

MERCER



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State of California – Medi-Cal Rate Development for Seniors and Persons with Disabilities (SPD)

Purpose

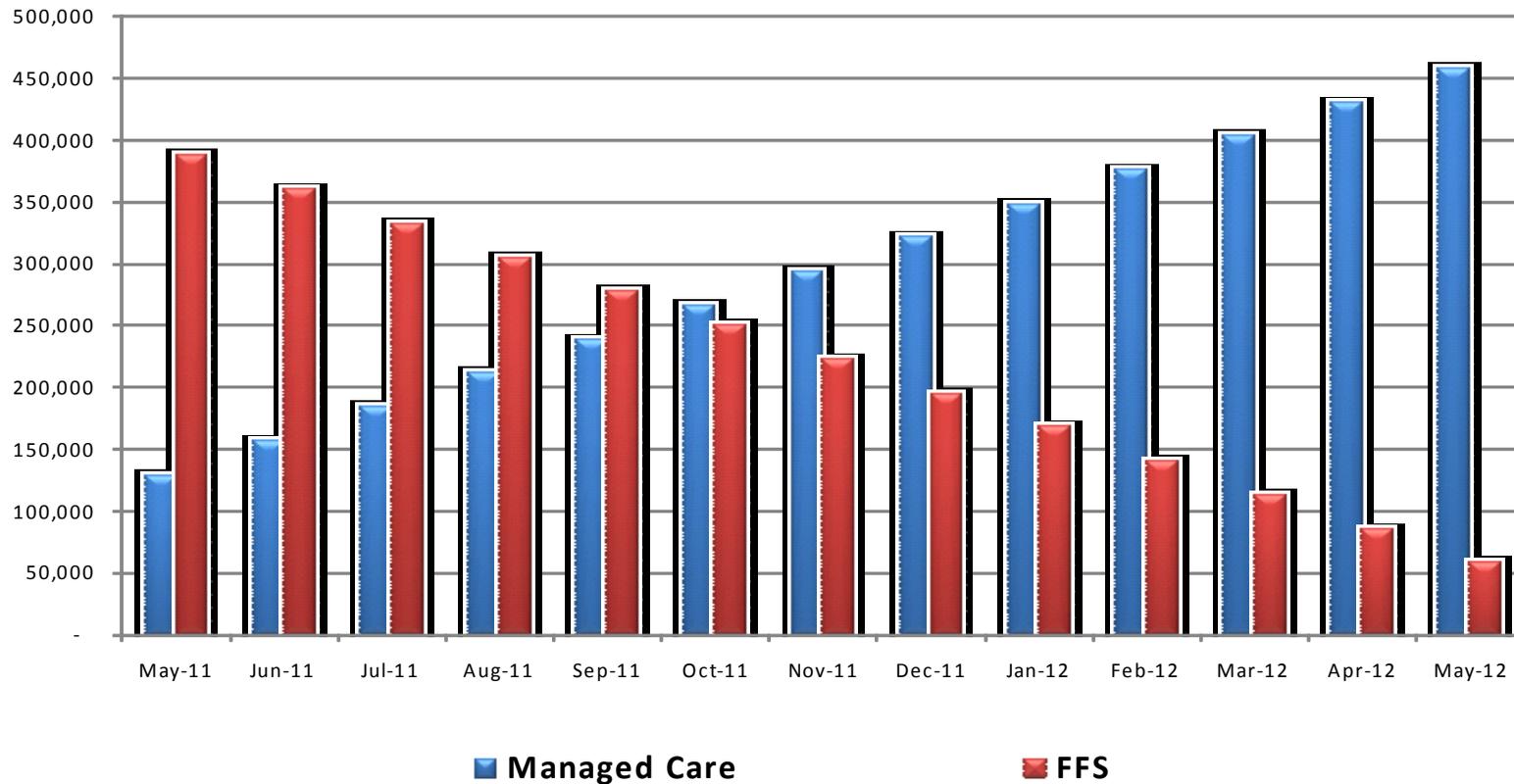
- This presentation is designed to walk through the SPD (Aged and Disabled) Medi-Cal Only rate development process. We will cover the following items:
 - Review background information regarding the upcoming mandatory SPD enrollment in Two-Plan and GMC counties
 - Present updated findings from the SPD risk comparison performed on FFS versus Managed Care enrolled members (based on 2009 data)
 - Review the FFS data pull criteria for 2008 and 2009
 - Discuss Managed Care adjustments applied to the FFS data (factors)
 - Highlight key assumptions and decision points
 - Present rate development process

