**State Fiscal Year 2023**

**Medicaid Managed Care Capitation Rate Amendment**

**July 1, 2022 through June 30, 2023**

**Rhode Island, Executive Office of Health and Human Services**

August 15, 2022

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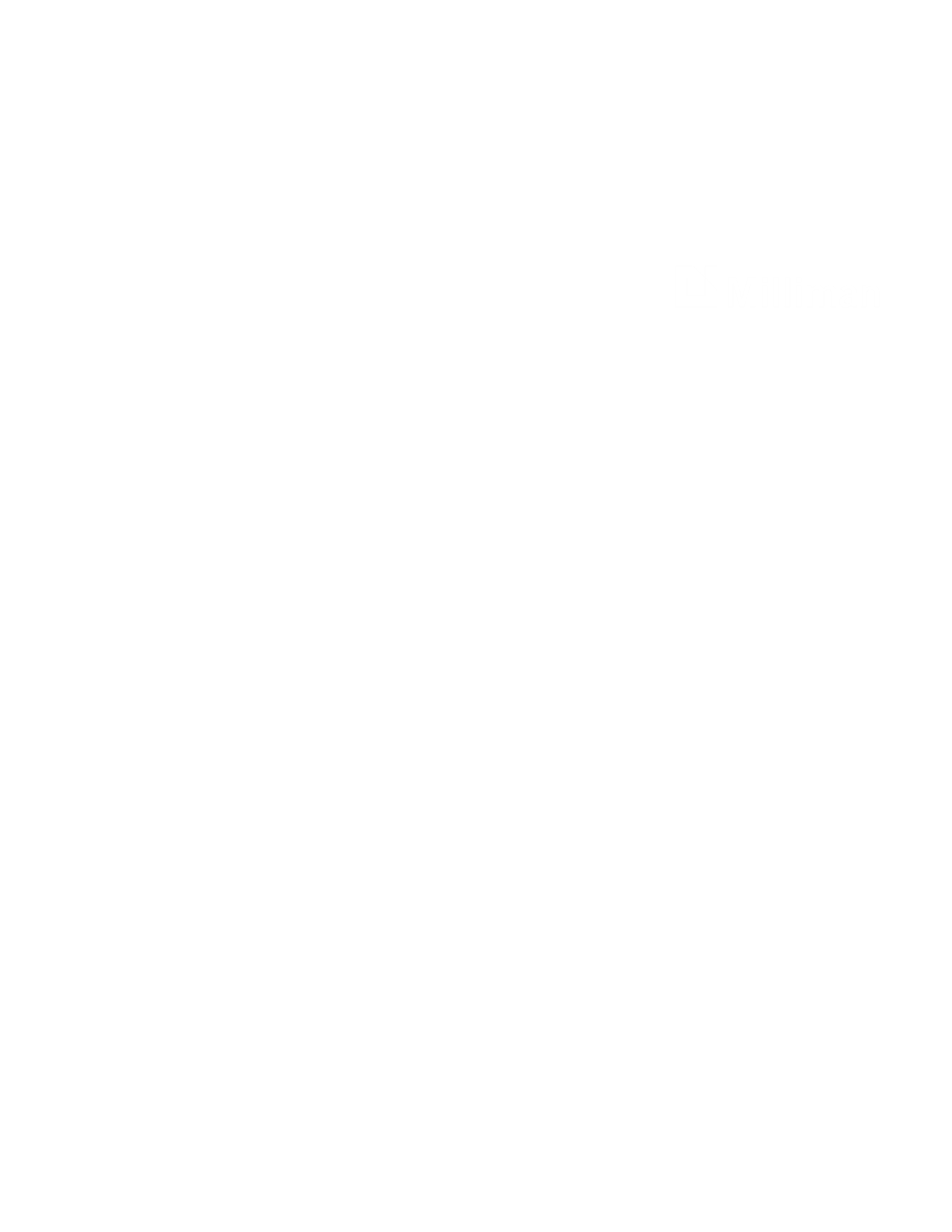


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# Background

Milliman, Inc. (Milliman) has been retained by the Rhode Island Executive Office of Health and Human Services (EOHHS) to provide actuarial and consulting services related to the development of a capitation rate amendment for Rhode Island’s Medicaid managed care program effective July 1, 2022, for state fiscal year (SFY) 2023. The amendment has been developed to document modifications that were applied to the previously certified capitation rates. The previously certified capitation rates and the documentation of their development were published in the following correspondence provided by Milliman:

* State Fiscal Year 2023 Medicaid Managed Care Capitation Rate Certification dated June 22, 2022.

We will refer to this document as the Original certification. This amendment includes new state directed payment initiatives for pediatric services, early intervention services, children’s therapeutic and respite services, hospital labor and delivery services, and adjustments to legislatively mandated hospital and nursing home payment rates. An assessment of the immateriality of other recently enacted program changes is also documented in this report. **Unless otherwise stated, the methodology and assumptions utilized are consistent with the documentation included in the Original certification**. The capitation rates provided under this certification are “actuarially sound” for purposes of 42 CFR 438.4(a), according to the following criteria:

* The capitation rates provide for all reasonable, appropriate, and attainable costs that are required under terms of the contract and for the operation of the managed care organization (MCO) for the time period and population covered under the terms of the contract, and such capitation rates were developed in accordance with the requirements under 42 CFR 438.4(b).

