



April 30, 2010

Ms. Marcia Boswell-Carney
Kansas Health Policy Authority
Landon State Office Building
900 SW Jackson, Suite 900
Topeka, KS 66612

**Subject: State of Kansas HealthWave XXI Revised Actuarial Certification for
April 1, 2010 – June 30, 2011 Capitation Rate Ranges**

Dear Ms. Boswell-Carney:

In this letter, schramm-raleigh Health Strategy (**srHS**) provides the certification of the actuarially sound capitation rate ranges for the State of Kansas' (State's) HealthWave XXI managed care program for the April 1, 2010 through June 30, 2011 contract period.

This letter is organized as follows:

- Background,
- Medical Base Data,
- Adjustments to Medical Base Data,
- Inclusion of Non-Medical Load,
- Development of Rate Range,
- Risk Mitigation,
- Incentives, and
- Actuarial Certification.

Background

For this certification, **srHS** follows guidance provided by the Centers for Medicare and Medicaid Services (CMS) in accordance with 42 CFR 438.6(c). CMS defines actuarially sound rates as meeting the following criteria:

1. They have been developed in accordance with generally accepted actuarial principles and practices,

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2. They are appropriate for the populations to be covered and the services to be furnished under the contract, and
3. They have been certified by an actuary who meets the qualification standards established by the American Academy of Actuaries and follows practice standards established by the Actuarial Standards Board.

srHS applied these criteria in our certification of the HealthWave XXI Managed Care Organization (MCO) capitation rate ranges for the April 1, 2010 through June 30, 2011 contract period.

Medical Base Data

The rate range development for the April 1, 2010 through June 30, 2011 contract period represents a rate update from the current capitation rate ranges. Therefore, **srHS** relied on the approved State Fiscal Year (SFY) 2010 rate ranges to serve as the basis for this rate range development (per CMS checklist item AA.1.7 – Rate Modifications). We used the midpoint of the medical portion of the current capitation rate ranges as the base for the April 1, 2010 through June 30, 2011 rates. For additional information on the SFY 2010 rate range development, please refer to the Mercer Government Human Services Consulting actuarial certification dated June 1, 2009.

Adjustments to Medical Base Data

The following adjustments were then made to the medical base data in the development of the capitation rate ranges. Estimates provided below correspond to a reference point in the **srHS** rate range.

Trend

Trend is an estimate of 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 and is used to project the costs from the base period to the future contract period. When trend factors are applied, in combination with other program changes noted below so as to not double count, they estimate the approximate claims costs an average MCO could expect during the April 1, 2010 through June 30, 2011 period. **srHS** applied trend by major category of service (COS) (e.g., inpatient, outpatient, etc.); refer to the table below for specific annual COS trend rates.

srHS analyzed historical trend rates and projections from many different sources, including HealthWave-specific data, national/local publications, commercial data, and data from other



state programs. The assumed trends shown below are annual figures and were applied for 10.5 months to trend the midpoint of the SFY 2010 base to the midpoint of the April 1, 2010 through June 30, 2011 contract period.

| COS | PMPM Annual Trend Rates |
|---------------------|--------------------------------|
| Inpatient Hospital | 7.0% |
| Outpatient Hospital | 8.0% |
| Physician | 4.0% |
| Pharmacy | 3.0% |
| Transportation | 1.5% |
| Other | 2.5% |
| Overall | 4.5% |

Program Change Adjustments

The State made several program or policy changes that will impact the service costs for the HealthWave XXI program that were not reflected in the SFY 2010 rate range development. As in prior rate development processes, we followed the State's policy of applying all fee-for-service (FFS) program changes directly to the managed care program while customizing for the HealthWave XXI populations and benefits.

DRG Weights and Base Rates

Effective October 1, 2009, the State adjusted the DRG weights and hospital base rates that create the basis for most Kansas inpatient hospital reimbursement. Based on information received from the health plans, **srHS** analyzed the impact of the adjustment to the weights and rates on the HealthWave XXI population and applied a 4.6% increase to the inpatient cost for hospitals reimbursed under the DRG method. The adjustment varied by region, from a low of 2.8% to a high of 9.5%.

