



## Serving Children with Serious Emotional Disturbances (SED)

### Introduction

This report provides information to the Managed Risk Medical Insurance Board (MRMIB) about the limitations of the Serious Emotional Disturbances (SED) carveout and the possible options to address those limitations. The report also provides an opportunity for MRMIB to engage in discussions with the public and stakeholders regarding these limitations and options.

### Background

The Healthy Families Program (HFP) includes coverage for treatment of mental health conditions and substance abuse. HFP-contracted health plans provide inpatient and outpatient mental health care, including prescription drugs, pursuant to the mental health parity provisions of the Knox-Keene Health Care Service Act of 1975 (Health and Safety Code §1374.72).

If a child is thought to have a serious emotional disturbance (SED) as defined in Welfare and Institutions Code §5600.3, the HFP plan refers the child to the local county mental health department for an assessment [10 CCR 2699.6700(a)(10)]. If the county mental health department determines that the child meets the SED criteria, the plan continues to directly cover up to 30 days of inpatient care per benefit year. The county provides other necessary treatment for the SED condition through a Memorandum of Understanding with the HFP plan. HFP plans continue to directly cover all other needed services, including mental health care that is not related to the SED condition. However, the “referral does not relieve a participating plan from providing the mental health coverage specified in its contract, including assessment of, and development of, a treatment plan for serious emotional disturbance.” (Insurance Code §12693.61).<sup>1</sup>

California state mental health parity law requires health plans to provide coverage for the diagnosis and medically necessary treatment of SED under the same terms and conditions as all benefits provided by the plans for medical and surgical care.<sup>2</sup>

---

<sup>1</sup> “Payment for Prescriptions Drugs for Healthy Families Program (HFP) Children with Serious Emotional Disturbance (SED) Conditions” 11/19/08 MRMIB meeting.

<sup>2</sup> AB 88, Chapter 534, Statutes of 1999.

Healthy Families Program  
Serving Children with SED

Reimbursement for SED services provided by the county to HFP subscribers comes through the Short-Doyle Medi-Cal (SD/MC) claiming system. The county pays 35% and the federal government pays 65%. Medi-Cal provides mental health services through the county mental health departments. Mental health services for children receiving Medi-Cal are provided through the Early and Periodic Screening, Diagnosis and Treatment (EPSDT) program. The federal government pays 50% of the cost of these services, the state pays 45%, and the counties pay 5% of the cost.<sup>3</sup>

Evaluation Project

Given the complexity of the delivery system for treatment of mental health and substance abuse, MRMIB is conducting a three-phased project to evaluate the delivery of these services in the HFP:

- ✓ Phase I – This phase consisted of an evaluation of SED services provided through county mental health programs. The focus of this evaluation was to determine whether HFP subscribers are receiving adequate SED treatment services including assessment of coordination of SED services between plans and counties. Phase I is complete and reported the following findings:
  - The system is extremely complex and requires clear communication and coordination between health plans and counties. This requires the primary care providers and the families to have a sophisticated understanding of both the health and the county systems. This understanding rarely occurs.
  - The design of the SED carveout and the monitoring system do not account for multiple referral sources to counties or the relatively high proportion of parents and caregivers who prefer to maintain their children with health plan mental health providers or with school services.
  - The diminishing financial resources of counties have compounded these issues, thereby limiting many counties' ability to provide timely assessments and treatment.<sup>4</sup>

The final report can be found on the MRMIB website at:  
<http://www.mrmib.ca.gov/MRMIB/HFP/MentalHlthRpt06.pdf>.

- ✓ Phase II will consist of an evaluation of mental health services provided by HFP health plans. It will look at the types of screening processes used by the

---

<sup>3</sup> "Payment for Prescriptions Drugs for Healthy Families Program (HFP) Children with Serious Emotional Disturbance (SED) Conditions" 11/19/08 MRMIB meeting.

<sup>4</sup> Hughes D, Kreger M, Ng S, Brewster L. An Institute for Health Policy Studies, University of California, San Francisco report about The Healthy Families Program and the Seriously Emotionally Disturbed (SED) Carve-Out. November 2006 (revised)

## Healthy Families Program Serving Children with SED

primary care provider to determine if a HFP member potentially has a SED condition.

