

Comment #11 – 5/12/14 – 4:40 p.m.

Medicaid Managed-Care Capitation Rate Development and Certification

Note: I submitted the following comments through the ASB website using the requested comment form. I did not receive any confirmation that the comments had been properly delivered. I'm submitting this copy of our comments in case the form was not received at ASB. I apologize for the inconvenience.

General Comments:

Thank you for the opportunity to review and comment on the exposure draft. Our concerns are limited to a few instances where we believe the requirements are too prescriptive for the actuary developing the rates.

Section 2:

In the first sentence of Section 2.1, the meaning of the term "attainable" is not clear. It is our opinion that "reasonable and appropriate" is sufficient.

The last sentence of Section 2.1 would require the actuary to consider federal income taxes in determining actuarially sound rates. As written, this would require that, all other things being equal, the rates for a taxable entity be higher than those for a non-taxable entity. While that might be a reasonable conclusion under a specific set of circumstances, it does not seem appropriate to require it in all cases.

Please note that our reservations regarding the recognition of income tax do not apply in the case of an excise tax.

The last sentence of Section 2.1 requires the inclusion of the cost of capital in developing actuarially sound rates. The phrase "cost of capital" should be clearly defined in the ASOP.

Section 3:

Section 3.2.11.a.1. requires the actuary to consider various details of the MCO's status and structure in developing administrative expense assumptions. It is reasonable that an actuary may take these issues into consideration in rate setting. In our opinion, it would also be appropriate to include an administrative fee provision that assumes the MCO will provide administrative services in an efficient and cost effective manner, independent of MCO size, duration of participation or structure. We recommend that, for items i, ii and iii, the word "should" be replaced with "may."

Section 3.2.11.b. Please define "cost of capital" for purposes of the ASOP. Also, what is the meaning of "level of capital required?"

Section 3.2.11.c. would require the actuary to consider federal income taxes in the development of capitation rates. As notes above under Section 2.1, it is our opinion that it is inappropriate to require the recognition of federal income taxes in all cases. We recommend that the word "should" be replaced with "may."

Responses to Specific Questions from the Drafting Committee:

1. The ASOP should apply to both sets of actuaries.
2. The ASOP should apply to both Medicaid and CHIP.
3. As noted above, we have a few concerns with the definition.
4. Yes.
5. As noted in our comments above, there are several instances where the draft ASOP may go too far in prescribing the cost components that are deemed reasonable and appropriate.
6. Yes.
7. Yes.

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