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MERCER

Ms. Ruth Kennedy
Medicaid CCN Director
Louisiana Department of Health and Hospitals
Bienville Building
628 North 4th Street – 7th Floor
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April 8, 2011

Subject: Enhanced Primary Care Case Management fee estimate methodology

Dear Ms. Kennedy:

In partnership with the State of Louisiana (State), Mercer Government Human Services Consulting (Mercer) developed estimates of the total enhanced Primary Care Case Management (ePCCM) fees for the Coordinated Care Network – Shared Savings (CCN-S) program being developed by the State for the period of January 1, 2012 to December 31, 2012. This letter presents an overview of the analyses and methodology used to develop these total ePCCM fee estimates.

The total ePCCM fee that will be paid by the State to the CCN-S entities on a per-member-per-month (PMPM) basis consists of two components:

- A primary care provider (PCP) care management fee for care management services provided directly by a PCP for each member to whom they are linked
- An enhanced primary care management fee for all other services provided by the CCN-S under the Contract

The State has independently established $1.50 as the PCP care management fee for all CCN-S participants based on historical experience from the CommunityCare 2.0 program.

The enhanced primary care management fee component was developed by Mercer and is the focus of this letter. This fee component will be dependent upon the Medicaid eligibility category of each enrollee and will be subject, in aggregate, to a reconciliation of the savings achieved under the program.

All assumptions underlying the total ePCCM fee estimates presented in this document have been developed based on the specifications outlined in the proposed Notice of Intent. To the extent that significant changes are made to the program, these total ePCCM fee estimates may need to be adjusted accordingly.

Program overview

The CCN-S model will function as a State Plan program whereby PCPs join with a CCN-S, the ePCCM entity, to create a formal and distinct network of PCPs to coordinate the full continuum of care while achieving budget and performance goals and benchmarks.

Through contractual arrangements with the State, the CCN-S entities and their PCPs will provide the State with the ability to ensure accountability while improving access, coordinating care and promoting healthier outcomes.

Eligibility

The following eligibility groups of Medicaid recipients are required to enroll in a CCN-S on a mandatory basis unless they meet any of the conditions for exclusion from participation:

- Temporary Assistance for Needy Families (TANF) and TANF-related recipients
- LaCHIP recipients
- Pregnant Women
- Breast and Cervical Cancer Program participants
- Aged, Blind and Disabled Individuals age 19 or older

The following groups of Medicaid recipients will be allowed to participate in a CCN on a voluntary basis, but will not be required to do so:

- Supplemental Security Income (SSI) or Disability Medicaid Program recipients under age 19
- Indians who are members of federally recognized tribes
- Children with special health care needs
- Children in foster care or other out-of-home placement or receiving adoption assistance

Medicaid recipients in either a mandatory or voluntary enrollment group who meet one or more of the following conditions are excluded from participation in a CCN:

- Individuals residing in a nursing facility or intermediate care facility for the developmentally disabled
- Individuals receiving hospice services
- Individuals with Medicare coverage
- Individuals who are receiving services through the Tuberculosis Infected Individuals Program
- Individuals receiving services through a 1915(c) waiver
- Individuals under the age of 21 who are listed on the New Opportunities Waiver Registry
- Individuals enrolled in the Program of All-Inclusive Care for the Elderly

- Individuals with a limited eligibility period including Spend-down Medically Needy Program and Emergency Services Only participants
- Individuals enrolled in the LaCHIP Affordable Plan Program
- Individuals enrolled in the Take Charge Program

Covered services

The CCN-S entities must demonstrate the capacity to manage targeted populations through:

- Care Management
- Care Coordination
- Utilization Management and Prior Authorization
- Case Management
- Chronic Care Management
- Quality Management
- Customer Service

The CCN-S entities must meet all the requirements outlined in the Request for Proposal/Contract, including, but not limited to, care management (e.g. quality, utilization management, case management, care coordination), provider monitoring and reporting.

The enhanced primary care management fee component of the total ePCCM fee is payment-in-full for these services, with the exception of any payments associated with the savings reconciliation. Claims for medical treatment or diagnostic services will continue to be paid by the State on a fee-for-service basis.

Enhanced primary care management fee range development

Data sources

In support of the development of the enhanced primary care management fee estimates, Mercer relied upon the following data sources:

- PayMonitor® database of employee salaries by job type
- State enrollment projections for potential CCN-S entities

Additionally, Mercer relied upon their experience in working with PCCM, Disease Management and Medical Home Initiatives for other state Medicaid programs, as well as the expertise of Mercer clinicians familiar with the operation of similar programs in other populations.