- ✓ Phase III will consist of an evaluation of substance abuse services provided by HFP health plans with special emphasis on services provided to HFP members with co-occurring disorders.

Phases II and III of the study are currently in process and will be completed June 30, 2010. The contractor for Phases II and III has already requested and received policies and procedure documents about mental health and substance abuse services from the HFP health plans and is currently developing a request for data on the utilization and timeliness of providing mental health and substance abuse services.

### Prevalence of Mental Health Conditions in Children

A January 2006 report on the prevalence of Serious Mental Illness (SMI) rates in California for children ages 0-17 with household incomes under 200% of the Federal Poverty Level estimates that 8.9% of this group needs treatment for SMI.<sup>5</sup> The Department of Mental Health's response to a Department of Finance review of the EPSDT program identified the prevalence rate for SED with severe functional impairment to be 5-9%.<sup>6</sup> A large portion of children receiving mental health services through EPSDT are children in foster care, according to Dr. Stephen Mayberg, Director of the Department of Mental Health. The prevalence rate for HFP children may be less because the majority of HFP members come from more stable families. MRMIB staff will continue to research the prevalence of SED in the HFP population.

### Mental Health Utilization Report

MRMIB staff presented a report, "Selected Findings from the Mental Health Services Utilization Report Benefit Years 2004-05, 2005-06 and 2006-07", to the Board at the April 22, 2009 meeting. The report included the following findings:

- ✓ Very few children in HFP receive services for treatment of mental health conditions from either the county mental health departments or the HFP participating plans.
- ✓ Approximately 1% of HFP children are treated for SED by the counties each year.

---

<sup>5</sup> Charles Holzer, Ph.D., University of Texas, Medical Branch, as reported on the California Department of Mental Health website: [http://www.dmh.ca.gov/Statistics\\_and\\_Data\\_Analysis/Prevalence\\_Rates.asp](http://www.dmh.ca.gov/Statistics_and_Data_Analysis/Prevalence_Rates.asp).

<sup>6</sup> Department of Finance. Final Report: Review of the Department of Mental Health's Early and Periodic Screening, Diagnosis and Treatment Program's Estimation Process, March 8, 2007, pg 22.

Healthy Families Program  
Serving Children with SED

- ✓ Over three years, from 2004-05 to 2006-07, one-quarter of one percent (0.25%) of HFP children were referred by the HFP health plans to the county mental health departments for treatment of SED.
- ✓ The percentage of SED referrals accepted by counties has been declining. In 2006-07, less than two-thirds (63.1%) of all children referred for SED were accepted by county mental health departments compared to nearly three-quarters (72.1%) of children referred in 2004-05.
- ✓ The average cost per case increased 33 percent (33.4%) from \$2,615 in 2000 to \$3,488 in 2007, slightly more than the average 4.3% annual increase in the medical consumer price index (MCPI) during these years.
- ✓ Only 2% of non-Kaiser-enrolled children received mental health services through their HFP health plans.
- ✓ Ten percent (10.3%) of children enrolled in Kaiser Foundation Health Plan received mental health services, including treatment for SED, from the plan in benefit year 2006-07.<sup>7</sup>
- ✓ MRMIB has no further detail about plan-provided services due to the lack of encounter and claims data.

The report can be found on the MRMIB website at:

[http://www.mrmib.ca.gov/MRMIB/Agenda\\_Minutes\\_042209/Agenda\\_Item\\_7.j\\_Mental\\_Health\\_Utilization\\_Report.pdf](http://www.mrmib.ca.gov/MRMIB/Agenda_Minutes_042209/Agenda_Item_7.j_Mental_Health_Utilization_Report.pdf)

### Integration of Care

To improve the quality of health, mental health and substance abuse care, the Institute of Medicine has called for the integration of mental health and substance use care with primary care services. Treatment for mental disorders and substance abuse, the so-called “behavioral health field,” has been historically separate from primary care.

Some of reasons for integrating care are:

- ✓ 70 to 80 percent of psychotropic medications are prescribed, and sometimes inappropriately prescribed, in the primary care setting;
- ✓ More than 50 percent of behavioral health services are provided in the primary care setting;

---

<sup>7</sup> “Selected Findings from the Mental Health Services Utilization Report Benefit Years 2004-05, 2005-06 and 2006-07” April 22, 2009 MRMIB meeting.