Background

- Key information regarding the mandatory SPD transition
 - Aged and Disabled members that are Medi-Cal Only (i.e., non dual eligible members) will be mandatorily enrolled in managed care plans in Two-Plan and GMC counties
 - The effective date is currently scheduled to be June 1, 2011
 - Members will be phased into this mandatory enrollment based on their eligibility redetermination date (or month of birth) and the transition is currently scheduled to run for 12 months
 - All members will be given a choice of health plans
 - DHCS will attempt to assign members who do not “choose” a plan, based on their current provider relationships
 - Covered services will be the same as exists today in the Two-Plan and GMC models

Sample SPD Population Shift

Estimated Distribution of Aged/Disabled Medi-Cal Only Members with 12 Month Implementation*



* Assumption that 15% of Aged/Disabled Medi-Cal Only Members will remain in FFS.

FFS Versus Managed Care Acuity Study

- Mercer conducted a risk analysis comparing certain groups of the Medi-Cal Fee-for-Service (FFS) and Managed Care (MC) populations.
- The specific objective of this study was to understand whether the population of seniors and persons with disabilities (SPD) without Medicare coverage currently served by Medi-Cal MC plans in the Two-Plan model counties differs from the Medi-Cal SPD population enrolled in FFS and, if so, to understand these differences.
- Original study results were developed using CY2008 data and Medicaid Rx version 5.0.
- Results were updated using the most recent Medicaid Rx model (version 5.2) and more recent CY2009 data.
- Updated results support the original CY2008 study and show further increases in MC acuity compared to FFS.

Methodology

- Mercer utilized the Medicaid Rx risk adjustment model (similar to capitation rate development) to evaluate the SPD members' health acuity for FFS and MC members.
 - Medicaid Rx uses pharmacy data (determined to be the most accurate and complete source of claims-level information for the Medi-Cal Managed Care program) along with member demographic information to assign each member a “risk score” and any associated disease condition(s).
 - Individuals are then assigned to a health plan or FFS and aggregated to calculate an overall plan risk score for each county.
 - The Medicaid Rx model utilized in this study was developed by UCSD using Medi-Cal data and represents only Medi-Cal managed care covered benefits.
 - Version 5.2 includes the most recent and robust data, updated disease category mapping logic, and new National Drug Codes (NDCs) that have come on to the market.

Methodology

- This study was performed on members within the Two-Plan and GMC model counties.
- Health plan and FFS pharmacy data from January 1, 2008, through December 31, 2009 (CY08 & CY09) were utilized for the study. Dates of service correspond to the base period used in the SPD expansion rates development.
- Risk scores were developed for recipients with at least six months of Medi-Cal eligibility within the twelve-month study period (reducing any impact for underreporting of services).
- Results using a 12 month enrollment criteria were also generated and were very comparable to the results using the 6 month criteria.
- Members were assigned to a health plan or FFS using enrollment as of December 2008 for CY08 and December 2009 for CY09.

Conclusions

- MC members have a higher disease burden in the majority (10/12) of the Two-Plan counties, indicating that FFS is not serving members with a higher disease burden.
- Both the FFS and MC programs have very similar disease conditions for their respective populations that are driving the overall health acuity within each program.

Two-Plan Counties Combined CY2008-CY2009	MC Risk Score Relative to FFS
Alameda	1.080
Contra Costa	1.122
Fresno	1.123
Kern	1.027
Los Angeles	0.946
Riverside	1.050
San Bernardino	1.031
San Francisco	0.939
San Joaquin	1.017
Santa Clara	1.034
Stanislaus	1.106
Tulare	1.126
Two Plan Total	1.015

Conclusions

- FFS members have a higher disease burden in both GMC Model counties.
- MC penetration rates are slightly higher in GMC versus Two-Plan.
- The Two-Plan and GMC combined results indicate that the MC population's acuity was 100.4% of the FFS population, showing that very similar risk is enrolled within the two population groups in aggregate.

