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January 9, 2014

Subject: Louisiana Medicaid Dental Benefit Program Capitation Rate Certification

Dear Ms. Johnson:

In partnership with the State of Louisiana (State), Mercer Government Human Services Consulting (Mercer) has developed statewide actuarially sound capitation rates for the Louisiana Medicaid Dental Benefit Program (DBP). These rates are applicable for the contract period May 1, 2014 through April 30, 2015.

This document presents an overview of the rate development, as well as a certification of its actuarial soundness, for the purpose of seeking rate approval from the Centers for Medicare and Medicaid Services (CMS) under 42 CFR 438.6(c). This rate development process was based on Medicaid fee-for-service (FFS) dental claims. It resulted in the development of a range of actuarially sound rates for each rate cell. Mercer then worked with DHH to develop a single proposed set of actuarially sound rates for each rate cell, which are included and certified within this letter.

Dental Capitation Rates

The proposed actuarially sound rates for the DBP are shown in Table 1.

Table 1: Actuarially Sound Dental Capitation Rates

May 1, 2014 to April 30, 2015	
Rate Cell Description	Monthly Capitation Rate Per Eligible
LaCHIP Affordable Plan	\$11.68
Medicaid Children	\$15.27
Medicaid Adult	\$1.26

Managed Care Rate Development Methodology Overview (AA.1.0, AA.2.4)

Louisiana intends to provide a managed DBP to LaCHIP Affordable Plan, Medicaid Children and Medicaid Adult populations effective May 1, 2014. The State DBP has been in place since the 1990's providing dental services to Medicaid members in a FFS environment. The fee schedule increases in 2007 helped increase access to and participation of dental providers in the network. The coordinated care DBP covers dental preventive services for eligible members younger than age 21 and adult denture benefits for eligible members at age 21 and above and is expected to provide savings and better dental outcomes over the legacy Medicaid program, improve access to essential specialty dental services and increase outreach and education to promote healthy dental behavior.

The proposed capitation rates provided above have been developed consistent with guidance provided in the CMS Rate Checklist. These actuarially sound dental capitation rates are based upon the State Plan covered services only. Base period dental claims data were analyzed, completed, and trended. Adjustments were applied, as appropriate, to reflect programmatic changes to the State Plan that affect the base period data and the contract period. Finally, managed care savings and Prepaid Ambulatory Health Plan (PAHP) administrative load assumptions were developed and included. Each of these rating elements is discussed in detail below.

Base Period Data and Enrollment (AA.2.0)

For the period of May 1, 2014 through April 30, 2015 rate setting, Mercer relied on historical Medicaid FFS data from State Fiscal Year (SFY) 2012 and SFY 2013. Louisiana's SFY runs from July 1 of a given year through June 30 of the following year.

Mercer has applied credibility weighting as appropriate to blend data from the two fiscal years focusing on the most recent year of data. The data was blended by placing 80% credibility on SFY 2013 and 20% on SFY 2012 data trended to SFY 2013 for the LaCHIP Affordable Plan population as the LaCHIP Affordable Plan dental benefits started in February 2012; 67% credibility was applied to SFY 2013 and 33% to SFY 2012 data trended to SFY 2013 for the Medicaid Children and Adult populations. The goal of the blending process is to obtain a set of base data that has sufficient credibility and reasonableness to develop actuarially-sound capitation rates.

Mercer reviewed the data provided by the State for consistency and reasonableness and determined that the data is appropriate for the purpose of setting capitation rates for the DBP. Mercer confirmed that the services included in this historical experience are State Plan covered services only.

Non Covered Populations (AA.2.1, AA2.2)

In general, the DBP covers most Medicaid eligible, LaCHIP and the LaCHIP Affordable Plan populations including full dual eligibles. The LaCHIP population was included in the Medicaid Children category for the dental capitation rates. The DBP non-covered populations are shown in Attachment A.

Retroactive Eligibility (AA.3.4)

Per the State, membership and claims incurred for covered services rendered prior to enrollment and during any retroactive period of eligibility are covered in the DBP.

Completion Factors (AA.3.14)

The FFS data includes claims for dates of service from July 1, 2011, to June 30, 2013, and reflects payments through June 30, 2013. Mercer estimated and adjusted for the remaining liability associated with incurred-but-not-reported claims for SFY 2012 and SFY 2013. The overall adjustments for SFY 2012 and SFY 2013, using paid claims data through June 30, 2013, were -0.14% and 6.75%, respectively.

