

HEALTHY PENNSYLVANIA RATE METHODOLOGY NARRATIVE

May 27, 2014

The purpose of this more detailed narrative is to provide an overview of the rate-setting methodology that Mercer Government Human Services Consulting (Mercer), a part of Mercer Health & Benefits LLC, used in developing the Healthy Pennsylvania (Healthy PA) managed care capitation rates for the Commonwealth of Pennsylvania (Commonwealth), for the period of January 1, 2015 to December 31, 2015 (CY 2015). Mercer produced this narrative with input from the Commonwealth of Pennsylvania's Department of Public Welfare (Department). The final Healthy PA program design and capitation rates are contingent upon Centers for Medicare & Medicaid Services review and approval and could result in changes to this methodology.

Rate Methodology Summary Overview

The CY 2015 Healthy PA rates were developed in accordance with generally accepted actuarial practices and principles. It should be noted that no medical cost and utilization data was readily available specific to the anticipated Healthy PA population of newly eligible adults. As such, Mercer utilized existing and readily available managed care organization HealthChoices (HC) data in conjunction with the anticipated eligibility information in the development of these rates, adjusted to reflect the Healthy PA program design. Some information was available, including county, gender, and age for uninsured adults in Pennsylvania based upon demographic information from American Community Survey (ACS). ACS population data specific to the Commonwealth was summarized to develop allocation adjustments applied to the base data by gender, age bands, region, and federal poverty level (FPL).

The population eligible for enrollment in Healthy PA will consist of "newly eligible" individuals, ages 21 through 64, with incomes up to 133% of the FPL, who do not qualify as medically frail according to criteria established by the Department at the time of Healthy PA enrollment. If an individual meets the criteria for medically frail after enrollment into Healthy PA, the member will continue to be enrolled in the Healthy PA program until the next annual eligibility redetermination is completed. The Department already provided a copy of the criteria from the February 2014 Healthy Pennsylvania 1115 Demonstration application that qualify an individual to be deemed medically frail as part of the materials in the Healthy PA Request for Application (RFA).

Per the Department's program design, Healthy PA enrollees will receive a benefit package that will include coverage of essential health benefits and will benchmark to a Marketplace Silver Benefit Package. For CY 2015, this benchmark is the Aetna PA POS CS 3.7 CY (1500 Ded, 10/25/50 RX) 51+ Plan Effective 8/12 V2 benefit package (Aetna Silver Package).

Adjustments were made to the HC base data sets to match the covered population risk and the Healthy PA benefit package for CY 2015. Additional adjustments were then applied to the base data to incorporate the following:

- Trend factors to forecast the expenditures and utilization to the rating period.
- Estimated provider reimbursement levels between commercial and Medicaid.
- Administration/profit/risk/contingency loading.

The various steps in the rate development are described in the following paragraphs.

Rating Regions and Groups

The Healthy PA rating regions are composed of nine zones that mirror the Federally-Facilitated Marketplace (FFM) zones, displayed and defined in Table 1.

FFM Zones	Counties included
Zone 1	Clarion, Crawford, Erie, Forest, McKean, Mercer, Venango, and Warren
Zone 2	Cameron, Elk, and Potter
Zone 3	Bradford, Carbon, Clinton, Lackawanna, Luzerne, Lycoming, Monroe, Pike, Sullivan, Susquehanna, Tioga, Wayne, and Wyoming
Zone 4	Allegheny, Armstrong, Beaver, Butler, Fayette, Greene, Indiana, Lawrence, Washington, and Westmoreland
Zone 5	Bedford, Blair, Cambria, Clearfield, Huntingdon, Jefferson, and Somerset
Zone 6	Centre, Columbia, Lehigh, Mifflin, Montour, Northampton, Northumberland, Schuylkill, Snyder, and Union
Zone 7	Adams, Berks, Lancaster, and York
Zone 8	Bucks, Chester, Delaware, Montgomery, and Philadelphia
Zone 9	Cumberland, Dauphin, Franklin, Fulton, Juniata, Lebanon, and Perry

In addition to separate rating regions, Mercer, in collaboration with the Department, established eight rating groups for Healthy PA. Table 2 illustrates the eight rating groups:

Rating Group	Rate Cells
1	Women Ages 21 to 34
2	Women Ages 35 to 44
3	Women Ages 45 to 54
4	Women Ages 55 to 64
5	Men Ages 21 to 34
6	Men Ages 35 to 44

TABLE 2. RATING GROUPS CHART

Rating Group	Rate Cells
7	Men Ages 45 to 54
8	Men Ages 55 to 64

Base Data

Since limited historical experience exists for the anticipated new adult population eligible for the Healthy PA program, an alternative rate base was established. The base data Mercer utilized in developing the Healthy PA capitation rate ranges consisted of the final HC capitation rate ranges effective July 1, 2014 to December 31, 2014 for all HC rating zones.

Mercer leveraged the final TANF-HB-MAGI 19+ and SSI-HH-Other Disabled rate cells to serve as a proxy for developing the Healthy PA rates. Maternity information from the HC program was also considered in developing the Healthy PA rate ranges. The ACA 1202 PCP add-on and administration/profit/risk/contingency loads were excluded from the capitated rates to produce the projected medical component for the July 1, 2014 to December 31, 2014 period.

Newly-eligible individuals, who will initially enroll in the Healthy PA program, are on average assumed to be less healthy and, therefore, more expensive than the average TANF-HB-MAGI 19+ population, but not nearly as expensive on average compared to the existing Medicaid SSI-HH-Other Disabled. Also, additional risk must be considered for those who qualify as medically frail after initial enrollment into the Healthy PA program and remain enrolled until the next annual eligibility redetermination is completed. Due to the uncertainty of risk associated with a new expansion population composed mostly of previously uninsured adults, Mercer utilized an initial blend of the TANF-HB-MAGI 19+ and the SSI-HH-Other Disabled HC medical components to model the expected risk of the Healthy PA program. A higher weighting was given to the SSI-HH-Other Disabled for the older rate cells in Healthy PA. Table 3 displays the blending weights for the TANF-HB-MAGI 19+ and SSI-HH-Other Disabled applied to each of the Healthy PA rate cells:

TABLE 3. DATA BLENDING

HPA Rate Cells	TANF-HB-MAGI 19+	SSI-HH-Other Disabled
Women Ages 21 to 34	95%	5%
Women Ages 35 to 44	95%	5%
Women Ages 45 to 54	90%	10%
Women Ages 55 to 64	90%	10%
Men Ages 21 to 34	95%	5%
Men Ages 35 to 44	95%	5%
Men Ages 45 to 54	90%	10%
Men Ages 55 to 64	90%	10%

Geographic and Demographic Adjustments

Due to the differences in geographic and demographic makeup between the Healthy PA and HC programs, adjustments to the base HC rates were required. Utilizing Pennsylvania-specific data, geographic relativities were developed and applied to the HC rates for the purpose of aligning the counties from the five HC zones into the respective FFM zones. This adjustment was budget neutral across the Commonwealth. As shown in the rate exhibits provided by the Department in the Healthy PA RFA, these relativity assumptions resulted in Zone 8 (greater Philadelphia metropolitan area) having the highest rates and conversely, the more rural areas having lower rates. Table 4 displays the impact to each HC zone:

FFM Zones	HC Zones	TANF-HB-MAGI 19+	SSI-HH-Other Disabled
Zone 1 and 2	Northwest	(2.1%)	(2.3%)
Zone 3 and 6	Northeast	9.0%	7.4%
Zone 4 and 5	Southwest (including Southwest Expansion)	(0.3%)	(1.0%)
Zone 7 and 9	Lehigh/Capital (including Lehigh/Capital Expansion)	(0.8%)	(1.2%)
Zone 8	Southeast	0.0%	0.0%

Additionally, since only individuals who are ages 21 through 64 are eligible to enroll in the Healthy PA program, age relativities were developed to remove the costs associated with individuals who fall outside of the eligible age range.