## Healthy Families Program Serving Children with SED

- ✓ 60 percent of medical visits have no confirmable medical or biological diagnosis; and
- ✓ Patients with co-occurring medical, psychiatric and addictive disorders generate a disproportionate cost to health care systems.

While integrating services under managed care can present problems, the lack of integrated behavioral health programs has resulted in inappropriate use of emergency rooms, increased medical costs and poor consumer service. Most people with severe and persistent psychiatric conditions or long standing substance abuse problems also have attendant medical conditions. These are frequently serious enough to require regular coordination with the primary care physician (PCP).<sup>8</sup>

### Federal Requirements

The original authorizing federal legislation for the State Children's Health Insurance Program permits, but does not require, that a state offer mental health and substance abuse services so long as a state's benefit package qualifies as a "benchmark" or "benchmark equivalent" described in federal law or is otherwise acceptable to the federal Health and Human Services Agency (HHS).

The Children's Health Insurance Program Reauthorization Act of 2009 (CHIPRA) was signed into law on February 4, 2009. CHIPRA prohibits a state that chooses to provide mental health and/or substance abuse services in its CHIP from having financial requirements or treatment limitations for those services that are more restrictive than those for medical and surgical services for plan years beginning after October 4, 2009. CHIPRA enacted mental health and substance abuse parity by incorporating a recently-enacted provision of federal law that will require parity in employer-sponsored health plans. CHIPRA provides that a state providing EPSDT services is deemed compliant with parity requirements. The new federal mental health parity requirements are substantially broader than California's.

These new CHIPRA requirements and data from MRMIB reports provide the Board an opportunity to look at the HFP mental health and substance abuse benefits structure.

### Complex Referral Process

The referral process to county mental health departments for assessment and treatment of children with SED can be difficult and complex for HFP members

---

<sup>8</sup> "Integrating Primary Care and Behavioral Health: The Next Frontier" American Federation of State, County and Municipal Employees (AFSCME) Public Policy Department August 1998

## Healthy Families Program Serving Children with SED

and their families. The HFP member must first be identified by the health plan as potentially having a SED condition. The plan must then refer the member to the county.

When the county has determined the HFP member has a SED condition, the HFP member and their family use the county system for SED services. The HFP member who is served by the county for their SED condition continues to receive all other health and mental health services from the health plan.

Moving from one system to another can cause a disruption in the members' relationships with their providers as well as in their treatment. A member may have developed a rapport with the plan provider and then must start over with a new provider in the county's service system. Changing providers could have serious, adverse effects on a member's progress. In addition, lack of coordination and communication between the member's primary care practitioner and the county provider could lead to adverse drug interactions because the member is using two different systems for their health and mental health treatment.

The referral process for the SED carveout is described in Memoranda of Understanding (MOUs) between the HFP health plans and the county mental health departments. However, many health plan and county mental health department staff are unaware of the MOUs' existence. Staff turnover at the health plans and the county mental health departments has also led to a loss of institutional memory. The lack of knowledge of the relationship between the plans and counties could be the basis for each county having its own referral process and the county and plan liaisons having different levels of understanding about the referral process. These different levels of understanding cause delays in making, accepting and processing the referrals.

It is also unclear to MRMIB whether there is a plan for continuity of care when a member who has a SED condition is transitioning from one county mental health department to the next.

### Referral Refusals

Parents and caregivers of HFP members sometimes refuse the referral to the county mental health departments. Some of the reasons for this are that the parents and caregivers want to retain an already established relationship with a provider, that they want to maintain the course of treatment and not disrupt care, and that transportation to the county providers is a problem.<sup>9</sup> Nine percent (9%) of parents or caregivers refused the referral to the county during benefit years 2004/05 through 2006/07. This means over 400 HFP members stayed with their

---

<sup>9</sup> Hughes D, Kreger M, Ng S, Brewster L. An Institute for Health Policy Studies, University of California, San Francisco report about The Healthy Families Program and the Seriously Emotionally Disturbed (SED) Carve-Out. November 2006 (revised)

Healthy Families Program  
Serving Children with SED

health plan instead of receiving services for their SED condition through the county.<sup>10</sup>

Decline in County Acceptance of Referrals

The percentage of SED referrals accepted by counties has been declining. In 2006-07, 63 percent of all children referred for SED were accepted by county mental health departments compared to 72 percent in 2004-05.<sup>11</sup> Given the financial situation facing California counties, it is likely that this decline will continue.

