

ACTUARIAL RATE-SETTING 101

OVERVIEW

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Katherine Long, FSA, MAAA
Ron Ogborne, FSA, CERA, MAAA

Phoenix



AGENDA

- 1 INTRODUCTION & 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

CAPITATED RATE-SETTING – ILLUSTRATIVE EXAMPLE

- 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
\$10,350/33 months = \$313.64 PMPM

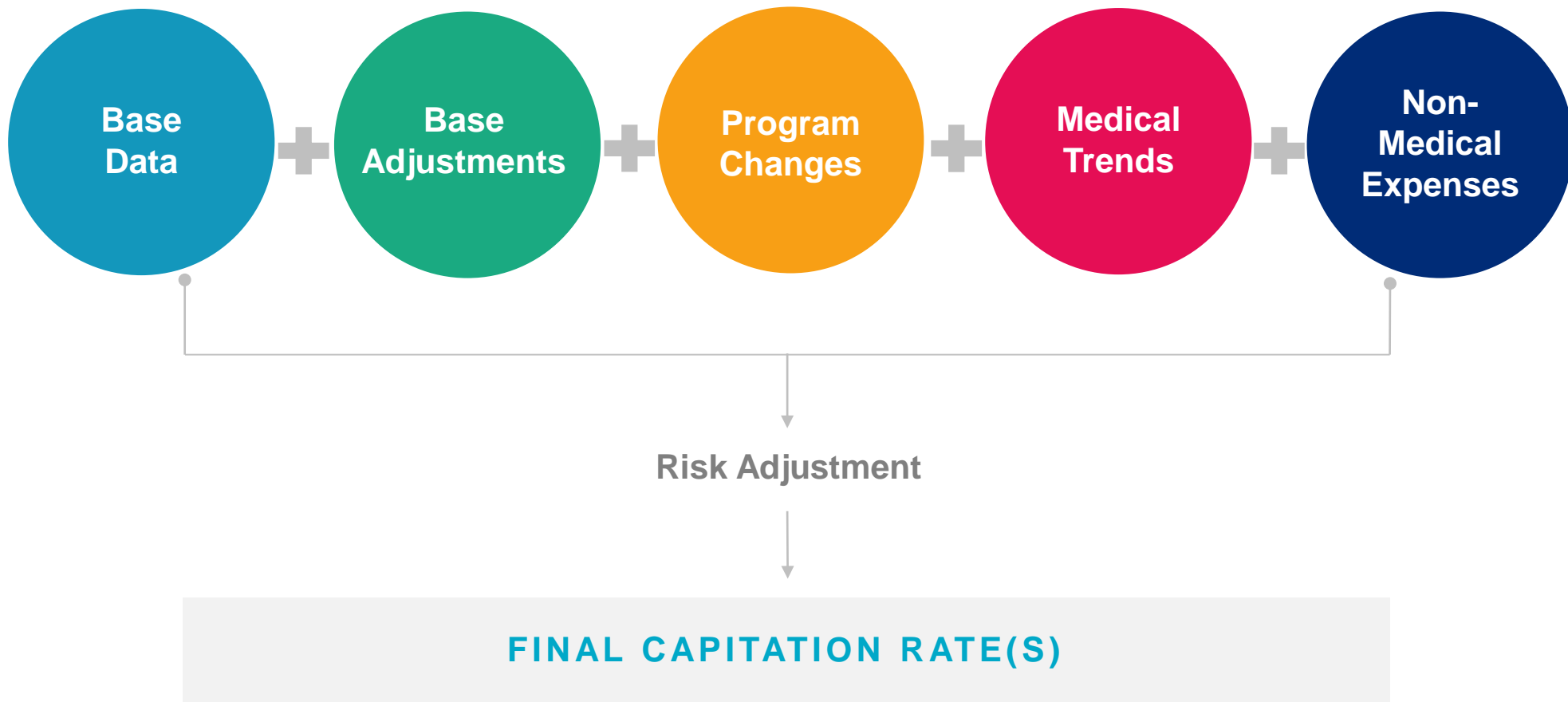
Administrative Component
9.0% of total rate = \$31.54 PMPM

Underwriting Gain
1.5% of total rate = \$5.25 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



MEDALLION 4.0 DRAFT FY 2020 RATES

BASE DATA

Base Data Time Periods and Data Sources

FY 2020 (Medallion, FAMIS, FAMIS MOMS)	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.
FY 2020 Expansion	Will utilize same data sources as LIFC Adult “proxy” population. This is consistent with the approach for FY 2019.

MEDALLION 4.0 DRAFT FY 2020 RATES BASE DATA ADJUSTMENT EXAMPLES

Areas of focus for efficiency analyses



Pharmacy Cost and Utilization

- Pharmacy clinical appropriateness utilization edits.
- Appropriate supporting medical diagnosis.



