

**ATTACHMENT D
COST REPLY INSTRUCTIONS**

CMS MANAGED CARE PLAN COST REPLY INSTRUCTIONS -

JANUARY 19, 2018

Florida Department of Health Children's Medical Services Plan

**ATTACHMENT D
COST REPLY INSTRUCTIONS**

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OVERVIEW OF COST REPLY INSTRUCTIONS

The purpose of this document is to provide respondents with instructions for completing the Children's Medical Services Plan (CMS Plan) Reply (cost reply) required in **Attachment D** of this solicitation.

This document provides instructions and guidance to respondents as they complete their cost replies. The format of the cost reply templates follows the general format of the methodology used by the CMS Plan and its consulting actuaries to develop actuarially sound capitation rates. The CMS Plan anticipates using a similar methodology (CMS Plan's rate methodology) to assess the reasonability and competitiveness of respondent cost replies.

SPECIFICATIONS FOR RESPONDENT REPLIES:

1. Respondents may bid statewide or on a regional cluster with either a full-risk model (Option 1: MCO) or a risk phase-in model (Option II: Risk Phase-In), as described in **Exhibit A-1**, Criteria #1.

The Respondent may opt to be full-risk in one or two regional clusters and phased-in-risk in the others and may submit a statewide and regional cluster bid simultaneously. Cost replies submitted must be consistent with the respondent's response to Criteria #1.

The Respondent must bid on services for both Title XIX and Title XXI enrollees in every regional cluster for which they submit a bid. The three regional clusters are as follows:

- A. North Florida-AHCA Regions 1–4
- B. Central/SW Florida- AHCA Regions 5–8
- C. South/SE Florida-AHCA Regions 9–11

The Respondent shall indicate if its bid is statewide or for a regional cluster, the priority of the bid as described in Criteria #1, and whether the bid is risk or phased-in risk (non-risk).

2. Respondents must submit cost replies using the provided cost reply template.

Respondents are to enter information only in cells shaded yellow. Respondents must not change any formulas in the cost reply template and must submit the cost reply template with the original sheet and workbook protection intact.

3. Within the cost reply template(s), respondents must enter their organization name on the Reply Summary Tab. Additionally, respondents should use the following file naming convention when submitting their cost reply templates:

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- A. Respondents should replace the “Respondent” portion of the cost reply template Excel file name with their organization’s name.
- B. Respondents should replace the “X-X-X” portion of the file name with the applicable regional clusters. In the file name, include “A” for North, “B” for Central – SW and “C” for South – SE.

If the respondent does not bid on all 3 regional clusters or has both full-risk and phased-in risk bids, include ONLY the regional clusters in the applicable cost reply template.

- 4. Respondents must enter a numeric value into each and every yellow cell on all required tabs (except for the vendor name and program change specifications). If numeric values are not entered into each required yellow cell, the cost reply template will not appropriately calculate a proposed capitation rate from the respondent’s input base data and adjustments. If a particular adjustment factor does not apply for a given region/regional cluster, title, or service category, enter 0.0% adjustment in the required input cells to allow the cost reply template to appropriately calculate a proposed capitation rate.
- 5. All cells other than respondent inputs have been protected.
- 6. Do not insert rows or columns in the template, or use the “cut” command on any cells within the template. If the respondent requires more columns for adjustments than provided, please combine adjustments so that they can be entered into the number of columns in the template and include a description of each adjustment and its value in the Actuarial Memorandum that accompanies the cost reply template (along with Excel numerical support as needed).
- 7. Cost replies are to be quoted for the 12-month period of January 2019 through December 2019 (CY2019). If necessary due to implementation timing or change in rate cycle, the Department will adjust the final negotiated capitation rates to reflect any changes to that rate period, including appropriate trend, seasonality and programmatic change effect.
- 8. The cost reply template is pre-populated with the base data from the published ITN Data Book. These pre-populated per member per months (PMPMs) are the starting point for each bid, and represent Mercer’s estimate of ultimate incurred claim experience for the period, as described in the Data Book. The respondent may use adjustments in the provided columns to adjust the base data, with supporting documentation in the Actuarial Memorandum. Adjustments to the base data must be input as a one-time adjustment to the data. Trend factors entered must be annual trend rate and are applied for 30 months from the midpoint of the base data period (January 1, 2017) to the midpoint of the contract period (July 1, 2019).