Utilization of County Services

One of the original purposes of enacting the carveout was for HFP members to be able to access the more comprehensive array of services in county mental health programs to treat SED. The counties provide a variety of services for SED conditions including, but not limited to:

- ✓ Inpatient
- ✓ Day Treatment
- ✓ Case Management
- ✓ Mental Health (MH) Services
- ✓ Medication Support
- ✓ Prescription Medications
- ✓ Crisis Intervention

The vast majority of claims paid for HFP/SED members since the inception of the carveout have been for “mental health services.” “Mental health services” include activities such as assessment, evaluation, therapy, rehabilitation and plan development and are only one part of the spectrum of services HFP members can receive.

Approximately 75% of county claims paid for treating HFP members with SED are for “mental health services.” Over the years, the average utilization of mental health services by HFP members with SED conditions has been consistent. Based on county-paid claims, HFP members with SED conditions use few of the other types of services that are provided by the counties such as inpatient care, case management or day treatment. Medication support is the second highest (10%) category of claims paid for services to HFP members.<sup>12</sup>

---

<sup>10</sup> “Selected Findings from the Mental Health Services Utilization Report Benefit Years 2004-05, 2005-06 and 2006-07” April 22, 2009 MRMIB meeting.

<sup>11</sup> Ibid.

<sup>12</sup> “Selected Findings from the Mental Health Services Utilization Report Benefit Years 2004-05, 2005-06 and 2006-07” April 22, 2009 MRMIB meeting.

### Coordination of Care Concerns

Counties receive referrals from HFP health plans and other sources, including:

- ✓ Schools
- ✓ Judicial system
- ✓ Social services system
- ✓ Parents
- ✓ Caregivers

These sources (with the exception of the HFP health plans) may or may not identify the child as an HFP member. The county mental health department may not tell the plan that the county is treating HFP members who have been referred from sources other than the health plans. As a result, the HFP member's health plan may not be aware that the county is serving the child. This can result in lack of coordination and communication of care between the plan and the county.

### Prescription Medications

For HFP children, most services to treat SED are provided through the counties and reimbursed through the Short-Doyle Medi-Cal (SD/MC) claiming system. The county pays 35% and the federal government pays 65%. However, there is no claiming mechanism currently in place for reimbursing counties or retail pharmacies for the cost of prescription drugs for HFP children with SED. MRMIB has no data on the cost of prescription medications to treat children with SED conditions because the counties cannot claim for, and therefore do not report, these costs.

There are several ways in which prescription drugs for children with SED are provided:

- ✓ County mental health departments, through either a county pharmacy or retail pharmacies, provide the drugs and pay the full cost.
- ✓ HFP plans sometimes cover the cost of the prescription medication.
- ✓ HFP families may bear the entire cost of the medications for a child with SED.
- ✓ Some children may go without the needed medication if neither the county nor the plan provides it.<sup>13</sup>

---

<sup>13</sup> "Payment for Prescriptions Drugs for Healthy Families Program (HFP) Children with Serious Emotional Disturbance (SED) Conditions" 11/19/08 MRMIB meeting.

## Options for Consideration

CHIPRA provides an opportunity for MRMIB to assess the mental health and substance abuse services provided in HFP. The Board has expressed concern about the seemingly low rate of utilization of mental health and substance abuse services and the lack of comprehensive information on how and when HFP members receive treatment. The following are some options for discussion with the counties, the plans, the HFP subscribers, and the Legislature and Administration.

### Option 1

Do not provide mental health or substance abuse benefits in the HFP.

