an option.”

Author Harris Meyer is a Washington State-based freelance journalist who has been writing about health care policy and delivery since 1986.

About the Medicaid Leadership Institute

The Medicaid Leadership Institute is a unique opportunity for Medicaid directors to participate in an intensive leadership development curriculum designed to cultivate the skills necessary to transform their Medicaid programs into national models for high-quality, cost-effective care. The Institute is an initiative of the Robert Wood Johnson Foundation directed by the Center for Health Care Strategies, a nonprofit health policy resource center dedicated to improving health care quality for low-income children and adults, people with chronic illnesses and disabilities, frail elders, and racially and ethnically diverse populations experiencing disparities in care. For more information, visit www.MedicaidLeaders.org.