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9. Cost replies are to be quoted net of patient responsibility, third party liability (TPL) recoveries, and fraud, waste and abuse recoveries.

10. Respondents must include an Actuarial Memorandum in support of their cost reply. The required contents of the Actuarial Memorandum are discussed in a later section in this document.

CMS PLAN DATA BOOK

The published ITN includes a Data Book that provides relevant background information that respondents will find useful in the development of their response to this ITN. The Data Book contains cost and utilization data specific to CMS Plan enrollees, in addition to information on covered services for each population. The document includes a description of the data sources and all adjustments applied to the data to produce the Data Book, in addition to adjustments considered in rate development.

The published Data Book can be accessed in the following location (Exhibit D-3, CMS Plan Data Book):

<http://www.floridahealth.gov/programs-and-services/childrens-health/cms-plan/cms-plan-invitation-to-negotiate/index.html>

Respondents must consider the information in the published ITN Data Book when developing their cost replies and completing the cost reply template(s), but they are not obligated to rely on it in developing their own replies. Respondents are not restricted to the data and summaries provided by CMS Plan for use in preparing the cost reply; however, they are required to complete the cost reply template. Respondents are allowed to develop and use other data sources as needed to prepare a competitive cost reply. The structure of the cost reply template allows flexibility for respondents to use base data and adjustments different than those presented in the published CMS Plan data book and in the cost reply instructions and rate methodology narrative. Respondents are solely responsible for research and preparation of the cost reply.

COST REPLY MATERIALS

Respondents will include the following components in their cost replies, depending on the risk option(s) selected, as defined above:

1. CMS Plan Capitated Plan Cost Reply template in Excel format, including capitated rate and non-medical expense components (as applicable)

2. CMS Plan Risk Phase-In Cost Reply template in Excel format, including capitated rate and non-medical expense components (as applicable)

3. CMS Plan Actuarial Memorandum

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4. Managed Care Savings table

1. Capitated Plan Cost Reply Template (Exhibit D-1 – Full-Risk Cost Reply)

Respondents bidding full-risk in Year 1 should complete the Full-Risk Cost Reply Template, which is included as **Exhibit D-1**. This Excel file should be completed for all regions/regional clusters that the respondent intends to bid full-risk. The file contains detailed instructions for completion of the tabs.

This Excel file includes three distinct components:

1. The Title XIX Capitated-Risk Cost Reply Templates
 - A. Bids are to be input for each of the 11 AHCA regions included in the full-risk bid. All regions in a regional cluster must be completed in the bid.
 - B. The template aggregates TXIX bids to the applicable regional cluster(s) included in the full-risk bid.
2. The Title XXI Capitated-Risk Cost Reply Templates
 - A. Bids are to be input for each of the three regional clusters included in the full-risk bid.
3. The Non-Benefit Expense Component related to the At-Risk services in Year 1

2. Risk Phase-In Cost Reply (Exhibit D-2 – Phased-in Risk Cost Reply Template)

Respondents bidding phased-in risk in Year 1 should complete the Phased-In Risk Cost Reply Template, which is included as **Exhibit D-2**. This Excel file should be completed for all regions/regional clusters that the respondent intends to bid phased-in risk. The file contains detailed instructions for completion of the tabs.