Benefit Adjustments

Since the benefits and coverage limits do not line up exactly between the Healthy PA benefits and the HC program, additional benefit and coverage limit adjustments were required. Adjustments were made to the HC program rates to more closely align benefits and coverage limits with those in the Aetna Silver Package. Historical HC category of service cost data was analyzed to determine the adjustment for the addition or removal of services. Also, for the addition of the behavioral health (BH) benefits included in the Healthy PA rates, Mercer utilized historical HC BH costs to represent the portion of the Healthy PA population using BH services. Table 5 lists the benefit adjustments and overall impacts applied:

Rating Group	Adjustment Value
Removal of Dental Benefits	(6.9%)
Addition of Behavioral Health Benefits	1.7%
Skilled Nursing Facility Days (Increase to 120 days)	0.2%

Maternity and Well-Baby Costs

Healthy PA will not have a separate maternity payment in CY 2015. Women who become pregnant after enrollment in Healthy PA may choose to stay in Healthy PA or move to HC during pregnancy. As such, an adjustment was made to the base HC rates to account for maternity costs for the Women Ages 21–34 and Women Ages 35–44 rating groups, by zone, since HC has a separate maternity payment and maternity costs are excluded in the current HC rate structure for these rate cells. In addition to maternity costs, well-baby costs during the maternity inpatient stay were included in the adjustment made for maternity costs. The well-baby cost adjustment was made as part of the Department’s purchasing strategy to more closely align with commercial provider pricing structures. The PCOs will not be responsible for newborn costs other than the well-baby costs.

To develop this adjustment, historical HC maternity and newborn costs were analyzed by rate cell and FFM zone. Mercer utilized historical Commonwealth birth census data, “National Vital Statistics Reports,” to determine an estimate of member delivery and birth utilization in Healthy PA. An additional assumption was developed to account for women who may choose to leave Healthy PA and move into HC during pregnancy. Mercer estimated 10% of these members will move into HC during pregnancy and therefore, utilization was reduced by 10%. The increases to the Women Ages 21-34 and Women Ages 35-44 rate cells for maternity and well-baby costs were 25.7% and 5.7%, respectively. The impact to the overall Healthy PA rates was an increase of 4.6%.

Pent-Up Demand

Individuals eligible for Healthy PA presumably have little or no recent access to health care, and it is assumed that demand for health care has been suppressed. It is expected that in the initial time following the enrollment of Healthy PA members, services will be used at a higher rate than in the eventual steady-state, otherwise known as pent-up demand. A utilization adjustment has been applied to claims costs to account for this pent-up demand for CY 2015. The pent-up demand factor will ultimately be reduced to zero as the Healthy PA program matures. Several national studies related to pent-up demand, as well as experience from states that expanded their Medicaid programs, were reviewed to develop the adjustment. An assumption of a 5% increase in utilization was applied to all Healthy PA rates to account for pent-up demand in CY 2015.

Managed Care Adjustments

The rates for Healthy PA were leveraged from the TANF-HB-MAGI 19+ and the SSI-HH-Other Disabled HC rates. The HC rates reflect a more mature and relatively efficient managed care environment. Mercer acknowledges that it takes some time to integrate and achieve efficient and effective delivery of services. Historical HC-specific managed care analyses, as well as similar analyses from other states’ Medicaid managed care programs were reviewed, and adjustments were made to reflect the assumption of reduced managed care effectiveness of the PCOs during the first year of the Healthy PA program. Table 6 displays these adjustments by major category of service:

TABLE 6. MANAGED CARE ADJUSTMENTS

Category of Service	Adjustment Value
Inpatient Hospital	9%
Outpatient Facility	4%
Emergency Room	10%
Physician	(7%)
Pharmacy	(1%)
Laboratory and Radiology	(2%)
All Other Categories of Service	0%

Provider Pricing

A key consideration for the Healthy PA program is to ensure that members will have access to quality health care, through both expanded provider networks and increased capacity within current provider networks. The goal of the Department’s purchasing strategy is to ensure that PCO provider networks are sufficiently robust to serve the additional Healthy PA members. In order to both expand provider networks and also increase capacity within the current provider networks, the Department’s purchasing strategy is to expect that PCOs will reimburse providers at levels between Medicaid and commercial provider reimbursement levels. Based on Mercer’s previous work with HC rate development and research of literature on pricing relativities, Mercer applied assumptions to the HC medical base data to reflect higher provider pricing levels commensurate with the Department’s Healthy PA program design.