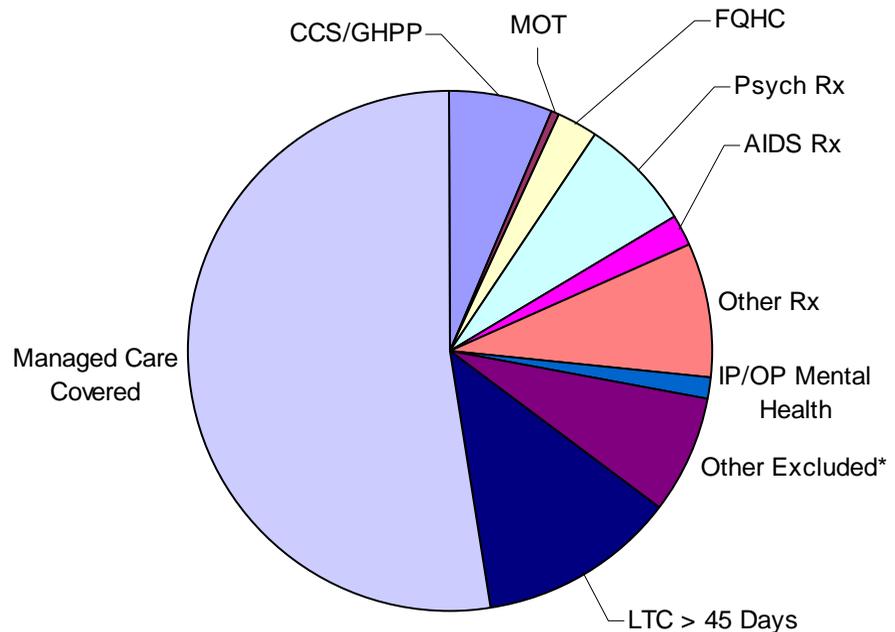
GMC Counties Combined CY2008-CY2009	MC Risk Score Relative to FFS
San Diego	0.905
Sacramento	0.985
GMC Total	0.945

Translating FFS Data

- Mercer pulled all calendar year 2008 and 2009 claims data for SPDs that were FFS enrolled. Much of the FFS data is for services that are not covered and/or is not otherwise a current fit for managed care rate development. The pie chart below is a graphical representation (sample only) of what portion of the FFS experience would translate to Managed Care “covered” services:

All Raw FFS PMPM	\$996
+3 Month FFS PMPM	\$961
FFS less non-MC covered PMPM	\$505

