

MILLIMAN CLIENT REPORT

# State Fiscal Year 2020 Medicaid Managed Care Capitation Rate Certification Amendment

July 1, 2019 through June 30, 2020

South Carolina Department of Health and Human Services

June 23, 2020

[Jeremy D. Palmer](#), FSA, MAAA, Principal and Consulting Actuary  
[Marlene T. Howard](#), FSA, MAAA, Principal and Consulting Actuary  
[Carmen L. Laudenschlager](#), ASA, MAAA, Associate Actuary



## Table of Contents

<b>I.</b>	<b>BACKGROUND</b> .....	<b>1</b>
<b>II.</b>	<b>EXECUTIVE SUMMARY</b> .....	<b>2</b>
	SUMMARY OF METHODOLOGY .....	2
<b>III.</b>	<b>RISK SHARING MECHANISMS</b> .....	<b>3</b>
<b>IV.</b>	<b>LIMITATIONS</b> .....	<b>5</b>
	<b>APPENDIX 1: ACTUARIAL CERTIFICATION</b>	
	<b>APPENDIX 2: CERTIFIED CAPITATION RATES</b>	

## I. Background

Milliman, Inc. (Milliman) has been retained by the State of South Carolina Department of Health and Human Services (SCDHHS) to provide actuarial and consulting services related to the development of actuarially sound capitation rates for its Medicaid Managed Care Program effective July 1, 2019.

This letter provides a summary of the methodology used for the revised actuarial certification of state fiscal year (SFY) 2020 capitation rates effective July 1, 2019 through June 30, 2020. It also includes the required actuarial certification in Appendix 1.

This report is a revision to the capitation rate certification provided in the following correspondence from Milliman, dated June 13, 2019:

- *State Fiscal Year 2020 Medicaid Managed Care Capitation Rate Certification (Original)*

We have revised the SFY 2020 capitation rate certification to include the documentation of a risk corridor program applicable to the SFY 2020 contract period that was not reflected in the Original certification. **Unless otherwise stated, the methodology and assumptions utilized are consistent with the capitation rate certification documentation included in the Original report.**

The capitation rates provided under this certification are “actuarially sound” for purposes of 42 CFR 438.4(a), according to the following criteria:

- The capitation rates provide for all reasonable, appropriate, and attainable costs that are required under terms of the contract and for the operation of the managed care plan for the time period and population covered under the terms of the contract, and such capitation rates were developed in accordance with the requirements under 42 CFR 438.4(b).

To ensure compliance with generally accepted actuarial practices and regulatory requirements, we referred to published guidance from the American Academy of Actuaries (AAA), the Actuarial Standards Board (ASB), the Centers for Medicare and Medicaid Services (CMS), and federal regulations. Specifically, the following were referenced in the Original rate certification or the revised rate amendment:

- Actuarial standards of practice applicable to Medicaid managed care rate setting which have been enacted as of the capitation rate certification date, including: ASOP 1 (Introductory Actuarial Standard of Practice); ASOP 5 (Incurred Health and Disability Claims); ASOP 23 (Data Quality); ASOP 25 (Credibility Procedures); ASOP 41 (Actuarial Communications); ASOP 45 (The Use of Health Status Based Risk Adjustment Methodologies); and ASOP 49 (Medicaid Managed Care Capitation Rate Development and Certification).
- Actuarial soundness and rate development requirements in the Medicaid and CHIP Managed Care Final Rule (CMS 2390-F) for the provisions effective through the managed care program rating period ending June 30, 2020.
- CMS COVID-19 Frequently Asked Questions (FAQ) published May 5, 2020.<sup>1</sup>
- The *2019-2020 Medicaid Managed Care Rate Development Guide* published in March 2019 by CMS.
- Throughout this document and consistent with the requirements under 42 CFR 438.4(a), the term “actuarially sound” will be defined as in ASOP 49:

*“Medicaid capitation rates are “actuarially sound” if, for business for which the certification is being prepared and for the period covered by the certification, projected capitation rates and other revenue sources provide for all reasonable, appropriate, and attainable costs. For purposes of this definition, other revenue sources include, but are not limited to, expected reinsurance and governmental stop-loss cash flows, governmental risk-adjustment cash flows, and investment income. For purposes of this definition, costs include, but are not limited to, expected health benefits; health benefit settlement expenses; administrative expenses; the cost of capital, and government-mandated assessments, fees, and taxes.”<sup>2</sup>*

<sup>1</sup> <https://www.medicaid.gov/state-resource-center/downloads/covid-19-new-faqs.pdf>

<sup>2</sup> <http://www.actuarialstandardsboard.org/asops/medicaid-managed-care-capitation-rate-development-and-certification/>

## II. Executive Summary

This report is an amendment to the documentation of the Original capitation rate certification for SFY 2020. We have revised the rate certification to include a new risk corridor program not reflected in the Original certification. Unless stated otherwise, all assumptions are consistent with our Original certification.

