

December 10, 2010

Actuarial Soundness Requirements

Maria Dominiak, FSA, MAAA

Kevin Lurito, FSA, MAAA

Ann Marie Janusek, ASA, MAAA

Actuarial Soundness Requirements

CMS – Federal Register, Friday, June 14, 2002, 42 CFR 438.6(c)(1)(i)

- Actuarially sound capitation rates means capitation rates that:
 - A. Have been developed in accordance with generally accepted actuarial principles and practices.
 - B. Are appropriate for the populations to be covered, and the services to be furnished under the contract.
 - C. Have been certified, as meeting the requirements of this paragraph (c), by actuaries who meet the qualification standards established by the American Academy of Actuaries and follow the practice standards established by the Actuarial Standards Board.

Actuarial Soundness Requirements

Guiding Documents

- July 22, 2003 CMS Rate Setting Checklist for At-Risk Capitated Contracts
- AAA Practice Note, August 2005, “Actuarial Certification of Rates for Medicaid Managed Care Programs”
 - Actuaries say that, for the purposes of certifying actuarially sound Medicaid managed care rates, “actuarially sound” means: *“for business in the state for which the certification is being prepared and for the period covered by the certification, projected premiums, including expected reinsurance and governmental stop-loss cash flows, governmental risk adjustment cash flows, and investment income, provide for all reasonable, appropriate and attainable costs, including health benefits, health benefit settlement expenses, marketing and administrative expenses, any state-mandated assessments and taxes, and the cost of capital.”*

Actuarial Soundness Requirements

- The documents referred to on the previous slides provide considerable, and intended, flexibility.
 - The Practice Note provides “nonbinding guidance” to a Medicaid actuary. It does not have the binding authority of an Actuarial Standard of Practice (ASOP). Still, the Practice Note carries considerable weight within the Medicaid actuarial profession.
 - Health plans focus on the “reasonable costs” portion of the definition. Also hear health plans reference “adequate” rates.
 - Mercer believes the “attainable costs” portion allows for state flexibility in regards to state Medicaid managed care expenditures.
 - State and CMS administrators and regulators, as well as state and federal taxpayers, have the flexibility to be able to demand optimal achievable value from health plans.
 - The State and CMS may (or may not) choose to fully exercise this right depending on the circumstances.

Ensuring Appropriate Reimbursement

- Mercer works closely with State to develop a range of actuarially sound rates.
- Actuarially Sound Rate Ranges
 - Develop midpoint capitation rates by rate cell
 - Develop rate ranges to reflect variation from the midpoint attributable to the following:
 - Trend assumptions
 - Administrative loading assumption
 - Risk variation
 - Cell credibility
 - Ranges can be developed in order to reflect statistical uncertainty in the underlying assumptions, and also provide for geographic differences
- Goal in setting plan capitation rates is to match payment to risk
- Health plan thoroughly evaluates the populations and risks, and it's own needs, and decides to contract with the State at the negotiated/determined rate.

Health Plan Financials

Health Plan Financials for HUSKY

- Previously presented Calendar Year 2009 unaudited health plan financial results for HUSKY A and B
- Managed Care Council requested Calendar Year 2009 audited health plan financial results – these are not available separately by population
- Health plans recently submitted Fiscal Year 2010 unaudited health plan financial results for HUSKY A and B
 - Results show a pre-tax profit margin of 0.4% for HUSKY A
 - Targeted margin for risk/contingencies/underwriting gain is 1%
- Most states provide for a risk/contingencies/underwriting gain margin of around 2% for fully at risk capitated contracts

Health Plan Financial Considerations

- Health plan financials will be impacted by:
 - Removal of ½% P4P withhold
 - Adjustment for home infusion claims
 - Actual claims experience compared to reserve estimates
 - Maturation of the HUSKY managed care program
 - Retroactive changes to provider contracting

