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December 8, 2021

Subject: Revised SCAN Health Plan Capitation Rate Development and Certification for January 1, 2021 through December 31, 2021 (CY 2021).

Dear Rafael Davtian:

The California Department of Health Care Services (DHCS) contracted with Mercer Government Human Services Consulting (Mercer) to develop actuarially sound capitation rates for use during the CY 2021 rating period for SCAN Health Plan (SCAN) beneficiaries. The CY 2021 period encompasses the period of January 1, 2021 through December 31, 2021. The original capitation rates were developed by Mercer and certified in a report dated December 18, 2020 (please see the attached document: *SCAN CY 2021 Rate Certification Report 20201218.pdf*). This certification revision accounts for the following change:

- Consideration of pricing pressures related to the 10% fee increase for long-term care (LTC) facilities for the full 12 months of the CY 2021 rating period rather than assuming six months of applicability.

These revised capitation rates are applicable to the entirety of CY 2021. No other assumptions were revised as compared to the original certification dated December 18, 2020.

The attachment included as part of the rate certification package has also been updated from the original certification to reflect this change. This attachment includes summaries of the CY 2021 capitation rates (including the final and certified capitation rates) and capitation rate calculation sheet (CRCS) exhibits that provide more detail around rate development components. This attachment is referenced throughout the body of this report. The final capitation rates by county and population can be found in the attached file, listed below:

- CY2021 SCAN Rates 2021 12.xlsx

This revision describes the updates that were made and provides the certification of actuarial soundness required by 42 CFR §438.4. This revision was developed to provide the requisite

rate documentation to DHCS and to support the Centers for Medicare & Medicaid Services (CMS) rate review process.

Across all counties and populations for SCAN, the revised CY 2021 capitation rates at the lower bound represent a 0.94% increase when compared to the original certified CY 2021 capitation rates at the lower bound.

General

Please refer to the original December 18, 2020 certification for general information related to SCAN including the following elements:

- Program history
- Covered services
- Covered populations
- Rate structure
- Federal Medical Assistance Percentage (FMAP)
- Rate methodology overview

The information provided in this section should be supplemented with the SCAN contract information for additional detail.

Data

Base Data

There are no changes to the base data in the development of the revised CY 2021 capitation rates. For more detail related to the development of the base data, please refer to the original December 18, 2020 certification.

Projected Benefit Costs and Trends

Trend

There have been no changes made to the annualized trend percentages used to develop the projected benefit costs for CY 2021. Please see the original December 18, 2020 certification for more detail related to the development of these assumptions.

Program Changes

There were no new program changes applied in the development of the revised CY 2021 capitation rates. Unless otherwise stated, there were no revisions to the program changes applied in the development of the projected benefit costs for CY 2021. For more details related to these elements of rate development, please refer to the original December 18, 2020 certification.

Long-Term Care Rate Changes

Rate increases for LTC services are largely handled through a program change adjustment and are based on legislatively mandated fee-for-service rate increases, including annual rate increases. In addition, DHCS implemented a 10% fee increase for LTC facilities effective for the duration of the public health emergency declared by the Secretary of Health and Human Services for Coronavirus Disease 2019 (COVID-19), beginning March 1, 2020, which is anticipated to produce corresponding pricing pressures in the managed care delivery system. The underlying assumption in the original certified rates was that this increase would be applicable for six months of the CY 2021 rating period. For the revised capitation rates contained herein, the underlying assumption is that this increase will be applicable for the entirety of the CY 2021 rating period.

No changes were made to the other LTC fee increases contained within the adjustment. Please see the original December 18, 2020 certification for further detail.

Projected Non-Benefit Costs

There have been no changes made to the administration loads or underwriting gain loads to develop the projected non-benefit costs for CY 2021. For more details related to these elements of rate development, please refer to the original December 18, 2020 certification.

Special Contract Provisions Related to Payment

Unless otherwise stated, there have been no changes made to special contract provisions related to payment in the development of the revised capitation rates. For more detail associated with special contract provisions related to payment, please refer to the original December 18, 2020 certification.

COVID-19 Vaccination Incentive Program

COVID-19 vaccination incentive payments are being utilized to encourage vaccinations among Medi-Cal's beneficiaries. The new program to boost COVID-19 vaccination rates will allow Medi-Cal MCOs to earn incentive payments for activities that are designed to close vaccination gaps with their enrolled members, based upon lessons learned thus far in the pandemic. MCOs provide case and care management services for Medi-Cal members and are well positioned to provide enhanced coordination services, partner with primary care providers, and conduct outreach for vaccine distribution to their members. The vaccination incentive program will also encourage significantly expanded outreach in underserved communities.

Funding will incentivize outreach programs and activities by MCOs and their providers, particularly primary care providers and pharmacies, as well as engagement with trusted community organizations, such as food banks, advocacy groups, and faith-based organizations.