This Excel file includes three distinct components:

1. The Title XIX Capitated-Risk Cost Reply Templates
 - A. Bids are to be input for each of the 11 AHCA regions included in the phased-in risk bid. All regions in a regional cluster must be completed in the bid.
 - B. The template aggregates TXIX bids to the applicable regional cluster(s) included in the phased-in risk bid.
2. The Title XXI Capitated-Risk Cost Reply Templates
 - A. Bids are to be input for each of the three regional cluster(s) included in the full-risk bid
3. The non-benefit expense components related to the at-risk services in Year 1

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4. The Non-Benefit Expense Component related to the At-Risk services [Pharmacy (Year 1 only) and Inpatient (Year 1 and 2)] services

Template Location

The Excel cost reply templates can be accessed in the following location:

<http://www.floridahealth.gov/programs-and-services/childrens-health/cms-plan/cms-plan-invitation-to-negotiate/index.html>

3. Actuarial Memorandum Requirements

Each respondent must provide detailed documentation in the form of an Actuarial Memorandum describing how the respondent's cost reply was developed. The Actuarial Memorandum should cover all regions and regional clusters and both Title XIX and Title XXI.

To the extent the respondent includes a full-risk bid for some regional clusters and a phased-in risk bid for other regional clusters, the respondent may submit their response for both risk scenarios in a single Actuarial Memorandum. If a single Actuarial Memorandum is submitted to for both risk scenarios, the respondent must clearly identify and describe which components of the bid apply to each risk scenario. Alternatively, the respondent may elect to submit two Actuarial Memoranda. For purposes of these instructions, we will refer to a single Actuarial Memorandum.

The Actuarial Memorandum is required to correspond to the sections of the CMS Plan Cost Reply Template(s) and the Non-Benefit Expense Cost Reply Template(s). The Actuarial Memorandum must each include the following information:

1. **Experience Adjustment:** Include any information on anticipated difference in experience from the published ITN Data Book base PMPMs. This adjustment should rely on the respondent's experience with the CMS plan or another similar population. Include supporting documentation, including data sources, data time periods, and justification for results of the adjustment.
2. **Acuity Adjustment:** The published ITN Data Book includes information related to population acuity changes. Describe any acuity adjustment applied in the cost reply. If no acuity adjustment is made or to the extent it differs from the adjustment in the Data Book, please provide supporting documentation related to the development of the adjustment and the magnitude of the adjustment. Include supporting documentation, including data sources, data time periods, justification for results of the adjustment.
3. **Program Changes:** The Data Book contains information about known changes to the program that have occurred or are expected and are expected to change the cost profile of the program. The cost reply template includes an input for the respondent to incorporate an aggregate program change adjustment. Provide supporting documentation on each specific program change included in the aggregated impact on the cost reply template. This

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documentation should include a description of the reason for the program change adjustment, the base data and base data time periods used to develop the program change impact, and other pertinent information. Include a table with the impact of each individual adjustment broken out separately by title, region/regional cluster, risk scenario, and service category.

4. Managed Care Savings Adjustments: The Cost Reply Template includes an input for an aggregate managed care savings adjustment. Document each managed care savings adjustment included in the aggregated impact on the cost reply template. For each managed care initiative, please provide the following information and document the data sources and methodology used to calculate the adjustment factors by Title, region/regional cluster, risk scenario, and service category:

- Description of the managed care initiative
- Implementation timing
- Involvement of other organizations
- Internal or external costs of developing and administering the initiative
- Development of net cost savings by Title, region/regional cluster, risk scenario, and service category
 - Include support for the data, assumptions, and methodology underlying the net savings projection.

5. Trend: Describe the data sources and methodology used to develop the utilization and unit cost trend factors included in the Cost Reply Template. Include information regarding annualized trend assumptions by Title, region/regional cluster, risk scenario and service category. Include the time period used for trending. Include justification for any zero or negative trends applied. Describe how the trend was developed for subcapitated services, if applicable. If the assumed trends vary by year rather than one overall annualized trend, each year of trend should be documented. If experience from other state Medicaid programs is used, please identify the state, clarify whether that state's program is fee-for-service (FFS) or managed care, and discuss the credibility of the data used.

Please note that final negotiated rates will be adjusted for changes to published Medicaid fee schedules for hospitals (inpatient and outpatient services), nursing homes, and federally qualified health care centers (FQHCs), as appropriate. Thus, unit cost trends for these provider types are expected to be negligible.

6. Other Cost Reply Adjustments: Document each additional adjustment used in the Cost Reply Template. Describe the reason for each adjustment and the data sources and methodology used to calculate the adjustment factors. If experience from other state

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Medicaid programs is used for these adjustments, please identify the state, clarify if that state's program is FFS or managed care, and discuss the credibility of the data used.

