



**Health and  
Human Services**

## Medicaid Capitation Rate Development Overview

September 19, 2024

# AGENDA

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1. Rate Development Overview

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2. Risk Adjustment

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3. State Directed Payments

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4. CMS Review and Approval

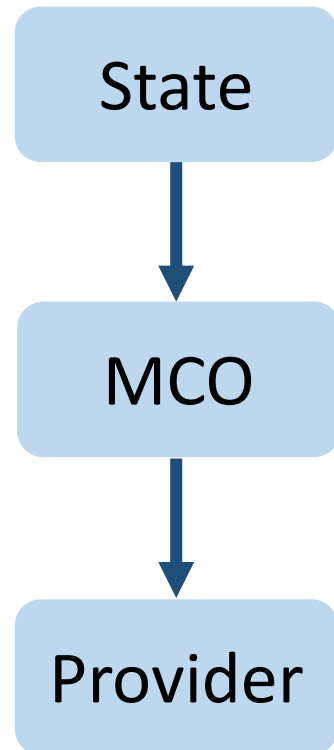
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5. Questions

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# Rate Development Overview

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- What are capitation payments?
  - Set amount of money to cover the predicted cost of covered health care services over a certain period of time
- Who gets paid the capitation payments?
  - Iowa Managed Care Organizations (MCOs)
  - Paid monthly
- Who develops capitation payments?
  - State contracted actuaries
  - In accordance with CMS requirements and Actuarial Standards of Practice (ASOPs)

# Rate Development Overview

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1

Goal of rate development is to ***match payment to risk of the covered population***

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Capitation payments are projected average amounts differentiated by populations (Aid Category, Age/Gender, etc.)

3

Capitation rates are aligned with MCO responsibilities required in the contract

4

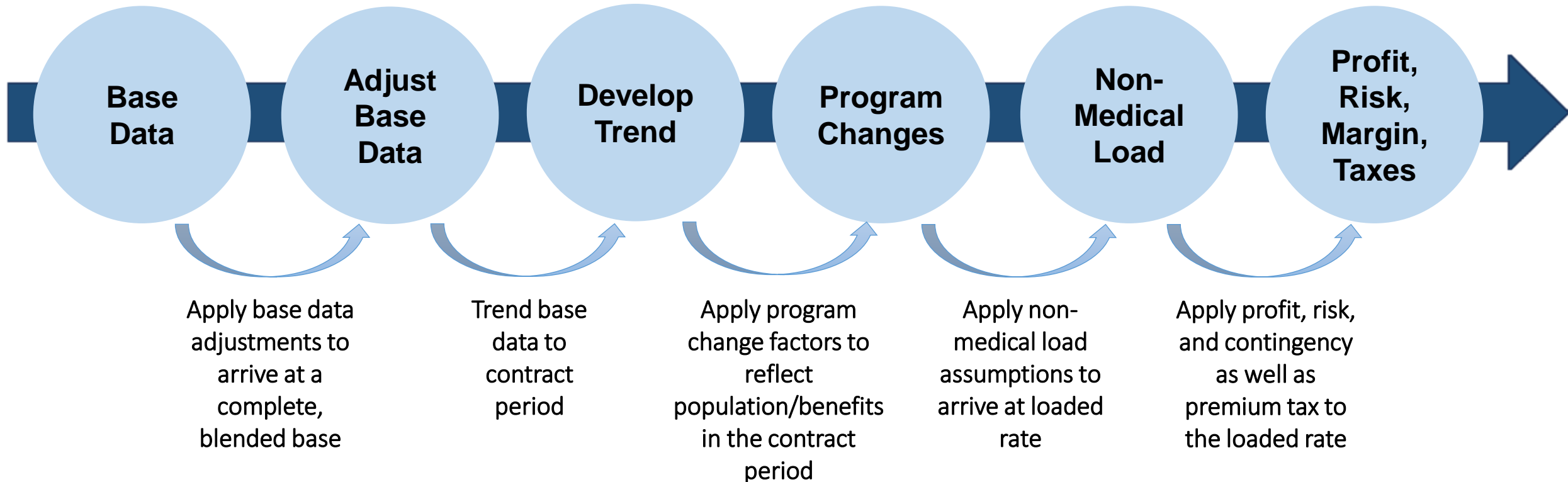
Balance incentive and risk for MCOs

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Iowa MCO contracts include provisions that require capitation payments to be invested or spent on health care services

# Rate Development Overview

## Process



# Base Data

## Base Data Sources:

- MCO encounter data
- MCO financial data (MRT)
- Monthly enrollment data
- Supplemental (if necessary)



Each data source is used in some capacity to support each step identified in the rate setting process

## Base Data Attributes:

- Time Period
- Rating Cohorts
- Categories of Service

# Base Data - Adjustments

## Data Adjustment Examples:

- Encounter data completeness
- Incurred but not paid/reported (IBNR)
- Exclude non-covered services (e.g., value-added services)
- Subcapitated expenditures
- MCO supplemental or settlement payments to providers, made outside of claims system
- Allowable provider incentives

## Historical Base Data Program Changes

- Adjustments made to reflect policies effective for only a portion of the base data period

Example:

Base period is SFY23 (July 1, 2022 – June 30, 2023). A provider reimbursement change was implemented January 1, 2023. The base data reflects 6 months of original reimbursement and 6 months of increased reimbursement. An adjustment will be applied to the first 6 months of SFY23.

