Florida Medicaid Non-Reform HMO Program
September 2011 – August 2012 Draft Capitation Rates

Presented by

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Agenda

- General Methodology for Non-Reform
- Draft Non-Reform Capitation Rates
- Inpatient Encounter Data Method
- Fee-For-Service Method
- Mental Health Encounter Data Method
- Financial Data Method
- Pharmacy Encounter Data Method
- Questions
General Rate Methodology

- AHCA has historically set non-reform HMO rates using FFS data as the experience base
- AHCA is in the process of moving away from relying on FFS data and towards a rate setting methodology that relies more on HMO data
  - These draft rates are the second step in that process
- AHCA recognizes the advantage of relying more on HMO data using a multi-year phase-in approach
  - Promotes more rate stability
  - Provides more time to validate evolving sources of HMO data
General Rate Methodology

- The non-reform rate methodology for September 2011 – August 2012 relies on the following data sources:
  - HMO hospital inpatient encounter data
  - FFS data
  - HMO mental health encounter data
  - HMO financial data
  - HMO pharmacy encounter data
General Rate Methodology

- Hospital IP Encounter Method + FFS Method + Mental Health Encounter Method: 50% Weight
- Financial Data Method: 50% Weight
- Pharmacy Encounter Method: 100% Weight
General Rate Methodology

- Some rates are calculated using only the FFS Method due to HMO data availability and credibility issues
  - District 1
  - District 10 non-reform
  - SSI Medicare A&B
  - SSI Medicare B only
  - Dental
    - PDHP encounter data used in District 11
  - Transportation
Commonly Asked Questions

- “TPL” / enrollment issue
  - The draft rates assume no change in AHCA policy regarding enrollment and no recoupments due to recent enrollment audits
  - If AHCA changes policy, the draft rates will need to change accordingly

- Rate cell actuarial soundness
  - The rates for all rate cells by district and eligibility category are calculated to produce a projected MLR of 88%

- Final hospital rates
  - The draft HMO rates include AHCA’s estimate of the “most likely” July 2011 inpatient and outpatient rates by facility
  - The final HMO rates will include the final hospital rates by facility

- The mental health 80/20 targets will be available next week
Known Changes to Draft HMO Rates

- Based on questions raised by the plans, we discovered that mental health costs were excluded in the financial data methodology for capitated PSNs
  - We are in the process of revising the calculation to include the mental health experience for the capitated PSNs
  - The change will increase the HMO rates in District 8
    - There will also be very small increases in Districts 5, 6, 7, and 11
  - May also impact 80/20 targets
- This change is not reflected in the draft rates presented today
Draft Non-Reform Capitation Rates
**Draft Non-Reform Capitation Rates**

- On average, September 2011 – August 2012 PMHP capitation rates are 0.4% lower than September 2010 – August 2011 rates
  - Based on April – June 2011 enrollment distribution by rate cell

<table>
<thead>
<tr>
<th>District</th>
<th>TANF</th>
<th>SSI – No Medicare</th>
<th>Combined (including duals)</th>
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<tbody>
<tr>
<td>01</td>
<td>-6.7%</td>
<td>-2.9%</td>
<td>-5.4%</td>
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<tr>
<td>02</td>
<td>-5.8%</td>
<td>-8.6%</td>
<td>-7.0%</td>
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<tr>
<td>03</td>
<td>-5.9%</td>
<td>-4.8%</td>
<td>-5.6%</td>
</tr>
<tr>
<td>04 (NR)</td>
<td>5.2%</td>
<td>2.6%</td>
<td>4.0%</td>
</tr>
<tr>
<td>05</td>
<td>-2.7%</td>
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<td>5.0%</td>
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<td>10 (NR)</td>
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<td>-1.3%</td>
<td>-4.0%</td>
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<tr>
<td>11</td>
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<td>2.2%</td>
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<tr>
<td><strong>Statewide</strong></td>
<td><strong>0.5%</strong></td>
<td><strong>-1.5%</strong></td>
<td><strong>-0.4%</strong></td>
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</tbody>
</table>
Historical Medical Loss Ratios (Non-Reform)

- Statewide estimated MLRs for non-reform HMO program
  - CY 2009 = 85%
  - CY 2010 = 84%

- Based on HMO financial data submissions
  - Revenue and expenditure data used as reported by HMOs by district and eligibility category
  - Adjusted for Milliman’s estimate of IBNR claims
  - MLRs are stated gross of pharmacy rebates
  - Adjusted the financial data of two HMOs to be consistent with more accurate supplemental information submitted by those two HMOs regarding capitated mental health services
  - We reduced the cost of subcapitated services reported in the financial data by 7% to remove an estimate of the administrative component of the subcapitation agreement
## Historical Medical Loss Ratios (Non-Reform)