Kansas University Hospital Rate Change

Effective November 1, 2009, Kansas University's (KU's) FFS hospital reimbursement was increased from 35% of billed charges to 42% of billed charges, resulting in a 20% cost increase for inpatient and outpatient services performed at KU. The result of this adjustment was an increase to the hospital inpatient COS of 2.6%, an increase to the hospital outpatient lab and x-ray COS of 2.3%, and an increase to the hospital outpatient all other COS of 1.7% across all regions.



Provider Rate Cut

Effective for dates of service between April 1, 2010 and June 30, 2010, all net payments to providers were reduced by 7.3%, with several exceptions: KU, Hospice, Rural Health Clinics, Indian Health Services, and pharmacy ingredient costs. As the reduction does not apply to the July 1, 2010 through June 30, 2011 time period, the reduction was reduced to 1.46% to reflect the provider cut over the entire effective period of the rates.

Home Health Coverage Changes

The State updated their home health coverage policy effective March 1, 2010. The updated policy included limits on certain services. **srHS** reviewed the State's analysis and compared the covered services and populations for applicability. The result was an adjustment to the home health and hospice COS of -0.8%.

Professional Rate Leveling

Effective January 1, 2010, the State implemented an updated fee schedule for a subset of professional services, including physicians and lab and x-ray. **srHS** examined the managed care utilization and calculated an adjustment of -2.0% to be applied to each of the physician, lab and x-ray, and other professional COS.

HealthWave XXI Expansion

Effective January 1, 2010, HealthWave XXI eligibility was increased from 200% of the Federal Poverty Level (FPL) to 250% of the 2008 FPL. **srHS** reviewed the projected enrollment for the expansion population and applied a -0.3% adjustment to reflect the updated acuity of the HealthWave XXI population.

Inclusion of Non-Medical Load

The non-medical load measures the dollars associated with components such as administration, profit, risk, and contingencies and are expressed as a percentage of the capitation rate. **srHS** reviewed the MCOs' responsibilities under their managed care contracts and reviewed their past non-medical expenses as reported in their financial submissions. We also reviewed non-medical expenses in other states, on both a PMPM and percentage basis.

At the reference point in the rate range, we included an 8.25% non-medical load factor and a 2.0% load for profit on each rate cell. The non-medical loading varied across the rate ranges, with a higher non-medical load assumed at the lower bound and a lower non-medical load assumed at the upper bound to account for the management necessary to result in



corresponding medical costs. Additionally, the capitation rates were increased to reflect a privilege fee assessed on the MCOs effective April 1, 2010 of 1.0% of their capitation revenue.

Development of Rate Range

srHS provided the State with actuarially sound rate ranges for negotiations with the MCOs. **srHS** calculated the variability in rates within the rate range by modifying the assumptions used, including trend, program changes, and non-medical load. The rate ranges and member months used to calculate the average rates are shown in Appendix A. **srHS** has provided a summary of all of the adjustments used to calculate the reference point rates in Appendix B. All contracted rates are within the actuarially sound rate range.

Risk Mitigation

Reinsurance

The MCOs purchase commercial reinsurance on the open market. We have assumed that the net reinsurance expense is part of our non-medical loading assumption noted above.

Risk Corridors

There are no risk corridors in the HealthWave XXI contract.

Incentives

There are no incentives included within the HealthWave XXI contract.

Actuarial Certification

I, Michelle Raleigh, Actuary and Managing Member of **schrammraleigh**, LLC and Member of the American Academy of Actuaries (MAAA) and an Associate of the Society of Actuaries (ASA), am certifying the calculation of the rate ranges shown in Appendix A. I meet the qualification standards established by the American Academy of Actuaries and have followed the practice standards established from time to time by the Actuarial Standards Board.

The capitation rates provided with this certification are considered actuarially sound for purposes of the 42 CFR 438.6(c), according to the following criteria:

- The capitation rate ranges have been developed in accordance with generally accepted actuarial principles and practices;



- The capitation rate ranges are appropriate for the populations to be covered, and the services to be furnished under the contract; and
- The capitation rate ranges meet the requirements of 42 CFR 438.6(c).

The actuarially sound rate range that is associated with this certification is effective April 1, 2010 through June 30, 2011 for the HealthWave XXI program.

