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April 15, 2005

Mr. Kevin Rupe
Oklahoma Health Care Authority
4545 North Lincoln Boulevard
Oklahoma City, OK 73105

Confidential

Subject:

State of Oklahoma NET Rate Development and Certification

Dear Mr. Rupe:

The Oklahoma Health Care Authority (OHCA) contracted with Mercer Government Human Services Consulting (Mercer) to develop actuarially sound capitation rate ranges for the State of Oklahoma (State) Non-Emergent Transportation (NET) program. The rate ranges were developed for State Fiscal Year (SFY) 2006 (July 1, 2005 through June 30, 2006). This letter presents an overview of the analysis and methodology used in Mercer's rate range development for NET services for the purpose of satisfying the requirements of the Centers for Medicare and Medicaid Services (CMS).

Summaries describing the base data, rate development process and rate ranges can be found in the appendices at the end of this document.

Rate Methodology

Overview

Capitation rate ranges for the State's NET program were developed in accordance with rate-setting guidelines established by CMS. One of the key considerations in the development of the rate ranges was the base data.

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Base Data

The rate ranges for the period SFY 2006 were based on cost and utilization information provided by the current NET vendor and the State of Oklahoma. Mercer received the following service cost and eligibility information:

- person-level transportation encounters from the State's data warehouse,
- aggregate encounter experience from the current NET vendor,
- monthly financial experience from the current NET vendor, and
- eligibility information from the State.

Person-Level Encounter Data

The State provided historical NET encounters for dates of service from August 2003 through November 2004. The person-level encounter data included fields indicating the county of residence, aid category status, date of service and procedure code. Utilization and billed amounts were included for all of the reported encounters.

Aggregate Encounter Data

The State's current NET vendor provided aggregate encounter data for August 2003 through November 2004. This information was provided by service month to validate the person level encounter data.

Comparison of the person-level and aggregate encounter data revealed significant differences between the two data sources. Through discussions with the State and the State's current NET vendor, Mercer determined the person-level encounter experience from the State's warehouse was significantly under reported due to system issues with early submissions. While these issues appear to have been largely corrected in the last three months of data, three months of data is not sufficiently credible to use in rate development.

Additionally, the aggregate encounter information provided by the State's current NET vendor does not reflect system edits and appears to be overstated in comparison to the financial experience. It is not clear why the aggregate encounter data is substantially higher than the financial data source, therefore, no credibility was assigned to this data source.

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The State acknowledged system issues prior to September 2004 have been resolved. Mercer used the September 2004 to November 2004 person-level encounter data to allocate the financial data to the TANF and ABD rating groups, since the financial data was not reported in this fashion.

Financial Data

The State's current NET vendor routinely reports financial information to the State. This data is restated monthly and includes detailed administrative and service expenses, revenue, and eligibility information. Mercer validated the revenue and eligibility reported in this financial data report against the eligibility and payments reported by the State.

The State's current NET vendor reported transportation cost and utilization by month and mode of transportation for services provided January 2004 through December 2004. Mercer confirmed through discussions with the State's current NET vendor and the State the reported data represented actual costs for providing transportation to the Oklahoma NET population. Mercer applied the following adjustments to the financial data.

Completion Factors

The reported data included claims for service dates in Calendar Year (CY) 2004 paid through February 2005. Mercer requested the State's current NET vendor's estimates of outstanding claim liability for the experience period. Mercer reviewed the methodology used to develop the estimates and determined the estimates to be reasonable.

The following completion factors were applied to the reported claims in each month:

- January through September 2004: 1.0000
- October 2004: 1.0067
- November 2004: 1.0144
- December 2004: 1.0515

Enrollment Lag

The State's NET vendor provides trips for Medicaid eligible individuals who have not been enrolled and for which the NET vendor has not received a capitation payment. The State reimburses the NET vendor on a fee-for-service basis for these trips. These claims will continue to be paid on a fee-for-service basis by the State for the SFY 2006 contract period. The financial

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data reported by the State's current NET vendor included trips provided during this enrollment lag period.

The State's current NET vendor reported the revenue collected from the State for these trips separately from the capitation revenue for January 2004 through October 2004. Since this revenue reflects the claims costs incurred by the State's current NET vendor for these trips, Mercer developed an adjustment based on the reported revenue collected outside of the capitation and the total claims expense. The CY 2004 claims in the financial data were reduced by 1.12% to remove enrollment lag expenses.