<table>
<thead>
<tr>
<th>District</th>
<th>Estimated Medical Loss Ratio – 2009</th>
<th>Estimated Medical Loss Ratio - 2010</th>
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<tbody>
<tr>
<td></td>
<td>TANF</td>
<td>SSI</td>
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<tr>
<td>01</td>
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<td>N/A</td>
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<tr>
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<td>04 (NR)</td>
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<tr>
<td>09</td>
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<td>94%</td>
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<tr>
<td>10 (NR)</td>
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<td>N/A</td>
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<td>72%</td>
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<tr>
<td>Statewide</td>
<td>89%</td>
<td>79%</td>
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</table>
Projected Medical Loss Ratios (Non-Reform)

- Statewide projected MLR is 88% for each rate cell
  - Administrative cost target of 12% validated using Medicaid HMO administrative PMPM benchmark values published by The Sherlock Company in October 2010
  - Break even financial result for an HMO if it manages administrative costs to the median efficiency level in the survey
  - 1% profit for an HMO if it manages administrative costs to the 25th percentile efficiency level in the survey
  - Link to Sherlock study: http://www.sherlockco.com/docs/navigator/Navigator%20Early%20October%202010.pdf
Inpatient Encounter Method
Inpatient Encounter Method

- New method for this rate setting period
  - First time we have had reliable inpatient encounter data to use
  - SFY 0809 and SFY 0910 inpatient encounter data
    - Special data sets resulting from AHCA / HMO validation efforts
    - We excluded both the encounter data and enrollment for six HMOs in SFY 0809 and seven in SFY 0910 representing 12% - 13% of statewide HMO enrollment because of poor data quality

- Project RY 2012 inpatient days by district and eligibility category
  - Assumes same mix of hospitals as in encounter data period for HMOs included
  - We assumed no utilization trend for inpatient facility claims
  - We made an underreporting adjustment of 15% for District 2 only
Inpatient Encounter Method

- Append the “Most Likely” July 2011 – June 2012 FFS per diem rate by hospital
  - “Most Likely” rate was determined by AHCA
  - We applied an additional 1% trend to allow for the unknown per diem rate change that will be effective July 2012

- Calculated projected cost as Days times “Most Likely” Per Diem

- Add unmapped costs from the inpatient encounter data
  - Even though we were unable to map the costs to specific hospitals, we assumed that these costs were valid inpatient costs and should be included

- Blend results of SFY 0809 and SFY 0910 encounter data projections

- Final HMO rates will reflect final July 2011 FFS hospital rates
FFS Method
FFS Method

- The FFS Method is similar to the rate setting methodology AHCA used in the past to calculate the non-reform HMO rates
  - For TANF and SSI – No Medicare
    • Only include Hospital Outpatient, Physician and Other Non-Inpatient, Non Mental Health and Non-Pharmacy services
  - For Districts 1 and 10 and dual eligibles
    • Same methodology as past years (all services)

- Based on the SFY 0809 and SFY 0910 FFS data for each district and eligibility category
  - SFY 0809 is summarized and trended to SFY 0910
  - SFY 0809 and SFY 0910 are blended together to increase credibility
  - Transportation costs are adjusted to be consistent with the statewide transportation contract
  - Removed FFS mental health claims for non-dual eligibles
FFS Method

- AHCA’s inflation factors reviewed for appropriateness
  - New trends calculated for inpatient and outpatient based on July 2011 “Most Likely” hospital rates
  - Non-hospital trends average 2% per year

- The blended SFY 0708 and SFY 0809 data is adjusted to reflect:
  - IBNR claims = 1.0217
  - TPL adjustment = 0.995
  - Managed care savings factors
    - TANF = 0.98
    - SSI No Medicare = 0.92
  - Managed care savings factors for Districts 1 and 10 and dual eligibles account for utilization savings and HMO administrative costs (same as last year’s method)
**FFS Method**

- The resulting FFS Method capitation rates by district and eligibility category are then age/gender adjusted to be consistent with the CY 2009 and CY 2010 HMO population demographics from the Financial Data Method.
  - Results will be blended with the Financial Data Method, so the costs must be on the same age/gender basis.
  - HMO age/gender mix is lower cost than the FFS age/gender mix.
Mental Health Encounter Method
Mental Health Encounter Method (TANF and SSI No Medicare)

- Summarize the SFY 0809 and SFY 0910 HMO mental health encounter data for each district by eligibility category and mental health service category