The actuarially sound capitation rate range is based on a projection of future events. Actual experience will vary from the experience assumed in the rate range. The capitation rate range developed may not be appropriate for any specific MCO. An individual MCO should review the rates in relation to the benefits that it is obligated to provide to the covered population. The MCO should evaluate the rates in the context of its own experience, expenses, capital, surplus, and profit requirements prior to agreeing to contract with the State. The MCO may require rates above, within, or below the actuarially sound rate range associated with this certification.

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

Sincerely,

A handwritten signature in black ink that reads 'MRaleigh'.

Michelle Raleigh, ASA, MAAA
Managing Member of schrammraleigh, LLC

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Appendix A



Calendar Year 2009 HealthWave XXI Member Months

| Rate Cell | Johnson, Leavenworth & Wyandotte Counties | Northeast & Western Counties | Southeast Kansas | Sedgwick County | Total |
|-------------------|--|------------------------------------|---------------------|--------------------|----------------|
| Title XXI < 1 | 925 | 1,873 | 804 | 566 | 4,168 |
| Title XXI 1-5 | 23,730 | 41,901 | 22,366 | 21,017 | 109,014 |
| Title XXI 6-14 | 59,721 | 105,762 | 67,290 | 56,958 | 289,731 |
| Title XXI 15-19 F | 8,592 | 15,475 | 11,606 | 7,974 | 43,647 |
| Title XXI 15-19 M | 8,263 | 16,215 | 11,514 | 8,425 | 44,417 |
| Overall | 101,231 | 181,226 | 113,580 | 94,940 | 490,977 |

Weighted Average SFY 2010 Capitation Rates¹

| Rate Cell | Johnson, Leavenworth & Wyandotte Counties | Northeast & Western Counties | Southeast Kansas | Sedgwick County | Total |
|-------------------|--|------------------------------------|---------------------|--------------------|------------------|
| Title XXI < 1 | \$ 294.82 | \$ 307.98 | \$ 357.94 | \$ 388.51 | \$ 325.63 |
| Title XXI 1-5 | \$ 110.90 | \$ 120.31 | \$ 126.72 | \$ 105.78 | \$ 116.78 |
| Title XXI 6-14 | \$ 76.43 | \$ 96.12 | \$ 99.51 | \$ 87.00 | \$ 91.05 |
| Title XXI 15-19 F | \$ 138.30 | \$ 159.07 | \$ 184.82 | \$ 135.91 | \$ 157.60 |
| Title XXI 15-19 M | \$ 92.18 | \$ 110.14 | \$ 115.31 | \$ 81.99 | \$ 102.80 |
| Overall | \$ 93.04 | \$ 110.53 | \$ 117.01 | \$ 96.62 | \$ 105.73 |

4/1/2010-6/30/2011 Lower Bound Rates

| Rate Cell | Johnson, Leavenworth & Wyandotte Counties | Northeast & Western Counties | Southeast Kansas | Sedgwick County | Total |
|-------------------|--|------------------------------------|---------------------|--------------------|------------------|
| Title XXI < 1 | \$ 301.26 | \$ 315.79 | \$ 367.03 | \$ 416.41 | \$ 336.11 |
| Title XXI 1-5 | \$ 111.60 | \$ 121.74 | \$ 127.81 | \$ 107.58 | \$ 118.05 |
| Title XXI 6-14 | \$ 76.79 | \$ 97.12 | \$ 99.99 | \$ 88.43 | \$ 91.89 |
| Title XXI 15-19 F | \$ 139.47 | \$ 160.68 | \$ 186.19 | \$ 138.06 | \$ 159.16 |
| Title XXI 15-19 M | \$ 93.05 | \$ 111.72 | \$ 116.59 | \$ 83.47 | \$ 104.15 |
| Overall | \$ 93.65 | \$ 111.81 | \$ 117.85 | \$ 98.35 | \$ 106.86 |