### SUMMARY OF METHODOLOGY

The revised rate certification for SFY 2020 includes documentation of a risk corridor program according to Section 1.4.C (Risk Sharing Mechanisms) of the Medicaid Managed Care Rate Development Guide. All other assumptions for the SFY 2020 capitation rates for effective dates of July 1, 2019 through June 30, 2020 are consistent with the Original certification. Effective for SFY 2020, SCDHHS anticipates operating a risk corridor program as a risk mitigation mechanism in recognition of the medical expense cost uncertainty attributable to the COVID-19 pandemic and national emergency. The risk corridor settlement will be calculated for an MCO across all capitation rate cells combined. There is no change to the certified SFY 2020 capitation rates at the rate cell level provided in the Original certification. Appendix 2 provides the certified SFY 2020 capitation rates by rate cell.

The actuarial certification contained in this report is effective for the capitation rates for the one year rate period from July 1, 2019 through June 30, 2020. The actuarial certification, signed by Jeremy D. Palmer, FSA, is in Appendix 1. Mr. Palmer meets the qualification standards established by the American Academy of Actuaries, follows the practice standards established by the Actuarial Standards Board, and certifies that the final rates meet the applicable standards in 42 CFR 438 that are effective for the SFY 2020 managed care program rating period.

### III. Risk Sharing Mechanisms

The following section provides a revision to Section I.4.C of the Original capitation rate certification.

#### (i) Rate Development Standards

This section provides documentation of the risk-sharing mechanisms in the South Carolina managed care program.

#### (ii) Appropriate Documentation

##### a) Description of Risk-sharing Mechanism

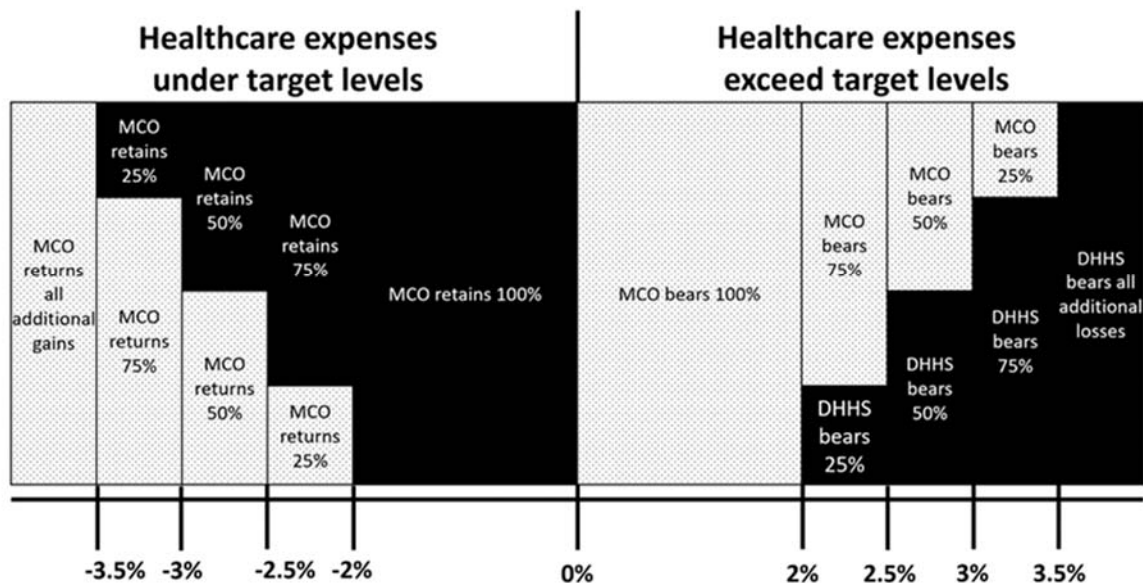
SCDHHS is implementing a Risk Corridor program for SFY 2020.

##### (i) Methodology

###### **Risk Corridor Program**

Effective for SFY 2020, SCDHHS anticipates operating a risk corridor program as a risk mitigation mechanism in recognition of the medical expense cost uncertainty attributable to the COVID-19 pandemic and national emergency. For all rate cells, a single risk corridor will be applied for each managed care organization (MCO).

