ACTUARIAL RATE-SETTING 101

OVERVIEW

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AGENDA

1. INTRODUCTIONS & REVIEW OF MEETING OBJECTIVES
2. CAPITATED RATE-SETTING INTRODUCTION
3. OVERVIEW OF THE DRAFT FY 2020 MEDALLION 4.0 RATE-SETTING PROCESS
4. RATE RANGE OVERVIEW
5. RATE STRUCTURE CONSIDERATIONS
6. OTHER CONSIDERATIONS FOR TIMING AND BUDGETS
UNDERSTANDING ACTUARIAL SOUNDNESS

• What are actuarially sound rates?
  “Medicaid capitation rates are “actuarially sound” if, for business for which the certification is being prepared and for the period covered by the certification, projected capitation rates and other revenue sources provide for all reasonable, appropriate, and attainable costs.” ¹

• Why must Medicaid capitation rates be actuarially sound?
  – Medicaid managed care capitation rates must be actuarially sound in order to qualify for Federal Financial Participation ²
  – These regulations require that capitation rates:
    - Are developed in accordance with generally accepted actuarial principles and practices
    - Are appropriate for the populations to be covered and the services under the contract
    - Are certified as meeting these requirements by actuaries who meet the qualification standards established by the American Academy of Actuaries (AAA)

1. Full definition included in Actuarial Standard of Practice No. 49, March 2015, “Medicaid Managed Care Capitation Rate Development and Certification”
2. Refer to 42 CFR 438.4
Suppose Mary, John and Sam are representative of who the managed care program will cover, and we group them into Rating Group #1.

**Experience data is:**
- Mary had $4,000 in medical and 10 months of eligibility ($400.00 PMPM)
- John had $3,600 in medical and 12 months of eligibility ($300.00 PMPM)
- Sam had $2,750 in medical and 11 months of eligibility ($250.00 PMPM)

**Medical Component**
$10,350 \div 33 \text{ months} = $313.64 \text{ PMPM}

**Administrative Component**
9.0% of total rate = $31.54 \text{ PMPM}

**Underwriting Gain**
1.5% of total rate = $5.25 \text{ PMPM}

**Rating Group #1 Final PMPM**
$350.43

If Mary, John and Sam were all enrolled in the same MCO, the MCO would be paid the same capitation rate of $350.43 for each member month.
OVERVIEW OF THE ACTUARIAL RATE-SETTING PROCESS

Base Data + Base Adjustments + Program Changes + Medical Trends + Non-Medical Expenses

Risk Adjustment

FINAL CAPITATION RATE(S)
## MEDALLION 4.0 DRAFT FY 2020 RATES
### BASE DATA

<table>
<thead>
<tr>
<th>Base Data Time Periods and Data Sources</th>
<th>CY 2016 and CY 2017 dates of service. Runout through June 2018. MCO-submitted encounters for historical Medallion 3.0 program, supplemented with FFS data for new benefits.</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2020 (Medallion, FAMIS, FAMIS MOMS)</td>
<td></td>
</tr>
<tr>
<td>FY 2020 Expansion</td>
<td>Will utilize same data sources as LIFC Adult “proxy” population. This is consistent with the approach for FY 2019.</td>
</tr>
</tbody>
</table>
Areas of focus for efficiency analyses

Pharmacy Cost and Utilization
- Pharmacy clinical appropriateness utilization edits.
- Appropriate supporting medical diagnosis.

Low Acuity Non-Emergent (LANE) Emergency Department (ED) Utilization

Inpatient Hospital Potentially Preventable Admissions (PPA) and Readmissions
MEDALLION 4.0 DRAFT FY 2020 RATES PROGRAM CHANGES

Adjustments to the base data are necessary to account for program changes

- Program changes may result from Federal policy changes, state-specific program or policy changes, or marketplace changes
  - Impacts should align with state expectations or budget-forecasts

FY 2020 Program Change Adjustments Examples

- Partial base period program changes (e.g., ARTS implementation)
- Budget changes to covered services (e.g., fee schedule changes, benefit carve in)
- Managed care adjustments applied to projected FFS costs (e.g., community behavioral health (BH) services)
MEDALLION 4.0 DRAFT FY 2020 RATES
MEDICAL TRENDS

- Trend is typically the most significant adjustment applied in rate-setting
- Trend is applied from the midpoint of the base period to the midpoint of the contract period:
  - For FY 2020, this will be from 1/1/2017 to 1/1/2020
  - Trends are expressed as an annualized average rate (X%)
MEDALLION 4.0 DRAFT FY 2020 RATES
MEDICAL TRENDS

Considerations included in Mercer's final trend factors

OBSERVED EXPERIENCE

• MCO encounter data trends
• MCO financial report trends
• Fee-for-Service (FFS) claims trends

MARKET EXPERIENCE

• Trends observed in other state Medicaid programs covering similar populations and services
• Commercial market experience impacting Medicaid programs

INDUSTRY REPORTS

• Other health care industry reports, such as Health Care Cost Institute

FEDERAL REPORTS

• National Health Expenditures from the Office of the Actuary
• Bureau of Labor Statistics Consumer Price Index data
MEDALLION 4.0 DRAFT FY 2020 RATES
PHARMACY TRENDS

Specific considerations included in Mercer’s Pharmacy trend factors

**OBSERVED EXPERIENCE**
- MCO observed experience
- Other state Medicaid program experience

**DRUG PIPELINE**
- Significant specialty drug approvals and expanded indications
- Losing patent protection pipeline drugs