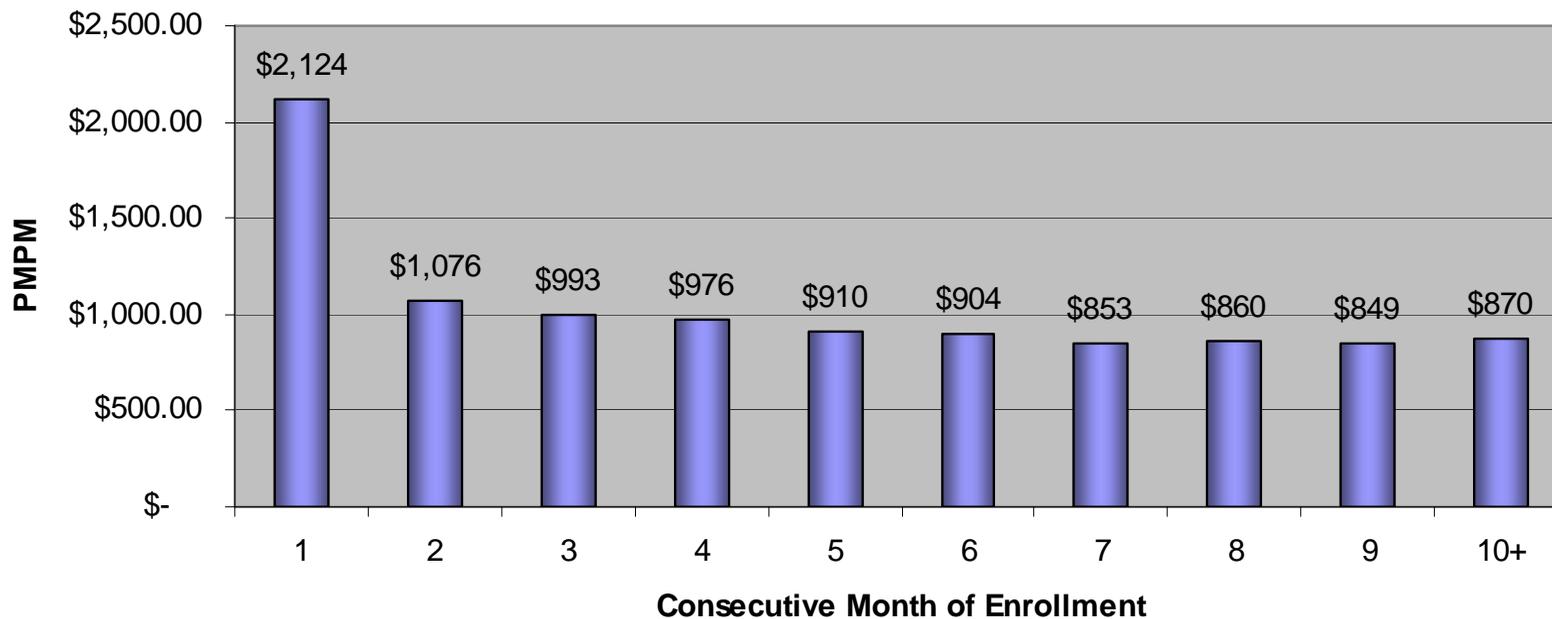
Two Plan SPD Summary - Over 3 Months



Translating FFS Data (continued)

- FFS claims data includes costs for retroactive time periods of enrollment as well as prospective enrollment segments that will remain FFS. Only data for individuals enrolled in FFS for over 3 months is used, thereby excluding the initial high cost months observed for new FFS enrollees. The starting point (no excluded services) for the over 3 month members was \$961 PMPM.

PMPM by Consecutive Month of Enrollment in FFS SPD



Translating FFS Data (continued)

- Data translation issues include (all figures are approximate):
 - CCS claims will not be covered. The amount/proportion of CCS claims will likely increase under managed care (\$55 PMPM)
 - GHPP claims will not be covered in Two-Plan counties. The amount/proportion of GHPP claims will likely increase under managed care (\$6 PMPM)
 - LTC (i.e., SNF) services are overstated compared to what will occur under managed care. In managed care counties health plans are only responsible for coverage of LTC days for the month of and one month after admission. After this, the member is moved to a LTC COA group and removed from managed care. But, in FFS, there is no rush to identify these people and get their COA group changed. So, we see far more LTC days in the FFS experience than will happen in managed care (\$115 PMPM)

Translating FFS Data (continued)

- Major Organ Transplant services will not be covered (\$5 PMPM)
- Pharmacy dispensing fee under FFS is \$7.25 per script, whereas it is typically less than \$2.00 per script under managed care (\$14 PMPM)
- The brand generic mix under FFS is approximately 39%/61% versus a brand generic mix of approximately 22%/78% under managed care (\$57 PMPM)
- The generic pricing under FFS was historically far less aggressive than managed care (\$9 PMPM)
- Psychotropic and AIDS drugs will not be covered by most plans under managed care (\$86)

Translating FFS Data (continued)

- Mental health and dental services provided by FQHCs will not be covered by managed care (\$3 PMPM)
- FQHC wrap-around payments will not be made by managed care plans – they are required to pay FQHC providers at the market rate for other providers of similar services (\$21 PMPM)
- Mental health I/P, OP, and Psychiatrist services will not be covered by most plans under managed care. In addition, miscellaneous other services (HCBS, dental, TCM, Home Health, other) will not be covered by managed care plans (\$83 PMPM)
- Costs for some SPD members with AIDS will be carved out and covered under the AIDS COA group in Two-Plan counties (unknown PMPM)