The risk corridor represents a risk mitigation mechanism where SCDHHS will share in the profits and losses for medical expenses on a tiered bases according to the parameters outlined below. The risk corridor settlement will be calculated for an MCO across all capitation rate cells combined. The following graphic outlines the risk sharing responsibility through the various tiers of the risk corridor.



Note: Provided by SCDHHS on June 19, 2020

The risk corridor ratio for each MCO is calculated as medical expenses divided by baseline medical expenses, according to the definitions provided below. The risk corridor financial responsibility parameters are defined as follows.

If the risk corridor ratio is greater than 102.0%, SCDHHS will make a payment to the MCO of the baseline medical expenses multiplied by:

- 25% multiplied by [risk corridor ratio less 102.0%], if the risk corridor ratio is less than or equal to 102.5%;
- 0.125% plus (50% multiplied by [risk corridor ratio less 102.5%]), if the risk corridor ratio is greater than 102.5% and less than or equal to 103.0%;

- 0.375% plus (75% multiplied by [risk corridor ratio less 103.0%]), if the risk corridor ratio is greater than 103.0% and less than or equal to 103.5%;
- 0.75% plus [risk corridor ratio less 103.5%], if the risk corridor ratio is greater than 103.5%.

If the risk corridor ratio is less than 98.0%, SCDHHS will make a recoupment from the MCO of the baseline medical expenses multiplied by:

- 25% multiplied by [98.0% less risk corridor ratio], if the risk corridor ratio is greater than or equal to 97.5%;
- 0.125% plus (50% multiplied by [97.5% less risk corridor ratio]), if the risk corridor ratio is less than 97.5% and greater than or equal to 97.0%;
- 0.375% plus (75% multiplied by [97.0% less risk corridor ratio]), if the risk corridor ratio is less than 97.0% and greater than or equal to 96.5%;
- 0.75% plus [96.5% less risk corridor ratio], if the risk corridor ratio is less than 96.5%.

For the purposes of risk corridor calculations, medical expenses will be defined as follows:

- Medical expenses will include medical and pharmaceutical claim payments for state plan services incurred in SFY 2020, with 6 months of runout.
- Medical expenses will include appropriate accruals for items such as incurred but not paid amounts.
- Medical expenses will include provider incentive, bonus, and provider withhold payments for the period.
- For all sub-contracted services, medical expense will be defined as the benefit expense portion of the amount paid to providers.
- Pharmaceutical expenses will be defined as the amount paid to pharmacies, and net of any non-benefit payment (pharmacy spread) amounts paid and reported by the MCO.
- Medical expenses shall be offset by third party liability collections, member copays, fraud recoveries, supplemental rebates, and other exclusions of payments or services from the data.
- Supplemental teaching payments, payments for the hospital quality payment initiative, and any other payments for services not included in the benefit expense portion of the certified capitation rate will be excluded from medical expenses.

Baseline medical expenses will be defined as follows:

- The baseline will consist of the medical expense PMPM included in the SFY 2020 capitation rates, net of pharmacy spread, multiplied by member months.
- Supplemental teaching payments and payments for the hospital quality payment initiative will be excluded from baseline medical expenses.
- Baseline amounts will be risk adjusted consistent with the SFY 2020 capitation rates.

All non-benefit expenses will be excluded from risk corridor calculations. This includes administrative expenses, delegated admin, pharmacy benefit manager (PBM) fees or pharmacy spread, care management activities, taxes, assessments, and fees. Risk corridor settlements will be reflected in the denominator of medical loss ratio (MLR) calculations. Risk corridor reporting will be submitted by the MCOs in a format and frequency determined by SCDHHS.

The specific language from the provider agreement between SCDHHS and the MCOs should be referenced for final contract specifications and definitions.

## **(ii) Attestation of the use of generally accepted actuarial principles and practices**

The SFY 2020 risk corridor has been developed in accordance with generally accepted actuarial principles and practices.

## IV. Limitations

The services provided by Milliman to SCDHHS were performed under the signed consulting agreement between Milliman and SCDHHS effective July 1, 2019.

The information contained in this letter was prepared as documentation of the actuarially sound capitation rates for the Medicaid managed care program in the State of South Carolina. The information may not be appropriate for any other purpose.

