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Ms. Pam Diez
Deputy Medicaid Director/Chief Financial Officer
Louisiana Department of Health
Bureau of Health Services Financing
628 North 4th Street
Baton Rouge, LA 70821

August 5, 2019

Subject: Healthy Louisiana Expansion Program – Full Risk Bearing Managed Care Organization (MCO) Rate Development and Actuarial Certification for the Period July 1, 2019 through December 31, 2019

Dear Ms. Diez:

The Louisiana Department of Health (LDH) has contracted with Mercer Government Human Services Consulting (Mercer) to develop actuarially sound[1] capitation rates for the State of Louisiana's (State) Healthy Louisiana Expansion program for the period of April 1, 2019 through December 31, 2019. This certification amends the previous certification issued May 24, 2019, and applies to the period of July 1, 2019 through December 31, 2019. The amendments include updates for new programmatic changes implemented by LDH after the prior certification was issued.

This letter presents an overview of the analyses and methodology used to support the programmatic changes, and the resulting capitation rate ranges effective July 1, 2019 through December 31, 2019 for the purpose of satisfying the requirements of the Centers for Medicare & Medicaid Services (CMS). This rate development process used Medicaid fee-for-service (FFS) medical and pharmacy claims, and Healthy Louisiana Prepaid encounter data. It resulted in the development of a range of actuarially sound rates for each rate cell. The final capitation rates and rate ranges are summarized in Appendix A and represent payment in full for the covered services.

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[1] Actuarially Sound/Actuarial Soundness — 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.

Reference: http://www.actuarialstandardsboard.org/wp-content/uploads/2015/03/asop049_179.pdf

BASE PROGRAM CHANGE ADJUSTMENTS

Program change adjustments recognize the impact of benefit or eligibility changes occurring during and after the base data period. CMS requires the rate setting methodology used to determine actuarially sound rates incorporate the results of any program changes that have taken place, or are anticipated to take place, between the start of the base data and the conclusion of the contract period.

Urine Drug Testing

Effective July 1, 2019, LDH adopted the following changes to the coverage of Urine Drug Testing:

- Presumptive drug testing is limited to 24 total tests per member per calendar year.
- Definitive drug testing is limited to 18 total tests per member per calendar year. CPT Codes 80320-80377 for individual substance(s) or metabolites will no longer be covered. Providers are required to use HCPCS codes G0480, G0481, or their successors. Testing more than 14 definitive drug classes per day is not reimbursable.
- No more than one presumptive and one definitive test will be reimbursed per day per recipient, from the same or different provider.

Additional details can be found in HPA 19-10 published on LDH's website. The table below summarizes the impact of the changes to the coverage of Urine Drug Testing on projected costs on each rate cell.

RATE CELL	URINE DRUG TESTING ADJUSTMENT
Expansion Age 19 - 64	-0.27%
Expansion High Needs	-0.28%

PROSPECTIVE RATING ADJUSTMENTS

Program change adjustments that occurred after the base data period, but before the conclusion of the rating period are referred to as Prospective Rating Adjustments.

Inpatient Fee Schedule Changes

Effective July 1, 2019, LDH released an updated Inpatient fee schedule which can be located on the LDH's website.[2] The revised fee schedule adjustments, as a percent of projected medical expenses, are summarized in the table below. Please refer to Appendix C for a summary of the incremental impact of this program change.

[2] https://www.lamedicaid.com/provweb1/fee_schedules/feeschedulesindex.htm

RATE CELL	FEE ADJUSTMENT 7/1/19
Expansion Age 19 - 64	4.73%
Expansion High Needs	5.31%

FQHC/RHC Fee Schedule Changes

Effective July 1, 2019, LDH released updated Federally Qualified Health Center (FQHC) and Rural Health Center (RHC) fee schedules which can be located on the LDH's website.[3] The updates are sourced from the annual refresh due to any changes to the Medicare Economic Index, which increased 1.5% for all FQHCs and RHCs (except those that receive a rate based on the alternative payment methodology). The revised fee schedule adjustments, as a percent of projected medical expenses, are summarized in the table below.

RATE CELL	FEE ADJUSTMENT 7/1/19
Expansion Age 19 - 64	0.05%
Expansion High Needs	0.03%

Single Preferred Drug List

Effective May 1, 2019, LDH implemented a Single Preferred Drug List (PDL) for selected therapeutic classes. Effective July 1, 2019, LDH replaced Mavyret™, Epclusa®, and Vosevi® with the authorized generic of Epclusa as the preferred Direct Acting Antiviral (DAA) for Hepatitis C on the PDL. Concurrently, LDH also removed all prior authorization restrictions on its criteria for the use of the preferred Hepatitis C DAA.

