State of Iowa

PACE Program AWOP Methodology Letter

July 1, 2023 – June 30, 2024 AWOP

CBIZ Optumas
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CBIZ Optumas
7400 East McDonald Drive, Suite 101
Scottsdale AZ 85250
480.588.2499 main

July 25, 2023

Ms. Elizabeth Matney
Medicaid Director
Iowa Medicaid
Department of Health and Human Services
1305 East Walnut Street
Des Moines, IA 50319-0114

Subject: SFY24 IA PACE AWOP Development

Dear Ms. Matney:

In partnership with the Iowa Department of Health and Human Services (DHHS), CBIZ Optumas (Optumas) developed the amount that would otherwise have been paid (AWOP) for the State's Program of All-Inclusive Care for the Elderly (PACE) for the contract period July 1, 2023 through June 30, 2024 (SFY24). This letter provides an overview of the methodology used in determining the PACE AWOPs.

Sincerely,

Barry Jordan, FSA, MAAA
Director/Consulting Actuary, CBIZ Optumas

CC: Joanne Bush, DHHS
Jared Nason, CBIZ Optumas
Cliff Morrison, CBIZ Optumas
Marshall Dupree, CBIZ Optumas

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1. Background

The Program of All-Inclusive Care for the Elderly (PACE) is a unique long-term care model in that it uses a multi-disciplinary team to assess the needs of each member and deliver a comprehensive array of member services. Iowa's PACE program currently operates within 4 regions of the state: Ida and Sioux, Immanuel Central, Immanuel Western, and Siouxland. Immanuel Pathways and Siouxland PACE Inc. are the two PACE Organizations (POs) that operate within the program. PACE eligibility requirements include:

- Member must meet the state's criteria for nursing home level of care;
- Member must be at least 55 years of age;
- Member must live in an area that offers PACE; and
- Member must have the ability to live safely in the community.

Development of PACE AWOPs and rates must conform to the Centers for Medicare and Medicaid Services (CMS) PACE AWOP checklist (see Appendix I). As of April 2016, the vast majority of Iowa Medicaid members receive all services, inclusive of LTSS, through the IA Health Link managed care program. To align with CMS' requirements, the Upper Payment Limit (UPL) is developed as an amount that would otherwise have been paid (AWOP) if the State's PACE program did not exist. If Iowa's PACE program did not exist, these members would be enrolled within the IA Health Link managed care program. As such, Optumas first developed the AWOP using experience for the Nursing Facility and Waiver populations within IA Health Link, with an additional amount added to reflect the impact of patient liability, such that the AWOP is developed to be gross patient liability. Once the AWOP has been developed using experience from the PACE comparable population from the IA Health Link managed care experience, DHHS selects a payment rate as a percentage of the AWOP. The PACE payment rate is consistent with CMS' requirements that the full risk capitation payment to the PACE Organization (PO) must be less than the AWOP.

The remainder of this document further describes the process used to develop the AWOPs and corresponding rates.

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2. Overview of Methodology

As the consulting actuaries to DHHS, Optumas ensured that the methodology used to develop the SFY24 PACE AWOPs complies with the Centers for Medicare & Medicaid Services (CMS) PACE UPL checklist and the PACE Medicaid Rate Setting Guide released in December 2015.

Optumas developed the AWOP using experience for the Nursing Facility and Waiver populations within the IA Health Link Medicaid program. As such, rating adjustments described in the SFY24 PACE AWOP methodology letter below leverage the existing adjustments developed for the SFY24 Health Link rates, since absent the PACE program, PACE members would be enrolled in the IA Health Link Medicaid program.

2.1 Eligibility Categories

The State provided guidance as to which populations would be eligible for PACE had they not been enrolled within the IA Health Link program. These populations are those that meet the State's Nursing Home level of care criteria. The following IA Health Link rating cohorts meet this eligibility criteria:

- Custodial Care Nursing Facility 65+
- Custodial Care Nursing Facility <65
- Dual HCBS Waivers
- Elderly HCBS Waiver
- Non-Dual HCBS Waivers

To address questions posed by CMS in prior cycles related to the consideration of gender in the development of rate cells, Optumas relied upon the rating cohort structure inherent in the IA Health Link program for the applicable LTSS populations as the basis for AWOP development, which do not vary by gender. These are the cohorts current PACE members would be assigned to in IA Health Link if the PACE program did not exist.

