

February 18, 2016

Mr. Jeffrey Drozda
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Bayou Health Savings Analysis – February 2015 – January 2016

Dear Jeff:

Wakely Consulting Group, Inc. (Wakely) has been retained by all five of the Medicaid managed care organizations (MCOs) participating in the Bayou Health program under the Louisiana Association of Health Plans to assist in an evaluation of the programmatic savings that the MCOs achieved for the State of Louisiana's Managed Medicaid program under oversight by the Louisiana Department of Health & Hospitals (DHH) during the February 2015 through January 2016 rating period (2015 rating period). The original February 2015 capitation rates were adjusted in July 2015 and December 2015. We have accounted for these rating changes in our calculations for the consolidated February 2015 through January 2016 period. This report includes a comparison of capitation rates for members enrolled with participating Bayou Health prepaid plans to estimated costs if those same members were enrolled in the State of Louisiana's Fee for Service (FFS) program.

Wakely relied on data provided by each of the prepaid plans as well as capitation rates from DHH / Mercer. The estimates included in this report rely on the accuracy of the information and data we received and on the assumptions we used. Actual results will likely vary from our estimates. This report is for the purpose of estimating savings achieved by prepaid Bayou Health plans from February 2015 through January 2016. Other uses may be inappropriate.

We understand this report may be shared with outside parties. When it is shared, it should be shared in its entirety. Wakely does not intend to create a reliance by outside parties. Outside parties receiving this report should retain their own qualified experts in interpreting the results.

Executive Summary

This report compares MCO capitation rates to estimated costs for those same members if they had been covered by traditional FFS Medicaid. Managed care organizations achieve programmatic savings by promoting efficient use of the health care system and eliminating wasteful or inefficient spending by placing an emphasis on preventative care, managing chronic

patients, and detecting and treating serious illnesses early. To develop comparable FFS costs for 2015, we used rate setting information underlying the 2013¹ and 2015 capitation rates.

In states where recent FFS data is used to set managed care rates, the comparison of estimated FFS costs to MCO capitation rates is relatively straightforward. Where plan encounter data is the primary data source, it is more difficult to develop comparable FFS cost estimates. While this exercise necessarily incorporates review of FFS experience that is fairly out of date, it uses all of the available information and, in our opinion, is reasonable and actuarially sound. The estimates in this report include all Bayou Health prepaid dollars, inclusive of both state and federal funding components.

We estimate that the capitation rates paid to the prepaid Bayou Health MCOs were 6.7% (\$250M) to 11.2% (\$437M) lower in the 2015 rating period than costs if DHH had served those same members in the FFS program.

The low end of the range assumes that the trend assumptions used by Mercer in the capitation rate development are representative of FFS trends, and the high end assumes that annual FFS trends would be 1% higher than Mercer's trend assumptions².

Background and Definitions

The following definitions and information may be helpful in understanding the various assumptions and methodology used in our analysis:

Capitation rates – Capitation rates are the monthly payments made to each Bayou Health plan for Medicaid enrollees. They are published by Mercer and vary by rate cell and geographic region. We have not risk adjusted plan-level capitation rates, as the composite risk level across all plans is 1.0.

Fee for Service Administrative Costs – We have assumed that DHH administrative costs to operate the FFS program are 2% higher than DHH administrative costs to operate the managed care program. This assumption is consistent with assumptions used in other states. Therefore, our savings estimates are approximately 2% higher than they would be otherwise in recognition of decreased state administrative costs for the managed care program.

Mercer revised their rate setting methodology beginning with the July 2013 rating period. Prior to that time, the capitation rates were developed entirely from historical FFS data. For the July 2013 rating period, Mercer used approximately 90% FFS data and 10% MCO encounter data to

¹ The 2013 capitation rate development used FFS data from SFY2010 and SFY2011.

² During the 2010-2015 period the assumed annual trend used in setting the Bayou Health rates was approximately 3%, which is lower than the trend rates we would expect to see in an unmanaged FFS population. We believe that it is reasonable, and possibly conservative to assume FFS trends would be 1% higher per year.

develop the rates. The following table illustrates the transition from FFS base data to encounter data that occurred over the past three years.