To estimate the impact of these changes on the pharmacy utilization and cost, Mercer's actuaries and pharmacists reviewed the historical utilization of Hepatitis C DAAs, publically available research on the interaction between prior authorization criteria and Hepatitis C DAA utilization, known and estimated prevalence of Hepatitis C in the LA Medicaid population, and the State's projections of Hepatitis C DAA use between July 1, 2019 and December 31, 2019. As a result of this analysis, Mercer revised its pharmacy trends; a summary of the revised annual pharmacy trend factors by rate cell are summarized in the subsequent table.

RATE CELL	PHARMACY TREND
Expansion Age 19 - 64	10.62%
Expansion High Needs	10.62%

[3] https://www.lamedicaid.com/provweb1/fee_schedules/feeschedulesindex.htm

Streamlined Hepatitis C Screening and Treatment Algorithm

Effective July 15, 2019, LDH implemented its Hepatitis C "Subscription Model" agreement with Asegua Therapeutics LLC. As a part of this agreement, LDH also adopted a streamlined protocol for Hepatitis C screening and monitoring. As compared to the protocols in place prior to the implementation of this agreement, the streamlined protocol will eliminate or reduce the utilization of the many services for individuals associated with the testing and subsequent treatment of Hepatitis C; examples include:

- Genotype testing
- Fibrosure testing
- RNA testing

In order to evaluate the impact of these changes, Mercer estimated the impact of eliminating or reducing the services that are no longer expected to be a part of the new treatment protocol on a per individual basis. LDH's FFS fee schedule was used to price the services in question. The FFS prices were also benchmarked against MCO-reported unit costs. The overall change in screen and treatment costs were also adjusted to account for the increase in the number of Medicaid enrollees expected to be treated for Hepatitis C between July 1, 2019 and December 31, 2019. A summary of the estimated impact of these changes by rate cell are summarized in the table below. Please refer to Appendix B for additional detail regarding this adjustment.

RATE CELL	ADJUSTMENT
Expansion Age 19 - 64	0.03%
Expansion High Needs	0.00%

NON-MEDICAL EXPENSE LOAD

Administrative Expense Load

The actuarially sound capitation rates developed include a provision for MCO administration and other non-medical expenses. Due to the expected increase in the number of Medicaid enrollees expected to be treated for Hepatitis C between July 1, 2019 and December 31, 2019, Mercer determined it was necessary to increase the administrative expense load to account for additional Hepatitis C-related case management costs.

Mercer estimated historical Hepatitis C-related case management costs based on the MCO financial reports and developed an add-on commensurate with the expected increase in the number of Medicaid enrollees who will be treated for Hepatitis C between July 1, 2019 and December 31, 2019. A summary of the estimated impact of these changes by rate cell are summarized in the subsequent table.

Rate Cell	Fixed Admin PMPM Add-on			
	Gulf	Capital	South Central	North
Expansion Age 19 - 64	$0.18	$0.13	$0.09	$0.06

RISK CORRIDOR

Due to the increased uncertainty around Hepatitis C-related costs in the July 1, 2019 through December 31, 2019 period, LDH will implement a risk corridor for Hepatitis C-related pharmacy, physician, and laboratory costs. LDH is working with the MCOs to finalize the details of the risk corridor, but the parameters are anticipated to follow the below:

Gain or Loss	Share of Contractor Loss/Gain	
	Contractor	LDH
Less than or equal to 1.0% of the aggregate Hepatitis C-related medical component of the risk adjusted capitation payment	100.00%	0.00%
Greater than 1.0% of the aggregate Hepatitis C-related medical component of the risk adjusted capitation payment	1.00%	99.00%

CERTIFICATION OF FINAL RATES

This certification assumes items in the Medicaid State Plan or Waiver, as well as the Healthy Louisiana MCO contract, have been approved by CMS.

In preparing the rates shown in Appendix A, Mercer has used and relied upon enrollment, FFS claims, encounter data, reimbursement level, benefit design, and other information supplied by LDH and its fiscal agent. LDH, its fiscal agent, and the Healthy Louisiana MCOs are responsible for the validity and completeness of the data supplied. We have reviewed the data and information for internal consistency and reasonableness, but we did not audit them. In our opinion they are appropriate for the intended purposes. However, if the data and information are incomplete/inaccurate, the values shown in this report may differ significantly from values that would be obtained with accurate and complete information; this may require a later revision to this report.