For purposes of PACE AWOP development, the IA Health Link populations are grouped to form the following four cohorts:

- Facility <65 (Custodial Care Nursing Facility <65)
- Waiver <65 (Dual HCBS Waivers & Non-Dual HCBS Waivers)
- Facility 65+ (Custodial Care Nursing Facility 65+)
- Waiver 65+ (Elderly HCBS Waiver)

Adjustments to the experience for each of these cohorts are further described in this document.

2.2 Categories of Service

Optumas summarized the IA Health Link SFY22 encounter data into the following categories of service (COS) in the AWOP development, which is consistent with the COS used in the development of the IA Health Link capitation rates:

Table 1. Categories of Service

Categories of Service (COS)	
Behavioral Health – Inpatient	Laboratory (Lab)/Radiology (Rad)
Behavioral Health – Outpatient	Nursing Home and Hospice
Behavioral Health – Professional	Other Care
Day Services	Other Home- and Community-Based (HCBS) Services
Durable Medical Equipment (DME)/Prosthetics	Outpatient – Emergency Room
Family Planning	Outpatient – Non-Emergency Room
Federally-Qualified Health Center (FQHC)/Rural Health Center (RHC)	Outpatient – Professional
Home Health	Pharmacy
Intermediate Care Facility for the Intellectually Disabled (ICF/ID)	Professional Office
Inpatient	Transportation
Inpatient – Professional	Waiver

2.3 Adjustments

Consistent with the IA Health Link rate development, adjustments were made to the encounter data to reflect incurred but not reported (IBNR) expenditures, applicable policy changes, trend, non-medical load, and IA Health Link supplemental payments. Additionally, an adjustment was made to incorporate costs for dental services, which are covered outside of IA Health Link through the separate Dental Wellness Plan (DWP) program. These adjustments are discussed in detail in section 3 of this report.

2.4 Regional Analysis

To allow for credible data sizes and given that the IA Health Link capitation rates are developed on a statewide basis, Optumas summarized statewide encounter data. Region specific AWOPs were then developed by multiplying the statewide PMPMs by a regional factor to arrive at 16 separate PMPMs (<65 and 65+ PMPM for each region, split by Institutional and Waiver). The

regional analysis methodology is discussed in more detail in section 4 of this report. The Waiver and Institutional PMPMs are blended based on the membership mix present in the base data for enrollees 55+, which is developed on a statewide basis.

PACE AWOPs were developed for separate regions by rating cohorts using methodology that is consistent with the Centers for Medicare & Medicaid Services' (CMS) PACE UPL Checklist and Guidance published in December 2015. After region-specific AWOPs by cohort were developed, payment rates less than the AWOP were determined by DHHS.

3. Base Data and Adjustments

3.1 Base Data Description/Adjustments

The following data sources noted in Table 2, below, were provided by the State and used in the development of the PACE AWOP and rate calculations:

Table 2. IA PACE Data Sources

Data Type	Data Source	Level of Detail	Start Date	End Date
Health Link Encounters	Iowa Medicaid MMIS	Detailed	4/1/2016	1/31/2023
Health Link Enrollment	Iowa Medicaid	Detailed	4/1/2016	1/31/2023
Health Link Financial Template (Encounters, other medical-related costs, admin, and enrollment)	Iowa Medicaid/ Health Link MCOs	Summarized	4/1/2016	12/31/2022

As part of the SFY24 IA Health Link capitation rate development, Optumas received detailed IA Health Link encounter data from the program's inception through January 31, 2023. Consistent with the IA Health Link rate development process, Optumas used SFY22 incurred claims as the base data to develop the AWOPs. Additionally, Optumas used IA Health Link eligibility data for SFY22 in the development of the SFY24 IA Health Link rates. Note that this data excludes any retro eligibility per IA Health Link policy; therefore, since this data forms the basis for the rates used in the development of the AWOP, the AWOP is developed exclusive of retro enrollment. The AWOPs are developed using the IA Health Link rating cohorts previously described in Section 2.1.

Optumas then reviewed the data completion patterns and developed an IBNR adjustment to ensure completion of the base time period. Optumas developed MCO-specific Reporting/IBNR adjustments by comparing the raw non-subcapitated SFY22 encounter data to the MCO reported financials inclusive of MCO-reported IBNR estimates. The combined Reporting/IBNR adjustment was applied in aggregate for each MCO's SFY22 base data experience to reconcile these data sources and to ensure the data was complete for AWOP development. Optumas also reviewed the base data encounters longitudinally by month, by COS and cohort, and determined that there were no gaps or spikes within the base data that required data smoothing adjustments.

