

MILLIMAN CLIENT REPORT

April 2020 MI Health Link Capitation Rate Amendment

State of Michigan

Department of Health and Human Services

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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 MI Health Link program to be effective January 1, 2020. The rates being certified as actuarially sound are to be effective from January 1, 2020 and remain in effect through December 31, 2020. MI Health Link is Michigan's demonstration managed care program for the dual eligible (Medicare-Medicaid) population. This report provides amended CY 2020 actuarially sound capitation rates for the Medicaid component of the MI Health Link program and a summary of the methodology used in the development of the amended rates for the MI Health Link program with effective dates from April 1, 2020 through June 30, 2020. Starting July 1, 2020, the capitation rates will return to the original certified rates for CY 2020.

This report is an amendment to the capitation rate certification report developed for CY 2020 of the Medicaid component of the MI Health Link program. The previously certified capitation rates and the documentation of the development were published in the following correspondence (original certification) provided by Milliman:

- *CY 2020 MI Health Link Medicaid Certification Report* dated January 27, 2020

We have updated the capitation rates provided in the certification report to reflect the direct care wage (DCW) reimbursement increase for certain services that occurred during CY 2020 and was not reflected in the prior development of the CY 2020 capitation rates. **Unless otherwise stated, the methodology and assumptions utilized is consistent with the capitation certification documentation included in the original certification.**

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 are reasonable and comply with all applicable laws (statutes and regulations) for Medicaid managed care;
- The rate development process complies with all applicable laws (statutes and regulations) for the Medicaid program, including but not limited to eligibility, benefits, financing, any applicable waiver or demonstration requirements, and program integrity; and,
- The documentation is sufficient to demonstrate that the rate development process meets the requirements of 42 CFR 438 and generally accepted actuarial principles and practices.

II. Executive Summary

MDHHS is temporarily allowing flexibility to account for increased risk factors associated with COVID-19 in the rates paid to direct care wage (DCW) providers. This flexibility is applicable to authorized services billable to Community Living Supports services in which face-to-face contact is essential for beneficiary health and safety. The increase is being established as a \$2 per hour increase for hazard pay to DCW providers. Table 1 provides a comparison of the amended rates effective April 2020 through June 2020 relative to the rates originally certified for the CY 2020 time period. The rates in Table 1 are illustrated on a gross basis prior to adjustment for any amounts that are expected to be paid by the beneficiary and recouped by the nursing facilities. The rates in Table 1 reflect the mandatory 3% savings assumption prescribed by CMS and the state for demonstration year 5. The values for both current and April 2020 rates have been developed based on estimated average monthly enrollment for the CY 2020 time period.

TABLE 1: COMPARISON OF APRIL 2020 WITH CY 2020 RATES (PMPM RATES)

RATE CELL	AVERAGE MONTHLY ENROLLMENT	CALENDAR YEAR 2020 RATES	APRIL 2020 RATES	% CHANGE
Nursing Facility – Subtier A				
Over Age 65	1,150	\$6,671.48	\$6,673.48	0.0%
Under Age 65	240	\$5,888.57	\$5,893.23	0.1%
Nursing Facility – Subtier B				
Over Age 65	110	\$10,709.31	\$10,736.72	0.3%
Under Age 65	10	\$10,450.17	\$10,450.25	0.0%
Nursing Facility LOC-Waiver				
Over Age 65	900	\$2,370.50	\$2,573.42	8.6%
Under Age 65	1,010	\$2,894.21	\$3,121.86	7.9%
Community Residents				
Over Age 65	13,780	\$168.63	\$182.72	8.4%
Under Age 65	16,450	\$148.79	\$159.63	7.3%
Composite	33,650	\$600.17	\$623.69	3.9%

1. Composite rates were developed based on projected monthly enrollment for April 2020 to June 2020.
2. Values have been rounded.

Fiscal impact estimate

The estimated fiscal impact of the proposed temporary rate change documented in this report represents a \$2.4 million increase to aggregate expenditures, based on the rates noted in Table 1. These amounts are on a state and federal expenditure basis using the projected monthly enrollment for SFY 2020. Table 2 provides the development of estimated total expenditures, as well as federal only expenditures, under the current contracted capitation rates and the proposed April 2020 capitation rates illustrated in Table 1. The federal expenditures illustrated in Table 2 are based on a FMAP of 70.28% which reflects the Federal Fiscal Year 2020 FMAP of 64.06% with the additional 6.2% FMAP due to COVID-19.

TABLE 2: COMPARISON OF APRIL 2020 WITH CY 2020 RATES (\$ MILLIONS)

POPULATION	CY 2020 RATES	APRIL 2020 RATES	EXPENDITURE CHANGE
Nursing Facility-Subtier A	\$ 27.3	\$ 27.3	\$ 0.0
Nursing Facility-Subtier B	3.8	3.9	0.0
NFLOC – Waiver	15.2	16.4	1.2
Community Well	14.3	15.4	1.1
Total MI Health Link	\$ 60.6	\$ 63.0	\$ 2.4
Total Federal	42.6	44.2	1.7
Total State	18.0	18.7	0.7

Notes:

1. Composite rates were developed based on projected monthly enrollment for April 2020 to June 2020.
2. Values are rounded and illustrated in millions of dollars.
3. State expenditures based on Federal Fiscal Year (FFY) 2020 FMAP of 64.06% plus additional 6.2%.