The information contained in this letter, including the enclosures, has been prepared for SCDHHS and their consultants and advisors. It is our understanding that the information contained in this letter may be shared with the South Carolina Medicaid MCOs and CMS and may be used in a public document. To the extent that the information contained in this letter is provided to third parties, the letter should be distributed in its entirety. Any user of the data must possess a certain level of expertise in actuarial science and healthcare modeling so as not to misinterpret the data presented.

Milliman makes no representations or warranties regarding the contents of this letter to third parties. Likewise, third parties are instructed that they are to place no reliance upon this letter prepared for SCDHHS by Milliman that would result in the creation of any duty or liability under any theory of law by Milliman or its employees to third parties. Other parties receiving this letter must rely upon their own experts in drawing conclusions about the capitation rates, assumptions, and trends.

Although the capitation rates have been certified as actuarially sound, the capitation rates may not be appropriate for any individual MCO. Results will differ if actual experience is different from the assumptions contained in the capitation rate setting documentation. SCDHHS and Milliman provide no guarantee, either written or implied, that the data and information is 100% accurate or error free.

Milliman has relied on information provided by SCDHHS and the participating Medicaid MCOs in the development of the SFY 2020 capitation rates. We have relied upon SCDHHS and the MCOs for the accuracy of the data and accept it without audit. To the extent that the data provided are not accurate, the capitation rate development would need to be modified to reflect revised information.

Guidelines issued by the American Academy of Actuaries require actuaries to include their professional qualifications in all actuarial communications. The authors of this report are members of the American Academy of Actuaries and meet the qualification standards for performing the analyses contained herein.

## Appendix 1: Actuarial certification



**South Carolina Department of Health and Human Services  
Risk Based Managed Care Program  
Capitation Rates Effective July 1, 2019 through June 30, 2020**

**Actuarial Certification - Amendment**

I, Jeremy D. Palmer, am a Principal and Consulting Actuary with the firm of Milliman, Inc. I am a Member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. I meet the qualification standards established by the American Academy of Actuaries and have followed the standards of practice established by the Actuarial Standards Board. I have been employed by the State of South Carolina and am generally familiar with the state-specific Medicaid program, eligibility rules, and benefit provisions.

The capitation rates provided with this certification are considered "actuarially sound" for purposes of 42 CFR 438.4(a), according to the following criteria:

- the capitation rates provide for all reasonable, appropriate, and attainable costs that are required under terms of the contract and for the operation of the MCO for the time period and population covered under the terms of the contract, and such capitation rates were developed in accordance with the requirements under 42 CFR 438.4(b).

For the purposes of this certification and consistent with the requirements under 42 CFR 438.4(a), "actuarial soundness" is defined as in ASOP 49:

*"Medicaid capitation rates are "actuarially sound" if, for business for which the certification is being prepared and for the period covered by the certification, projected capitation rates and other revenue sources provide for all reasonable, appropriate, and attainable costs. For purposes of this definition, other revenue sources include, but are not limited to, expected reinsurance and governmental stop-loss cash flows, governmental risk-adjustment cash flows, and investment income. For purposes of this definition, costs include, but are not limited to, expected health benefits; health benefit settlement expenses; administrative expenses; the cost of capital, and government-mandated assessments, fees, and taxes."*

The assumptions used in the development of the "actuarially sound" capitation rates have been documented in my correspondence with the State of South Carolina. The "actuarially sound" capitation rates that are associated with this certification are effective for the rate period July 1, 2019 through June 30, 2020. I acknowledge that the State may elect to increase or decrease the capitation rates up to 1.5% per rate cell as allowed under 42 CFR 438.7(c)(3) of CMS 2390-F.

The capitation rates are considered actuarially sound after adjustment for the amount of the withhold not expected to be earned.

The "actuarially sound" capitation rates are based on a projection of future events. Actual experience may be expected to vary from the experience assumed in the rates.

In developing the "actuarially sound" capitation rates, I have relied upon data and information provided by the State. I have relied upon the State for audit of the data. However, I did review the data for reasonableness and consistency.

The capitation rates developed may not be appropriate for any specific health plan. An individual health plan will need to review the rates in relation to the benefits that it will be obligated to provide. The health plan should evaluate the rates in the context of its own experience, expenses, capital and surplus, and profit requirements prior to agreeing to contract with the State. The health plan may require rates above, equal to, or below the "actuarially sound" capitation rates that are associated with this certification.