Supplemental Payments

Prior to December 2004, the NET claims submitted on the monthly Income Statement did not include supplemental payments to transportation providers. These payments would include additional costs to account for items such as exceptionally long trips, excessively high gasoline costs, extreme patient cases, or other unusual circumstances. Expenses for these items average \$45,000 each month. Mercer increased the financial data \$495,000 to account for these costs.

OHCA Eligibility and Capitation Payment Data

Mercer received summarized monthly eligibility and capitation payment history by category of aid for the time period January 2003 through December 2005. This eligibility was used to calculate per member per month (PMPM) and utilization per 1000 statistics for the encounter and financial data provided by the State and the State's current NET vendor.

A summary of the base data reviewed for rate setting can be found in Appendix B.

Covered Populations

Mercer developed rate ranges for two rate cohorts: TANF & TANF related and ABD & ABD related. Appendix A illustrates the aid categories included in each group. Since there is only one NET vendor, and the program is mandatory for all eligible populations, there is no opportunity for anti-selection. Therefore, it is sufficient to develop a single statewide capitation rate for each cohort.

Rate Development

Mercer summarized the September 2004 through November 2004 person-level encounter data and the CY 2004 financial data by aid category and mode of transportation. Since the financial data was not provided by aid category of the recipient, the person-level encounter data was used

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to summarize the financial data in the same categories. The CY 2004 financial data was used as the base data for SFY 2006 rate development.

The CY 2004 base data was adjusted, as described above, to include experience for the appropriate State plan services and populations. To develop SFY 2006 rate ranges, additional adjustments were made to the base data to reflect:

- trend factors to forecast the utilization and unit costs to the appropriate rating period,
- prospective programmatic changes not reflected in the base data, and
- administration/contingencies loading.

Trend

A trend factor is necessary to estimate the expenses of providing NET services in a future period. As part of the rate development, Mercer developed unit cost and utilization trend rates. The base data was trended forward to the midpoint of SFY 2006. Mercer reviewed the following sources in the development of trend:

- CPI/DRI projected trends,
- trend benchmarks for other Medicaid NET programs, and
- NET trend experience in Oklahoma.

Due to the limited Oklahoma NET data provided, CPI/DRI unit cost trends and trend benchmarks for other Medicaid NET programs was incorporated into Mercer's trend analysis. CPI/DRI unit cost trends for NET services range from roughly 1.5% to 2.0% over the base year to the projected contract periods. Other Medicaid NET programs experience PMPM trends in the 2% to 6% range.

Available experience for the Oklahoma NET program indicated substantially higher trends than the trends found in CPI/DRI or in other Medicaid NET programs. Mercer considered the level of utilization and trends indicated by the Oklahoma base data in the development of the PMPM trend factor. Mercer assumed a PMPM trend of 5.5% to develop the target rate.

Programmatic Changes

Effective January 1, 2004, the State discontinued their managed care program in the three urban areas of Oklahoma. Historically, NET services for the managed care population were the

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responsibility of the health plans. Beginning January 1, 2004, these services were provided by the NET vendor. Since the base data reflected CY 2004 data, an adjustment for this program change was unnecessary.

Under Section 143 of the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA), (P.L.97-248), states were allowed to make Medicaid benefits available to certain disabled children who would not ordinarily be eligible for Supplemental Security Income (SSI) benefits because of their parent's income or resources. Through discussions with the State, Mercer determined that effective July 1, 2005, these children will be able to access NET services as part of the ABD & ABD related group.

It is commonly accepted these children have cost structures comparable to the top 10% most costly ABD consumers. Mercer reviewed the NET expenditures for the top 10% ABD population and found these consumers primarily use ambulatory and wheelchair van services. These services have high unit costs. Mercer assumes these children will primarily access gas reimbursement services at a significantly lower unit cost. Therefore, even if this population's utilization is substantially higher than the average ABD user, the services will have a lower unit cost and, therefore, the overall cost for this population will not be significantly different than the remaining ABD population reflected in the data. Additionally, the State only expects a small number of children will be added to the program. Any difference in their cost levels will not influence the overall cost to the ABD population. Mercer did not make an adjustment for this programmatic change.

Additional Considerations

Mercer also considered the following when establishing the base data used in rate development.

- The base data is representative of the cost structures for the covered population and services.
- There are no consumer cost-sharing provisions in the Oklahoma program, so no adjustment was necessary for co-payments, deductibles or coinsurance.
- The State will continue to fully reimburse the NET vendor for services provided in the enrollment lag period. These costs were not included in the base data.
- The State does not use any incentive arrangements or risk corridors for the NET program.

