

Florida Non-Reform HMO Program

September 2010 – August 2011 Draft Capitation Rates

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Agenda

- General Methodology for Non-Reform
- Draft Non-Reform Capitation Rates
- Fee-For-Service Method
 - Includes the Mental Health Add-on
- Financial Data Method
- Pharmacy Encounter Data Method
- Next Steps
- Questions

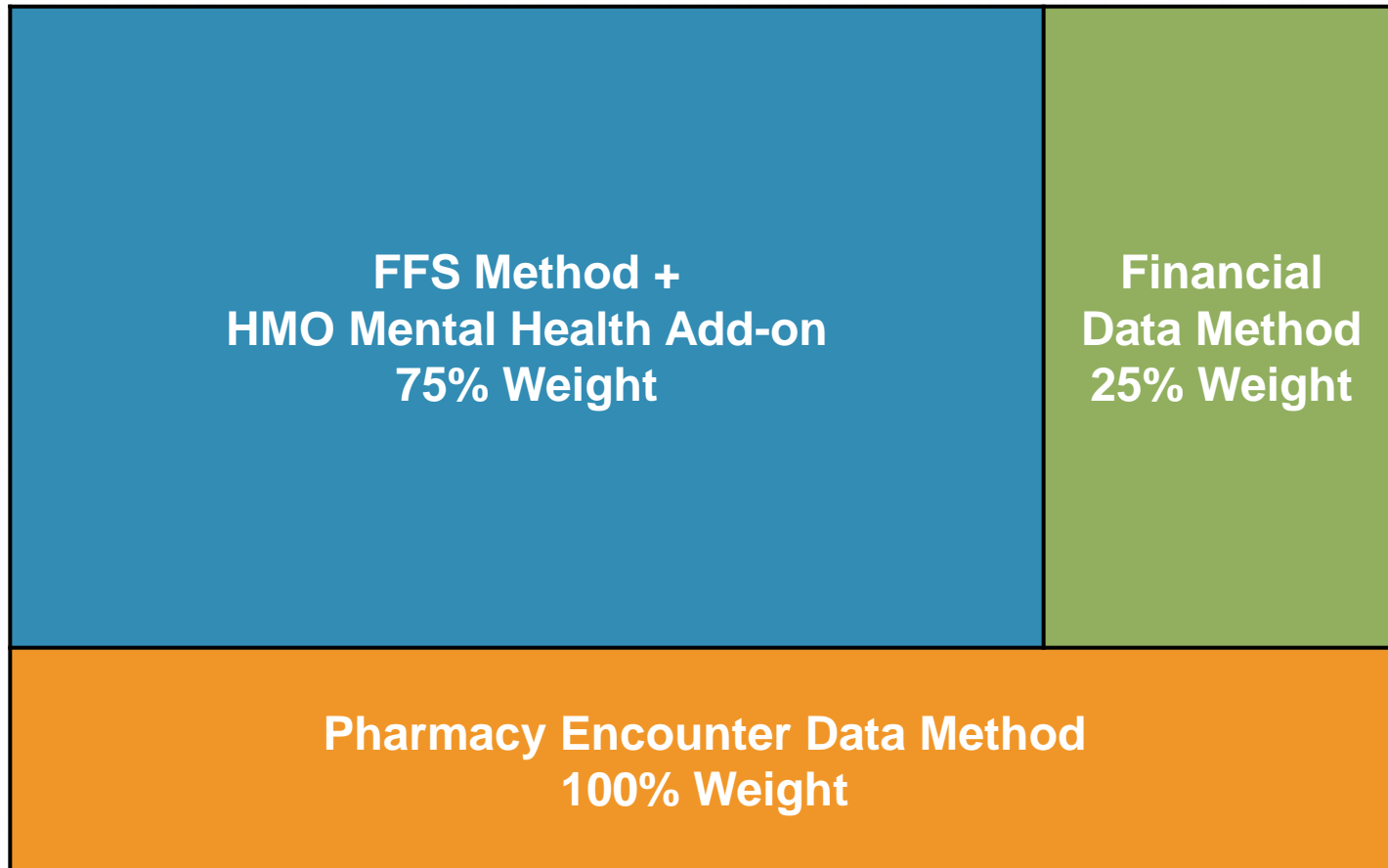
General Rate Methodology

- AHCA has historically set non-reform HMO rates using FFS data as the experience base
- In general, AHCA wants to move away from relying on FFS data and towards a rate setting methodology that relies more on HMO data
 - These draft rates are the first 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 HMO data

General Rate Methodology

- The non-reform rate methodology for September 2010 – August 2011 relies on the following data sources:
 - FFS Method
 - FFS data
 - HMO encounter data for mental health services
 - Financial Data Method
 - HMO financial data submissions
 - Pharmacy Encounter Method
 - HMO pharmacy encounter data

General Rate Methodology



General Rate Methodology

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

Draft Non-Reform Capitation Rates

Draft Non-Reform Capitation Rates

- On average, September 2010 – August 2011 PMHP capitation rates are 0.7% lower than September 2009 – August 2010 rates
 - Based on CY 2009 enrollment distribution