- ✓ MRMIB would be in compliance with CHIPRA because mental health and substance abuse services are not required in the CHIP program. However, the HFP would no longer be equivalent to its benchmark plan—the state employees’ plan. The state employees’ plan provides mental health and substance abuse benefits. Therefore, the state would have to choose a new benefit package that qualified as a “benchmark” or “benchmark equivalent” under federal law or that was otherwise acceptable to CMS.
- ✓ Legislative and regulatory changes as well as a state plan amendment (SPA) would be needed.
- ✓ HFP members with mental health and substance abuse conditions would not be able to receive services for these conditions unless their families or guardians paid out of pocket for these services.
- ✓ Families or guardians are unlikely to seek services to treat mental health and substance abuse issues due to the out of pocket cost, thus exacerbating the members’ mental health and/or substance abuse condition(s).
- ✓ Families or guardians may elect to take HFP members to emergency rooms or to the counties to receive mental health and/or substance abuse treatment. This would increase the amount and cost of uncompensated services emergency rooms and the counties provide.
- ✓ There likely would be an increase in other health care costs due to untreated mental health conditions.
- ✓ All costs to the HFP program for mental health and substance abuse services, including prescription drug costs, would be eliminated.

Healthy Families Program  
Serving Children with SED

- ✓ County mental health departments would lose the 65% federal match they currently receive for serving HFP children with SED.
- ✓ MRMIB would not be able to obtain data on the types of services provided to HFP members with mental health and/or substance abuse conditions.
- ✓ There would be no possibility for medical/behavioral integration in the HFP.
- ✓ The complex referral process for SED would be eliminated.

Option 2

Provide mental health and substance abuse services through an EPSDT program.

- ✓ MRMIB would be in compliance with CHIPRA. States that provide mental health and substance services through an EPSDT program are deemed to be in compliance with CHIPRA.
- ✓ Legislative and regulatory changes and a SPA would be needed.
- ✓ MRMIB would have to evaluate the impact of providing EPSDT through the plans or through another carveout to the county mental health departments as is currently done in Medi-Cal managed care.
- ✓ Providing services under the EPSDT program would substantially increase HFP costs because all services provided under the HFP would be subject to the EPSDT program. The EPSDT program requires necessary health care, diagnostic services, treatment, and other measures to correct or ameliorate defects and physical and mental illnesses and conditions, whether or not such services are covered under the State plan.<sup>14</sup> In Medi-Cal, ninety-five percent (95%) of the county cost for EPSDT services are reimbursed (50% federal, 45% state).
- ✓ If the determination was made to have EPSDT services provided by the HFP health plans, county mental health departments would not receive the high payment they currently receive in Medi-Cal for serving children with SED conditions through the Medi-Cal managed care EPSDT program.

---

<sup>14</sup> Social Security Act Title XIX Section 1905(r)(5)

Healthy Families Program  
Serving Children with SED

- ✓ Plan rates would increase if the decision was made to provide EPSDT services through the plans.
- ✓ The potential for medical/behavioral treatment integration could increase if the plans are required to provide EPSDT services because there would be better coordination and communication between mental health and/or substance abuse provider and the primary care provider.
- ✓ Due to MRMIB's inability to receive encounter and claims data from the health plans, MRMIB has no system to adequately track the utilization of services that members with SED conditions are receiving either from the plans or the counties.

Option 3

Remove the SED condition carveout from the county mental health departments and provide all mental health and substance abuse services through the HFP health plans.

- ✓ To comply with CHIPRA, MRMIB will have to remove all benefit limitations for treatment of mental health and substance abuse if such limitations are different from limitations on medical and surgical care.
- ✓ Legislative and regulatory changes and a SPA would be needed.
- ✓ Plan rates would increase in order to provide these services directly.
- ✓ MRMIB staff would need to assess whether or not members would be able to get some services that are currently provided by the county if all mental health services are provided by the plans.
- ✓ MRMIB would be able to hold plans accountable for providing services to all HFP members with mental health conditions, including SED conditions.
- ✓ MRMIB would have the ability to require plans to report and monitor the types of services provided to HFP members with SED conditions.
- ✓ The potential for medical/behavioral treatment integration would increase, as the plan would be required to ensure coordination and communication between mental health provider and the primary care provider.
- ✓ The complex referral process would be eliminated, as members with SED conditions would receive services directly from the plans or the plans' subcontractors. This would be less confusing to families and members.