Discussion of Other Managed Care Adjustments

- In addition to the difference in covered services discussed above, Mercer would expect to see some changes and/or shifts in utilization patterns under managed care as compared to FFS.
- Reduced I/P utilization and increased I/P unit cost
- Reduced ER utilization and increased ER unit cost
- Increased PCP and Specialist utilization and reduced PCP unit cost
- Pharmacy utilization and mix changes
- With new administrative requirements being placed on health plans, additional funding has been built into the capitation rates to address this (i.e., a higher administrative percent for this COA group)

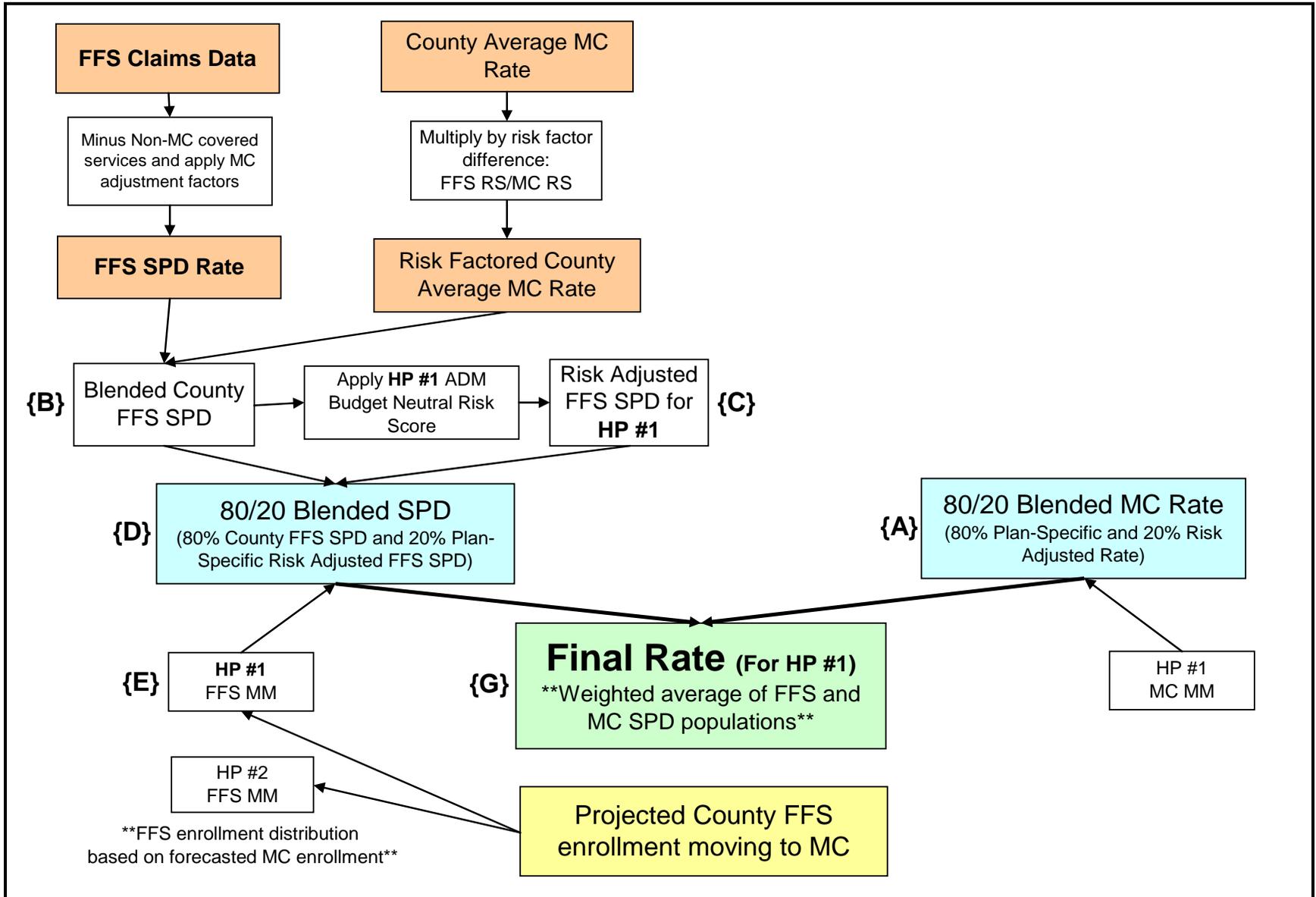
Relevant Concepts For SPD Rate Development