Fraud-and-Abuse Adjustment

Adjustment was made for controlling fraud and abuse under managed care. Mercer estimated this adjustment to be -1.67 % based on an analysis of historical claims.

Trend Adjustments (AA.3.10)

Trend projections were based on analysis of Louisiana dental claims experience and review of dental trend benchmarks in other state Medicaid programs and commercial dental managed care programs. Mercer evaluated trend patterns in the FFS data to examine and project utilization trends for the rate period.

The overall annualized per member per month (PMPM) trend assumption is 0.45%.

Data Smoothing (AA.5.0)

Mercer determined that blending the base period provided adequate results and no additional smoothing was required to produce appropriate relationships among ages and services used.

Copayments (AA.3.7) and Third Party Liability (AA.3.6)

An adjustment for copayments was not necessary for this analysis because both the current program and the new DBP are not subject to copayments. Recoveries associated with Third Party Liability and subrogation have been removed from claims by selecting only state paid amounts.

Program Changes (AA.3.1)

Mercer used the fee schedule for DBP services effective July 1, 2013 to calculate prospective fee reduction adjustments applied to SFY 2012 and SFY 2013 as shown in Table 2 below.

Table 2: Fee Reduction Adjustment Assumptions

Rate Cell Description	SFY 2012	SFY 2013
LaCHIP Affordable Plan	-2.0%	0.0%
Medicaid Children	-1.9%	0.0%
Medicaid Adult	-0.2%	0.0%

Overall, the fee schedule changes since the base data, reduced the SFY 2012 cost by 1.9% and have minimal impact on the SFY 2013 cost.

Managed Care Adjustment

Managed care assumptions were based on savings options provided by the State that were analyzed to quantify potential savings in utilization. Table 3 shows a summary of the utilization reduction expected to be achieved by the managed care program.

Table 3: Managed Care Adjustment Assumptions

Rate Cell Description	Utilization	Unit Cost	PMPM
LaCHIP Affordable Plan	-13.9%	0.0%	-13.9%
Medicaid Children	-13.9%	0.0%	-13.9%
Medicaid Adult	-7.2%	0.0%	-7.2%

The overall impact of the managed care assumption was a reduction of 13.9%.

Administrative Load (AA.3.2)

The proposed capitation rates shown above include provision for dental (PAHP) administration and profit. Mercer relied upon its professional experience in working with numerous commercial managed dental plans and state Medicaid programs in determining appropriate non-medical expenses. The load for administration and underwriting profit/risk/contingency is calculated as a percentage of the final capitation rate. The proposed capitation rate, as developed, assumes a 9.0% load for non-medical expenses, 2.0% profit/risk/contingency and 2.25% premium tax for this rate period. In total, the overall load applied to the rates for administration and profit/contingencies was 13.0%.

Actuarial Certification

In preparing the capitation rate for the May 1, 2014, through April 30, 2015, Mercer has used and relied upon enrollment, eligibility, FFS data, fee schedule and benefit design information supplied by the State. The State is responsible for the validity and completeness of this supplied data and information. We have reviewed the data and information for internal consistency and reasonableness, but we did not audit it. If the data and information is incomplete or inaccurate, the values shown in this report may need to be revised accordingly.

Mercer certifies that the rate was developed in accordance with generally accepted actuarial practices and principles, and is appropriate for the Medicaid and LaCHIP covered populations and services under the managed care contract. The undersigned actuary is a member of the American Academy of Actuaries and meets its qualification standards to certify to the actuarial soundness of Medicaid managed care capitation rates.

Capitation rates developed by Mercer are actuarial projections of future contingent events. Actual dental claims costs will differ from these projections. Mercer has developed this rate on behalf of the State to demonstrate compliance with the CMS requirements under 42 CFR 438.6(c) and in accordance with applicable law and regulations. Use of the rates for any purpose beyond that stated may not be appropriate.

The health plans are advised that the use of the rates may not be appropriate for their particular circumstance and Mercer disclaims any responsibility for the use of the rates by the health plans for any purpose. Mercer recommends that any health plan considering contracting with the State should analyze its own projected dental expense, administrative expense and any other premium needs for comparison to the rates before deciding whether to contract with the State.



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This certification letter assumes the reader is familiar with the Louisiana DBP, Medicaid eligibility rules and actuarial rating techniques. It is intended for the State 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. This document should only be reviewed in its entirety.

If you have any questions or comments on the assumptions or methodology, please contact me at 404 442 3476.

Sincerely,

A handwritten signature in cursive script, appearing to read 'Rui Dai'.

Rui Dai, FSA, MAAA
Senior Associate