Payments for subcapitated expenditures outside of the encounter data, as well as incentive/settlement payments not present in the encounter data are detailed in the MCO

financial templates. Optumas worked with the MCOs and DHHS to identify these payment amounts within the financial templates and to interpret these payments and ensure they are reflected appropriately, by service and population, in the base data. The application of these adjustments ensures that the data sources appropriately reflect the experience for the PACE-comparable populations enrolled in the IA Health Link program in SFY22.

For additional context, the following are the three categories of payments included, along with examples of payments within each category:

- Provider Contracting: enhanced provider contracting fees based on the number of providers within a provider organization that contracts with an MCO and shared savings arrangements based on quality criteria outlined in provider contracts
- Provider Quality Incentives: pay for performance measures based on efficiency and quality metrics for various provider types such as integrated health homes, primary care physicians, nursing facilities, and behavioral health providers
- Provider Settlements: cost settlements outside of the claims system associated with various provider types such as community mental health facilities, dental providers, hospital systems, and DME providers

Note that the incentive payments being referred to above exist within IA Health Link program and are reflective of arrangements that the MCOs have with providers, not dictated by the State. These are included to capture the total health care related expenditures inherent within the IA Health Link program. There is no incentive arrangement in place between DHHS and the POs, and therefore the POs do not have the opportunity to earn revenue from DHHS over and above the PACE capitation rates.

The impact of the IBNR/reporting adjustment and the addition of subcapitated and incentive/settlement payments can be found in Appendix II, Exhibit I.

The base data included within the AWOP development consists of the experience for the IA Health Link program for rating cohorts containing members who meet the eligibility criteria for PACE. The data includes statewide experience for populations <55; this approach has been taken to maintain consistency with the fact that these members are also included in the comparable rate cells in the IA Health Link program. This methodology is developed with the understanding that if the PACE program did not exist, the Health Link capitation rate for a specific member’s cohort would be the amount paid for that member. Optumas recognizes the difference in needs for those 55+ and observed that the primary driver of the differences in cost between the overall institutional/waiver population that is under 65, and the 55+ subset of that population who are aged 55-64, is the difference in the institutional vs. waiver mix, with a significant increase in the institutional mix for those 55+. As a result, when developing an

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appropriate blend between institutional and waiver for PACE purposes, only the underlying mix of institutional/waiver members 55+ was used. Additionally, the regional factors described later in this document are developed only for those enrollees who reside in regions in which a PACE organization currently exists and are limited to those members who are 55+.

DSH payments are excluded from the IA Health Link capitation rates, and therefore are not included in the base data for the IA Health Link program used to develop the AWOP. The IA Health Link capitation rates, which are used as the basis for the AWOP, reflect claims paid by the MCOs which exclude any third-party liability payments. The full encounter rates paid to FQHC/RHCs is included within the capitation rates for the IA Health Link program, and therefore the base data for IA Health Link that served as the base for the AWOP. No additional settlement amounts for FQHC/RHCs are included.

3.2 Program Changes

Since PACE capitation payment amounts must be less than the amount that would otherwise have been paid under the State plan if the participants were not enrolled in the PACE program, the SFY24 PACE AWOP is developed in a manner that includes the program changes incorporated into the development of the IA Health Link capitation rates. A description of the program changes impacting the specific populations used to develop the PACE AWOPs is included below. Note that any reference to total dollar amounts in these descriptions are applicable to the overall IA Health Link program and therefore will not reflect the value of the impact to the AWOP development. Impacts of each program change can be found in Appendix II, Exhibit II.

FQHC, RHC, and IHS Repricing

New Federally Qualified Health Center (FQHC) and Rural Health Center (RHC) PPS rates, as well as Indian Health Service (IHS) encounter rates have gone into effect since the SFY22 base data time period. Consistent with prior cycles of rate development, the SFY22 base data encounters were repriced to reflect the most recent known payment rates for FQHCs, RHCs, and IHS facilities. An estimate was also applied for the rate changes that will occur midway through the contract period on January 1, 2024.

HH LUPA Repricing

Effective July 1, 2022, services impacted by the Home Health Low Utilization Payment Adjustment (HH LUPA) for rural providers received a 16.88% rate increase as a result of the SFY23 legislative appropriations. DHHS provided Optumas with the updated HH LUPA rates by provider and revenue code. Consistent with prior cycles of rate development, the applicable SFY22 base data encounters were repriced to reflect the most recent known payment rates for HH LUPA services.