- The managed care penetration rate has been steadily increasing over time for the SPD population in the Two-Plan and GMC counties.
- In total, the SPD population enrolled in managed care has similar acuity and disease cost drivers as the SPD population enrolled in FFS in the Two-Plan and GMC counties.
- The Two-Plan and GMC Medi-Cal health plans have an existing network and related cost structure (e.g., contracted provider rates) that serve their current SPD enrolled members.
- We assume health plans will continue to attract their current proportion of county SPD membership.
- We assume health plans will continue to attract risk consistent with their current attraction patterns by county.

SPD Rate Development Approach

- Mercer took two independent approaches to build a FFS member SPD rate by county, then blended the results (50/50).
 - Used FFS claims data with adjustments for non-covered services and managed care adjustments
 - Used existing county-average managed care rates and risk adjusted back to a FFS member rate (using the risk score relativity of managed care vs. FFS in the county)
- Applied 80/20 risk adjustment to this blended FFS population rate to develop plan-specific FFS population rate.
- Blended the plan-specific FFS population rate with the current plan-specific 80/20 risk adjusted SPD rate.
- See flow chart on the following page.

SPD Rate Calculation Process Overview



SPD Rate Summary Exhibit

XYZ Health Plan - SPD Rates Process Detail

(June 01, 2011 - September 30, 2011)

Existing MC SPD Population - 12 Month Rates Summary

Category of Aid	Risk Factor*	Proj. MMs (4 Mo) & Deliveries	MERCER DEVELOPED RATES		
			Lower Bound	Midpoint	Upper Bound
Aged/Disabled/Medi-Cal Only		40,000	\$485	\$500	\$515
County Aged/Disabled/Medi-Cal Only		50,000	\$466	\$480	\$494
County Rates w/ 100% Risk Adjustment	1.0500		\$489	\$504	\$519
{A} 80/20 Blend of Plan-Specific/Risk Adj.			\$486	\$501	\$516
Maternity		12	\$5,728	\$5,900	\$6,077
Composite PMPM		40,000	\$488	\$503	\$518
Total Revenue			\$19,517,282	\$20,102,800	\$20,705,884

New SPD Population - 4 Month Rates Summary

Category of Aid	Risk Factor*	Proj. MMs (4 Mo) & Deliveries	MERCER DEVELOPED RATES		
			Lower Bound	Midpoint	Upper Bound
{B} County Aged/Disabled/Medi-Cal Only New SPD		15,000	\$505	\$520	\$536
{C} County Rates w/ 100% Risk Adjustment	1.0500		\$530	\$546	\$562
{D} 80/20 Blend of New SPD Rate			\$510	\$525	\$541
{E} Plan Distribution of New SPD		12,000			
{F} Maternity		3	\$5,728	\$5,900	\$6,077
Composite PMPM		12,000	\$511	\$527	\$542
Total Revenue			\$6,136,019	\$6,320,100	\$6,509,703

Blended SPD - 4 Month Rates Summary (Prior to AB 1422)

Category of Aid	Risk Factor*	Proj. MMs (4 Mo) & Deliveries	MERCER DEVELOPED RATES		
			Lower Bound	Midpoint	Upper Bound
{A} 80/20 Blend of Plan-Specific/Risk Adj.		40,000	\$486	\$501	\$516
{D} 80/20 Blend of New SPD Rate		12,000	\$510	\$525	\$541
{G} Aged/Disabled/Medi-Cal Only		52,000	\$492	\$506	\$522
Maternity		15	\$5,728	\$5,900	\$6,077
Composite PMPM		52,000	\$493	\$508	\$523
Total Revenue			\$25,653,301	\$26,422,900	\$27,215,587
Change from existing MC rates		30.0%	1.1%	1.1%	1.1%

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