

MILLIMAN CLIENT REPORT

April 2024 Medicaid Capitation Rate Amendment

State of Michigan

Department of Health and Human Services

October 10, 2024

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I. Background

Milliman, Inc. (Milliman) has been retained by the State of Michigan, Department of Health and Human Services (MDHHS) to provide actuarial and consulting services related to the development of actuarially sound capitation rates for the risk based managed care health plans to be effective October 1, 2023. This report provides amended state fiscal year (SFY) 2024 actuarially sound capitation rates and a summary of the methodology used in the development of the amended rates for the traditional managed care health plan program (MHP), Children's Special Health Care Services (CSHCS), and Healthy Michigan (HMP) populations with effective dates from April 1 to September 30, 2024.

This report is an amendment to the capitation rate certification report developed for April 1 to September 30, 2024. The previously certified capitation rates and the documentation of rate development were published in the following correspondence (original certifications) provided by Milliman:

- *SFY 2024 Medicaid Managed Care Certification* dated September 25, 2023
- *April 2024 Medicaid Capitation Rate Amendment* dated April 17, 2024
- *SFY 2024 Medicaid Managed Care Certification* dated September 17, 2024 (Reflects revised HRA amounts)

We have updated the capitation rates provided in the certification report to reflect acuity changes that were not fully reflected in the prior development of the April 2024 capitation rates along with updates based on experience related to assumptions utilized in the original certification. **Unless otherwise stated, the methodology and assumptions utilized are consistent with the capitation certification documentation included in the original certifications.**

The capitation rates provided with this certification are "actuarially sound" for purposes of 42 CFR 438.4(a), according to the following criteria:

- The capitation rates have been developed in accordance with generally accepted actuarial principles and practices;
- The capitation rates are appropriate for the Medicaid populations to be covered, and Medicaid services to be furnished under the contract; and,
- The capitation rates meet the requirements of 42 CFR 438.4(b).

To ensure compliance with generally accepted actuarial practices and regulatory requirements, we referred to published guidance from the American Academy of Actuaries (AAA), the Actuarial Standards Board, CMS, and federal regulations. Specifically, the following were referenced during the rate development:

- Actuarial standards of practice applicable to Medicaid managed care rate setting which have been enacted as of the capitation rate certification date, including: ASOP 1 (Introductory Actuarial Standard of Practice); ASOP 5 (Incurred Health and Disability Claims); ASOP 23 (Data Quality); ASOP 25 (Credibility Procedures); ASOP 41 (Actuarial Communications); ASOP 45 (The Use of Health Status Based Risk Adjustment Methodologies); ASOP 49 (Medicaid Managed Care Capitation Rate Development and Certification); and ASOP 56 (Modeling).
- Actuarial soundness and rate development requirements in the Medicaid and CHIP Managed Care Final Rule (CMS 2390-F) for the provisions effective for the SFY 2021 managed care program rating period.
- The most recent CMS Medicaid Managed Care Rate Development Guide.
- Throughout this document and consistent with the requirements under 42 CFR 438.4(a), the term "actuarially sound" will be defined in ASOP 49:

"Medicaid capitation rates are "actuarially sound" if, for business for which the certification is being prepared and for the period covered by the certification, projected capitation rates and other revenue sources provide for all reasonable, appropriate, and attainable costs. For purposes of this definition, other revenue sources include, but are not limited to, expected reinsurance and governmental stop-loss cash flows, governmental risk-adjustment cash flows, and investment income. For purposes of this definition, costs include, but are not limited to, expected health benefits; health benefit settlement expenses; administrative expenses; the cost of capital, and government-mandated assessments, fees, and taxes."

II. Executive Summary

Table 1 provides a comparison of the amended rates effective April through September 2024 relative to the previously certified April to September 2024 capitation rates for the different populations. The rates noted in Table 1 reflect base claims costs plus amounts for administrative load. All other payments and adjustments for GME, HRA, SNAF, and IPA will be paid on a retrospective basis for SFY 2024.