Because modeling all aspects of a situation or scenario is not possible or practical, Mercer may use summary information, estimates, or simplifications of calculations to facilitate the modeling of future events in an efficient and cost-effective manner. Mercer may also exclude factors or data that are immaterial in our judgment. Use of such simplifying techniques does not, in our judgment, affect the reasonableness, appropriateness, or attainability of the results for the Medicaid program. Actuarial assumptions may also be

changed from one certification period to the next because of changes in mandated requirements, program experience, changes in expectations about the future, and other factors. A change in assumptions is not an indication that prior assumptions were unreasonable, inappropriate, or unattainable when they were made.

Mercer certifies the rates in Appendix A, including any risk-sharing mechanisms, were developed in accordance with generally accepted actuarial practices and principles and are appropriate for the Medicaid covered populations and services under the Healthy Louisiana MCO contract. The undersigned actuaries are members of the American Academy of Actuaries and meet its qualification standards to certify to the actuarial soundness of Medicaid managed care capitation rates.

Rates and ranges developed by Mercer are actuarial projections of future contingent events. All estimates are based upon the information and data available at a point in time, and are subject to unforeseen and random events. Therefore, any projection must be interpreted as having a likely, and potentially wide, range of variability from the estimate. Any estimate or projection may not be used or relied upon by any other party or for any other purpose than for which it was issued by Mercer. Mercer is not responsible for the consequences of any unauthorized use. Actual Healthy Louisiana MCO costs will differ from these projections. Mercer has developed these rates on behalf of LDH to demonstrate compliance with the CMS requirements under 42 CFR 438.4 and accordance with applicable law and regulations. Use of these rate ranges for any purpose beyond that stated may not be appropriate.

Healthy Louisiana MCOs 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 Healthy Louisiana MCOs for any purpose. Mercer recommends that any MCO considering contracting with LDH should analyze its own projected medical expense, administrative expense, and any other premium needs for comparison to these rate ranges before deciding whether to contract with LDH.

LDH understands that Mercer is not engaged in the practice of law, or in providing advice on taxation matters. This report, which may include commenting on legal or taxation issues or regulations, does not constitute and is not a substitute for legal or taxation advice. Accordingly, Mercer recommends that LDH secure the advice of competent legal and taxation counsel with respect to any legal or taxation matters related to this report or otherwise.

This certification letter assumes the reader is familiar with the Healthy Louisiana Program, Medicaid eligibility rules, and actuarial rate-setting techniques. It has been prepared exclusively for LDH and CMS, and should not be relied upon by third parties. Other readers should seek the advice of actuaries or other qualified professionals competent in the area of actuarial rate projections to understand the technical nature of these results. Mercer is not responsible for, and expressly disclaims liability for, any reliance on this report by third parties.

LDH agrees to notify Mercer within 30 days of receipt of this report if it disagrees with anything contained in this report or is aware of any information or data that would affect the results of this report that has not been communicated or provided to Mercer or incorporated herein. The report will be deemed final and acceptable to LDH if nothing is received by Mercer within such 30-day period.

If you have any questions on any of the above, please feel free to contact Ron Ogborne at +1 602 522 6595 or Erik Axelsen at +1 404 442 3517 at your convenience.

Sincerely,

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APPENDIX A: HEALTHY LOUISIANA CAPITATION RATE RANGES

REGION	COA DESCRIPTION	RATE CELL DESCRIPTION	LOWER BOUND PMPM OR COST PER DELIVERY	REASONABLY ATTAINABLE PMPM OR COST PER DELIVERY	UPPER BOUND PMPM OR COST PER DELIVERY
Gulf	Medicaid Expansion	Age 19 - 64	$565.01	$565.58	$602.24
Gulf	Medicaid Expansion	High Needs	$1,109.52	$1,109.52	$1,188.43
Capital	Medicaid Expansion	Age 19 - 64	$644.11	$644.78	$687.68
Capital	Medicaid Expansion	High Needs	$1,548.84	$1,548.84	$1,652.64
South Central	Medicaid Expansion	Age 19 - 64	$570.44	$571.02	$608.61
South Central	Medicaid Expansion	High Needs	$2,679.91	$2,679.91	$2,864.72
North	Medicaid Expansion	Age 19 - 64	$515.48	$516.02	$551.00
North	Medicaid Expansion	High Needs	$1,416.81	$1,416.81	$1,518.94