Table 1 – FFS and Encounter Data Weight by Rating Period		
Rating Period	FFS Data Weight	Encounter Data Weight
January – June 2013	100%	0%
July – December 2013	90%	10%
January 2014 – January 2015	50%	50%
February 2015 – January 2016	0%	100%

Methodology, Assumptions, and Results

Estimated savings produced by the prepaid Bayou Health plans were calculated by comparing capitation payments from DHH for the Bayou Health prepaid population to estimated costs for that same population if they had been enrolled in the FFS program. In developing these estimates, we performed the following steps:

Table 2 - Overview of Savings Calculation Methodology

Calculate Bayou Health MCO program costs (A)

Step 1: Determine aggregate capitation payments made to participating Bayou Health prepaid plans during the 2015 rating period. This step consisted of multiplying total prepaid monthly enrollment by the published capitation rates for each region and rate cell. The capitation rates used in this analysis excluded the premium tax component, as taxes represent offsetting cost and revenue items for the Bayou Health program³.

Calculate estimated FFS costs for Bayou Health prepaid enrollees (B)

Step 2: Determine estimated baseline FFS costs by rate cell. Due to the current reliance on encounter data, comparative FFS data is no longer available. Historical FFS to MCO cost differentials are assumed to continue going forward.

Step 3: Adjust implied FFS costs to remove the impact of MCO savings, MCO administrative costs, and taxes.

Step 4: Calculate composite MCO medical loss ratio for the base period to the loss ratio originally projected by Mercer for this same period. If the MCO loss ratio is lower than projected by Mercer, additional cost savings are accrued since prospective rates will be reduced. If the MCO loss ratio is higher than projected achieved cost savings are reduced. Adjust calculated savings for positive or negative loss ratio deviation.

Step 5: Apply additional Mercer savings for new Bayou Health prepaid populations and/or services where FFS base data was used.

Step 6: Add FFS administrative cost difference of 2% of paid claims to estimated FFS claim costs.

Step 7: Apply FFS versus managed care trend differential from SFY 2010/2011 FFS period to 2015 rating period.

Final Savings Calculation:

Compare results of MCO program cost calculation (A) to estimated FFS costs for Bayou Health prepaid plan enrollees (B). Subtracting (A) from (B) results in estimated savings.

In calculating savings for the 2015 rating period we initially assumed that the CY 2013 base period encounter data already reflected calculated MCO savings. This is based on aggregate

³ We did not consider the impact of potential matching federal dollars on premium or other taxes, assuming that similar taxes could be levied on providers under the FFS program (and vice versa).

MCO results for this time period that conformed to Mercer’s assumptions regarding expected loss ratios. We reviewed MCO financials for the three prepaid plans from this period and they indicate that experience was slightly more favorable than Mercer’s assumptions. The observed loss ratio of 86.8% was lower than Mercer’s projected loss ratio of 89.2%. This deviation resulted in higher rates of savings than were implied by the Mercer rate setting documents to the extent this experience was used to set future capitation rates. This deviation does not necessarily indicate a higher level of MCO profits during 2013. It may have been driven by more intensive medical management and efficiencies and associated additional administrative costs not reflected in the favorable loss ratio. The financial results of the two 2013 shared savings plans were not included, as they did not take full risk on the Bayou Health population and their revenues and claim costs were not reflective of a prepaid capitation program. This analysis assumes that the 2013 savings achieved by the shared savings program are equivalent to those in the prepaid program.

Table 3 summarizes the results of our analysis, and Table 4 illustrates the various components that result in the 6.7% and 11.2% savings estimates.