HUSKY A Revenue & Expenses

Experience State Fiscal Year 2010*

| | Period: Date of Service SFY 2010 | Aetna | AmeriChoice | CHNCT | All Plans |
|----|--|---------------|---------------|---------------|---------------|
| 1 | Member Months | 1,039,878 | 558,444 | 2,855,373 | 4,453,695 |
| 2 | Revenue** | \$204,001,925 | \$103,113,812 | \$540,445,864 | \$847,561,601 |
| 3 | Net Medical Expenses | \$177,639,802 | \$96,474,376 | \$511,475,720 | \$785,589,898 |
| 4 | Administrative Expenses | \$18,189,251 | \$10,512,087 | \$29,583,372 | \$58,284,711 |
| 5 | Total Expenses (Line 3+4) | \$195,829,053 | \$106,986,464 | \$541,059,092 | \$843,874,608 |
| 6 | Operating Income (Loss) (Line 2-5) | \$8,172,872 | (\$3,872,652) | (\$613,227) | \$3,686,993 |
| 7 | State/Federal Income Taxes | \$2,860,505 | (\$2,936,861) | \$0 | (\$76,355) |
| 8 | Net Income (Loss) (Line 6-7) | \$5,312,367 | (\$935,791) | (\$613,227) | \$3,763,348 |
| 9 | Net Medical Care Ratio (Line 3/Line 2) | 87.1% | 93.6% | 94.6% | 92.7% |
| 10 | Administrative Ratio (Line 4/Line 2) | 8.9% | 10.2% | 5.5% | 6.9% |
| 11 | Operating Margin (Line 6/Line 2) | 4.0% | -3.8% | -0.1% | 0.4% |
| 12 | Sum of Percentages (Line 9+10+11) | 100.0% | 100.0% | 100.0% | 100.0% |
| 13 | PMPM Revenue (Line 2/Line 1) | \$196.18 | \$184.64 | \$189.27 | \$190.31 |
| 14 | PMPM Net Medical Expense (Line 3/Line 1) | \$170.83 | \$172.76 | \$179.13 | \$176.39 |
| 15 | PMPM Administration (Line 4/Line 1) | \$17.49 | \$18.82 | \$10.36 | \$13.09 |
| 16 | PMPM Total Expense (Line 5/Line 1) | \$188.32 | \$191.58 | \$189.49 | \$189.48 |
| 17 | PMPM Operating Margin (Line 6/Line 1) | \$7.86 | (\$6.93) | (\$0.21) | \$0.83 |