Estimated Draft Rate Changes

| District | TANF | SSI – No Medicare | Total (including duals) |
|------------------|-------------|-------------------|-------------------------|
| 01 | 8.7% | 11.4% | 9.6% |
| 02 | -8.9% | -6.3% | -7.8% |
| 03 | -4.4% | -0.7% | -3.2% |
| 04 (NR) | 3.5% | 1.8% | 2.7% |
| 05 | 2.8% | 3.1% | 2.9% |
| 06 | 3.6% | 2.5% | 3.0% |
| 06b | 4.6% | 2.1% | 3.7% |
| 07 | 3.0% | 4.1% | 3.5% |
| 08 | 2.5% | 5.6% | 3.6% |
| 09 | 1.4% | 3.9% | 2.5% |
| 10 (NR) | -1.8% | -3.4% | -2.0% |
| 11 | -4.3% | -12.5% | -8.1% |
| Statewide | 0.3% | -2.1% | -0.7% |

Draft Non-Reform Capitation Rates

- Rate changes primarily driven by the following factors:
 - Separated the combined District 1&2 rate into a District 1 rate and a District 2 rate
 - Higher rates in District 1
 - Lower rates in District 2
 - HMO financial experience in Districts 2, 3, and 11 led to decreases
 - HMO financial experience in Districts 4 – 9 led to increases
 - Use of HMO pharmacy encounter data (gross of rebates) resulted in a pharmacy rate that is more reflective of the enrolled population
 - AHCA will collect rebates directly from manufacturers

Historical Medical Loss Ratios (Non-Reform)

- Statewide estimated MLRs for non-reform HMO program
 - CY 2008 = 81%
 - CY 2009 = 87%
- Based on HMO financial data submissions
 - Revenue and expenditure data used as reported by HMOs by district and eligibility category
 - Adjusted for estimated IBNR claims
 - MLRs are stated gross of pharmacy rebates to be consistent with how rebates will be handled in future rating periods
- Wide variability by district and eligibility category
 - See next slide for summary

Historical Medical Loss Ratios (Non-Reform)

| District | Estimated Medical Loss Ratio - 2008 | | | Estimated Medical Loss Ratio - 2009 | | |
|----------------------|-------------------------------------|------------|------------|-------------------------------------|------------|------------|
| | TANF | SSI | Combined | TANF | SSI | Combined |
| 01 | 92% | 83% | 88% | 103% | 93% | 99% |
| 02 | 68% | 70% | 69% | 79% | 76% | 77% |
| 03 | 64% | 70% | 66% | 77% | 79% | 77% |
| 04 (NR) | 92% | 76% | 85% | 97% | 80% | 90% |
| 05 | 86% | 80% | 83% | 94% | 85% | 90% |
| 06 | 89% | 73% | 82% | 94% | 77% | 87% |
| 06b | 88% | 73% | 81% | 98% | 79% | 90% |
| 07 | 91% | 80% | 86% | 96% | 83% | 91% |
| 08 | 85% | 88% | 86% | 93% | 81% | 89% |
| 09 | 94% | 91% | 92% | 95% | 90% | 93% |
| 10 (NR) ¹ | 107% | 46% | 60% | 108% | 41% | 52% |
| 11 | 85% | 67% | 77% | 91% | 72% | 82% |
| Statewide | 86% | 75% | 81% | 92% | 79% | 87% |

¹ Note there are only 692 enrollees in District 10 non-reform as of July 2010

Projected Medical Loss Ratios (Non-Reform)

- Milliman projected the MLR of the non-reform HMO program based on:
 - Current rates vs. average CY 2009 rates
 - Draft rate changes effective September 2010
 - Expected claims cost trends
 - Expectation of improved HMO efficiency
 - Removed the financial experience of one outlier HMO
 - Assumed that the other HMOs can improve efficiency by 2% through improved provider contracting and/or increased care management
- Statewide projected MLR is 88%
 - Consistent with AHCA's target MLR which includes a 1% allowance for profit/margin
 - See next slide for variance by district and eligibility category

Projected Medical Loss Ratios (Non-Reform)