Table 3 - Calculated Savings Relative to Fee For Service (2015 Rating Period)	
Based on no assumed trend differential	Feb 2015 – Jan 2016
Estimated FFS Costs	\$3,702,886,000
Calculated MCO Revenue [1]	\$3,453,271,000
Total Dollars Saved	\$249,615,000
Total Percentage Saved	6.7%
Based on 1% annual trend differential	Feb 2015 – Jan 2016
Estimated FFS Costs	\$3,890,762,000
Calculated MCO Revenue [1]	\$3,453,271,000
Total Dollars Saved	\$437,490,000
Total Percentage Saved	11.2%

[1] Excludes MCO tax component

Table 4 – Summary of Calculated Savings by Component	
Claim Cost Savings versus FFS Implied in 2013 Rate Development	-9.0%
CY 2013 MCO Financial Savings (MLR)	-2.7%
State Administrative Savings	-2.0%
Additional Savings for Feb 2015 Populations and Services Developed from FFS Base Data	-2.3%
2015 MCO Administrative Allowance	+10.1%
Total Estimated Savings (no trend differential)	-6.7%
Impact of Annual 1% Trend Differential	-4.8%
Total Estimated Savings (1% annual trend differential)	-11.2%

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In performing this analysis we have not attempted to adjust for any potential errors or inconsistencies included in the Mercer rate setting processes. In our opinion, any differences arising from such issues would be more likely to increase the savings estimates than decrease them.

This analysis incorporates only physical health capitation rates and estimated claim costs. Specialized behavioral health and NEMT rates (effective December 2015) were outside the scope of this analysis as no managed care savings was assumed in the development of those capitation rates.

Conclusion

The estimated range of savings indicates that the MCOs are operating efficiently and producing significant savings compared to costs of those members in the FFS program.

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

Please do not hesitate to call us if you have any questions or if we may be of additional assistance. Thank you for the opportunity to work on this important project.

Sincerely,

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Appendix A

February 2015 – January 2016 Bayou Health Capitation Rates [1]					
Region	Category of Aid	Rate Cell	February 2015 Capitation Rate	July 2015 Capitation Rate	December 2015 Capitation Rate
Gulf	SSI	0 - 2 Months	\$29,755.24	\$29,913.17	\$28,265.71
Gulf	SSI	3 - 11 Months	5,433.30	5,475.91	5,452.61
Gulf	SSI	Child 1 - 18	392.74	396.93	428.77
Gulf	SSI	Adult 19+	1,026.38	1,042.90	1,044.53
Gulf	Family & Children	0 - 2 Months	1,748.01	1,762.42	1,808.48
Gulf	Family & Children	3 - 11 Months	252.10	255.45	255.85
Gulf	Family & Children	Child 1 - 18	122.20	123.94	124.16
Gulf	Family & Children	Adult 19+	323.69	330.53	333.31
Gulf	BCC	BCC, All Ages	2,223.71	2,245.43	2,377.06
Gulf	LAP	LAP, All Ages	158.92	159.74	160.18
Gulf	HCBS	Child 0 - 18	1,599.85	1,606.89	1,616.61
Gulf	HCBS	Adult 19+	617.21	625.98	639.02
Gulf	CCM	CCM, All Ages	942.01	947.70	943.16
Gulf	Maternity Kick Payment	Maternity Kick Payment	8,915.31	9,043.49	9,143.84
Gulf	EED Kick Payment	EED Kick Payment	5,034.77	5,162.95	5,198.16
Capital	SSI	0 - 2 Months	30,666.83	30,727.26	29,128.51
Capital	SSI	3 - 11 Months	5,516.03	5,574.56	5,540.67
Capital	SSI	Child 1 - 18	437.90	443.06	466.16
Capital	SSI	Adult 19+	1,047.88	1,071.02	1,076.72
Capital	Family & Children	0 - 2 Months	1,891.59	1,904.88	1,959.54
Capital	Family & Children	3 - 11 Months	271.48	276.56	276.16
Capital	Family & Children	Child 1 - 18	128.25	131.07	131.51
Capital	Family & Children	Adult 19+	367.13	379.78	380.63
Capital	BCC	BCC, All Ages	2,219.88	2,238.92	2,369.52
Capital	LAP	LAP, All Ages	158.81	161.01	161.45
Capital	HCBS	Child 0 - 18	1,599.41	1,605.27	1,615.43
Capital	HCBS	Adult 19+	615.27	623.91	638.89
Capital	CCM	CCM, All Ages	941.90	948.61	944.18
Capital	Maternity Kick Payment	Maternity Kick Payment	7,993.57	8,400.79	8,469.52
Capital	EED Kick Payment	EED Kick Payment	5,010.91	5,418.14	5,449.73

[1] Inclusive of 2.25% premium tax.