TABLE 1: COMPARISON OF PMPM MCO EFFECTIVE RATES

POPULATION	AVERAGE MONTHLY ENROLLMENT	ORIGINAL APR-SEP 2024 RATES	PROPOSED APR-SEP 2024 RATES	PERCENT CHANGE
TANF/Program L	1,044,200	\$ 189.17	\$ 199.81	5.6%
Aged, Blind, and Disabled	138,300	940.46	991.68	5.4%
Dual Eligibles (MME)	33,750	98.66	100.76	2.1%
CSHCS	30,750	1,505.77	1,543.49	2.5%
Healthy Michigan	586,500	462.03	499.95	8.2%
Maternity Case Rate	3,200	6,529.98	6,529.98	0.0%
Composite	1,833,500	\$ 364.94	\$ 387.66	6.2%

Notes:

- SFY 2024 and April to September 2024 composite rates were developed with projected average monthly enrollment for the April to September 2024 time period.
- Values shown in Table 1 exclude amounts related to GME, SNAF, HRA, and IPA adjustment.
- Values are rounded.
- Maternity monthly enrollment represents projected April to September 2024 delivery counts across all programs and are not included in the composite average monthly enrollment figure.

PMPM estimates for GME, HRA, SNAF, and IPA payments are consistent with amounts outlined in the SFY 2024 certified capitation rates (revised on September 17, 2024) and are listed by rate cell in Appendix 2.

Table 2 presents the estimated aggregate base claims costs plus administrative expenditures for the April to September 2024 time period based on rates noted in Table 1 across the different populations and the projected membership.

TABLE 2: COMPARISON OF MCO EFFECTIVE RATES (AGGREGATE EXPENDITURES \$ MILLIONS)

POPULATION	ORIGINAL APR-SEP 2024 RATES	PROPOSED APR-SEP 2024 RATES	TOTAL CHANGE	PERCENT CHANGE
TANF/Program L	\$ 1,185.2	\$ 1,251.9	\$ 66.7	5.6%
Aged, Blind, and Disabled	780.4	822.9	42.5	5.4%
Dual Eligibles (MME)	20.0	20.4	0.4	2.1%
CSHCS	277.8	284.8	7.0	2.5%
Healthy Michigan	1,625.9	1,759.3	133.4	8.2%
Maternity Case Rate	125.4	125.4	0.0	0.0%
Composite	\$ 4,014.7	\$ 4,264.6	\$ 250.0	6.2%
Federal	3,022.3	3,218.0	195.8	6.5%
State	992.4	1,046.6	54.2	5.5%

Notes:

1. Values are rounded.
2. Aggregate expenditures were developed based on projected April to September 2024 average monthly enrollment.
3. Values shown in Table 2 exclude amounts related to GME, SNAF, HRA, and IPA.
4. Composite rates were based on projected monthly enrollment for April to September 2024.
5. State expenditures based on FMAP of 64.94% for non-expansion populations and 90% for expansion.

III. Methodology

The methodology used in developing the amended April to September 2024 capitation rates is outlined below.

Step 1: Original Projected Base Experience

We utilized the claims data underlying the SFY 2024 capitation rates, as outlined in the original certifications, as base experience for the amended capitation rates. The base data was adjusted for all retrospective, prospective, and other claims cost adjustments as outlined in the original certification, and subsequent adjustments outlined in the original April 2024 rate amendment.

The initial values illustrated in the cost models in Appendix 3 are consistent with the projected April to September 2024 experience as outlined in the original April 2024 rate certification and noted in Appendix 3- Prospective Actuarial Models to that report.