Healthy Families Program  
Serving Children with SED

Continuity of care would improve because the HFP member's services would not be split between two different systems of care.

- ✓ HFP members with SED conditions would remain with their original plan providers.
- ✓ The plans would more consistently provide prescription medications to treat members with mental health conditions, including SED, thus eliminating the problem of payment for these prescription medications.
- ✓ MRMIB would have better access to data on utilization of services, including prescription medications.
- ✓ County mental health departments would lose the 65% federal match they currently receive for serving HFP children with SED conditions.

Option 4

Carve in prescription drug costs to the plans for HFP children with SED conditions. County mental health departments would continue to provide all inpatient and outpatient services for children with SED.

- ✓ To comply with CHIPRA, MRMIB will have to remove all benefit limitations for treatment of mental health and substance abuse if such limitations are different from limitations on medical and surgical care.
- ✓ Legislative changes would likely be needed, along with regulatory changes and a SPA.
- ✓ Plan contract changes would be required.
- ✓ Plan rates would likely increase to cover the cost of medications to treat children with SED.
- ✓ For this option to be viable, prescriptions written by county providers would need to be covered by the plans. However, plans do not want county providers prescribing the medications because county providers are not part of the plan's network. The plans do not want the liability for an error made by a non-network provider. Plans also want to be able to require a lower cost prescription medication.<sup>15</sup>

---

<sup>15</sup> "Payment for Prescriptions Drugs for Healthy Families Program (HFP) Children with Serious Emotional Disturbance (SED) Conditions" 11/19/08 MRMIB meeting.

Healthy Families Program  
Serving Children with SED

- ✓ HFP members with SED conditions would get all prescription drugs through the plans.
- ✓ Retail pharmacies would be able to bill the plans for all prescriptions, including those to treat HFP members with SED conditions.
- ✓ The counties would not incur the high costs for the medications.
- ✓ MRMIB would be able to get data on all prescription drugs provided to HFP members with SED conditions.
- ✓ Medical/behavioral treatment integration would not be addressed.
- ✓ There is the possibility of confusion and costs to families as each plan may have a different formulary (list of covered drugs) from the county's formulary and in counties where there are multiple HFP plans, it will be difficult to know which drugs are on which plans' formularies.

Option 5

Maintain the status quo.

- ✓ To comply with CHIPRA, MRMIB will have to remove all benefit limitations for treatment of mental health and substance abuse if such limitations are different from limitations on medical and surgical care.
- ✓ No legislative or regulatory changes would be required.
- ✓ There would be no county accountability to MRMIB to report and monitor the types of services provided to HFP members with SED conditions.
- ✓ Due to MRMIB's inability to receive encounter and claims data from the health plans, MRMIB has no system to adequately track the utilization of services that members with SED conditions are receiving either from the plans or the counties.
- ✓ Medical/behavioral treatment integration would not be possible.
- ✓ The referral process would continue to be complex and confusing to families and providers.
- ✓ The counties are facing severe budget shortfalls and in some cases cannot provide services to HFP members. If counties cannot provide services, members will have to receive services from their HFP health plans. MRMIB is aware of counties that have had waiting lists for HFP

Healthy Families Program  
Serving Children with SED

members with SED conditions as well as counties that have stated that, due to budget shortfalls, they may not be able to provide services to HFP members with SED conditions.

- ✓ County services may vary from county to county.
- ✓ The numerous other sources of referrals would continue to refer to the county mental health department which could result in continued lack of coordination and communication between the plans and the counties.
- ✓ Some parents and guardians would continue to refuse referrals.
- ✓ County mental health departments would still not be able to get reimbursed for prescription medications.
- ✓ The county mental health departments would continue to receive the 65% federal match for serving HFP members with SED conditions.

### **Summary**

This report has identified many of the limitations with the current system for serving HFP members with SED conditions. However, with the reauthorization of CHIP and the new mental health and substance abuse parity requirements, MRMIB has an opportunity now to explore options to improve the services provided to HFP members with mental health and substance abuse conditions. MRMIB welcomes discussions with the HFP plans, counties, and HFP subscribers on how to improve the delivery of mental health and substance abuse services to HFP members.