Trend

Trend is an estimate of the change in the overall cost of medical services over a finite period of time. A trend factor is necessary to estimate the expenses of providing health care services in a future period. Being that the data reflected the July to December 2014 time period, only nine additional months of trend were required to project the adjusted base experience to the midpoint of the Healthy PA rating period. As part of the CY 2015 rate development for Healthy PA, Mercer utilized HC trend rates, along with consideration of other data sources to develop reasonable trend assumptions for CY 2015. These sources included:

- Bureau of Labor Statistics (CPI and PPI).
- Mercer’s Survey of Health Care Trends.
- Data from other state Medicaid agencies.
- Medicare trends (applicable to the SSI-HH-Other Disabled rating group).

Table 7 displays these trend adjustments by rolled up category of service and in total:

TABLE 7. TREND

Category of Service	Adjustment Value
Inpatient Hospital	3.6%

TABLE 7. TREND

Category of Service	Adjustment Value
Physician	2.5%
Pharmacy	4.2%
Other Services	4.3%
All Services	3.7%

Administration/Profit/Risk/Contingency Load

In addition to projected medical claims costs, non-medical expenses were included in the Healthy PA rates. The non-medical expense costs include administrative expenses, underwriting gain, risk, and contingency. Mercer developed an administration/profit/risk/contingency load for the Healthy PA program based on HC administration/profit/risk/contingency levels, review of published reports containing commercial administration levels, and information from other states. Due to the nature of the Healthy PA program (that is, coverage for previously uninsured adults), Mercer assumed a higher profit/risk/contingency factor to reflect more initial uncertainty in the risk of the Healthy PA program. Table 8 displays the administration/profit/risk/contingency range as a percent of total Healthy PA premium (prior to the application of the Health Insurance Providers Fee).

TABLE 8. ADMINISTRATION/PROFIT/RISK/CONTINGENCY LOAD

Component	Adjustment Value
Administration Load	7.75%
Profit/Risk/Contingency	3.00%
Total	10.75%

Health Insurance Providers Fee (HIPF)

For those PCOs with a liability for payment associated with the ACA Section 9010 HIPF, Mercer recognized the costs associated with this fee as “reasonable, appropriate, and attainable costs,” to be considered in actuarially sound payments to the plans. The Department seeks to make payments to each PCO that are appropriate for the specific level of this tax expense. To accommodate both situations (PCOs responsible for the tax or PCOs exempt from the tax), two sets of capitation rates were developed: one set applicable to PCOs not subject to the HIPF and one set applicable to PCOs that are subject to the HIPF. The only difference between the two sets of capitation rates will be an allowance for the HIPF, which will be withheld by the Department until payment is due by the PCOs, when applicable. For those PCOs with liability for payment associated with the HIPF, an increase was applied to the final rates, which will create a withhold amount that will be ultimately reconciled with each PCO’s actual cost obligation associated with the HIPF, with consideration of income tax implications.

Summary

The rate-setting methodology described above results in capitation rates for each of the rating groups within each of the nine FFM zones. The Department and Mercer recommends that each PCO independently analyze its own projected medical and administrative expenses and other premium needs for comparison to the Department's rate offers in the aggregate. As the Healthy PA program matures and actual experience data becomes available, it is expected that the rate-setting process will evolve accordingly.

In preparing the CY 2015 Healthy PA rates discussed above, Mercer has used and relied upon enrollment, claim, reimbursement level, benefit design, and financial data and information supplied by the Department, its consultants, and its vendors. The Department, its consultants, and its vendors are responsible for the validity and completeness of this supplied data and information. We have reviewed the data and information for internal consistency and reasonableness, but we did not audit it. In our opinion, it is appropriate for the intended purposes.

The CY 2015 Healthy PA rates were developed in accordance with generally accepted actuarial practices and principles. These have been based on the actuarial methods, considerations, and analyses promulgated from time to time through the Actuarial Standards of Practice by the Actuarial Standards Board. Use of the rates for any purpose beyond that stated may not be appropriate.