**FEDERAL REPORTS**
- CMS Actuarial Report on the financial outlook for Medicaid

**INDUSTRY REPORTS**
- Health Care Cost Institute
- Pharmacy and industry reports, such as Express Scripts

**HOT TOPICS**
- Significantly less expensive hepatitis C approved medications
- Opioid abuse
- Specialty drugs
## MEDALLION 4.0 DRAFT FY 2020 RATES

**MEDICAL TRENDS**

Draft FY 2020 rate-setting trends for Medallion and FAMIS (sorted in decreasing order)

<table>
<thead>
<tr>
<th>Trend Category of Service (Child Rank)</th>
<th>Child</th>
<th>Trend Category of Service (Adult Rank)</th>
<th>Adult</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community Behavioral Health</td>
<td>7.8%</td>
<td>Community Behavioral Health</td>
<td>7.1%</td>
</tr>
<tr>
<td>Outpatient</td>
<td>6.3%</td>
<td>Pharmacy</td>
<td>4.2%</td>
</tr>
<tr>
<td>Pharmacy</td>
<td>4.2%</td>
<td>Other</td>
<td>3.5%</td>
</tr>
<tr>
<td>Other Professional</td>
<td>4.0%</td>
<td>Inpatient</td>
<td>1.8%</td>
</tr>
<tr>
<td>Other</td>
<td>4.0%</td>
<td>Outpatient</td>
<td>1.3%</td>
</tr>
<tr>
<td>ER</td>
<td>3.0%</td>
<td>Other Professional</td>
<td>1.0%</td>
</tr>
<tr>
<td>Physician</td>
<td>1.0%</td>
<td>Physician</td>
<td>0.8%</td>
</tr>
<tr>
<td>Inpatient</td>
<td>0.8%</td>
<td>ER</td>
<td>0.0%</td>
</tr>
<tr>
<td>All Services Combined</td>
<td>4.0%</td>
<td>All Services Combined</td>
<td>2.4%</td>
</tr>
</tbody>
</table>

Child includes LIFC, FAMIS, AA/FC. Adult includes LIFC and FAMIS MOMS
### Administration and Care Management

- Expected costs of MCOs to administer the program (e.g., MCO staffing, rent, care management, IT systems, provider network, finance, reporting), as required by the contract
- Costs for staff to support Care Management activities as required by the contract
- Based on experience reported to Bureau of Insurance and DMAS, which is audited
  - For final FY 2020 rates, we will use plan-reported costs from 2018

### Underwriting Gain

- A small portion of the total capitation rate to make the program a sustainable business venture for the risk-bearing MCOs
- Includes consideration for risk, capital requirements, and provisions for margin
  - For final FY 2020 rates, we will include 1.0% underwriting gain
RATE RANGE OVERVIEW – ILLUSTRATIVE EXAMPLE

BASE DATA
- Typically historic program experience
- May also use FFS or “Proxy” data

PROGRAM CHANGES
- Small variation
- Typically up to +/- 0.5%
- May have greater variation if using FFS or “proxy” base

TREND
- Largest variation
- Typically up to +/- 1.0% annually
- Compounds to +/- 3% in aggregate for FY 2020

NON-MEDICAL EXPENSE
- Typically up to +/- 1.5%
- Variation driven by differences in MCO operating and business models
There are several common mechanisms for enhancing the *matching of payment to risk*

1. **Appropriate rating categories**
   - E.g., categories may differ for age and/or gender, geographic region, category of aid, Medicare eligibility status, Waiver eligibility status, etc.

2. **Supplemental kick payments**
   - Kick payments may be designed for certain risks that are not well matched using either risk adjustment or typical rating categories
   - Costs are counted only once in either the regular monthly capitation or the supplemental kick payment (not both)
   - Commonly applied for maternity and/or newborn costs

3. **Health status-based risk adjustment**
   - Final FY 2020 will use CDPS+Rx, a commercial risk adjustment methodology
O R E V I E W  O F  T I M E L I N E  C O N S I D E R A T I O N S

• The rate-setting timeline balances the available data, time required to develop rates and the review period needed for various stakeholders in the process.

• Decisions and policy details related to upcoming changes in the program are needed in advance of the primary working period in order to be reflected in the upcoming rates.

High level rate-setting timeline for Medallion 4.0 FY2020 rate-setting

- 2016: Base data period
- 2017: Runout
- 2018: Collect data, WORK
- 2019: Review & present
- 2020: Contract period, FY20 & FY21 Biennial Budget Cycle
- 2021:
PAYMENT STABILITY
Capitation provides additional budget stability within the contract period due to fixed PMPMs that do not vary with service use for that period.

DEMOGRAPHICS
Rates vary for major populations (such as child and adult). Budgets will be impacted by changes between populations and enrollment growth over time.

VARIABILITY
Factors driving pricing and/or utilization patterns may change quickly or be difficult to forecast reliably ahead of time. Uncertainty is increased when historical experience is not available.

FORECAST AGE
Uncertainty grows as we forecast farther into the future. At best, trends will reflect data from a few months prior to the start of the forecast period.

WHAT WE REVIEW

- Forecast Goals and Objectives
- Market Insights
- Benchmarks
- Population Demographics
- Current Program Design
- Stakeholder Feedback