Enrollment assumptions

In order to develop enhanced primary care management fee component estimates, it was necessary to make assumptions regarding the enrollment levels of prospective CCN-S entities. As specified in the Request for Proposal, each entity shall have the capacity to enroll a minimum of 75,000 participants. For the calendar year (CY) 2012 contract period, however, the State is anticipating that prospective CCN-S entities will enroll approximately 30,000 participants on average.

Based on the available information and experiences observed in similar programs, Mercer selected enrollment assumptions for this analysis that reflected a balance of the following factors:

- Expected CCN-S enrollment levels during the contract period
- Potential challenges associated with bringing a new program or entity to operational readiness
- Realistic expectations for the economies of scale and management efficiencies that a well-managed CCN-S should be able to achieve

To the extent that actual enrollment patterns vary from these assumptions, the State may wish to revise this analysis and the resulting fee estimates accordingly.

Fee components

Based on the requirements outlined in the Contract, program costs were classified into the following seven components:

- Prior Authorization
- Patient Centered Medical Home
- Care Coordination
- Case Management and Chronic Care Management
- Customer Service
- Provider Monitoring and Services
- Quality Management and Compliance Monitoring

Each component was further divided into fixed and variable costs and total costs were estimated using a staffing and salary requirements and/or annual budget approach. In some cases, both methods were applied to different elements within the same component.

Staffing and salary requirements approach

Under the staffing and salary requirements approach, Mercer relied on specified staffing requirements and clinical expertise in conjunction with enrollment assumptions to develop estimates of the number of full time employees a well-managed CCN-S entity would need to employ to fulfill their obligations under the Contract. Once appropriate staffing levels were estimated, salary

requirements for each type of employee were used to estimate the cost of a particular component or subcomponent. Average yearly cash compensation levels for each position type were estimated based on Mercer's PayMonitor® and include provisions for the cost of additional benefits, such as medical insurance and retirement benefits, to compute the total compensation.

The number of employees and the total annual compensation levels were combined to produce total projected cost estimates.

Annual budget approach

Projected costs for a small subset of subcomponents were estimated using the annual budget approach. For these functions and duties, Mercer relied on its experience in working with similar programs and market research to develop annual budget estimates for the tasks required by the Contract.

Variation in fee components estimates by population

In accordance with the Contract, the State will pay distinct enhanced primary care case management fees for TANF/LaCHIP-related and SSI-related enrollees. As such, estimates of the enhanced primary care management fee component have been developed for each population. For the Patient-Centered Medical Home, Care Coordination; Customer Service, Provider Monitoring and Services, and Quality Management and Compliance Monitoring tasks within the enhanced primary care management fee component, CCN-S entity costs are not expected to vary significantly based on the relative acuity of the population being served.

For the remaining components (i.e., Prior Authorization and Case Management and Chronic Care Management), however, staffing ratios for subcomponents related to specific functions, such as claims review, or that involve direct interaction with enrollees were adjusted to reflect differences in the prevalence of chronic diseases and the overall level healthcare needs between the two populations. The adjustments were developed based on a review of relevant literature, prevalence rates in similar populations in other states and the expertise of Mercer's clinicians.

All cost projections were reviewed for reasonableness both individually and in total by Mercer clinicians with experience in operating similar programs.

Account management and overhead

To provide ePCCM services, there are account management and overhead costs that each CCN-S entity must incur in addition to the components described above. These costs include, but are not limited to, facility costs, hardware and software costs and the cost of capital.

Such costs are typically proportional to the total number of full time employees and/or the total operational cost of an entity. Provisions for account management and overhead costs were estimated based on experience observed in similar programs in other states and were reviewed for reasonableness by Mercer clinicians.

