Mercer

Government Human Services Consulting

AIDS Healthcare Foundation

Capitation Rate Development and Certification Amendment

State of California
Department of Health Care Services
Capitated Rates Development Division

August 2, 2023

Contents

1. Executive Summary 1

2. Overview 2

3. All Rate-Setting Elements Not Addressed Herein 2

4. Revision — Long-Term Care Rate Changes....3

5. Revision — Hospice Rate Changes 3

6. Revision — Major Organ Transplants 3

7. Revision — Pass-through Payments....4

8. Certification and Final Rates 5

Section 1

Executive Summary

The California Department of Health Care Services (DHCS) contracted with Mercer Government Human Services Consulting (Mercer), part of Mercer Health & Benefits LLC, to develop actuarially sound capitation rates, and to certify to final contracted capitation rates for the AIDS Healthcare Foundation (AHF) for use during the calendar year (CY) 2022 rating period. The original capitation rates were developed by Mercer and certified in a report dated December 2021, (please see the attached document: *CY 2022 AIDS Healthcare Foundation (AHF) Certification Letter 2021 12.pdf*). Subsequent to the submission of this report, revisions to the capitation rates were needed for the following items:

- Revisions related to the Coronavirus Disease 2019 (COVID-19) Public Health Emergency (PHE)
  - Implementation of a 10% unit cost increase for long-term care (LTC) services (including Hospice) due to the fee schedule increase during the PHE.
  - Adjustments due to the extension of the PHE halting disenrollments:
    - Pass-through Payments
- Revisions not related to the COVID-19 PHE
  - An update to the Major Organ Transplant (MOT) add-on to reflect finalized case rates.

Please see the attached documents detailing the revised rates for the CY 2022 rating period:

- CY 2022 AIDS Healthcare Foundation (AHF) Revised Cert Report 2023 08.pdf
- CY 2022 AIDS Healthcare Foundation (AHF) Revised Cert Report 2023 08.docx
- Amended CY 2022 AIDS Healthcare Foundation Rates 2023 04.xlsm
- CY 2022 Private Hospital DMPH IP HQAF Pass-through 2023 04.pdf
- CY 2022 Private Hospital OP ER HQAF Pass-through 2023 04.pdf
- CY 2022 MLK IP Pass-through 2023 04.pdf

All other rating-elements not addressed in this revision remain unchanged from the CY 2022 capitation rates delivered previously.

This revision describes the updates 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 AHF populations, the revised CY 2022 capitation rates represent a 0.1% decrease when compared to the original certified CY 2022 AHF capitation rates that included all rate add-ons.

Overview

The revised capitation rates for AHF were developed in accordance with rate-setting guidelines established by CMS and include the changes described in this revision letter. Highlights of the changes are described for the various rate components in the remainder of this revision letter.

All Rate-Setting Elements Not Addressed Herein

There have been no changes made to any rate-setting components not addressed in this revision. For more detail related to these unchanged elements of the certification, please refer to the original December 2021 certification report and its corresponding supporting documents.

Section 2
Revisions

Long-Term Care Rate Changes — Revision

Rate increases for LTC services are largely handled through a program change adjustment and are based on legislatively mandated fee-for-service (FFS) rate increases, including annual rate increases. In addition, DHCS implemented a 10% fee increase for LTC facilities effective for the duration of the PHE declared by the Secretary of Health and Human Services for 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 not be applicable for the CY 2022 rating period. For all revised capitation rates contained herein, the underlying assumption is that this increase will be applicable for the entirety of the CY 2022 rating period.

Hospice Rate Changes — Revision

Similar to the LTC category of service (COS), unit cost trend factors were not developed for the Hospice COS. Instead, Hospice price increases are handled through a program change adjustment and are based on legislatively mandated annual FFS rate increases for Hospice room and board. In addition, DHCS implemented a 10% fee increase for LTC facility room and board rates (including for Hospice facilities) effective for the duration of the PHE declared by the Secretary of Health and Human Services for COVID-19, beginning March 1, 2020, which is anticipated to produce corresponding pricing pressures in the managed care delivery system. Like the LTC rate changes mentioned above, the underlying assumption in the original certified rates was this increase would not be applicable for the CY 2022 rating period. For all revised capitation rates contained herein, the underlying assumption is this increase will be applicable for the entirety of the CY 2022 rating period.