1 – Weighted average of FHP and UniCare rates based on 2009 enrollment



4/1/2010-6/30/2011 Upper Bound Rates

| Rate Cell | Johnson, Leavenworth & Wyandotte Counties | Northeast & Western Counties | Southeast Kansas | Sedgwick County | Total |
|-------------------|--|------------------------------------|---------------------|--------------------|------------------|
| Title XXI < 1 | \$ 316.70 | \$ 331.52 | \$ 386.76 | \$ 439.28 | \$ 353.52 |
| Title XXI 1-5 | \$ 116.29 | \$ 126.84 | \$ 133.30 | \$ 111.79 | \$ 122.97 |
| Title XXI 6-14 | \$ 79.68 | \$ 100.88 | \$ 103.74 | \$ 91.73 | \$ 95.38 |
| Title XXI 15-19 F | \$ 145.38 | \$ 167.30 | \$ 193.80 | \$ 143.35 | \$ 165.66 |
| Title XXI 15-19 M | \$ 97.10 | \$ 116.50 | \$ 121.80 | \$ 86.68 | \$ 108.61 |
| Overall | \$ 97.43 | \$ 116.33 | \$ 122.60 | \$ 102.13 | \$ 111.14 |

4/1/2010-6/30/2011 Contract Rates

| Rate Cell | Johnson, Leavenworth & Wyandotte Counties | Northeast & Western Counties | Southeast Kansas | Sedgwick County | Total |
|-------------------|--|------------------------------------|---------------------|--------------------|------------------|
| Title XXI < 1 | \$ 304.28 | \$ 318.95 | \$ 370.70 | \$ 420.57 | \$ 339.47 |
| Title XXI 1-5 | \$ 112.72 | \$ 122.96 | \$ 129.09 | \$ 108.66 | \$ 119.23 |
| Title XXI 6-14 | \$ 77.55 | \$ 98.09 | \$ 100.99 | \$ 89.32 | \$ 92.81 |
| Title XXI 15-19 F | \$ 140.87 | \$ 162.28 | \$ 188.06 | \$ 139.44 | \$ 160.75 |
| Title XXI 15-19 M | \$ 93.98 | \$ 112.84 | \$ 117.76 | \$ 84.30 | \$ 105.19 |
| Overall | \$ 94.58 | \$ 112.92 | \$ 119.03 | \$ 99.34 | \$ 107.93 |

Percentage Change from Current Rates to 4/1/2010-6/30/2011 Contract Rates

| Rate Cell | Johnson, Leavenworth & Wyandotte Counties | Northeast & Western Counties | Southeast Kansas | Sedgwick County | Total |
|-------------------|--|------------------------------------|---------------------|--------------------|-------------|
| Title XXI < 1 | 3.2% | 3.6% | 3.6% | 8.3% | 4.3% |
| Title XXI 1-5 | 1.6% | 2.2% | 1.9% | 2.7% | 2.1% |
| Title XXI 6-14 | 1.5% | 2.1% | 1.5% | 2.7% | 1.9% |
| Title XXI 15-19 F | 1.9% | 2.0% | 1.8% | 2.6% | 2.0% |
| Title XXI 15-19 M | 2.0% | 2.5% | 2.1% | 2.8% | 2.3% |
| Overall | 1.7% | 2.2% | 1.7% | 2.8% | 2.1% |

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Appendix B



Region: Johnson / Leavenworth / Wyandotte

| | | | | Base Period | Rate Development Data Adjustments | | | | | | | |
|------------------|-------------|------------------|------------------|---|-----------------------------------|--------------------|--------------------------------------|---------------------|-------------------------------|--------------------------------------|---------------------|---------------------|
| | | | | A | B | C | D | E | F | 4/1/10-6/30/11 Resulting Rate Ranges | | |
| Rating Group | Age | Gender | MMs ¹ | SFY 2010 Midpoint Medical PMPM | Trend ² | Program Changes | Non- Medical Load ³ | Profit ³ | Privilege Fee ³ | Reference Rate ⁴ | Lower Bound Rate | Upper Bound Rate |
| Title XXI | < 1 year | M & F | 925 | \$ 263.41 | 5.57% | -0.08% | 8.25% | 2.00% | 1.00% | \$ 310.96 | \$ 301.26 | \$ 316.70 |
| Title XXI | 1-5 years | M & F | 23,730 | \$ 98.81 | 4.88% | -1.43% | 8.25% | 2.00% | 1.00% | \$ 114.41 | \$ 111.60 | \$ 116.29 |
| Title XXI | 6-14 years | M & F | 59,721 | \$ 68.12 | 4.38% | -1.57% | 8.25% | 2.00% | 1.00% | \$ 78.44 | \$ 76.79 | \$ 79.68 |
| Title XXI | 15-19 years | F | 8,592 | \$ 123.38 | 4.81% | -1.28% | 8.25% | 2.00% | 1.00% | \$ 143.00 | \$ 139.47 | \$ 145.38 |
| Title XXI | 15-19 years | M | 8,263 | \$ 82.21 | 4.88% | -1.13% | 8.25% | 2.00% | 1.00% | \$ 95.48 | \$ 93.05 | \$ 97.10 |
| Title XXI | All | M & F | 101,231 | \$ 82.94 | 4.65% | -1.42% | 8.25% | 2.00% | 1.00% | \$ 95.87 | \$ 93.65 | \$ 97.43 |