| District | Estimated Medical Loss Ratio – CY 2009 | | | Estimated Draft Rate Increase | | | Medical Loss Ratio - Projected RY 2010/2011 | | |
|-------------------------------|--|------------|------------|-------------------------------|--------------|--------------|---|------------|------------|
| | TANF | SSI | Total | TANF | SSI | Total | TANF | SSI | Total |
| 01 | 103% | 93% | 99% | 8.7% | 11.4% | 9.6% | 95% | 86% | 92% |
| 02 | 79% | 76% | 77% | -8.9% | -6.3% | -7.8% | 88% | 81% | 85% |
| 03 | 77% | 79% | 77% | -4.4% | -0.7% | -3.2% | 82% | 82% | 82% |
| 04 (NR) | 97% | 80% | 90% | 3.5% | 1.8% | 2.7% | 96% | 82% | 90% |
| 05 | 94% | 85% | 90% | 2.8% | 3.1% | 2.9% | 94% | 86% | 91% |
| 06 | 94% | 77% | 87% | 3.6% | 2.5% | 3.0% | 95% | 81% | 89% |
| 06b | 98% | 79% | 90% | 4.6% | 2.1% | 3.7% | 98% | 82% | 91% |
| 07 | 96% | 83% | 91% | 3.0% | 4.1% | 3.5% | 94% | 83% | 89% |
| 08 | 93% | 81% | 89% | 2.5% | 5.6% | 3.6% | 91% | 77% | 86% |
| 09 | 95% | 90% | 93% | 1.4% | 3.9% | 2.5% | 93% | 89% | 92% |
| 10 (NR) ¹ | 108% | 41% | 52% | -1.8% | -3.4% | -2.0% | 109% | 45% | 55% |
| 11 | 91% | 72% | 82% | -4.3% | -12.5% | -8.1% | 94% | 83% | 89% |
| Statewide | 92% | 79% | 87% | 0.3% | -2.1% | -0.7% | 93% | 83% | 89% |
| Excluding Outlier Plan | | | | | | | 93% | 81% | 88% |

¹ Note there are only 692 enrollees in District 10 non-reform as of July 2010

FFS Method

FFS Method

- The FFS Method is the rate setting methodology AHCA used in the past to calculate the non-reform HMO rates
- Based on the SFY 0708 and SFY 0809 FFS data for each district and eligibility category
 - SFY 0708 is summarized and trended to SFY 0809
 - SFY 0708 and SFY 0809 are blended together to increase data credibility
 - Transportation costs are adjusted to be consistent with the statewide transportation contract
- AHCA's inflation factors reviewed for appropriateness
 - Adjustments made to HIP and physician factors
 - Inconclusive results when reviewing per diem trends vs. HIP PMPM trends

FFS Method

- The blended SFY 0708 and SFY 0809 data is adjusted to reflect:
 - IBNR claims = 1.0217
 - TPL adjustment = 0.995
 - Fraud and abuse adjustment = 0.955 in District 11 only
 - Managed care savings factors that account for utilization savings and HMO administrative costs
 - Vary by district from 91.225% to 100%

FFS Method

- HMO Mental Health Add-on calculated to capture mental health costs not included in the FFS data
 - A = total cost of HMO mental health services
 - Based on SFY 0809 HMO mental health encounter data trended to the rate year
 - Adjusted for IBNR and a 12% administrative load
 - B = mental health costs in the FFS Method base data
 - SFY 0708 and SFY 0809 FFS data trended to the rate year
 - Adjusted for IBNR, TPL, and district-specific managed care savings
 - C = mental health add on
 - Equals A - B

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 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

Financial Data Method

Financial Data Method

- New methodology based on the financial experience of the non-reform HMOs
 - Data reporting template designed by AHCA with significant input from the HMO industry
- Based on CY 2008 and CY 2009 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
 - Administrative costs
- 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

Financial Data Method

- Summarized the CY 2008 and CY 2009 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
 - Adjusted one obvious global capitation arrangement that did not vary by eligibility category
 - Dollars reallocated by eligibility category, but remained the same in total
 - Removed the cost of dental and transportation services (FFS Method used)

Financial Data Method

- Trended the adjusted financial data to September 2010 – August 2011
 - Average non-pharmacy inflation factors by district
 - Approximately 3% annual rate for TANF
 - Approximately 4.5% annual rate for SSI No Medicare
- Included a 12% allowance for HMO administration
 - Financial Data Method must include an administrative allowance since it is based on the actual utilization of services by HMO enrollees
 - Based on benchmark Medicaid HMO administrative costs
 - Reflects a 1% allowance for HMO profit/margin

Financial Data Method

- In general,
 - For TANF, the Financial Data Method produced higher capitation rates than the FFS Method
 - For SSI No Medicare, the Financial Data Method produced lower capitation rates than the FFS Method

Pharmacy Encounter Data Method

Pharmacy Encounter Data Method

- New methodology based on pharmacy encounter data regularly submitted to AHCA by the HMOs
 - AHCA and the HMOs have rigorously validated the data
- 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 0809 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 0809 data to September 2010 – August 2011
 - Assumed an annual rate of 4%
 - Based on national drug trends and AHCA's very low FFS pharmacy trends (gross of rebates)
- Included a 12% allowance for HMO administration
 - Financial Data Method must include an administrative allowance since it is based on the actual utilization of services by HMO enrollees
 - Based on benchmark Medicaid HMO administrative costs
 - Reflects a 1% allowance for HMO profit/margin

Next Steps

Next Steps

- Rate setting reports will be released by August 13
- Submit questions and comments directly to AHCA
- In future years, AHCA will likely add more weight to the Financial Data Method if HMO data is shown to be valid

Thank You!

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