



State of California—Health and Human Services Agency
Department of Health Care Services



DAVID MAXWELL-JOLLY
Director

ARNOLD SCHWARZENEGGER
Governor

November 30, 2010
Ms. Margaret Liston, Chief
Financial Management Section

Revision to original certification dated August 3, 2009, and revision dated January 21, 2010

Dear Ms. Liston,

The California Department of Health Care Services (DHCS) was tasked with the development of actuarially sound capitation rate ranges for the County Organized Health Systems (COHS) contracts for the period July 1 2009 through June 30 2010 (FY 09/10). I was the lead Actuary for the FY 09/10 COHS capitation rate process. The revised rate ranges reflect the impact of a legislated policy change implemented by DHCS with an effective date of April 1, 2009, and also other updated program changes not reflected in the original rates but applicable to the rating period. The actuarially sound rate ranges accompanying this letter reflect adjusted rate ranges applicable for all of FY 09/10. Previously, DHCS developed FY 09/10 actuarially sound rate ranges and I provided you with a rate development and certification letter dated August 3, 2009, and exhibits detailing the FY 09/10 rate ranges. These rates were further revised on January 21, 2010, for changes to the San Mateo contract. The revised rate ranges that are the subject of this letter reflect the impact of updates associated with the legislative change caused by AB 1653 and other updated program changes. The overall rate-setting methodology used in the development of these further-revised actuarially sound rate ranges has not changed from the method utilized in the original and subsequently revised FY 09/10 rate range development.

This letter presents an overview of the analyses and methodology DHCS and Mercer used in revising the managed care rate range development for FY09/10.

Rate methodology

Overview

The revised capitation rate ranges for the DHCS COHS managed care program were developed in accordance with rate-setting guidelines established by the Centers for Medicare and Medicaid Services (CMS).

Base data

There have been no changes made to the base data in the development of the revised rate ranges. If desired, please refer to the August 3, 2009, certification letter for more detail related to the development of the base data.

Other elements

There have also been no changes made to the category of aid groupings, smoothing methods, trends, prior program changes analyses (with the exception of items noted below), the rate range modeling approach, risk-adjustment application or the application of AB 1422.

Revisions

Hospital reimbursement increases

As mentioned previously, DHCS is implementing a newly legislated policy change (AB 1653 or QAF) with an effective date of April 1, 2009. This change is increasing the Medi-Cal fee-for-service (FFS) inpatient payment levels in total approximately 40% and the Medi-Cal FFS outpatient hospital and emergency room payment levels in total approximately 92%. The associated managed care service category increases, being implemented at approximately 60% of the FFS increase levels, are applied to the managed care inpatient, outpatient hospital and emergency room unit costs. The specific program change for inpatient unit costs is 23.9% and the program change for outpatient hospital and emergency room unit costs is 54.7%.

Because of the size of these increases to the hospital unit costs within the capitation rates, the administrative costs and underwriting profit/risk/contingency per member per month (PMPM) amounts were maintained at the levels established after the implementation of the updated program changes noted below.

Updated program changes

Because the program changes were being updated to incorporate the impact of the hospital reimbursement increases, other program changes were also reviewed for potential updates. There were two main updates. The most significant change (for all plans except San Mateo) was the removal of an assumed 5% fee increase that had been applied to the LTC category of care as of 8/2009. The 5% assumption was changed to zero. For the COHS programs, which are responsible for all LTC services, this is a significant amount. This change reduced payments to COHS plans by about 1% - 1.2%. San Mateo was unaffected because the original 5% assumed increase was not placed into the San Mateo "with LTC" rates.

The other significant change was related to the modification of the provider payment reduction assumption, to more accurately reflect all of the court injunction activity that impacted these program changes. The prior program changes also did not include the impact of the discontinuation of adult optional benefits that became effective July 1, 2009. The impact of this change was a decrease of about 0.3% across all plans.

Rate range certification

In preparing the rate ranges described, I have used and relied upon enrollment, eligibility, claim, reimbursement level, benefit design, and financial data and information supplied by our staff at DHCS and by the COHS plans. DHCS staff has reviewed the data and information for internal consistency and reasonableness, but we did not audit it. I relied on Mercer for the reasonableness, appropriateness, and amounts of the QAF payments. In my opinion the data used for the rate development process is appropriate for the intended purposes. If the data and information are incomplete or inaccurate, the values shown in this report and associated exhibits may need to be revised accordingly.

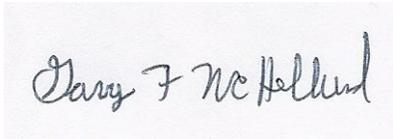
I certify that the COHS FY 09/10 rate ranges were developed in accordance with generally accepted actuarial practices and principles. I am an actuary meeting the qualification standards of the American Academy of Actuaries for the populations and services covered under the managed care contract.

Rate ranges are actuarial projections of future contingent events. Actual results will differ from these projections. DHCS has developed these rate ranges and payment amounts to demonstrate compliance with the CMS

requirements under 42 CFR § 438.6(c) and in accordance with applicable law and regulations. MCOs are advised that the use of these rate ranges, or the resulting final rates within these ranges, may not be appropriate for their particular circumstance and DHCS disclaims any responsibility for the use of these rate ranges or rates by the MCOs for any purpose. DHCS recommends that any MCO considering contracting with DHCS should analyze its own projected medical expense, administrative expense and any other premium needs for comparison to these rate ranges and resulting rates before deciding whether to contract with DHCS. Use of these rate ranges and resulting rates for any purpose beyond that stated may not be appropriate. I also certify that the additional payment amounts, for QAF, IGT, and MRMIB Tax, were appropriately added to the COHS FY 09/10 capitation payment rates.

MCOs are advised that the use of these rate ranges may not be appropriate for their particular circumstance and DHCS disclaims any responsibility for the use of these rate ranges by MCOs for any purpose. We recommend that any MCO considering contracting with DHCS should analyze its own projected medical expense, administrative expense and any other premium needs for comparison to these rate ranges before deciding whether to contract with DHCS.

This certification letter assumes the reader is familiar with the Medi-Cal program, Medi-Cal eligibility rules and actuarial rating techniques. It is intended for DHCS and CMS, and should not be relied upon by third parties. Other readers should seek the advice of actuaries or other qualified professionals competent in the area of actuarial rate projections to understand the technical nature of these results.

A handwritten signature in cursive script that reads "Gary F. McHolland". The signature is written in black ink on a light-colored background.

Gary F. McHolland, A.S.A., M.A.A.A.