The vaccination incentive program will run from September 2021 through February 2022. The funding for these incentives that will be paid in accordance with 42 CFR §438.6(b) will not exceed \$250 million across all applicable managed care contracts and certifications. The total incentive payments will not exceed 5% of the capitation rates under each contract. The vaccination incentive program has no effect on the development of capitation rates.

Additional detail regarding the vaccination incentive program is available through the managed care contract, All Plan Letter 21-010¹ and any subsequent revisions, and similar instruction issued to MCOs.

¹ All Plan Letter 21-010 and supplemental Attachment A are available at <https://www.dhcs.ca.gov/Documents/COVID-19/APL-21-010-Vaccine-Incentive.pdf> and <https://www.dhcs.ca.gov/Documents/COVID-19/APL-21-010-Attachment-A-Vaccination-Incentive-Program-Outcome-Metrics.pdf>, respectively.

Certification and Final Rates

This certification assumes items in the Medicaid State Plan or Waiver, as well as the SCAN contract, have been approved by CMS.

In preparing the capitation rates described, Mercer has used and relied upon enrollment, eligibility, claim, reimbursement level, benefit design, and financial data and information supplied by DHCS and its vendors. DHCS and its vendors are solely responsible for the validity and completeness of this supplied data and information. Mercer has reviewed the summarized data and information for internal consistency and reasonableness, but we did not audit it. In Mercer's opinion, it is appropriate for the intended rate setting purposes. However, if the data and information are incomplete or inaccurate, the values shown in this report and associated exhibits may differ significantly from values that would be obtained with accurate and complete information; this may require a later revision to this report.

Because modeling all aspects of a situation or scenario is not possible or practical, Mercer may use summary information, estimates, or simplifications of calculations to facilitate the modeling of future events in an efficient and cost effective manner. Mercer may also exclude factors or data that are immaterial in our judgment. Use of such simplifying techniques does not, in our judgment, affect the reasonableness, appropriateness, or attainability of the results for the Medicaid program. Actuarial assumptions may also be changed from one certification period to the next because of changes in mandated requirements, program experience, changes in expectations about the future, and other factors. A change in assumptions is not an indication that prior assumptions were unreasonable, inappropriate, or unattainable when they were made.

Mercer certifies that the revised SCAN capitation rates for the CY 2021 rating period, January 1, 2021 through December 31, 2021, were developed in accordance with generally accepted actuarial practices and principles, and are appropriate for the Medi-Cal covered populations and services under the managed care contract. Capitation rates are "actuarially sound" if, for the 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 undersigned actuaries are members of the American Academy of Actuaries and meet its qualification standards to certify to the actuarial soundness of these Medicaid managed care capitation rates.

Capitation rates developed by Mercer are actuarial projections of future contingent events. All estimates are based upon the information and data available at a point in time, and are subject to unforeseen and random events. Therefore, any projection must be interpreted as having a likely, and potentially wide, range of variability from the estimate. Any estimate or projection may not be used or relied upon by any other party or for any other purpose than for which it was issued by Mercer. Mercer is not responsible for the consequences of any unauthorized use. Actual SCAN costs will differ from these projections. Mercer has developed these rates on behalf of DHCS to demonstrate compliance with the CMS requirements under 42 CFR §438.4 and in accordance with applicable law and regulations. There are no stop-loss, reinsurance, or incentive arrangements in these rates. Use of these rates for any purpose beyond that stated may not be appropriate.

SCAN is advised that the use of these rates may not be appropriate for their particular circumstance, and Mercer disclaims any responsibility for the use of these rates by SCAN for any purpose. Mercer recommends that as SCAN considers contracting with DHCS, SCAN should analyze its own projected medical expense, administrative expense, and any other premium needs for comparison to these rates before deciding whether to contract with DHCS.

DHCS understands that Mercer is not engaged in the practice of law, or in providing advice on taxation matters. This report, which may include commenting on legal or taxation issues or regulations, does not constitute and is not a substitute for legal or taxation advice. Accordingly, Mercer recommends that DHCS secure the advice of competent legal and taxation counsel with respect to any legal or taxation matters related to this report or otherwise.

This certification assumes the reader is familiar with the Medi-Cal program, Medi-Cal eligibility rules, and actuarial rating techniques. It has been prepared exclusively 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. Mercer is not responsible for, and expressly disclaims liability for, any reliance on this report by third parties.

DHCS agrees to notify Mercer within 30 days of receipt of this report if it disagrees with anything contained in this report or is aware of any information or data that would affect the results of this document that has not been communicated or provided to Mercer or incorporated herein. The document will be deemed final and acceptable to DHCS if nothing is received by Mercer within such 30-day period.

If you have any questions on the above or the certification document, please feel free to contact Mike Nordstrom at mike.nordstrom@mercer.com, or Jie Savage at jie.savage@mercer.com.

Sincerely,



Michael E. Nordstrom, ASA, MAAA
Partner



Jie Savage, ASA, MAAA
Senior Associate