ICF/ID Repricing

Rates for Intermediate Care Facilities for Individuals with Intellectual Disabilities (ICF/ID) are updated annually. The most recent changes to the rate schedule at the time of rate development include rates that are effective July 1, 2023. The SFY22 base data ICF/ID encounters were repriced to reflect the SFY24 rates that will be paid during the contract period.

NF Repricing

Rates for Nursing Facilities (NFs) are periodically updated with quarterly adjustments made based on the acuity of the members present. Effective April 1, 2023, the State updated the base rate per diems and Quality Assurance Assessment Fee (QAAF) for Nursing Facility services as a result of legislative appropriations. Optumas relied on the updated Nursing Facility provider-specific rates provided by DHHS and repriced the Nursing Facility experience underlying the SFY22 base data so the NF service reimbursement reflects the rates that will be in effect during the SFY24 contract period.

IHH Repricing

Integrated Health Home (IHH) rates vary between adult and child recipients, with or without intensive care management needs. Effective January 1, 2022, IHH rates (procedure code 99490) changed for the various tiers, identified by procedure code modifier. Optumas repriced the SFY22 base data IHH experience to reflect the rates that will be in effect during the SFY24 contract period for each IHH tier (adult/child and ICM/Non-ICM combination).

Behavioral Health Intervention Services (BHIS) Repricing

Effective July 1, 2022, BHIS received a 20.6% rate increase as a result of the legislative appropriations. DHHS provided Optumas with the list of all applicable provider types, procedure codes, and modifiers that will receive the reimbursement increase. Optumas repriced the SFY22 base data BHIS experience to reflect the rates that will be in effect during the SFY24 contract period.

HCBS Rate Increase

Effective July 1, 2022, all HCBS, including Home-Based Habilitation services, received a 4.25% increase in reimbursement associated with ARPA funding. This increase in reimbursement is associated with one of the CMS approved policies in Iowa's ARPA HCBS spending plan aiming to improve workforce support. DHHS provided Optumas with the list of all applicable procedure codes and modifiers that received the reimbursement increase. Optumas identified these services within the SFY22 base data encounters and applied the increase in reimbursement to account for the ARPA-related appropriations.

Long-Term NF Service Coverage

Long-Term Nursing Facility (NF) stays are covered under the Iowa Health Link program. DHHS recently released additional policy guidance clarifying the coverage of these services for certain populations. Optumas reviewed SFY22 denied claim data provided by the State and MCOs and determined that a portion of these claims will be accepted under the new policy guidance. As a result, it is expected that the SFY24 contract period will have higher utilization of these services than what underlies the SFY22 base data experience, and the denied claims expenditures were used to estimate the rating impact.

COVID-19 Meals

Effective March 13, 2020, DHHS and the MCOs began authorizing and paying claims for service expansions of home delivered meals, homemaker services, and companion services for members who meet certain eligibility criteria for populations that are more susceptible to COVID-19 such as the HCBS Waiver members, members receiving Habilitation Services, and Medicaid members who are home bound. The COVID-19 service expansions were effective through the duration of the Public Health Emergency (PHE) proclamation. With the PHE ending on May 11, 2023, the State issued updated policy guidance to remove the expanded coverage of these services for the state plan 1915(i) HCBS Habilitation program and the 1915(c) HCBS waivers which had been in effect during the PHE. Of the services expanded, only the home delivered meals showed an increase in utilization within the SFY22 period relative to pre-COVID experience. As a result, Optumas identified the excess home delivered meals, by procedure code, to be removed from the SFY22 base data encounters, but no adjustment was applied for the homemaker and companion services.

COVID-19 Testing

Optumas has continued to monitor COVID-19 testing levels as part of the ongoing review of PHE-related utilization changes and observed a large spike in COVID-19 testing in the SFY22 base data related to the Delta variant from August 2021 through February 2022. The remainder of the SFY22 base period as well as emerging SFY23 experience through December 2022 showed a stable volume of COVID-19 testing expenditures. With the PHE ending, Optumas is not expecting a similar surge in COVID-19 testing utilization within the SFY24 contract period and made an explicit downward adjustment to reflect the anticipated lower levels of COVID-19 testing that has been seen throughout the emerging SFY23 experience.