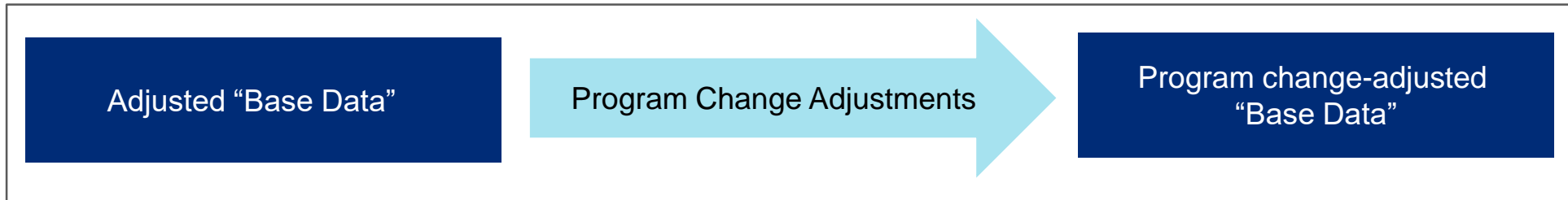
Low Acuity Non-Emergent (LANE) Emergency Department (ED) Utilization



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

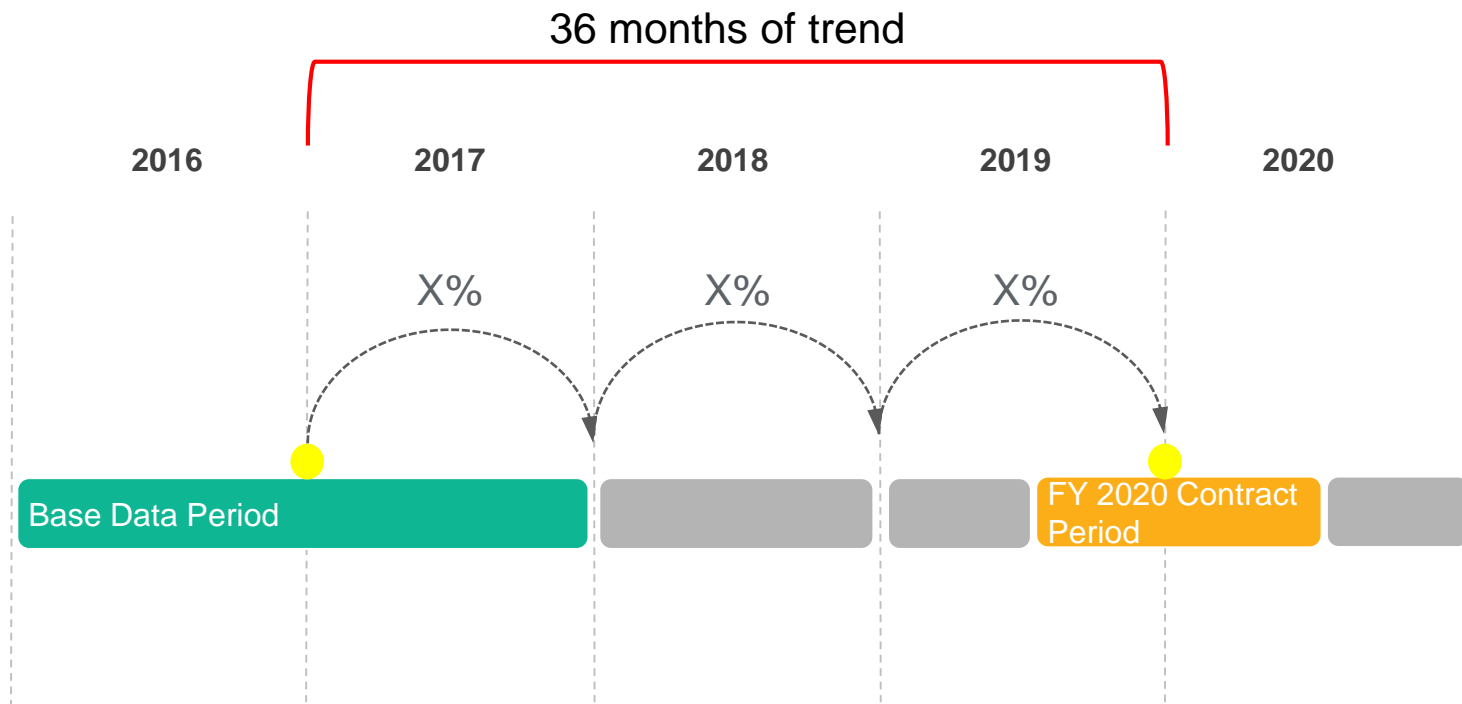
FY 2020 Program Change Adjustments Examples