Enhanced primary care management fee estimates

The estimates of the enhanced primary care management fees, developed by Mercer in consultation with the State, are comprised of the seven fee components plus account management and overhead costs. They are designed to be paid for each CCN-S enrollee, regardless of which services they use. The PMPM enhanced primary care management fee estimates for each population for the CY 2012 contract period are summarized in the table below:

Enhanced primary care management fee estimates	TANF/LaCHIP-related populations	SSI-related populations
Prior Authorization	$ 1.48	$ 2.28
Patient Centered Medical Home	$ 1.12	$ 1.12
Care Coordination	$ 0.49	$ 0.49
Case Management and Chronic Care Management	$ 2.02	$ 5.90
Customer Service	$ 0.45	$ 0.45
Provider Monitoring and Service	$ 0.53	$ 0.53
Quality Management and Compliance Monitoring	$ 2.60	$ 2.60
Account Management and Overhead	$ 3.12	$ 4.79
Total enhanced primary care management fee	$ 11.81	$ 18.16

Please note that the cost projections made by Mercer in the development of the above fees include the allocation of certain costs across more than one of the seven components. Therefore, the removal of any of the seven components from the services in the Request for Proposal/Contract would require recalculation of the rates. The effect of the removal of a component is not necessarily the amount shown for that component in the above table.

Savings reconciliation

It is the expectation of the State that the CCN-S model, with its additional fees, will achieve savings relative to the aggregate Per Capita Prepaid Benchmark (PCPB). To ensure the CCN-S entities are held financially accountable, the State has established a savings determination process as a part of the CCN-S contract for CY 2012.

The State will periodically compare the actual aggregate cost of authorized services as specified in CCN-S Request for Proposal/Contract, including the enhanced primary care case management fee for dates of services in the reconciliation period, to the aggregate PCPB. The PCPB will not include the PCP care management fees.

In the event that a CCN-S entity exceeds the Per Capita Prepaid Benchmark in the aggregate, the CCN-S entity will be required to refund up to 50% of the total amount of the enhanced primary care case management fees paid to the CCN during the reconciliation period. Conversely, CCN-S entities will be eligible for up to 60% of savings if the actual aggregate costs of authorized services, including enhanced primary care case management fees, are less than the aggregate PCPB. Due to limitations under the Medicaid State Plan preprint for section for section 1932(a) State Plan amendments, shared savings will be limited to 5% of the actual aggregate costs including the enhanced primary care case management fees paid.

Total ePCCM fee estimates

The estimates of the total ePCCM fees consist of the estimates of the enhanced primary care management fees plus the PCP care management fee. The estimates of the total ePCCM fees for each population on a PMPM basis for the CY 2012 contract period are summarized in the table below:

Total ePCCM fee estimates	TANF/LaCHIP-related populations	SSI-related populations
Enhanced primary care management fee	$ 11.81	$ 18.16
PCP care management fee	$ 1.50	$ 1.50
Total enhanced Primary Care Case Management fee	$ 13.31	$ 19.66

In preparing these estimates of the ePCCM fees, Mercer has used and relied upon eligibility and program design data and information supplied by the State. The State is responsible for the validity and completeness of the supplied data and information. We have reviewed the data and information for internal consistency and reasonableness, but we have not audited it. In our opinion, it is appropriate for the intended purposes. If the data and information are incomplete or inaccurate, the values shown in this report may need to be revised accordingly.

The ePCCM fee estimates developed by Mercer are actuarial projections of future contingent events. Actual costs for CCN-S entities will differ from these projections due to factors including, but not limited to differences in business models and management techniques, the geographic area(s) in which an entity chooses to operate, the specific needs of an entity's enrollees and the efficiencies and economies of scale that an entity is able to achieve. As such, these estimates should be

interpreted as having a likely range of variability. Furthermore, as noted above, significant variation between emerging experience and key assumptions underlying these fee estimates may warrant the State to revise this report accordingly.

Mercer has developed estimates of the ePCCM fees on behalf of and in consultation with the State to support on-going program design decisions. Use of these enhanced primary care management fee estimates for any purpose beyond that stated may not be appropriate.

Potential CCN-S entities are advised that the use of these ePCCM fee estimates may not be appropriate for their particular circumstance and Mercer disclaims any responsibility for the use of these enhanced primary care management fee estimates by potential CCN-S entities for any purpose. Mercer recommends that any organization considering contracting with the State should analyze its own projected expenses and any other costs for comparison to the rates offered by the State before deciding whether to contract with the State.

This methodology letter assumes the reader is familiar with the CCN-S program, Medicaid eligibility rules and actuarial rating techniques. It is intended for the State and should not be relied upon by third parties. Other readers should seek the advice of actuaries or other qualified professionals to understand the technical nature of these results. This document should only be reviewed in its entirety.

If you have any questions, please feel free to contact me at +1 602 522 6595 or
Robert Butler at +1 850 294 9669.

Sincerely,

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