APPENDIX B: NON-RX HEPATITIS C EXPENSE ADJUSTMENT

Service Type	FFS Unit Cost	Hepatitis C Treatment Protocol Change	
		Current Practice	Streamlined Practice
Antibody	$15.62	1	1
RNAs	$46.85	6	2
Genotype	$281.55	1	0
CMP	$9.25	2	1
CBC	$7.73	1	1
INR	$3.92	1	1
Liver tests	$8.93	2	1
Fibrosure	$51.14	1	0
HbsAg	$11.29	1	1
anti-HBs	$11.75	1	1
anti-HBc	$13.18	1	1
Office visit (level 3)	$41.53	7	5
Total		**25**	**15**

Impact Calculation	
Current Practice Cost Per User	$1,004.35
Streamlined Practice Cost Per User	$383.02
Discount	-61.9%
Hepatitis C Recipients 2019 Q1 & Q2	497
Hepatitis C Recipients 2019 Q3 & Q4 (Estimate)	1,503
Adherence to Streamlined Practice Rate	60%
	FFS Pricing
2019 Q1 & Q2 - Est. Cost Under Current Practice	$499,162
2019 Q3 & Q4 - Est. Cost Under Streamlined Practice	$949,223
Change in Cost for 2019 Q3 & Q4	$450,061
Percentage Change in Cost	90%

*The 450,061 impact is for both the Expansion and Non-Expansion populations.

APPENDIX C: INCREMENTAL EXPANSION RATE CHANGE AT 0TH PERCENTILE

		Apr 2019 - Jun 2019 Rates						
		A	B	C	D	E=A+B+C+D	F	G=E+F
RATE CELL	PROJ MMs[1]	CLAIMS PMPM	ADMIN PMPM	PREM TAX PMPM	UW GAIN PMPM	LIMITED RATE PMPM	FMP PMPM	FULL RATE PMPM
Expansion, Age 19 - 64	6,687,382	$ 400.35	$ 34.17	$ 25.70	$ 7.01	$ 467.22	$ 104.19	$ 571.41
Expansion, High Needs	1,218	$ 1,198.99	$ 72.80	$ 75.21	$ 20.51	$ 1,367.51	$ 266.20	$ 1,633.71
Aggregate	**6,688,599**	**$ 400.49**	**$ 34.17**	**$ 25.71**	**$ 7.01**	**$ 467.38**	**$ 104.22**	**$ 571.61**

		Jul 2019 - Dec 2019 Rates											
		H	I	J	K	L	M = A+H+I+J+K+L	N	O	P	Q=M+N+O+P	R	S=Q+R
RATE CELL	PROJ MMs[1]	URINE TESTING	FQHC / RHC	IP/OP FEE ADJ	Non-Rx HEP C	Rx HEP C	CLAIMS PMPM	ADMIN PMPM	PREM TAX PMPM	UW GAIN PMPM	LIMITED RATE PMPM	FMP PMPM	FULL RATE PMPM
Expansion, Age 19 - 64	6,687,382	$ (0.90)	$ 0.21	$ 0.08	$ 0.10	$ 3.72	$ 403.56	$ 34.28	$ 25.89	$ 7.06	$ 470.80	$ 103.44	$ 574.24
Expansion, High Needs	1,218	$ (2.90)	$ 0.36	$ 3.96	$ -	$ 12.76	$ 1,213.17	$ 72.80	$ 76.05	$ 20.74	$ 1,382.76	$ 251.23	$ 1,633.99
Aggregate	**6,688,599**	**$ (0.90)**	**$ 0.21**	**$ 0.08**	**$ 0.10**	**$ 3.72**	**$ 403.71**	**$ 34.29**	**$ 25.90**	**$ 7.06**	**$ 470.96**	**$ 103.47**	**$ 574.43**
						Difference	**$ 3.21**	**$ 0.11**	**$ 0.20**	**$ 0.05**	**$ 3.58**	**$ (0.75)**	**$ 2.83**

Notes:

1. Using latest projected enrollment figures from LDH for the period of January 1, 2019 through December 31, 2019.
2. Expansion Base Data represents experience having occurred from April 1, 2017 to March 31, 2018.