Appendix A (continued)

February 2015 – January 2016 Bayou Health Capitation Rates ^[1]					
Region	Category of Aid	Rate Cell	February 2015 Capitation Rate	July 2015 Capitation Rate	December 2015 Capitation Rate
South Central	SSI	0 - 2 Months	\$30,016.44	\$30,035.91	\$28,399.36
South Central	SSI	3 - 11 Months	5,458.15	5,487.95	5,450.82
South Central	SSI	Child 1 - 18	454.27	460.85	500.65
South Central	SSI	Adult 19+	964.69	986.74	994.73
South Central	Family & Children	0 - 2 Months	2,103.49	2,115.31	2,155.38
South Central	Family & Children	3 - 11 Months	287.24	294.65	293.82
South Central	Family & Children	Child 1 - 18	135.75	139.23	139.66
South Central	Family & Children	Adult 19+	335.75	348.73	351.21
South Central	BCC	BCC, All Ages	2,225.47	2,253.63	2,384.80
South Central	LAP	LAP, All Ages	159.10	161.80	162.24
South Central	HCBS	Child 0 - 18	1,598.93	1,608.44	1,619.08
South Central	HCBS	Adult 19+	616.47	626.78	640.56
South Central	CCM	CCM, All Ages	941.97	947.91	943.41
South Central	Maternity Kick Payment	Maternity Kick Payment	7,981.30	8,084.84	8,188.49
South Central	EED Kick Payment	EED Kick Payment	4,817.27	4,920.81	4,963.14
North	SSI	0 - 2 Months	30,166.90	30,336.33	28,671.60
North	SSI	3 - 11 Months	5,476.69	5,503.04	5,451.00
North	SSI	Child 1 - 18	414.62	419.62	459.88
North	SSI	Adult 19+	924.90	946.62	948.93
North	Family & Children	0 - 2 Months	2,007.22	2,022.92	2,045.01
North	Family & Children	3 - 11 Months	267.07	271.54	270.88
North	Family & Children	Child 1 - 18	122.87	125.06	125.43
North	Family & Children	Adult 19+	323.16	333.66	335.55
North	BCC	BCC, All Ages	2,227.01	2,268.61	2,399.22
North	LAP	LAP, All Ages	159.27	161.81	162.25
North	HCBS	Child 0 - 18	1,599.47	1,609.60	1,619.70
North	HCBS	Adult 19+	617.53	627.91	640.63
North	CCM	CCM, All Ages	942.00	948.41	943.88
North	Maternity Kick Payment	Maternity Kick Payment	7,827.24	7,975.61	8,059.45
North	EED Kick Payment	EED Kick Payment	4,522.88	4,671.25	4,703.45

[1] Inclusive of 2.25% premium tax.

