

## Overview of Rate Setting Methodology

This document provides a brief description of the methodology used by Mercer Government Human Services Consulting (Mercer) in calculation of the capitation rate ranges for the State of Louisiana's (State) procurement for a prepaid inpatient health plan (PIHP) contractor for behavioral health services provided to Medicaid-eligible adults

### Develop Base Year Data

The starting point for the rate development is the Data Book containing fee-for-service (FFS) data for the State from July 2007 through June 2010. This data will be blended into a single year of data to serve as the basis for rate setting.

To blend the FFS data, Mercer applied two years of trend to the state fiscal year (SFY) 2008 data and one year of trend to the SFY 2009 data as well as historical program changes not fully reflected in the data. This adjusts the two prior years of data onto a consistent basis as the SFY 2010 base data. This process allows Mercer to smooth variability from year to year in the rates by rate cell.

### Calculation of Contract Period Rate Ranges

#### Trend

From the base year, the experience was trended forward to the midpoint of the contract period. Trends were calculated from the FFS data from July 2007 through June 2010, with consideration of similar states' experience and the external marketplace, including CPI and DRI National Indices.

Each rating group in the State experience exhibited unique trends reflecting the underlying characteristics of the population and the mix of services received. The data was reviewed for both the unit cost and utilization trends. Final assumptions were set at the PMPM level for each service category and rating group at levels similar to the historical FFS trends.

#### Program Changes

Based on discussions with the State, Mercer identified program changes that have occurred during or after the data time period. These program changes are related to fee schedule changes made by the State and program changes related to mental health services covered under the State Plan. These changes are incorporated into the rate calculations:

- Fee Schedule Changes that occurred during the base years
  - Mental Health Rehab had a change of -1.62% effective on 1/20/2010.
  - Inpatient and Outpatient services had a change of -5.0% effective on 2/3/2010.

- Fee Schedule Changes that occurred after the base time period  
Mental Health Rehab had a change of -3.3% effective on 7/31/2010.  
Inpatient and Outpatient services had a change of -4.6% effective on 7/31/10 and an additional change of -2.0% effective on 1/1/2011.
- Mental Health services previously provided to Medicaid-eligible adults through the Office of Behavioral Health that will become covered under the State Plan once the State Plan Amendment is approved. These services account for a 24% increase to the PMPM rate.

The overall impact of these program changes is an upward adjustment of 20.1% to the rates.

### Managed Care Assumptions

As the State moves from an unfettered FFS environment to a managed care environment, service utilization patterns will change. Mercer incorporated managed care adjustments based on comparisons between Louisiana FFS data statistics and similar experience for other states.

Approximately 12.0% of the Medicaid eligible adults in Louisiana accessed behavioral health (BH) services in Medicaid compared to 15-20% for other state programs. Whereas the overall penetration rate for Louisiana is on the low-side of this range, the utilization of inpatient services is extremely high. Approximately 4% of the Medicaid eligible adults in Louisiana had a hospitalization for a behavioral health issue during 2010 compared to 1.5 - 2% in other states. In other words, one out of every three users of behavioral health services in Louisiana utilized inpatient services compared to one out of every 10 users in other states.

Managed care savings are assumed for Inpatient and Outpatient/Emergency Room services. Mercer assumes expansion to Clinic services, Mental Health Rehab, and Psychiatrist services in a managed care environment. The savings under these categories will be more than offset as utilization moves from higher cost inpatient services into these lower cost services.

### 1915(b)(3) Services

Mercer has added consideration of 1915(b)(3) services for physician case consultation at \$0.10 PMPM based on similar states' experience for this service. This is within the requested waiver authority of \$0.13 PMPM.

## Administration

Mercer included an assumption for administrative expenses under a managed care program. Mercer reviewed a model for a typical behavioral health prepaid inpatient health plans to analyze the expected administrative costs of the statewide management organization (SMO). This review did consider that the SMO would be managing the children's services through the non-risk contract. Based on this review, Mercer recommends a general administrative allowance of 8.0%. In addition to the general administrative allowance, a profit/risk margin of 2.0% has been included in the capitation rates.