Mercer

Government Human Services Consulting

SCAN Health Plan

Capitation Rate Development and Certification Amendment

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

April 24, 2023

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Contents

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 for SCAN Health Plan (SCAN) 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 17, 2021 (please see the attached document *CA SCAN CY 2022 Rate Certification 20211217.pdf*). Subsequent to the submission of the original rate certification report, revisions to the capitation rates were needed for the following item related to the 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.

In addition, documentation of an incentive program with a January 1, 2022 implementation date was inadvertently omitted from the original rate certification report. This revision letter provides the description of this incentive program that should have been included in Section VI Special Contract Provisions Related to Payment of the original rate certification report. This update has no impact on the capitation rates.

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

- Amended CY 2022 SCAN Rates 2023.04.24.xlsx

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

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, the revised lower bound CY 2022 SCAN capitation rates represent a 1.9% increase when compared to the original certified CY 2022 SCAN capitation rates at the lower bound.

Overview

The revised SCAN capitation rates 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 17, 2021 certification report and its corresponding supporting documents.

Revision — Program Changes

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 PHE declared by the Secretary of Health and Human Services for Coronavirus Disease 2019, 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

Similar to the LTC category of service, unit cost trend factors were not developed for the Hospice category of service. Instead, Hospice price increases are handled through a program change adjustment and are based on legislatively mandated annual fee-for-service 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 Coronavirus Disease 2019, 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.

Revision — Incentive Arrangements

Housing and Homelessness Incentive Program

As part of the State's overarching home- and community-based services spending plan, the State implemented the Housing and Homelessness Incentive Program (HHIP) during CY 2022 which provides incentive payments to MCOs for the achievement of specified metrics and milestones. The total maximum incentive funding that may be earned across all participating MCOs over the full duration of the program is $1.3 billion. The HHIP has no effect on the development of capitation rates.

The purpose of HHIP is to address homelessness. MCOs would be able to earn incentive payments for making investments and progress in addressing homelessness and keeping people housed. MCOs would have to meet specified metrics in order to receive available incentive payments. As a condition of participations, MCOs would be expected to develop, in partnership with local public health jurisdictions, county behavioral health, public hospitals, county social services, and local housing departments, and submit a Local Homelessness Plan to DHCS. The Local Homelessness Plan must include, among other elements:

- A housing and services gaps/needs assessment;
- Mapping the continuum of services with focus on homelessness prevention, interim housing (particularly for the aging and/or disabled population), rapid re-housing (families and youth), and permanent supportive housing;
- Available services, how referrals will be made, how other local, state, and federal funding streams will be leveraged, and how progress will be tracked towards goals; and
- How CalAIM services are integrated into homeless system of care.

The HHIP will be for a fixed period of two program years (PYs):

- PY 1 will be January 1, 2022 through December 31, 2022, which aligns with California's CY 2022 rating period.
- PY 2 will be January 1, 2023 through December 31, 2023, which will align with California's CY 2023 rating period.

The enrollees covered by the HHIP include, but are not limited, to: aging adults, individuals with disabilities, individuals with serious mental illness and/or substance use disorder (SUD) needs at risk for, or transitioning from incarceration, hospitalization, or institutionalization, families, individuals reentering from incarceration, homeless adults, chronically homeless individuals, persons who have/had been deemed (felony) incompetent to stand trial, Lanterman-Petris Short Act designated individuals, and veterans.

The providers covered by HHIP include but are not limited to public health departments, county behavioral health, public hospitals, and others.

Additional detail regarding the HHIP is available through the managed care contract, APL 22-007 and any subsequent revisions, and similar instructions issued to MCOs[1].

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 CY 2022 rating period, 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 SCAN 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

1 All Plan Letter 22-007. Available at https://www.dhcs.ca.gov/formsandpubs/Documents/MMCDAPLsandPolicyLetters/APL2022/APL22-007.pdf

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 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 SCAN 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 Mike Nordstrom at mike.nordstrom@mercer.com or Jie Savage at jie.savage@mercer.com.

Sincerely,

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Michael E. Nordstrom, ASA, MAAA

Partner

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Jie Savage, ASA, MAAA

Senior Associate

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