Step 2: Update Projected Enrollment

Following the end of the public health emergency (PHE), we have observed a significant reduction in the number of enrolled members. This has been a result of MDHHS resuming the redetermination process and members losing Medicaid eligibility during the PHE unwinding process. Trends in emerging enrollment have indicated that the original April 2024 rate development enrollment projections reflected in the April 2024 certification amendment understated the ultimate enrollment for April to September 2024. Due to the observed differences, we have modified our projected enrollment estimates to better reflect the emerging enrollment. While the adjustment to enrollment estimates do not directly impact the capitation PMPM rates for individual rate cells, this does impact total projected capitation revenue as well as composite averages illustrated in Appendix 2 and Appendix 3.

Step 3: Adjustments for acuity changes

For each of the following items, experience was further adjusted and updated PMPM factors are reflected as adjustments in the cost models in Appendix 3:

- **Pharmacy Acuity Adjustment:** Average pharmacy utilization continues to increase as members disenroll from the program following the end of the PHE. Additionally, the prescribed utilization patterns of higher cost drugs, such as GLP-1 weight loss drugs, has increased causing the average cost per script to increase. We have included an additional funding of \$145M to account for the pharmacy acuity differences. The impact of these adjustments is noted in the Acuity Adjustment column of Appendix 3 for the pharmacy service line.
- **Dental Acuity Adjustment:** Similarly, average dental utilization continues to increase as members disenroll from the program following the end of the PHE. This is most significantly observed with higher average utilization of Class II and Class III services than previously projected. We have included an additional funding of \$80M to account for the dental acuity differences. The combined impact of these adjustments is noted in the Acuity Adjustment column of Appendix 3 for the dental service line.

Step 4: Incorporate non-claim items and adjustments

We have not modified the administrative cost assumptions from the original certifications. However, the final amended capitation rates are modified to include the impact of certain non-benefit items, such as an administrative allowance. Therefore, the per member per month non-benefit expenses included in the rates will vary from the original certifications as a result of the application of administrative costs and taxes as a percentage of the total capitation rate. The impact of the previously mentioned changes illustrated on a PMPM basis in Appendix 2 include the estimated change to administrative costs within the respective amounts.

Step 5: Development and issuance of actuarial certification

An actuarial certification is included and signed by Chris Pettit, FSA, a Principal and Consulting Actuary of Milliman's Indianapolis Health Practice. Mr. Pettit meets the qualification standards established by the American Academy of Actuaries and follows the practice standards established by the Actuarial Standards Board, in order to certify that the final rates meet the standards in 42 CFR §438.4(a). Please note that this certification is applicable for the April to September 2024 rating period.

IV. Limitations and Qualifications

The information contained in this letter, including the enclosures, has been prepared for the State of Michigan, Department of Health and Human Services and their consultants and advisors. It is our understanding that this letter may be utilized in a public document. To the extent that the information contained in this letter is provided to third parties, the letter should be distributed in its entirety. Any user of the data must possess a certain level of expertise in actuarial science and healthcare modeling so as not to misinterpret the data presented.

Milliman makes no representations or warranties regarding the contents of this letter to third parties. Likewise, third parties are instructed that they are to place no reliance upon this letter prepared for MDHHS by Milliman that would result in the creation of any duty or liability under any theory of law by Milliman or its employees to third parties.

In performing this analysis, we relied on data and other information provided by MDHHS and its vendors. We have not audited or verified this data and other information. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete.

Differences between our projections and actual amounts depend on the extent to which future experience conforms to the assumptions made for this analysis. It is certain that actual experience will not conform exactly to the assumptions used in this analysis. Actual amounts will differ from projected amounts to the extent that actual experience deviates from expected experience.

Milliman has developed certain models to estimate the values included in this report. The intent of the models was to develop actuarially sound capitation rates. We have reviewed the models, including their inputs, calculations, and outputs for consistency, reasonableness, and appropriateness to the intended purpose and in compliance with generally accepted actuarial practice and relevant actuarial standards of practice (ASOP).