Removal of Pharmacy 90 Day Supply

During the COVID-19 PHE, the State allowed covered prescription and nonprescription medications to be dispensed at multiple month increments. Effective July 1, 2023, the policy will revert back to the pre-COVID policy, which allows a maximum one-month supply for all pharmaceuticals, with the exception of contraceptives. Optumas reviewed the prevalence of multi-month scripts within the CY19 (pre-COVID-19) data and SFY22 base data for all non-contraceptive pharmacy claims. The pre-COVID experience contained less than 0.2% of multi-

month scripts while 12% of scripts in the SFY22 base data were for multi-month supplies, the majority of which were 90-day scripts. While the ingredient cost for a three-month supply script is three times larger than a one-month supply script, the dispensing fee for both scripts would be the same at $10.38 per script. Optumas is expecting three-month supply scripts in the SFY22 base data period to be three one-month supply scripts in the SFY24 contract period under this new policy. As such, Optumas estimated two additional $10.38 dispensing fees for each three-month supply script within the SFY22 base data for all non-contraceptive scripts. The same logic was applied for two-month supply scripts, which would have an additional $10.38 dispensing fee within the contract period. Overall, Optumas estimated that approximately 20% more scripts will be filled under this new policy compared to what was observed in the SFY22 base data. The rating adjustment includes offsets for the level of historical multi-month scripts in the pre-COVID-19 pandemic data as well as a 5% reduction to current 90-day scripts for expected non-compliance when shifting to multiple one-month supply scripts. Overall, this results in a net increase to the SFY24 rates.

Pharmacy Insulin Price Decrease

Starting in May 2023, Optumas is expecting pharmacy price reductions related to insulin based on recent press releases by the largest manufacturers of insulin. Optumas worked with its clinical pharmacy team to identify the insulin NDCs impacted by expected reductions using publicly available information and made an adjustment to the SFY22 base data for the NDCs that have anticipated reductions during CY23. The repriced NDCs represent 13% of the total SFY22 base insulin expenditures. Additional NDCs are anticipated to receive reductions on January 1, 2024; however, Optumas is not making an adjustment to the SFY24 rates to reflect these additional decreases at this time. Optumas will continue to review expected insulin price reductions as well as emerging experience and will make any necessary revisions to the Health Link rates effective January 1, 2024, if further adjustments are warranted.

3.3 Trend

Trend factors were applied to estimate the change in utilization rate (frequency of services) and unit cost (pure price change, technology, acuity/intensity, and mix of services) of services over time. These trend factors were used to project the costs from the base period to the future contract period. Trends were developed on an annualized basis and applied by major service category from the midpoint of the base period to the midpoint of the contract period.

Trend factors were developed for both utilization and unit cost using historical encounter data, IA Health Link MCO financial data, and experience with similar Medicaid programs in other states. The historical encounter data was analyzed by population and COS. The data was arrayed such that 3-month moving averages (MMA), 6 MMA, and 12 MMA could be calculated. These resulting averages were evaluated and weighted to best reflect the expected prospective

annual trend. Prospective trends were applied from the midpoint of the SFY22 base data (12/30/2021) to the midpoint of the SFY24 contract period (12/30/2023). There was not a pre-determined algorithm related to the weighting; it was based on each data extracts' results and varied depending on particular nuances within each COS or population.

The trends applied within the PACE AWOP development are consistent with the annualized upper bound trends developed for the IA Health Link capitation rates. The annualized trend assumption by COA can be found in Appendix II, Exhibit II. A breakout of annualized utilization and unit cost trends, by COS and Institutional/Waiver status, can be found in Appendix II, Exhibit III.

3.4 Additional Prospective Policy Changes and Health Link Rate Components

In addition to the program changes noted above, additional prospective policy changes have been accounted for within the development of the PACE AWOPs, consistent with how these changes have been handled within the development of the IA Health Link capitation rates. These policy changes are described below, and the impact is found in Appendix II, Exhibit II:

Leap Year Adjustment
Since SFY24 contains an additional day due to CY24 being a leap year, Optumas has applied an additional 1/365 factor to services which are either reimbursed daily or would have expected increased utilization in a leap year compared to a non-leap year. These services include HCBS, nursing facility, inpatient, and emergency room expenditures and the increase was applied to all rate cells.

Non-Medical Load
The total non-medical load (NML) developed for the IA Health Link rates consists of administrative as well as profit, risk, and contingency amounts. The same NML percentages applied within the IA Health Link rate development have been applied to the development of the PACE AWOP. The non-medical load amounts applied in the IA Health Link capitation rates are based on a review of the reported administrative expenditures provided by the IA Health Link MCOs, in conjunction with a review of non-medical loads for similar programs in other states, to ensure a reasonable non-medical load for the populations and services provided under the program.

