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Actuarial Certification for Administración de Seguros de Salud

Mental Health Premium Rates for Mi Salud Program: July 1, 2012 through June 30, 2013

I, Susan E. Pantely, Principal and Consulting Actuary, am an employee of Milliman, Inc. Consultants and Actuaries. I am a Member of the American Academy of Actuaries, and meet its Qualification Standards for issuing Actuarial Statements of Opinion for Medicaid premium rate development. I have been retained by Administración de Seguros de Salud (ASES) to develop the mental health premium rates for the Mi Salud program for the period July 1, 2012 through June 30, 2013. This memorandum has been prepared in conformity with all applicable Actuarial Standards of Practice, including ASOP no. 8.

In developing the premium rates, I relied on data provided by ASES and managed care organizations under the Government Health Insurance program (GHIP) regarding:

- Claims incurred January 2009 through May 2012.
- Data concerning capitations, administrative costs, and other program costs for the period January 2009 through April 2012.

The conclusions reached as a result of my review are contingent on the accuracy of the data provided. The data was used without independent audit, having been evaluated for reasonableness and consistency by comparing to financial statements and other control totals reported by the managed care organizations. To the extent that the underlying data and information is inaccurate, the premium rates certified here may also be inaccurate.

The premium rates were developed based on GHIP claims, utilization and membership data, and include allowance only for benefits covered under the Mi Salud program. Adjustments were made to account for such factors as medical trend and incomplete data. Separate rates were not developed by other categories including age, gender, or eligibility category, consistent with past practice. Demographic profiles for regions studied previously did not vary materially, and the adjustments would be modest relative to the capitation rate developed. Use of the single rate approach is considered actuarially sound.

I hereby certify that, to the best of my knowledge and judgment, the methodologies used to develop the per member per month (PMPM) premium rates for the Mi Salud program are



appropriate and developed in accordance with generally accepted actuarial principles and practices and should produce rates that are not excessive, inadequate, or unfairly discriminatory in relation to benefits. The capitation rate is appropriate for the populations to be covered and the services furnished under the contract. The premium rates are actuarially sound and comply with 42 CFR 438.6 (c). The premium rates established are developed in Attachment 1.

This certification is intended for ASES and CMS and should not be relied on by other parties. The reader should be advised by actuaries or other professionals competent in the area of actuarial projections of the type in this certification, so as to properly interpret the projection results.

It should be emphasized that premium rates are a projection of future costs based on a set of assumptions. These assumptions may not be appropriate for all organizations. Each organization should consider a number of factors, including but not limited to, provider contracts, medical management, and administrative requirements. Actual experience will differ from projected amounts to the extent that the actual experience deviates from the projected experience.

This opinion has been prepared specifically for the Mi Salud program rates and may not be appropriate for other purposes.

A handwritten signature in black ink that reads "Susan E. Pantely".

Susan E. Pantely, FSA, MAAA

August 1, 2012

415-394-3756

Overview of the Rate Setting Methodology

Under the Mi Salud program, mental health services are carved out and negotiated separately from Physical Health. Projected expenditures under the contract are approximately \$138,845,000. This is approximately a 7.5% increase on a per member per month (pmpm) basis.

A single capitation rate has been calculated for the eight distinct regions: East, Southeast, West, North, San Juan, Metro North, Northeast, and Southwest plus the Virtual region. Mental health services within a region are provided by one MBHO, APS Healthcare. As the regions reflect large stable populations, the capitation rate development does not explicitly consider age, gender or eligibility category.

Milliman has relied on the following data sources as provided by Administración de Seguros de Salud (ASES):

- Detailed claim-level covering the period January 2009 through April 2012. This information was used to prepare claims lag reports (monthly paid claims by month of service) and to generate actuarial cost models by type of service (inpatient, outpatient, etc.).
- Monthly enrollment for the period January 2009 through April 2012.
- Information from the carrier regarding net capitated payment rates.
- Financial Reports as reported by the carrier.
- Incurred claims as reported by the carrier.