- 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

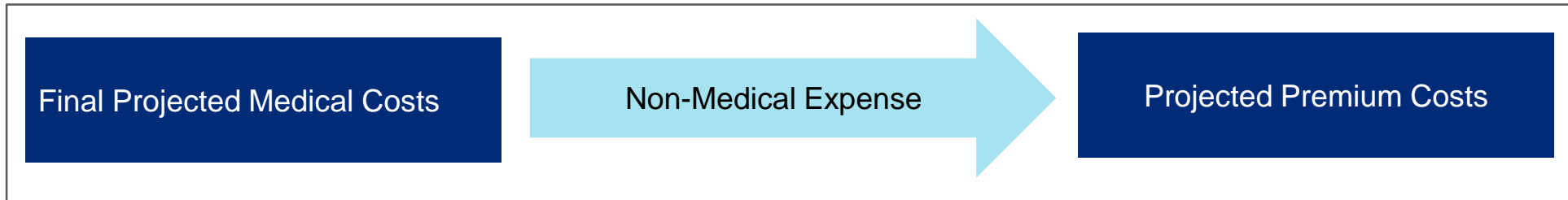
Draft FY 2020 rate-setting trends for Medallion and FAMIS (sorted in decreasing order)

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

Child includes LIFC, FAMIS, AA/FC. Adult includes LIFC and FAMIS MOMS

MEDALLION 4.0 DRAFT FY 2020 RATES

NON-MEDICAL EXPENSES



- **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**

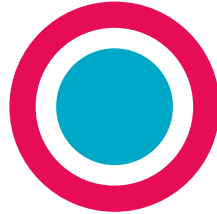
- A small portion of the total capitation rate to make the program a sustainable business venture for the risk-bearing MCOs
- Includes consideration for risk, capital requirements, and provisions for margin
 - For final FY 2020 rates, we will include 1.0% underwriting gain

RATE RANGE OVERVIEW – ILLUSTRATIVE EXAMPLE



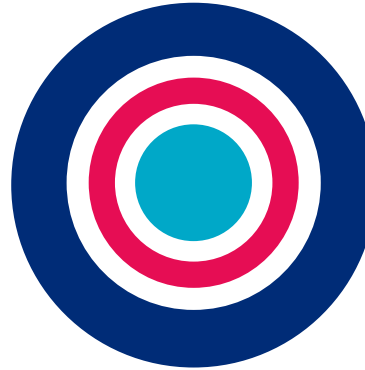
BASE DATA

- 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

RISK ADJUSTMENT CONSIDERATIONS

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

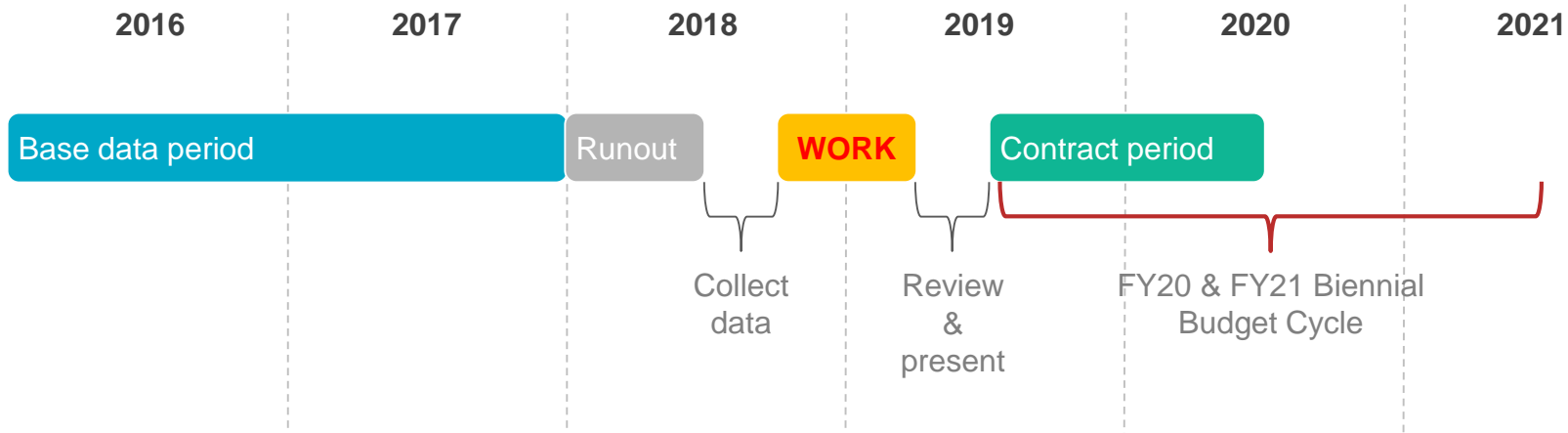
3. Health status-based risk adjustment

- Final FY 2020 will use CDPS+Rx, a commercial risk adjustment methodology

OVERVIEW OF TIMELINE CONSIDERATIONS

- 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



CONSIDERATIONS FOR STATE BUDGETS

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**



MERCER

MAKE TOMORROW, TODAY