7. Proposed Administrative Allowance: Document the respondent's proposed administrative allowance for each title and regional cluster:

- Source of information used to develop the proposed administrative allowance
- Methodology used to allocate administrative costs between Title XIX and XXI (if applicable)
- Methodology used to allocate administrative costs to each regional cluster (if applicable)
- If different methodologies are used to allocate different types of costs, please document all applicable methodologies used

8. Proposed Gain / Loss Margin: Document the respondent's proposed gain/loss margin for each title and regional cluster.

Statement of Rate Adjustments Excluded from Cost Reply

Respondents must include a statement that their cost reply excludes adjustments for the items shown in the next section of this document.

Respondents can also list other potential rate adjustments they believe should be considered as part of the negotiation process but are excluded from the respondent's cost reply. Respondents must clearly note the additional excluded items and explain why the adjustments were excluded.

Supporting Exhibits: Large numerical exhibits must be submitted in Excel with active formulas retained.

Please number the response sections of the Actuarial Memorandum to match the numbering above. If the respondent's Actuarial Memorandum references information provided elsewhere in this solicitation response, please identify its exact location (file name, page number, Criteria number, etc.).

4. Summary of Managed Care Savings

The respondent shall complete and submit **Exhibit 5**, Summary of Managed Care Savings, as part of its response in accordance with the instructions contained therein.

RATE ADJUSTMENTS TO BE EXCLUDED FROM THE COST REPLY

Respondents should exclude the potential effects of the following elements from their cost reply development, to ensure comparativeness across replies and improve the accuracy of valuing certain types of program changes that are not known or not fully known at this time. The Department and its actuary will adjust the final negotiated capitation rates to reflect the effects of these items, as appropriate.

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1. Changes to the Medicaid Fee Schedule for Hospital Inpatient and Outpatient services from schedules in effect during SFY 2016–2017.
2. Changes to the Medicaid Nursing Home Fee Schedule from those in effect during SFY 2016-2017.
3. Changes to the FQHC and Rural Health Clinic (RHC) Medicaid encounter rates from those in effect during SFY201–2017.
4. Development of the medical school faculty physician group value based purchasing arrangement (if necessary).
5. Other program changes excluded from the cost reply instructions or ITN Data Book.
6. Costs related to the federal health insurance provider fee (HIPF).

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FINAL RATE DEVELOPMENT

The published ITN Data Book includes detailed documentation related to the base data development and high level information related to the development of the capitation rates. The format of the cost reply templates follows the general format of the methodology that will be used by the CMS Plan and its consulting actuaries to develop actuarially sound program capitation rates. The CMS Plan anticipates using a similar methodology to assess the reasonability and competitiveness of respondent cost replies. Ultimately, negotiated rates will be adjusted for appropriateness with the program implementation timing and all relevant changes to the program. Final rates will be certified as actuarially sound by a qualified actuary.

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CAVEATS

Mercer has used and relied upon eligibility, claim and encounter data and information supplied by the CMS Plan and its vendors. The CMS Plan is solely responsible for the validity and completeness of these supplied data and information. Mercer has reviewed the summarized data in compliance with the Actuarial Standard of Practice (ASOP) on data quality (ASOP 23), but did not perform a complete audit.

This document assumes the reader is familiar with the CMS Plan Medicaid program, Medicaid eligibility rules and actuarial rating techniques. It is intended for CMS, AHCA, and potential vendors, and should not be relied upon by other 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 data. This document should only be reviewed in its entirety. Users of the Cost Reply worksheet and instructions are cautioned against relying solely on the data contained herein. The CMS Plan and Mercer provide no guarantee, either written or implied, that the Cost Reply worksheet and instructions are 100% accurate or error-free.

This document is being provided for informational purposes only. CMS and Mercer reserve the right to refine it as they see fit at any time.

The authors of this document, listed below, are members of the American Academy of Actuaries and meet the qualification standards for performing the analyses described in this document.

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