Major Organ Transplants — Revision

DHCS implemented a State directed payment under 42 CFR §438.6(c) to providers for transplant surgeries transitioning from FFS to managed care in Two-Plan, Geographic Managed Care, and Regional counties. The directed payment directs managed care organizations (MCOs) to pay hospitals at levels consistent with those paid in the Medi-Cal FFS delivery system.

For the State directed payment, DHCS set CY 2022 case rates for the University of California (UC) hospital system. The CY 2022 MOT add-on rates were updated to reflect finalized UC case rates as the case rates included in the directed payment were finalized after the start of the rating period. As the UC cases rates are meant to cover only costs for the transplant event itself, which was defined as costs incurred during the inpatient stay of the transplant surgery, only the MOT event portion of the

add-on rates were adjusted. Pre- and post-transplant period costs were not adjusted. Upon review of the FFS data used for the add-on rate development, it was determined adjustments were needed for Heart, Lung, Liver, and Intestine transplants to align payment rates with the finalized UC case rates for CY 2022.

Pass-through Payments — Revision

As described in detail in the original certification letter, the following hospital pass-through payment per member per month (PMPM) add-on amounts were estimated as a uniform percentage increase to the estimated share of the capitation rate gross medical expenditure PMPMs for the applicable COS attributable to the applicable hospital class(es). These estimates resulted in total expenditures projected across applicable rate cells for the 12-month rating period matching a targeted amount for each pass-through payment. As mentioned above, the original CY 2022 projected enrollment was based on an assumed PHE end date of December 2021. As the PHE was extended beyond CY 2022, actual CY 2022 enrollment was significantly higher than projected. The Pass-through payment add-on PMPMs were re-calculated to use actual CY 2022 enrollment and reflect the revised gross medical expenditure PMPM components, adjusted as described earlier within this certification amendment. Mercer updated the uniform percentage increase for each of the hospital pass-through payment programs such that the total expenditures returned to the original targeted amounts. The updated enrollment resulted in the re-calculated PMPM to decrease from the original certification, as mentioned above in the Executive Summary. No other assumptions were revised. The following pass-through payment add-ons were revised, and the detailed build-up of the add-ons are provided in various attachments:

- Private hospital quality assurance fee (HQAF) and District and Municipal Public Hospitals (DMPHs) — Detailed in Exhibit A CY 2022 Private Hospital DMPH IP HQAF Pass-through 2023.04.pdf and Exhibit B CY 2022 Private Hospital OP ER HQAF Pass-through 2023.04.pdf.
- Martin Luther King Jr. Community Hospital (MLK) Inpatient component of the Los Angeles County Seniors and Persons with Disabilities and Affordable Care Act Expansion rate cells — Detailed in Exhibit C MLK IP Pass-through 2023.04.pdf.

Section 3
Certification and Final Rates

This certification assumes items in the Medicaid State Plan or Waiver, as well as the MCO 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, its MCOs, and its vendors. DHCS, its MCOs, 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 capitation rates, for CY 2022, January 1, 2022 through December 31, 2022, 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. Collectively, 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 MCO 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.

MCOs are 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 MCOs for any purpose. Mercer 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 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 report 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 report that has not been communicated or provided to Mercer or incorporated herein. The report 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 report, please feel free to contact Samantha Callender at samantha.callender@mercer.com or Rodney Armstrong at rodney.armstrong@mercer.com.

Sincerely,

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Samantha Callender, ASA, MAAA
Senior Associate

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Rodney Armstrong, ASA, MAAA
Principal

Mercer Health & Benefits LLC
2325 East Camelback Road, Suite 600
Phoenix, AZ 85016
www.mercer-government.mercer.com

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