III. Methodology

The methodology used in developing the amended April 2020 capitation rates is outlined below.

Step 1: Base Experience

We utilized the claims data underlying the CY 2020 capitation rates, as outlined in the original certification, 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.

Step 2: Adjustments for certain reimbursement and program changes

The experience was further adjusted for the following reimbursement changes that were implemented at April 1, 2020:

Direct Care Wages (DCW) adjustment

Effective April 1 through June 30, 2020, MDHHS increased reimbursement for direct care wage (DCW) services by \$2.00 per hour for hazard pay in response to the COVID-19 pandemic. Based on SFY 2018 experience, we determined that wage adjustment for DCW services would produce approximately a \$2.4 million increase for the three-month effective period. This was calculated by increasing historical reimbursement rates by \$2.00 per hour for individual home help providers, predominantly impacting the community well rate cells. The \$2.00 per hour increase was grossed up an additional 9.75% to account for the additional anticipated payments made by MDHHS for Federal Insurance Contributions Act (FICA) and Federal Unemployment Tax (FUTA). Additionally, the Nursing Facility LOC-Waiver population capitation rate cells were updated to include the amended April 2020 MI Choice capitation rates. The DCW hazard pay was estimated to increase the MI Choice capitation rates by 8.7%.

Appendix 2 provides the certified April 2020 through June 2020 capitation rates by rate cell and projected membership to estimate values for the rating period.

Step 3: 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 three months from April to June 2020. Capitation rates for the remainder of CY 2020 outside of this time period are consistent with the original January 27, 2020 certification report.

IV. Limitations and Qualifications

The services provided for this project were performed under the signed contract between Milliman and MDHHS approved September 13, 2019.

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.

We performed a limited review of the data used directly in our analysis for reasonableness and consistency and have not found material defects in the data. If there are material defects in the data, it is possible that they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable or for relationships that are materially inconsistent. Such a review was beyond the scope of our assignment.

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
MI Health Link Program
Capitation Rates Effective April 1, 2020 through June 30, 2020
Actuarial Certification

I, Christopher 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, Department of Health and Human Services, to perform an actuarial review and certification regarding the development of capitation rates for the MI Health Link program effective April 1, 2020. I 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).

Assessment of actuarial soundness, in the context of MI Health Link, should consider both Medicare and Medicaid contributions and the opportunities for efficiencies unique to an integrated care program. CMS considers the Medicaid actuarial soundness requirements to be flexible enough to consider efficiencies and savings that may be associated with Medicare. Therefore, CMS does not believe that a waiver of Medicaid actuarial soundness principles is necessary in the context of this Demonstration.

As allowed by ASOP 49 and ASOP 1 (Section 3.1.5), we relied upon a capitation rate setting methodology selected by another party. Specifically, we followed guidance prescribed by CMS in the Joint Rate-Setting Process for the Financial Alignment Initiative's Capitated Model (Joint Rate-Setting Process), updated April 25, 2017, for Medicare-Medicaid plans (MMPs) participating in the demonstration. The Joint Rate-Setting Process prescribes that projected baseline expenditures for the Medicaid component of the capitation rate must be estimated as if the demonstration did not exist. Additionally, an aggregate savings percentage must be applied to projected expenditures in compliance with percentages established by CMS and MDHHS for each year of the demonstration, as documented in the MOU.

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 calendar year 2020.

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 of Michigan. 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

May 21, 2020
Date

APPENDIX 2: APRIL 2020 CAPITATION RATE DEVELOPMENT

State of Michigan Department of Health and Human Services MI Health Link CY 2020 Capitation Rate Development Capitation Rate Change Summary			
	January 2020 Rates	DCW Wage Adjustment	April 2020 Rates
Nursing Subtier A			
Over 65	\$ 6,671.48	\$ 2.00	\$ 6,673.48
Under 65	5,888.57	4.67	5,893.23
Subtotal Nursing Subtier A	\$ 6,537.35	\$ 2.46	\$ 6,539.81
Nursing Subtier B			
Over 65	\$ 10,709.31	\$ 27.40	\$ 10,736.72
Under 65	10,450.17	0.08	10,450.25
Subtotal Nursing Subtier B	\$ 10,687.72	\$ 25.13	\$ 10,712.84
NF Level of Care			
Over 65	\$ 2,370.50	\$ 202.92	\$ 2,573.42
Under 65	2,894.21	227.65	3,121.86
Subtotal NF Level of Care	\$ 2,646.73	\$ 215.96	\$ 2,862.69
Community Well			
Over 65	\$ 168.63	\$ 14.08	\$ 182.72
Under 65	148.79	10.84	159.63
Subtotal Community Well	\$ 157.83	\$ 12.32	\$ 170.15
Total	\$ 600.17	\$ 23.52	\$ 623.69