

**Bulletin Number:** MSA 07-34

**Distribution:** Medicaid Health Plans

**Issued:** June 22, 2007

**Subject:** Medicaid Health Plan Rate Development and Certification

**Effective:** July 22, 2007

**Programs Affected:** Medicaid

The purpose of this bulletin is to provide a definition of actuarial soundness for Medicaid Health Plan (MHP) rates and to identify the annual process used by the Michigan Department of Community Health (MDCH) to establish and certify actuarially sound rates for MHPs. This bulletin must be operationalized in accordance with Article IX, Section 17 of the State Constitution.

## BACKGROUND

Federal regulations (42 CFR 438.6) require rates paid by the State of Michigan to MHPs to be actuarially sound. The State of Michigan contracts with a certified actuary to develop actuarially sound rates for the MHPs. Rates are not included in the MHPs competitive bid process and therefore, the MHPs are not required to certify rates as actuarially sound. Under this methodology, the State's Actuary establishes a rate range for each rate cell covered under the Comprehensive Health Care Program. As mandated by the federal requirement, the State's Actuary certifies these rates are actuarially sound. There is no federal requirement that rates be actuarially sound for a particular MHP.

Actuarially sound rates for MHPs are capitation rates that meet the following requirements:

- Developed in accordance with generally accepted actuarial principles and practices.
- Appropriate for the populations included and services covered under the State's contract with the MHPs.
- Certified as meeting all requirements for actuarial soundness by actuaries who meet the qualification standards established by the American Academy of Actuaries and who follow the practice standards established by the Actuarial Standards Board.

## RATE CATEGORIES

In order to establish actuarially sound rates, MDCH establishes separate rate cells based on the following classifications:

- Aid program category
- Age
- Gender
- Region
- Maternity Case Rate

For enrollees in the Blind and Disabled program category, Michigan utilizes the Chronic Illness and Disability Payment System (CDPS) to adjust the MHP capitation rates. Under CDPS, diagnosis coding as reported on claim and encounter transactions are used to compute a score for each individual. Individuals with inadequate eligibility history are excluded from these calculations. For qualifying individuals, these scores are aggregated into an average case-mix value for each contractor based on its enrolled population. The regional rate for the Blind and Disabled program category is multiplied by the average case mix value to produce a unique case mix adjusted rate for each MHP. The aggregate impact is budget or rate neutral. MDCH fully re-bases the risk adjustment system annually.

## **DATA METHODOLOGY**

For Fiscal Year 2007/2008, and each year thereafter, MDCH will implement a generally consistent approach to the rate development and certification methodology. The approach will incorporate the factors recommended by the American Academy of Actuaries, including the following criteria:

- Base utilization and cost data are derived from the population covered under the MHP contract to the extent that adequate accurate information on this population is available to the State's Actuary at the time of rate development and certification.
- Base utilization and cost data are derived from the population comparable to the population covered under the MHP contract.
- Base utilization and cost data are derived from the set of covered services under the MHP contract.
- Adjustments may be made to smooth data and account for factors such as incomplete data.
- Assumptions may be made related to medical trend inflation, MHP administration, and projected utilization.
- Rate cells are specific to the enrolled population.
- Assumptions may be made related to payment mechanism, utilization, and cost appropriate for individuals with chronic illness, disability, risk adjustment or other appropriate cost-neutral methods.
- Assumptions are based on the State's Actuary's professional judgment regarding the appropriateness of adjustments to the base-year data.

## **DATA SOURCES**

The annual rate development methodology for the establishment of actuarially sound rates utilizes some or all of the following data sources:

- Fee-for-service (FFS) data for individuals eligible for Medicaid.
- FFS data for the 12 months preceding the individual's enrollment into MHP.
- Aggregate MHP financial and/or encounter data.
- MHP annual financial filings reported to the Office of Financial and Insurance Services up to 36 months preceding the date that proposed rates were established by MDCH.
- Other data available to MDCH that is for the covered population and which is identified in the report produced by MDCH.

MDCH utilizes the data source deemed most appropriate by the State's Actuary dependent upon data availability and data accuracy.

## **PUBLIC REVIEW**

MDCH shall produce for public review a report that includes the proposed MHP rates, documentation of the rate development, and actuarial certification prior to formal submission to the federal government. As recommended by the American Academy of Actuaries, the report shall include a description of the relevant data, sources of data, material assumptions, and methodology by which the rates were developed.

## **Manual Maintenance**

Retain this bulletin until the information has been incorporated into the Michigan Medicaid Provider Manual.

## **Questions**

Any questions regarding this bulletin should be directed to Provider Inquiry, Department of Community Health, P.O. Box 30731, Lansing, Michigan 48909-8231, or e-mail at [ProviderSupport@michigan.gov](mailto:ProviderSupport@michigan.gov). When you submit an e-mail, be sure to include your name, affiliation, and phone number so you may be contacted if necessary. Providers may phone toll-free 1-800-292-2550.

## **Approved**

A handwritten signature in black ink that reads "Paul Reinhart". The signature is written in a cursive, flowing style.

Paul Reinhart, Director  
Medical Services Administration