Additional IA Health Link Payments
The IA Health Link capitation rates include additional payments for Graduate Medical Education (GME) and the Ground Emergency Transportation (GEMT) Payment Program. These costs have been included within the development of the PACE AWOP, as they reflect costs that are

included within the IA Health Link rates and therefore the State would pay if the PACE enrollees were enrolled in IA Health Link rather than PACE.

For additional information related to these payments as developed within the Health Link capitation rates, the language below has been included and is directly taken from the SFY24 IA Health Link certification letter. Any reference to total dollar impact estimates are for the entire Health Link program and are not specific to either the PACE-like cohorts or PACE enrollment:

GME

Graduate Medical Education (GME) payments are incorporated within the SFY24 capitation rates and reflect payments to hospitals. However, the GME payment is outside of the standard definition of pass-through payments per 42 CFR 438.6(a); therefore, there are no pass-through payments in the IA Health Link SFY24 contract period.

Although the GME payment is outside the standard definition of pass-through payments per 42 CFR 438.6(a), we have included the description and amount of the GME payment in this section of the certification letter. The GME payments are made to teaching hospitals for the purpose of funding graduate medical education within the state. These payments are received by teaching hospitals with an accredited medical education program and are funded with direct State appropriations to the Medicaid agency. These amounts are paid to the teaching hospitals by the MCOs but are not included in the contracted rates between the plans and the hospitals.

Ground Emergency Transportation (GEMT) Payment Program

Description of Arrangement

Effective July 1, 2019, the State implemented the Ground Emergency Medical Transportation (GEMT) Payment Program in accordance with 42 CFR 438.6(c). The GEMT Payment Program is made to qualifying Emergency Medical Service (EMS) providers within Iowa for Emergency Medical Transportation services. Iowa Medicaid provided Optumas with the list of applicable providers and procedure codes that will be receiving the prospective provider-specific payment rates during the SFY24 contract period. The provider-specific rates reflect an approved dollar amount increase and are based on CMS-approved GEMT cost reports submitted by the EMS providers. The EMS additional payments will provide support for contracting and maintain access for Medicaid beneficiaries to receive GEMT services. Under this arrangement, in accordance with 42 CFR 438.6(c)(2)(ii)(B), the supplemental payment for covered emergency transportation services will be billed under procedure code A0999 for the services provided by an

approved EMS provider participating in the GEMT Payment Program. The A0999 procedure codes associated with the GEMT directed payment arrangement were excluded from the SFY22 base data underlying rate development to avoid duplication with this supplemental payment calculation. The GEMT state directed payment was incorporated into the rate certification in the base capitation rates as a rate adjustment consistent with the pending approval of the preprint and related preprint review documentation.

The payment arrangement for the SFY24 contract period will be based on actual emergency transportation service utilization within the contract period and is structured such that the MCOs pay both the customary Medicaid rate and the supplemental provider-specific prospective rate when adjudicating claims. The provider-specific prospective payment rate, billed under procedure code A0999, represents the additional uncompensated actual costs necessary to perform EMS transports based on submitted cost reports. Base reimbursement for the eligible emergency transportation services is Iowa Medicaid reimbursement. The supplemental payment (state directed uniform dollar increase) reflects the provider-specific Medicaid uncompensated care cost per transport to fully reimburse eligible EMS providers for the applicable services.

Rating Adjustment

The providers receiving the supplemental payment associated with the GEMT program are eligible EMS providers who will continue submitting CMS-approved cost reports that will be used to calculate their supplemental prospective payment in future fiscal years. The State provided Optumas the list of eligible EMS providers who will be participating in the program for the SFY24 contract period, which was used to calculate the supplemental PMPM amount noted below.

The amount associated with adjustment noted above are shown in Appendix II, Exhibit II.

3.5 Additional Adjustments

In addition to the components of the AWOP based on the IA Health Link rates noted above, the following additional adjustments have been accounted for within the AWOP development.

Pharmacy Rebate Adjustment

The IA Health Link program includes coverage for pharmacy services. If the PACE beneficiaries in Iowa were not enrolled in PACE, the State would have the opportunity to collect pharmacy rebates and therefore would reduce overall State expenditures. However, the State is unable to collect pharmacy rebates on behalf of individuals enrolled in PACE. As a result, an adjustment to the AWOP to reflect the impact of pharmacy rebates has been made to ensure that the final

PACE rate, developed as a percentage of the AWOP, reflects an amount less than the State would have otherwise paid if the individuals in PACE were instead enrolled in IA Health Link. Optumas developed an estimated impact to the AWOP for pharmacy rebates, based on a review of historical pharmacy rebates collected by the State. Recent Iowa Medicaid pharmacy rebate collections amount to 56.2% of pharmacy expenditures. Specifically, this adjustment is based on a review of the average of SFY20 and SFY21 MCO and FFS pharmacy expenditures and drug rebates. Total two-year pharmacy expenditures were calculated to be ~$1.35 billion and total rebates were ~$760 million, to indicate a rebate of 56.2% program wide.