1 - Calendar Year 2009 HealthWave XXI Member Months

2 - The trend shown is annualized for 10.5 months from January 1, 2010 to November 15, 2010

3 - Shown as a percentage of the Reference Rate

4 - Formula to arrive at Reference Rate: $\text{Reference Rate} = A * (1 + B)^{(10.5 / 12)} * (1 + C) / (1 - D - E - F)$



Region: Northeast / West

| Rating Group | Age | Gender | MMs ¹ | Base Period | Rate Development Data Adjustments | | | | | 4/1/10-6/30/11 Resulting Rate Ranges | | |
|------------------|-------------|------------------|------------------|--------------------------------|-----------------------------------|-----------------|-------------------------------|---------------------|----------------------------|--------------------------------------|------------------|------------------|
| | | | | A | B | C | D | E | F | Reference Rate ⁴ | Lower Bound Rate | Upper Bound Rate |
| | | | | SFY 2010 Midpoint Medical PMPM | Trend ² | Program Changes | Non-Medical Load ³ | Profit ³ | Privilege Fee ³ | | | |
| Title XXI | < 1 year | M & F | 1,873 | \$ 276.76 | 5.37% | -0.32% | 8.25% | 2.00% | 1.00% | \$ 325.42 | \$ 315.79 | \$ 331.52 |
| Title XXI | 1-5 years | M & F | 41,901 | \$ 107.81 | 4.78% | -1.42% | 8.25% | 2.00% | 1.00% | \$ 124.73 | \$ 121.74 | \$ 126.84 |
| Title XXI | 6-14 years | M & F | 105,762 | \$ 86.12 | 4.39% | -1.50% | 8.25% | 2.00% | 1.00% | \$ 99.24 | \$ 97.12 | \$ 100.88 |
| Title XXI | 15-19 years | F | 15,475 | \$ 142.41 | 4.69% | -1.49% | 8.25% | 2.00% | 1.00% | \$ 164.54 | \$ 160.68 | \$ 167.30 |
| Title XXI | 15-19 years | M | 16,215 | \$ 98.68 | 4.74% | -1.09% | 8.25% | 2.00% | 1.00% | \$ 114.52 | \$ 111.72 | \$ 116.50 |
| Title XXI | All | M & F | 181,226 | \$ 99.03 | 4.58% | -1.41% | 8.25% | 2.00% | 1.00% | \$ 114.42 | \$ 111.81 | \$ 116.33 |

1 - Calendar Year 2009 HealthWave XXI Member Months

2 - The trend shown is annualized for 10.5 months from January 1, 2010 to November 15, 2010

3 - Shown as a percentage of the Reference Rate

4 - Formula to arrive at Reference Rate: Reference Rate = A * (1 + B) ^ (10.5 / 12) * (1 + C) / (1 - D - E - F)