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Administration/Contingencies Loading

The administration/contingencies load factor is expressed as a percentage of the gross capitation rate (e.g., premium). These percentages were developed incorporating the following considerations:

- administrative requirements of the NET contract,
- administrative expense benchmarks for other Medicaid NET programs, and
- historical administrative expenses in Oklahoma.

Mercer used a factor of 18% to include consideration for administration and contingencies in the target capitation rates.

Rate Ranges

Mercer developed rate ranges to account for possible differences in actual trend and administration costs compared to the assumed trend and administration in the target capitation rates. Mercer placed a range of -2% to +1.5% around the PMPM trend assumption. Mercer also placed a range of -3% to +2% around the administration/contingencies load factor.

A summary of the rate development for each population can be found in Appendix C at the end of this document. Resulting rate ranges for the contract periods are displayed in the attachments.

Certification

Mercer certifies the Oklahoma NET capitation rate ranges presented in Appendix D were developed in accordance with generally accepted actuarial practices and principles by actuaries meeting the qualification standards of the American Academy of Actuaries for the populations and services covered under the NET contract. Rates developed by Mercer are actuarial projections of future contingent events. Actual results will differ from these projections. Mercer has developed these rates on behalf of the State to demonstrate compliance with the CMS requirements under 42 CFR 438.6(c) and are in accordance with applicable laws and regulations.

Providers are advised that the use of these rates may not be appropriate for their particular circumstance and Mercer disclaims any responsibility for the use of these rates by providers for any purpose. Mercer recommends that any provider considering contracting with the State should analyze its own projected service expense, administrative expense, and any other premium needs for comparison to these rates before deciding whether to contract with the State. Use of these rates for any purpose beyond those stated may not be appropriate.

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If you have questions on any of the information provided, please feel free to call me at 612 642 8855.

Sincerely,

Elizabeth L. Larson, ASA, MAAA

Copy: Mercer - Sam Espinosa, Jason Stolte

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Appendix A Covered Populations

Aid Category	COA
Public Assistance, Aged	ABD Related TANF Related
CHIP - CN related to pregnancy	TANF Related
CHIP - CN TANF	ABD Related
Medical Assistance, Medically Needy, Aged	ABD Related
Medical Assistance, Categorically Needy, Aged	ABD Related
Public Assistance, Blind	ABD Related
Medical Assistance, Categorically Needy, Blind	ABD Related
Public Assistance, Disabled	ABD Related
Institutionalized with income less than 300%, Aged	ABD Related
Institutionalized with income less than 300%, Blind	ABD Related
Institutionalized with income < 300%, Disabled	ABD Related
Medical Assistance, Medically Needy, Disabled	ABD Related
Medical Assistance, Categorically Needy, Disabled	ABD Related
Public Assistance, TANF	TANF Related
Medical Assistance, Categorically Needy, TANF	TANF Related
Medical Assistance, Medically Needy, TANF	TANF Related
Medical Assistance, Categorically Needy, Pregnant	TANF Related
Medical Assistance, Medically Needy, Pregnant	TANF Related
Refugee	TANF Related
Transitional Medical, Public Assistance, TANF	TANF Related
Transitional Medical, Categorically Needy, TANF	TANF Related

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Appendix B Non-Emergent Transportation Base Data

TANF and TANF Related

Category of Service	Sept - Nov 2004 Encounter Data ⁽¹⁾			NET Vendor CY 2004 Financials ⁽²⁾		
	Util/1000	Unit Cost	PMPM	Util/1000	Unit Cost	PMPM
Ambulatory	106	\$ 49.24	\$ 0.44	93	\$ 44.18	\$ 0.34
Bus, Mass Transit	6	\$ 3.00	\$ 0.00	14	\$ 1.52	\$ 0.00
Gas Reimbursement ⁽¹⁾	2,210	\$ 0.32	\$ 0.06	61	\$ 9.19	\$ 0.05
Wheelchair Van	3	\$ 45.77	\$ 0.01	3	\$ 40.57	\$ 0.01
Total PMPM			\$ 0.51			\$ 0.40

