

CALENDAR YEAR (CY) 2015 HEALTH AND RECOVERY PLAN (HARP) NEW YORK CITY (NYC) CAPITATION RATE DEVELOPMENT

This document provides a brief description of the methodology used by Mercer Government Human Services Consulting (Mercer) in calculation of the CY 2015 (January 1, 2015 through December 31, 2015) draft capitation rate for the procurement of the NYC HARP contractors. Please note the attached draft premium was calculated for presentation purposes. The Department of Health (DOH) along with the Office of Mental Health (OMH) and Office for Alcoholism and Substance Abuse Services (OASAS) anticipate a premium may be set for a shorter contract period in order to align rates with the State Fiscal Year.

Baseline Data

The baseline data is consistent with the base data reflected in the Data Book dated January 21, 2014. The baseline data excludes Maternity services, consistent with the Data Book, as it is assumed the MMC maternity kick payment would also apply to the HARP enrollees. Emergency Transportation and Non-Emergency Transportation were also excluded from the baseline data previously included in the Data Book, as these services will remain in FFS. Additionally, costs from the Data Book for Targeted Case Management and Health Homes were excluded while the State works to finalize these arrangements. Each year of data was adjusted and brought to a CY 2012 base time period and blended to establish a single base data set. This is reflected in the blended base data displayed in the rate exhibit.

Additionally, there were program changes and other adjustments that occurred during the base time period and were not fully reflected in the base data. The following adjustments are reflected in the blended base data.

- Outpatient Mental Health Services – Currently, the State does not mandate the use of Ambulatory Patient Groups (APGs) or require that health plans benchmark payment levels to the State's fee schedule for Outpatient services, with the exception of Outpatient Mental Health clinic services effective September 1, 2012. A separate adjustment is made to recognize the difference between historical payment levels and the current fee schedule for Outpatient Mental Health clinic services. The overall impact to the blended base data for this adjustment in NYC is 0.20%.
- Superstorm Sandy – An upward adjustment was made to adjust for lower utilization levels in November and December of 2012 as a result of Superstorm Sandy. The adjustment was calculated by service group (SG) based on the State's prescribed methodology. The overall impact to the blended base data for this adjustment in NYC is 1.22%.
- Medicaid Redesign Team (MRT) Benefits:
 - Effective October 1, 2011, the State implemented MRT #34, establishing benefit limits on physical therapy, occupational therapy and speech therapy of 20 visits per calendar year, with some exemptions. The overall impact to the blended base data for this adjustment in NYC is -0.02%.

- Effective June 1, 2012, the State implemented MRT #42, establishing benefit limits for knee arthroscopy when the primary diagnosis is osteoarthritis of the knee without mechanical derangement of the knee. There was a negligible impact to the blended base data in NYC for this adjustment.

The overall impact of these adjustments to the blended base data is 1.40%.

Program Changes

Programmatic change adjustments recognize the impact of benefit or eligibility changes that took place after the start of the base data time period. Adjustments for program changes in the rate exhibit are reflected in the line items below the “Blended Base Data” Total PMPM. The prospective program changes considered for these draft rates included the following.

Pricing and Utilization Changes

- Inpatient Acute Adjustment – Inpatient Acute Adjustment is designed to estimate the impact of changes in the State’s All Patient Refined Diagnosis Related Group (APR-DRG) fee schedule between the base period and the contract period. For the majority of historical Inpatient Acute costs, this adjustment takes the place of the price inflation component of the Inpatient Acute trend factors that were applied to the base data in the rate development process. This adjustment is applicable to both the encounter and FFS data sources. This results in a 3.4% adjustment to the Inpatient Acute service group. The impact is 0.9% on the overall service rate.

Benefit Changes

- Pharmacy Benefits – The Pharmacy premium reflects adjustments specific to the HARP premium group.
- MRT Benefits – Effective October 1, 2011, the State implemented MRT#24, establishing benefit limits based on medical necessity for enteral nutritional formula. This results in a 0.15% adjustment to the Pharmacy premium.
- Substance Use Disorder (SUD) State Plan Amendment (SPA) – Rehabilitation services for residential SUD treatment supports provided to Medicaid-eligible adults were previously covered with State-only funds, but will be covered by Medicaid as a result of the SUD SPA. The impact of this adjustment for the draft rates in NYC is displayed separately on the rate exhibit.
- Family Health Plus (FHP) Additional Benefits– Historically, the FHP benefit package included only limited BH benefits. Because some FHP members were identified as HARP eligibles, an adjustment was made to reflect estimated additional BH costs, since the BH benefit limits will no longer exist by January 1, 2015. The impact of this adjustment for the draft rates in NYC is displayed separately on the rate exhibit.

Trend

Mercer developed trend rates to project the CY 2012 base data to the CY 2015 time period. Mercer analyzed trends by SG using the CY 2011 and CY 2012 base data for the HARP population in NYC, as well as observed trends in other similar programs and the State’s own

MMC program. Trends are developed by SG on a per member per month basis and include estimates for changes in both utilization and unit cost. Trend assumptions for NYC HARPs vary by data source (FFS claims and managed care encounters) and SG. The projected annual trend reflected in the draft NYC rates is 3.9% for non-pharmacy services and 5.9% for pharmacy services, for an overall projected annual trend of 4.3% for the 36-month period.

Managed Care Assumptions

The base data used to develop the draft rate ranges was from various data sources representing a mix of an at-risk managed care environment and a FFS environment. For HARP eligibles that were already enrolled in MMC during CY 2011 and CY 2012, the Acute Care services and some BH services were included in encounter data and already represented an at-risk managed care environment. However, many of the BH services were only provided in FFS. For HARP eligibles that were not in managed care during CY 2011 and CY 2012 and have since been enrolled in managed care or will be enrolled by January 1, 2015, all services were provided in a FFS environment. Because the cost patterns and structures in an at-risk capitated environment will likely differ from those in a FFS setting, Mercer developed adjustments to represent the shift of services into managed care. The overall impact of the managed care assumptions is -6.4% in the draft rates for NYC. It should be noted that under a shorter contract period, the overall impact of the managed care assumptions would need to be reevaluated.

Non-Medical Expense Load

Finally, Mercer included assumptions for administrative expenses and other non-medical expenses. Mercer reviewed the administrative expenses reported by the current MMCs. Mercer also reviewed a BH managed care organization staffing model to assess administrative cost expectations for the specialized staffing requirements and qualifications of the HARPs. Based on these sources, Mercer included an administration expense allotment (6.9%) in the CY 2015 rates, which varied between Pharmacy services and Non-Pharmacy services. The non-medical expense load in the rate ranges, which includes a provision for underwriting gain (1.0%), was 7.9% as a percentage of total premium.

Prospective Updates to Final Rates

The rates included in the rate exhibit are draft rates and will be modified subsequent to this publication. The rates do not include consideration for the following items: Health Homes, Medical Homes, Stop-Loss Reinsurance, Supported Integrated Clinical Care Adjustment and any additional program changes that will be made prior to January 1, 2015. In addition, some of the adjustments will be modified once additional information is compiled. These adjustments include: Outpatient Mental Health Services adjustment, SUD SPA program change and the Pharmacy Benefits program change.