Region: Southeast

| Rating Group | Age | Gender | MMs ¹ | Base Period | Rate Development Data Adjustments | | | | | 4/1/10-6/30/11 Resulting Rate Ranges | | |
|------------------|-------------|------------------|------------------|--------------------------------|-----------------------------------|-----------------|-------------------------------|---------------------|----------------------------|--------------------------------------|------------------|------------------|
| | | | | A | B | C | D | E | F | Reference Rate ⁴ | Lower Bound Rate | Upper Bound Rate |
| | | | | SFY 2010 Midpoint Medical PMPM | Trend ² | Program Changes | Non-Medical Load ³ | Profit ³ | Privilege Fee ³ | | | |
| Title XXI | < 1 year | M & F | 804 | \$ 319.18 | 5.64% | 0.52% | 8.25% | 2.00% | 1.00% | \$ 379.27 | \$ 367.03 | \$ 386.76 |
| Title XXI | 1-5 years | M & F | 22,366 | \$ 112.77 | 4.84% | -1.05% | 8.25% | 2.00% | 1.00% | \$ 131.04 | \$ 127.81 | \$ 133.30 |
| Title XXI | 6-14 years | M & F | 67,290 | \$ 88.61 | 4.29% | -1.45% | 8.25% | 2.00% | 1.00% | \$ 102.08 | \$ 99.99 | \$ 103.74 |
| Title XXI | 15-19 years | F | 11,606 | \$ 164.60 | 4.61% | -1.21% | 8.25% | 2.00% | 1.00% | \$ 190.58 | \$ 186.19 | \$ 193.80 |
| Title XXI | 15-19 years | M | 11,514 | \$ 102.70 | 4.93% | -0.84% | 8.25% | 2.00% | 1.00% | \$ 119.68 | \$ 116.59 | \$ 121.80 |
| Title XXI | All | M & F | 113,580 | \$ 104.20 | 4.55% | -1.22% | 8.25% | 2.00% | 1.00% | \$ 120.57 | \$ 117.85 | \$ 122.60 |

1 - Calendar Year 2009 HealthWave XXI Member Months

2 - The trend shown is annualized for 10.5 months from January 1, 2010 to November 15, 2010

3 - Shown as a percentage of the Reference Rate

4 - Formula to arrive at Reference Rate: $\text{Reference Rate} = A * (1 + B)^{(10.5 / 12)} * (1 + C) / (1 - D - E - F)$



Region: Sedgwick

| Rating Group | Age | Gender | MMs ¹ | Base Period | Rate Development Data Adjustments | | | | | 4/1/10-6/30/11 Resulting Rate Ranges | | |
|------------------|-------------|------------------|------------------|--------------------------------|-----------------------------------|-----------------|-------------------------------|---------------------|----------------------------|--------------------------------------|------------------|------------------|
| | | | | A | B | C | D | E | F | Reference Rate ⁴ | Lower Bound Rate | Upper Bound Rate |
| | | | | SFY 2010 Midpoint Medical PMPM | Trend ² | Program Changes | Non-Medical Load ³ | Profit ³ | Privilege Fee ³ | | | |
| Title XXI | < 1 year | M & F | 566 | \$ 347.98 | 5.68% | 4.61% | 8.25% | 2.00% | 1.00% | \$ 430.48 | \$ 416.41 | \$ 439.28 |
| Title XXI | 1-5 years | M & F | 21,017 | \$ 94.23 | 4.54% | -0.37% | 8.25% | 2.00% | 1.00% | \$ 109.98 | \$ 107.58 | \$ 111.79 |
| Title XXI | 6-14 years | M & F | 56,958 | \$ 77.55 | 4.23% | -0.39% | 8.25% | 2.00% | 1.00% | \$ 90.25 | \$ 88.43 | \$ 91.73 |
| Title XXI | 15-19 years | F | 7,974 | \$ 121.18 | 4.36% | -0.51% | 8.25% | 2.00% | 1.00% | \$ 141.02 | \$ 138.06 | \$ 143.35 |
| Title XXI | 15-19 years | M | 8,425 | \$ 73.14 | 4.31% | -0.28% | 8.25% | 2.00% | 1.00% | \$ 85.26 | \$ 83.47 | \$ 86.68 |
| Title XXI | All | M & F | 94,940 | \$ 86.13 | 4.36% | -0.27% | 8.25% | 2.00% | 1.00% | \$ 100.47 | \$ 98.35 | \$ 102.13 |

1 - Calendar Year 2009 HealthWave XXI Member Months

2 - The trend shown is annualized for 10.5 months from January 1, 2010 to November 15, 2010

3 - Shown as a percentage of the Reference Rate

4 - Formula to arrive at Reference Rate: Reference Rate = A * (1 + B) ^ (10.5 / 12) * (1 + C) / (1 - D - E - F)