*Based on unaudited and unadjusted data as reported by the MCOs

**Includes both premium revenue and investment income

HUSKY Revenue and Expenses

State Fiscal Year 2010

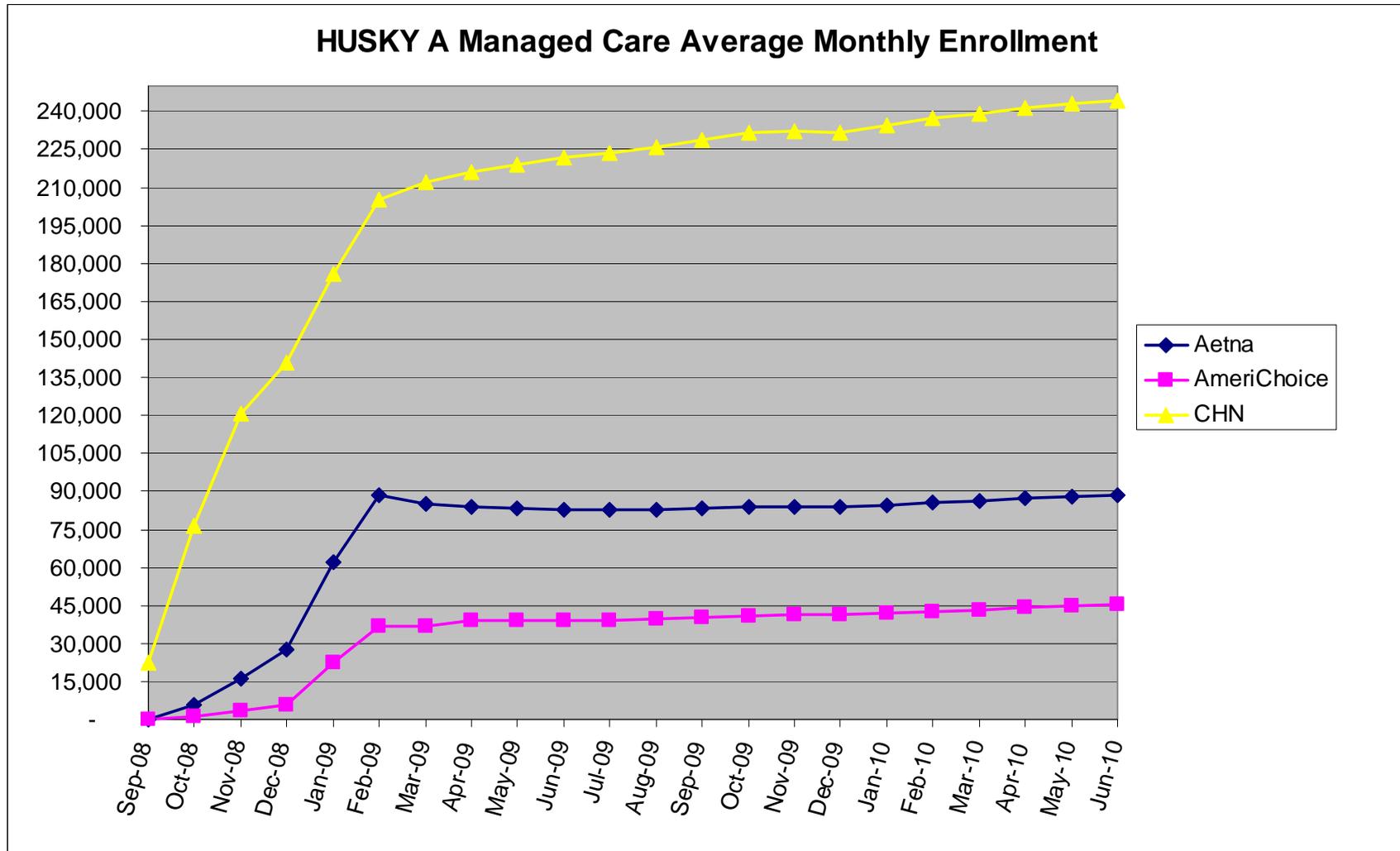
Summary of Experience*

| | Period: Date of Service SFY 2010 | HUSKY A |
|---|--------------------------------------|---------------|
| 1 | Member Months | 4,453,695 |
| 2 | Revenue** | \$847,561,601 |
| 3 | Net Medical Expenses | \$785,589,898 |
| 4 | Administrative Expense | \$58,284,711 |
| 5 | Total Expenses (Line 3 + 4) | \$843,874,608 |
| 6 | Operating Income (Loss) (Line 2 - 5) | \$3,686,993 |
| 7 | State/Federal Income Taxes | (\$76,355) |
| 8 | Net Income (Loss) (Line 6 - 7) | \$3,763,348 |

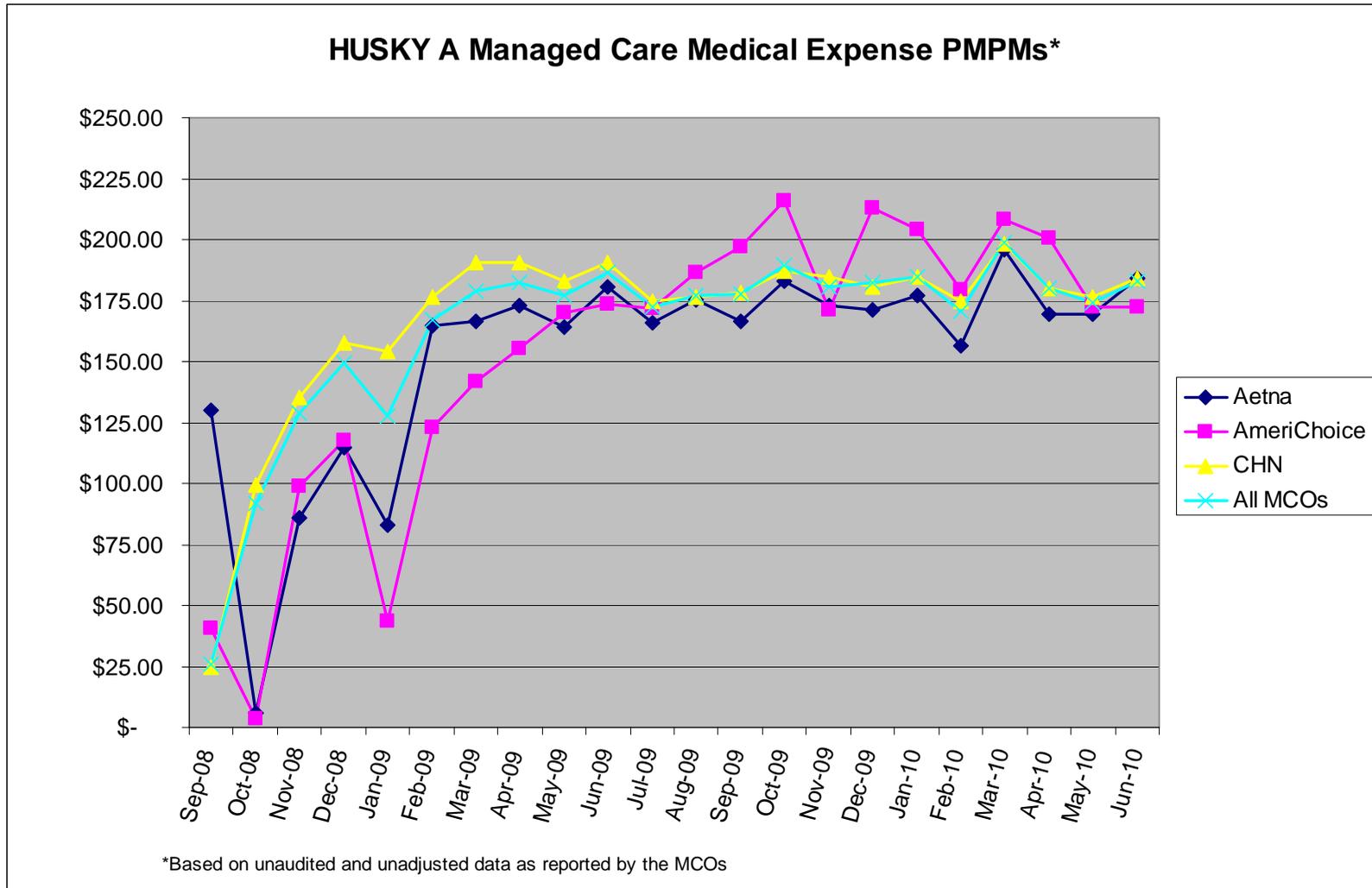
*Based on unaudited and unadjusted data as reported by the MCOs

**Includes both premium revenue and investment income

HUSKY A Managed Care Average Monthly Enrollment September 2008 through June 2010



HUSKY A Managed Care Medical Expense PMPMs September 2008 through June 2010



Questions



MERCER