Optumas reduced the pharmacy component of the AWOP by 56.2% for non-dual cohorts to reflect the impact of pharmacy rebates.

Dental Rate Addition

Iowa Medicaid provides dental services through a separate managed care program known as the Dental Wellness Plan (DWP). To ensure that the cost of all relevant services is included within the AWOP development, Optumas added the value of the upper bound estimated SFY24 DWP capitation rates for the applicable rating cohorts to the overall AWOP. The upper bound was chosen for the dental rates to be consistent with the fact that the IA Health Link upper bound has been used when developing the AWOP.

Consistent with prior cycles, the rates for the two DWP cohorts consistent with the frailty and eligibility requirements for the PACE participants have been used in the AWOP development:

- Community and LTSS Disabled – The aggregate rate (blend of DWP plans' rates, as rates vary by plan) was used for the following populations:
  - Custodial Care Nursing Facility <65,
  - Dual HCBS Waivers: PD; H&D, and
  - Non-Dual HCBS Waivers: PD; H&D; AIDS
- Community and LTSS Elderly – The aggregate rate (blend of DWP plans' rates) was used for the following populations:
  - Custodial Care Nursing Facility 65+, and
  - Elderly HCBS Waiver

The impact of each of these adjustments to each rate cell is shown in Appendix II, Exhibit II, at a statewide level.

4. Regional Specific Adjustments

4.1 Institutional/Waiver Mix

Institutional and Waiver PMPMs are blended together to create a final AWOP for each rating cohort. The blend of Institutional and Waiver populations is developed based on the underlying mix of the 55+ population within each applicable IA Health Link cohort observed in SFY22. This time period snapshot corresponds to the snapshot used in the SFY24 IA Health Link rates. It is important to recognize that, while the IA Health Link experience for the cohorts described in section 2.1 reflects the overall Nursing Home level of care population experience, the Institutional/Waiver mix for those 55+ can be significantly different than that of the entire population. The statewide Institutional/Waiver mix was applied consistently to the region-specific AWOPs and is shown in Appendix II, Exhibit IV.

4.2 Regional Analysis

Optumas performed a regional analysis to determine cost differences across the State. Optumas calculated the PMPMs for the Institutional and Waiver cohorts, limited to members age 55+ within the IA Health Link encounter experience for SFY22. These PMPMs were calculated separately for each of the regions in which a PACE organization is located in the state of Iowa (Ida and Sioux, Immanuel Central, Immanuel Western, and Siouxland). Table 3 below shows the counties that are bucketed into each region within the eligibility data provided by the State. The region-specific PMPM was then divided by the aggregate Statewide PMPM to calculate an Institutional and Waiver regional factor for the age 55+ PACE-comparable populations. Optumas utilized a credibility adjustment such that each cohort/region combination with fewer than 24,000 member months received partial credibility for its region-specific factor using the classical credibility formula $Min(100\%, \sqrt{\frac{MMs}{24{,}000}})$. The complement was given a 1.0 regional factor. These factors were then applied to the Statewide AWOP to arrive at region-specific AWOPs by cohort found in Appendix II, Exhibit IV.

Table 3. SFY24 PACE Service Regions

SFY24 PACE Service Regions	
Region	**Counties**
Ida and Sioux Region	Ida, Sioux
Immanuel Central Region	Boone, Dallas Jasper, Madison, Marion, Marshall, Polk, Story, Warren
Immanuel Western Region	Harrison, Mills, Pottawattamie

SFY24 PACE Service Regions	
Region	**Counties**
Siouxland Region	Cherokee, Monona, Plymouth, Woodbury

4.3 Patient Liability

A PMPM amount to estimate patient liability, also referred to as client participation, for Institutional members is added to the AWOP to ensure that the AWOP and the rate selected by DHHS reflects the full cost of services from a Medicaid perspective. This additional amount is necessary, since patient liability (if applicable) is subtracted from the capitation rate in MMIS prior to that rate getting paid to the PACE organization(s). In working with DHHS, Optumas was unable to reliably identify patient liability amounts within the SFY22 IA Health Link data.