ABD and ABD Related

Category of Service	Sept - Nov 2004 Encounter Data ⁽²⁾			NET Vendor CY 2004 Financials ⁽³⁾		
	Util/1000	Unit Cost	PMPM	Util/1000	Unit Cost	PMPM
Ambulatory	2,250	\$ 38.47	\$ 7.21	1,990	\$ 34.52	\$ 5.73
Bus, Mass Transit	40	\$ 3.01	\$ 0.01	104	\$ 1.52	\$ 0.01
Gas Reimbursement ⁽¹⁾	26,458	\$ 0.32	\$ 0.71	735	\$ 9.21	\$ 0.56
Wheelchair Van	740	\$ 38.06	\$ 2.35	743	\$ 33.73	\$ 2.09
Total PMPM			\$ 10.28			\$ 8.39

(1) Gas Reimbursement utilization is measured in miles and trips for the Encounter and Financial Data, respectively.
 (2) The base encounter data has been adjusted to reflect the aggregate encounter claim level reported by the State's NET vendor. In addition, an adjustment has been applied to remove claims for individuals for which the NET vendor does not receive a capitation payment.
 (3) The base financial data reflects adjustments for claims run out, supplemental payments to providers, and to remove claims provided to individuals for which the NET vendor is reimbursed outside of the capitation payment.

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Appendix C1

Non-Emergent Transportation

TANF and TANF Related Projected Rates

Contract Period: July 1, 2005 through June 30, 2006

Contract Period	7/1/05 - 6/30/06
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Category of Service	CY 2004 Base Data				Annual Trend Factors		Projected Contract Period Rates				
	Util/1000	Unit Cost	PMPM	Util/1000	Unit Cost	Util/1000	Unit Cost	PMPM	Lower Bound	Upper Bound	
Ambulatory	93	\$ 44.18	\$ 0.34	3.7%	1.8%	99	\$ 45.38	\$ 0.37	\$ 0.36	\$ 0.38	
Bus, Mass Transit	14	\$ 1.52	\$ 0.00	3.7%	1.8%	15	\$ 1.56	\$ 0.00	\$ 0.00	\$ 0.00	
Gas Reimbursement	61	\$ 9.19	\$ 0.05	3.7%	1.8%	64	\$ 9.44	\$ 0.05	\$ 0.05	\$ 0.05	
Wheelchair Van	3	\$ 40.57	\$ 0.01	3.7%	1.8%	3	\$ 41.65	\$ 0.01	\$ 0.01	\$ 0.01	
Total PMPM			\$ 0.40					\$ 0.43	\$ 0.42	\$ 0.44	

Administration, Profit, Risk Contingency on Gross Capitation Rate:

Total Projected Capitation Rate:

	18.0%		15.0%		20.0%
	\$ 0.53	\$ 0.50	\$ 0.50	\$ 0.55	

Projected Capitation Rate Range:					
Lower Bound:	0.50	Target Rate:	0.53	Upper Bound:	0.55

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Appendix C2 Non-Emergent Transportation ABD and ABD Related Projected Rates Contract Period: July 1, 2005 through June 30, 2006

Contract Period	7/1/05 - 6/30/06
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Category of Service	CY 2004 Base Data				Annual Trend Factors		Projected Contract Period Rates			
	Util/1000	Unit Cost	PMPM	Util/1000	Unit Cost	Util/1000	Unit Cost	PMPM	Lower Bound PMPM	Upper Bound PMPM
Ambulatory	1,990	\$ 34.52	\$ 5.73	3.7%	1.8%	2,101	\$ 35.44	\$ 6.20	\$ 6.03	\$ 6.34
Bus, Mass Transit	104	\$ 1.52	\$ 0.01	3.7%	1.8%	110	\$ 1.56	\$ 0.01	\$ 0.01	\$ 0.01
Gas Reimbursement	735	\$ 9.21	\$ 0.56	3.7%	1.8%	775	\$ 9.46	\$ 0.61	\$ 0.59	\$ 0.62
Wheelchair Van	743	\$ 33.73	\$ 2.09	3.7%	1.8%	794	\$ 34.63	\$ 2.26	\$ 2.20	\$ 2.31
Total PMPM			\$ 8.39					\$ 9.09	\$ 8.84	\$ 9.29

Administration, Profit, Risk Contingency on Gross Capitation Rate:

Total Projected Capitation Rate:

	18.0%		15.0%		20.0%
	\$ 11.09	\$ 10.40	\$ 10.40	\$ 11.61	

Projected Capitation Rate Range:					
Lower Bound:	10.40	Target Rate:	11.09	Upper Bound:	11.61

