

Comment #4 – 4/10/14 – 10:05 a.m.

I appreciate all of the thorough consideration and hard work that went into the development of this fine exposure draft. I believe it is appropriate for the ASOP to apply to MCO Medicaid actuaries, especially to clarify the acceptability of providing an actuarial certification in situations where the expected underwriting margin for a particular year is negative. I also agree that it should be applicable to CHIP programs as long as they are operating under the expectation that such rates are actuarially sound. Such is not necessarily the case for standalone CHIP programs.

Following are several comments on particular sections of the draft.

- 1) Section 2.1 – Should the definition of “actuarially sound” be revised to read “...revenue sources provide *in aggregate* for all...”? This would clarify that if one particular cost driver is discovered after initial rate development for which an explicit adjustment was not made, the certifying actuary could evaluate whether other pricing factors provide adequate cushion to cover this unforeseen driver.
- 2) Section 2.6 – Should “reduced cost sharing from State Plan levels” be added as an example of Enhanced Benefits that need to be excluded from data unless provided for by a waiver? (Section 3.2.5)
- 3) Section 3.2.5 – Should “in lieu of” services be defined or further clarified? There are many policy and regulatory considerations behind the appropriateness of including in lieu of services in rate development, and I think it would be good to at least clarify that it is not simply the actuary and the State making this determination.
- 4) Section 3.2.2 and 3.2.11.a.i – These sections imply that separate administrative loads should be developed for each rate cell. However, this conflicts with current practice in most programs I am aware of. This would likely require the establishment of fixed and variable loads for every rate cell. This could also impact risk adjustment calculations, with the variable portion of administration revenue being adjusted and the fixed portion not being adjusted. I would propose retaining the current guidance as issues to be considered, while adding language that allows the certifying actuary the flexibility to determine whether there are material variances in the rate cell mix of enrollees, either across MCOs or relative to expected for a particular MCO, that result in an inappropriate distribution of administrative revenue in the contract period for a particular MCO. If such variances are not present, it would not be required to develop separate fixed and variable administrative cost loads.
- 5) Section 3.2.9 – Should additional guidance be provided that requires the consideration of what categories of service will generate the particular levels of savings or increased costs? Should it be clarified that a particular level of non-medical loads does not in and of itself justify a managed care adjustment larger than the total non-medical load? I think the second issue is clearly implied in the language that states “...the adjustments should be attainable...” but it may still be beneficial to be explicit about this point.
- 6) Section 3.2.7.a.1 – I propose to expand the issue to read “certain claims *or a portion of provider payments* are not processed...” so as to include consideration for bulk retrospective provider payments such as “pay for performance” incentives that may not be attributable to particular claims.
- 7) Section 3.2.11.b – Should “cost of capital” be defined? Are cost of capital and “margin for risk or contingency” additive? Should the current capital levels of participating MCOs

influence the determination of targeted “underwriting gain”? This is a relatively undeveloped practice in capitation rate development, as most MCO staff, Medicaid agency staff, Medicaid actuaries and federal regulators simply have a common understanding of what range of targeted underwriting gains are typical and appropriate. If this ASOP will require a quantified link between capital and risk requirements to targeted underwriting gain, then additional practical guidance and possible methodologies should be developed in a timely manner.

- 8) Section 3.2.14 – I agree with the statement that capitation rates should reflect “the value of the portion of the withholds for targets that the MCOs can reasonably achieve.” However, this conflicts with consistent CMS requirement that rates be certified as actuarially sound assuming that none of the withhold is returned. While not necessarily something to be addressed within the ASOP, we should encourage education within our community about this issue and the requirement to adhere to Section 4.2.d (the second “d”) if this difference in assumptions is material.

Respectfully,
Michael Cook