Although the above data was reviewed for reasonableness, Milliman did not audit the data. After accumulating all of the information to be used in the rate setting process, a comparison of the various sources of claims data was performed to check for consistency. We compared (i) the claim lag reports provided by the HMOs, (ii) the claim amounts reported by ASES and (iii) the claim amounts in the financial statements. There was satisfactory consistency between the three claims data sources.

The actuarial model used to derive the July 1, 2012 to June 30, 2013 (Contract Period) mental health premium rate relies primarily on plan experience. The historical claims experience by region for the Mi Salud program was analyzed and actuarial cost models for the Base Period (March 2011 through April 2012) were developed. The Base Period reflects services that are both eligible State Plan services and provided to members eligible for Mi Salud. (Checklist AA2.0)

There are no programmatic or benefit changes from the Base Period to the Contract Period July 2012 – June 2013. (AA3.11)

We had historical claims paid through April 2012. We reviewed the historical claims lag triangles by region, separately for prescription drugs and non-prescription drugs. Claims were completed based on historical payment patterns. The completion factors vary for prescription drug / non-prescription drug claims. (Checklist AA3.14)

The analysis of Base Period claims experience attempted to identify and adjust for any distortions in the data. Significant variations in experience, including the impact from unusually large individual claims, were investigated. No adjustments for large claims were deemed necessary. (Checklist AA5.0)

Trend Factors

The rating methodology uses trend factors to adjust the Base Period claims cost to the projection period. The cost trend factors used in this analysis are a combination of utilization and inflation components. We developed the projected cost trend rate assumptions based on an analysis of recent experience and professional judgment regarding future cost increases.

The annual trend for mental health prescription drugs was set at 2.6%. Mental health fee-for-service non-prescription drug claims were assumed to be the same as the Base Period. APS will incur additional fee-for-service non-prescription drug related to the co-location requirement. We assumed these additional expenses would be offset by savings in fee-for-service inpatient and outpatient services.

The capitation rate was increased for the additional capitation related to the inclusion of the state hospital (Checklist AA3.11)

Administrative Fees and Risk Margin

The rating methodology includes an explicit provision for administrative services. The amount allocated for administrative expenses for Mental Health is 7.5% of premium plus 1.5% for risk margin.

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Certified Rates

Attachment 1 to this report provides a buildup of the calculation of the certified Mental Health Rates by Region. These rates are only appropriate for the July 1, 2012 to June 30, 2013.

Attachment 1

Development of Actuarially Certified Rates

Mental Health

Mental Health - APS		
July 1, 2012 - June 30, 2013 Rate Development		
		<u>Total</u>
✓ (1)	Base Period FFS Non-Rx PMPM April 2011 - March 2012	\$1.64
✓ (2)	Completion Factor	0.972
✓ (3)	Completed Base Period FFS non-Rx PMPM (1) / (2)	\$1.69
✓ (4)	Annual Trend	0%
✓ (5)	Projected FFS Non-Rx (3) x [1+ (4) ^(15/12)] *	\$1.69
✓ (6)	Base Period FFS Rx PMPM April 2011 - March 2012 (w/o buprenorphine)	\$2.77
✓ (7)	Completion Factor	0.996
✓ (8)	Completed Base Period FFS Rx PMPM (6) / (7)	\$2.78
✓ (9)	Annual Trend	2.6%
✓ (10)	Buprenorphine	\$0.35
✓ (11)	Projected FFS Rx (8) x [1+ (9) ^(15/12)] +(10)	\$3.23
✓ (12)	Base Period Capitation PMPM (April 2011 - Mar 2012)	\$2.76
✓ (13)	AMSSCA PMPM Addition	\$0.03
✓ (14)	Projected Capitation PMPM (12) + (13)	\$2.79
✓ (15)	Projected Medical Cost PMPM (5) + (11) + (14)	\$7.70
✓ (16)	Administrative Expenses (7.5% of Premium)	\$0.64
✓ (17)	Risk Charge (1.5% of Premium)	\$0.13
✓ (18)	Contracted Rate PMPM	\$8.47
* Assumes increased cost of co-location will be offset by decrease in FFS Non-Rx claims.		