- Trend SFY 0809 and SFY 0910 encounter data costs PMPM to September 2011 – August 2012 based on encounter data trends and projected Florida Medicaid fee changes
  - Data period SFY 0809 to SFY 0910: 3% annual trend for TANF and 5.5% annual trend for SSI – No Medicare based on aggregate encounter data trends for HMOs and PMHPs
  - Projection period SFY 0910 to RY 1112: 1.5% annual trend for TANF and 3% for SSI - No Medicare

- Adjust the projected September 2011 – August 2012 costs for Incurred But Not Reported (IBNR) claims
Mental Health Encounter Method (Medicare Part B Only and Medicare Parts A & B)

- Similar to the TANF and SSI No Medicare categories with the following exceptions:
  - Use statewide data instead of district-specific data
  - Use three years of encounter data (SFY 0708 through SFY 0910) to develop the Medicare Part B only rates
  - Include only community mental health, case management, and locally defined services for dual eligibles
    - The FFS Method includes comprehensive mental health services for hospital inpatient, hospital outpatient, and physician mental health services because these populations are not enrolled into PMHPs
  - Adjusted to include a 12% administrative load
Financial Data Method
Financial Data Method

- Methodology based on the financial experience of the non-reform HMOs and capitated PSNs
  - Data reporting template designed by AHCA with significant input from the HMO industry
- Based on CY 2009 and CY 2010 data submissions
  - Detailed financial results by district, rate cell, and type of service
  - Utilization and cost data for FFS services
  - Cost data for capitated arrangements
  - Payment lag information to allow detailed IBNR analysis
- Milliman did not audit the data, but went through a validation and resubmission process with Mercer, the HMOs, and AHCA
  - Relied on HMOs to provide accurate data as certified by the HMO
  - Removed the data of two small plans due to credibility concerns
Financial Data Method

- Summarized the CY 2009 and CY 2010 financial data
  - By district for TANF and SSI No Medicare
  - Removed pharmacy costs (Pharmacy Encounter Data Method used)

- Applied several adjustments to the financial data
  - HMO-specific IBNR analysis
  - Removed the cost of dental and transportation services (FFS Method used)
  - In a few cases, we reallocated the mental health capitation rates that did not vary by eligibility category to be consistent with mental health encounter data cost relationships by eligibility category
    - Total dollars remained the same before and after the reallocation, therefore this was a cost-neutral adjustment
Financial Data Method

- Adjustments (continued)
  - Two HMOs supplied more accurate supplemental information regarding capitated mental health services after the financial data was submitted
    - We adjusted the financial data of these two HMOs to be consistent with the supplemental information
  - We reduced the cost of subcapitated services reported in the financial data by 7% to remove an estimate of the administrative component of the subcapitation agreements
Financial Data Method

- Trend the CY 2009 financial data to CY 2010
  - Hospital inpatient and outpatient trends based on changes in HMO paid per diem rates between CY2009 and CY2010 from inpatient encounter data
  - Mental health trends of 3.0% for TANF and 5.5% for SSI – No Medicare
  - Trends for all other services consistent with observed trends from the CY 2009 to CY 2010 financial data (-3.0% for TANF and 2.0% for SSI – No Medicare)

- Blend the adjusted CY 2009 and CY 2010 financial data.
  - We blended the two years of adjusted financial data by district and eligibility category based on HMO enrollment in each year
Financial Data Method

- Trend the blended financial data to September 2011 – August 2012
  - Hospital inpatient and outpatient trends based on projected July 2011 “Most Likely” FFS hospital rates
  - Mental health trends of 1.5% for TANF and 3.0% for SSI – No Medicare
  - Trends for all other services consistent with AHCA’s average inflation factors for non-hospital, non-pharmacy services (an annual trend rate of 2.0% for both TANF and SSI – No Medicare)
Pharmacy Encounter Data Method
Pharmacy Encounter Data Method

- Methodology based on pharmacy encounter data regularly submitted to AHCA by the HMOs
  - AHCA and the HMOs have rigorously validated the data
  - Same process as used in 2010-2011 rate setting

- Milliman did not audit the data, but did compare it to the pharmacy costs submitted in the financial data
  - Generally consistent in utilization and cost per script
  - Different time periods, so comparison was not perfect

- Summarized the SFY 0910 pharmacy encounter data
  - By district for TANF and SSI No Medicare
  - Excluded several smaller HMOs with data validity concerns
Pharmacy Encounter Data Method

- Pharmacy encounters were priced by AHCA using AHCA’s FFS discounts and dispensing fees
  - Resulting cost per script was very similar to HMO financial data
- Trended the SFY 0910 data to September 2011 – August 2012
  - Assumed an annual rate of 4%
  - Based on national Medicaid drug trend observations
Questions?