As a result, Optumas relied on patient liability PMPMs for Institutional (Nursing Home) members used within the SFY17 PACE rate development, which is derived from historical FFS experience. The patient liability estimate for SFY24 is first estimated by applying a cost of living adjustment (COLA) for 2018, 2019, 2020, 2021, 2022, and 2023 (2.0%, 2.8%, 1.6%, 1.3%, 5.9%, and 8.7% respectively per ssa.gov), as well as an estimate for 2024 of 3.10% but dividing by two since the rates will be effective for six months in 2024, for a total estimate of 1.60%. The effective increase as a result of these adjustments is an upward adjustment of 26.15% to the original SFY17 amounts.

Optumas then identified the percent of PACE enrollees that reside in a nursing home in the historical data, to determine the appropriate amount to be applied to the blended PACE rate.

The patient liability development and resulting PMPMs can be found in Appendix II, Exhibit IV.

5. Final AWOPs

The combination of the adjusted base data and application of regional factors represents the PACE AWOPs that are shown in Appendix II, Exhibit IV. A comparison of rates from SFY23 (7/1/22-6/30/23) to SFY24 (7/1/23-6/30/24) is shown in Appendix II, Exhibit IV, labelled "FY23-FY24 Gross Rate Change".

In developing the AWOPs, Optumas relied on the eligibility and claims data provided by the State. Optumas reviewed the data for reasonableness and consistency, but did not audit the data. To the extent that the data is not accurate or complete, the AWOPs may need to be updated.

The AWOPs are based on a projection of future events. Actual experience will vary from the experience assumed in the AWOPs. The AWOPs developed may not be appropriate for any specific PO. An individual PO should review the AWOPs in relation to the benefits that it is obligated to provide to the covered population. The PO should evaluate the AWOPs in the context of its own experience, expenses, capital, surplus and profit requirements prior to agreeing to contract with the State.

Please feel free to contact me at 480.588.2492 for any additional information.

Sincerely,

Barry Jordan, FSA, MAAA
Director/Consulting Actuary, CBIZ Optumas

6. Appendices

Appendix I: CMS PACE UPL Checklist

CMS Item#	Subject	Compliance	SFY24 AWOP Comments
1.0	Development of the UPL -- Overview of UPL development methodology is included 42 CFR 460.182 Medicaid monthly capitation payment amounts must be less than the amount that would otherwise have been paid under the State plan if the participants were not enrolled under the PACE program; take into account the comparative frailty of PACE participants and must be a fixed amount regardless of changes in the participant's health status. UPL Development or Update __ The State is developing a new UPL (Steps 2-6). __ The State is inflating an already approved UPL.	✓	UPL Methodology Letter Section 2. The payment rates are less than the AWOPs. See Appendix II, Exhibit IV. Optumas developed a new AWOP.
1.1	Dual Eligibles	✓	Methodology Letter Section 2.1.
1.2	PACE Premiums	✓	Optumas has not reviewed the PO contracts.
1.3	Spenddown	✓	The AWOPs are developed net of spenddown, but gross of patient liability/share of cost related to PETI.
2.0	The claims and eligibility extract of FFS database is defined and was reviewed by the State and is the most recent data available.	✓	Methodology Letter Section 3. AWOPs are developed with the basis of IA Health Link managed care data.
2.1 & 2.2	Eligibility Categories Inclusions and Exclusions	✓	Methodology Letter Section 2.1.
2.3 & 2.4	Categories of Service & Non-State Plan Services	✓	Methodology Letter Section 2.2.
2.5	Populations Enrolled in Managed Care	✓	The AWOP is set using IA Health Link managed care data, to develop an amount that would have otherwise been paid for this population (AWOP). More detail is in Section 3 of this Methodology Letter.
2.6	Document the residency / site of service claims used for the PACE population in the PACE organizations in the State.	✓	AWOPs were set statewide and adjusted to be regional based on encounter data corresponding to the PO regions. More detail is in Section 4 of this Methodology Letter.
2.7	Rate Categories	✓	Methodology Letter Section 2.1.
2.8	Development of Base PMPM	✓	Methodology Letter Section 3.
3.0	Claims Completion Factor	✓	Methodology Letter Section 3.
4.0	Adjusted Base Data	✓	Methodology Letter Section 3.
5.0	Cost Trending	✓	Methodology Letter Section 3.
6.0	Data Smoothing	✓	Optumas did not apply any data smoothing techniques. Data appeared consistent and valid based on our data validation review.

Appendix II: Exhibits

Please see the accompanying file titled "IA PACE SFY24 AWOP Methodology Letter Appendix II.xlsx" for the exhibits referenced within this document.