The models rely on data and information as input to the models. We have relied upon certain data and information provided by MDHHS for this purpose and accepted it without audit. To the extent that the data and information provided is not accurate, or is not complete, the values provided in this report may likewise be inaccurate or incomplete.

The models, including all input, calculations, and output may not be appropriate for any other purpose.

Guidelines issued by the American Academy of Actuaries require actuaries to include their professional qualifications in all actuarial communications. The authors of this report are members of the American Academy of Actuaries and meet the qualification standards for performing the analyses in this report.

APPENDIX 1: ACTUARIAL CERTIFICATION

State of Michigan
Department of Health and Human Services
Medical Services Risk Based Managed Care Program
Capitation Rates Effective April 1, 2024 through September 30, 2024

Actuarial Certification

I, Christopher T. Pettit, am a Principal and Consulting Actuary with the firm of Milliman, Inc. I am a Member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. I meet the qualification standards established by the American Academy of Actuaries and have followed the standards of practice established by the Actuarial Standards Board. I have been employed by the State of Michigan and am generally familiar with the state-specific Medicaid program, eligibility rules, and benefit provisions.

The capitation rates provided with this certification are considered "actuarially sound" for purposes of 42 CFR 438.4(a), according to the following criteria:

- the capitation rates provide for all reasonable, appropriate, and attainable costs that are required under terms of the contract and for the operation of the MCO for the time period and population covered under the terms of the contract, and such capitation rates were developed in accordance with the requirements under 42 CFR 438.4(b).

For the purposes of this certification and consistent with the requirements under 42 CFR 438.4(a), "actuarial soundness" is defined as in ASOP 49:

"Medicaid capitation rates are "actuarially sound" if, for business for which the certification is being prepared and for the period covered by the certification, projected capitation rates and other revenue sources provide for all reasonable, appropriate, and attainable costs. For purposes of this definition, other revenue sources include, but are not limited to, expected reinsurance and governmental stop-loss cash flows, governmental risk-adjustment cash flows, and investment income. For purposes of this definition, costs include, but are not limited to, expected health benefits; health benefit settlement expenses; administrative expenses; the cost of capital, and government-mandated assessments, fees, and taxes."

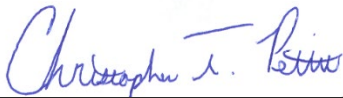
The assumptions used in the development of the "actuarially sound" capitation rates have been documented in my correspondence with the State of Michigan. The "actuarially sound" capitation rates that are associated with this certification are effective for the rate period April 1, 2024 through September 30, 2024.

The capitation rates are considered actuarially sound after adjustment for the amount of the withhold not expected to be earned.

The "actuarially sound" capitation rates are based on a projection of future events. Actual experience may be expected to vary from the experience assumed in the rates.

In developing the "actuarially sound" capitation rates, I have relied upon data and information provided by the State. I have relied upon the State for audit of the data. However, I did review the data for reasonableness and consistency.

The capitation rates developed may not be appropriate for any specific health plan. An individual health plan will need to review the rates in relation to the benefits that it will be obligated to provide. The health plan should evaluate the rates in the context of its own experience, expenses, capital and surplus, and profit requirements prior to agreeing to contract with the State. The health plan may require rates above, equal to, or below the "actuarially sound" capitation rates that are associated with this certification.



Chris Pettit, FSA
Member, American Academy of Actuaries

October 10, 2024
Date

**APPENDIX 2: APRIL TO SEPTEMBER 2024 CAPITATION RATE
DEVELOPMENT (PROVIDED SEPARATELY IN EXCEL)**

**APPENDIX 3: PROSPECTIVE ACTUARIAL MODELS (PROVIDED
SEPARATELY IN EXCEL)**



Milliman is among the world's largest providers of actuarial and related products and services. The firm has consulting practices in life insurance and financial services, property & casualty insurance, healthcare, and employee benefits. Founded in 1947, Milliman is an independent firm with offices in major cities around the globe.

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