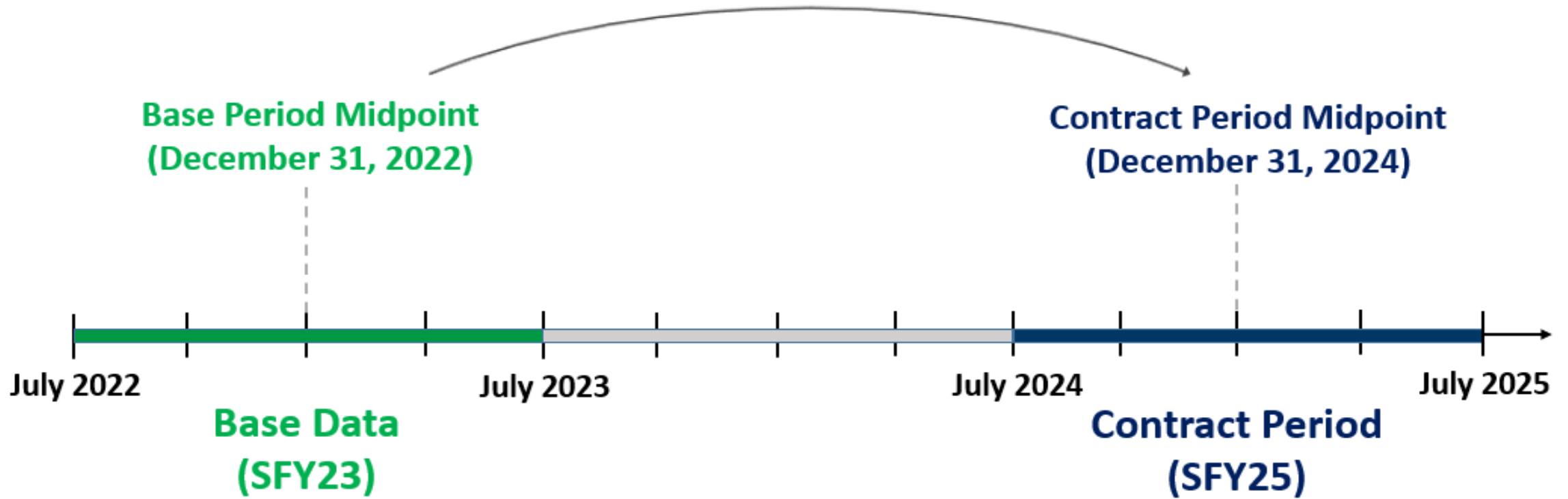
# Trend Development

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- **Annual rate of growth** to estimate changes in per member per month (PMPM) expenditures over time due to differences in practice patterns, technology, utilization, and inflation
- **Analysis performed by rating cohort and major category of service** by reviewing Util/1,000, Unit Cost, and PMPM measures over time
- Projections are developed using a blend of qualitative and quantitative approaches



# Trend Application



# Prospective Program Changes

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Adjustments that reflect new policies that were not included in the base data but will be implemented prior to or during the contract period.

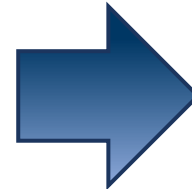
## Examples include:

- Reimbursement changes (e.g., new legislative appropriations)
- Benefit changes (new or eliminated benefits)
- Acuity changes (e.g., impact of COVID-19 or postpartum coverage extension)
- Specialty pharmaceuticals (e.g., Zolgensma)

# Non-Medical Load

## What it is and how it is developed:

- Cost of managed care administrative operations and non-direct health care services (e.g., claims processing, staff salaries, corporate allocation, or care management)
- Uses detailed MCO administrative cost reporting



## Non-Medical load reflects:

- Iowa Medicaid managed care contract requirements (e.g., care coordination)
- Removes non-allowable expenses (e.g., financial penalties, costs to remediate failure to perform contract obligations)
- Benchmarked to similarly sized Medicaid managed care programs

# Profit / Risk / Contingency (PRC) / Taxes

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- **Risk based capital (RBC)** – minimum amount of capital needed to support financial solvency in the event of medical cost and administrative expense volatility and to support business operations
- Includes additional margin to account for the potential for unexpected costs in any given year, outside of what has already been included in capitation rates
- Non-Medical Load and PRC Margin applied as a percent of premium
- After application of NML and PRC, applicable premium taxes are loaded in as a percent of premium

# Risk Adjustment

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- Iowa Medicaid's rate structure includes both non-Long-Term Services and Supports (LTSS) and LTSS populations
- Risk adjustment tools and approaches more closely match the capitation payment to the risk of the covered population enrolled in the MCO
- Risk adjustment process is differentiated for non-LTSS and the LTSS populations

# State Directed Payments

- Directed payments provide a CMS approved way to incorporate special payment arrangements through MCO contracts

## Current Directed Payments

Current Directed Payments	Payment Term	Reconciled	Requires CMS pre-approved pre-print and quality strategy
UIHC Physician ACR	Outside rates	Yes	
UIHC Inpatient / Outpatient ACR	Outside rates	Yes	
Non-UIHC Inpatient / Outpatient ACR	Outside rates	Yes	
GEMT	Included in rates*	No	

*\* Included in rates means the MCO is at risk for the amount paid compared to the amount included in the capitated rate*

# CMS Review and Approval

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- Actuarial Certification is required and describes the capitation rate development methodology in detail
- Iterative question and answer process with CMS and CMS Office of the Actuary
- CMS periodically releases updated rate development guidance which impacts the rate development and documentation process

# QUESTIONS