Appendix B

Bayou Health Prepaid Enrollment by Month - Feb 2015 through Jan 2016					
Region	Category of Aid	Rate Cell	Member Months / Occurrences		
			Feb15 – Jun15	Jul15 – Nov15	Dec15 – Jan16
Gulf	SSI	0 - 2 Months	71	78	19
Gulf	SSI	3 - 11 Months	796	742	274
Gulf	SSI	Child 1 - 18	50,363	49,419	19,252
Gulf	SSI	Adult 19+	116,863	115,662	46,900
Gulf	Family & Children	0 - 2 Months	14,507	15,683	4,910
Gulf	Family & Children	3 - 11 Months	49,722	49,065	19,257
Gulf	Family & Children	Child 1 - 18	919,838	932,034	367,801
Gulf	Family & Children	Adult 19+	201,475	213,278	93,238
Gulf	BCC	BCC, All Ages	1,890	1,898	738
Gulf	LAP	LAP, All Ages	3,878	3,803	1,452
Gulf	HCBS	Child 0 - 18	142	270	134
Gulf	HCBS	Adult 19+	771	946	483
Gulf	CCM	CCM, All Ages	662	1,143	630
Gulf	Maternity Kick Payment	Maternity Kick Payment	4,486	4,745	1,739
Gulf	EED Kick Payment	EED Kick Payment	11	14	6
Capital	SSI	0 - 2 Months	94	96	12
Capital	SSI	3 - 11 Months	671	719	264
Capital	SSI	Child 1 - 18	37,721	37,171	14,530
Capital	SSI	Adult 19+	86,537	84,753	33,955
Capital	Family & Children	0 - 2 Months	12,461	13,282	4,408
Capital	Family & Children	3 - 11 Months	43,726	43,398	16,537
Capital	Family & Children	Child 1 - 18	840,532	851,665	333,522
Capital	Family & Children	Adult 19+	159,125	169,291	75,040
Capital	BCC	BCC, All Ages	1,821	1,892	761
Capital	LAP	LAP, All Ages	4,205	4,214	1,615
Capital	HCBS	Child 0 - 18	94	205	112
Capital	HCBS	Adult 19+	601	722	391
Capital	CCM	CCM, All Ages	532	898	530
Capital	Maternity Kick Payment	Maternity Kick Payment	3,776	3,907	1,521
Capital	EED Kick Payment	EED Kick Payment	11	11	5

Appendix B (continued)

Bayou Health Prepaid Enrollment by Month - Feb 2015 through Jan 2016					
Region	Category of Aid	Rate Cell	Member Months / Occurrences		
			Feb15 – Jun15	Jul15 – Nov15	Dec15 – Jan16
South Central	SSI	0 - 2 Months	68	57	9
South Central	SSI	3 - 11 Months	766	751	245
South Central	SSI	Child 1 - 18	38,809	38,346	15,081
South Central	SSI	Adult 19+	103,662	101,771	40,631
South Central	Family & Children	0 - 2 Months	13,347	14,612	4,890
South Central	Family & Children	3 - 11 Months	48,443	47,722	18,455
South Central	Family & Children	Child 1 - 18	910,195	925,821	364,535
South Central	Family & Children	Adult 19+	165,990	176,010	76,438
South Central	BCC	BCC, All Ages	1,246	1,265	490
South Central	LAP	LAP, All Ages	4,685	4,343	1,628
South Central	HCBS	Child 0 - 18	120	244	114
South Central	HCBS	Adult 19+	750	906	465
South Central	CCM	CCM, All Ages	742	1,241	632
South Central	Maternity Kick Payment	Maternity Kick Payment	3,940	4,519	1,674
South Central	EED Kick Payment	EED Kick Payment	9	12	4
North	SSI	0 - 2 Months	44	61	8
North	SSI	3 - 11 Months	614	553	192
North	SSI	Child 1 - 18	42,971	42,816	16,965
North	SSI	Adult 19+	91,590	90,463	36,562
North	Family & Children	0 - 2 Months	10,351	10,609	3,201
North	Family & Children	3 - 11 Months	35,785	35,829	13,705
North	Family & Children	Child 1 - 18	710,950	718,335	280,074
North	Family & Children	Adult 19+	131,929	140,126	62,303
North	BCC	BCC, All Ages	1,201	1,228	477
North	LAP	LAP, All Ages	2,369	2,320	877
North	HCBS	Child 0 - 18	147	229	91
North	HCBS	Adult 19+	690	841	428
North	CCM	CCM, All Ages	494	746	426
North	Maternity Kick Payment	Maternity Kick Payment	2,954	3,276	1,209
North	EED Kick Payment	EED Kick Payment	8	9	4