Electronic  
Jeremy D. Palmer

Jeremy D. Palmer, FSA  
Member, American Academy of Actuaries

June 23, 2020  
Date

## Appendix 2: Certified Capitation Rates

**South Carolina Department of Health and Human Services  
Medicaid Managed Care Program  
State Fiscal Year 2020 Capitation Rate Development  
Comparison to SFY 2019 Capitation Rates**

Rate Cell Description	Rate Cell Code	SFY 2020 Projected Exposure	Including Add-Ons			Excluding Add-Ons		
			SFY 2019 Rates	SFY 2020 Rates	Total Rate Change	SFY 2019 Rates	SFY 2020 Rates	Total Rate Change
<b>TANF Children</b>								
TANF - 0 - 2 Months, Male & Female	AH3	82,856	\$ 2,167.32	\$ 2,356.71	8.7%	\$ 2,029.11	\$ 2,168.35	6.9%
TANF - 3 - 12 Months, Male & Female	AI3	354,132	254.97	260.04	2.0%	229.81	230.22	0.2%
TANF - Age 1 - 6, Male & Female	AB3	2,194,860	136.94	141.96	3.7%	130.43	132.93	1.9%
TANF - Age 7 - 13, Male & Female	AC3	2,621,148	146.40	151.38	3.4%	141.75	144.05	1.6%
TANF - Age 14 - 18, Male	AD1	734,040	154.08	164.10	6.5%	148.90	155.91	4.7%
TANF - Age 14 - 18, Female	AD2	749,856	184.59	201.73	9.3%	177.09	190.04	7.3%
<b>Subtotal TANF Children</b>		<b>6,736,892</b>	<b>\$ 178.97</b>	<b>\$ 188.14</b>	<b>5.1%</b>	<b>\$ 170.62</b>	<b>\$ 176.26</b>	<b>3.3%</b>
<b>TANF Adult</b>								
TANF - Age 19 - 44, Male	AE1	273,000	\$ 239.59	240.38	0.3%	\$ 232.53	\$ 228.47	(1.7%)
TANF - Age 19 - 44, Female	AE2	1,382,364	330.15	339.69	2.9%	314.36	317.47	1.0%
TANF - Age 45+, Male & Female	AF3	234,168	555.40	582.64	4.9%	535.81	552.11	3.0%
<b>Subtotal TANF Adult</b>		<b>1,889,532</b>	<b>\$ 344.98</b>	<b>\$ 355.45</b>	<b>3.0%</b>	<b>\$ 329.98</b>	<b>\$ 333.69</b>	<b>1.1%</b>
<b>Disabled</b>								
SSI - Children	SO3	139,932	\$ 654.70	682.56	4.3%	\$ 631.16	\$ 642.80	1.8%
SSI - Adults	SP3	605,052	1,231.22	1,329.85	8.0%	1,195.27	1,267.18	6.0%
<b>Subtotal Disabled</b>		<b>744,984</b>	<b>\$ 1,122.93</b>	<b>\$ 1,208.27</b>	<b>7.6%</b>	<b>\$ 1,089.31</b>	<b>\$ 1,149.90</b>	<b>5.6%</b>
OCWI	WG2	163,464	\$ 348.62	\$ 382.32	9.7%	\$ 295.90	\$ 312.11	5.5%
DUAL		-	\$ 155.37	\$ 165.49	6.5%	\$ 155.37	\$ 165.49	6.5%
Foster Care Children	FG3	58,740	\$ 933.29	\$ 872.55	(6.5%)	\$ 918.40	\$ 846.89	(7.8%)
KICK	MG2/NG2	26,556	\$ 6,715.22	\$ 6,807.22	1.4%	\$ 6,715.22	\$ 6,698.30	(0.3%)
<b>Total</b>		<b>9,593,612</b>	<b>\$ 311.07</b>	<b>\$ 326.65</b>	<b>5.0%</b>	<b>\$ 298.65</b>	<b>\$ 307.84</b>	<b>3.1%</b>



Milliman is among the world's largest providers of actuarial and related products and services. The firm has consulting practices in life insurance and financial services, property & casualty insurance, healthcare, and employee benefits. Founded in 1947, Milliman is an independent firm with offices in major cities around the globe.

[milliman.com](https://www.milliman.com)

© 2020 Milliman, Inc. All Rights Reserved. The materials in this document represent the opinion of the authors and are not representative of the views of Milliman, Inc. Milliman does not certify the information, nor does it guarantee the accuracy and completeness of such information. Use of such information is voluntary and should not be relied upon unless an independent review of its accuracy and completeness has been performed. Materials may not be reproduced without the express consent of Milliman.