To ensure compliance with generally accepted actuarial practices and regulatory requirements, we referred to published guidance from the American Academy of Actuaries (AAA), the Actuarial Standards Board (ASB), the Centers for Medicare and Medicaid Services (CMS), and federal regulations. Specifically, the following were referenced during the rate development:

* Actuarial standards of practice applicable to Medicaid managed care rate setting which have been enacted as of the capitation rate certification date, including: ASOP 1 (Introductory Actuarial Standard of Practice); ASOP 5 (Incurred Health and Disability Claims); ASOP 12 (Risk Classification); ASOP 23 (Data Quality); ASOP 25 (Credibility Procedures); ASOP 41 (Actuarial Communications); ASOP 45 (The Use of Health Status Based Risk Adjustment Methodologies); ASOP 49 (Medicaid Managed Care Capitation Rate Development and Certification); and ASOP 56 (Modeling).
* Actuarial soundness and rate development requirements in the Medicaid and CHIP Managed Care Final Rule (CMS 2390-F and CMS-2408-F).
* The Medicaid Managed Care Rate Development Guide published by CMS for rating periods effective July 1, 2022 through June 30, 2023.
* Throughout this document and consistent with the requirements under 42 CFR 438.4(a), the term “actuarially sound” will be defined as in ASOP 49:

*“Medicaid capitation rates are “actuarially sound” if, for business for which the certification is being prepared and for the period covered by the certification, projected capitation rates and other revenue sources provide for all reasonable, appropriate, and attainable costs. For purposes of this definition, other revenue sources include, but are not limited to, expected reinsurance and governmental stop-loss cash flows, governmental risk-adjustment cash flows, and investment income. For purposes of this definition, costs include, but are not limited to, expected health benefits; health benefit settlement expenses; administrative expenses; the cost of capital, and government-mandated assessments, fees, and taxes.”*[[1]](#footnote-1)

# Executive summary

This report is an amendment to the documentation of the Original capitation rate certification for SFY 2023 to include legislatively enacted Medicaid program changes not reflected in the Original certification. Unless stated otherwise, all assumptions are consistent with the Original certification.

Summary of methodology

The methodology used in developing the amendment to the certified SFY 2023 capitation rates is outlined below.

***Step 1: Base Experience***

We used the projected claims data underlying the SFY 2023 capitation rates, as outlined in the Original certification, as base experience for developing the amended capitation rates effective during the July 1, 2022 through June 30, 2023 period. These projected claims costs are inclusive of all retrospective, prospective, trend, managed care efficiency, and other claims cost adjustments applied to the data as outlined in the Original certification.

***Step 2: Projected benefit cost and trends***

The base experience is adjusted for known policy and program changes that were not considered in the Original certification but are expected to be implemented during the rating period. Adjustments are made for new state directed payment initiatives for pediatric services, early intervention services, children’s therapeutic and respite services, hospital labor and delivery services, and for updates to legislatively mandated hospital and nursing home payment rates. The impact of each change is illustrated in Appendix 2 of this report.

***Step 3: Development and issuance of actuarial certification***

An actuarial certification is included and signed by Jason A. Clarkson, FSA, a Principal and Consulting Actuary of Milliman, Inc. Mr. Clarkson meets the qualification standards established by the American Academy of Actuaries, follows the practice standards established by the Actuarial Standards Board, and certifies that the final rates meet the standards in 42 CFR 438.4(a). The capitation rate certification can be found in Appendix 1 of this report.

Fiscal Impact Estimate

A comparison of the Original SFY 2023 capitation rates and the amended capitation rates for the Medicaid managed care program is illustrated in Figure 1.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Figure 1: Comparison with Original Capitation Rate Certification (PMPM)** | | | | |  |
| **Population** | **Estimated SFY 2023 Average Monthly Enrollment** | **Original SFY 2023**  **Rates** | **Amended  SFY 2023**  **Rates** | **% Change** | |
| RIte Care | 170,711 | $ 313.05 | $ 327.37 | 4.6% | |
| CSHCN | 9,660 | 1,208.59 | 1,347.72 | 11.5% | |
| Medicaid Expansion | 107,096 | 647.97 | 657.37 | 1.5% | |
| Rhody Health Partners | 14,545 | 1,980.85 | 2,007.57 | 1.3% | |
| SOBRA | 423 | 14,552.46 | 16,100.21 | 10.6% | |
| **Composite** | **302,012** | **$ 561.15** | **$ 580.48** | **3.4%** | |

Notes:

1. The Original SFY 2023 Rates represent the capitation rates contained in the certification dated June 22, 2022.
2. Estimated SFY 2023 average monthly enrollment is consistent with the Original certification.
3. Estimated SFY 2023 average monthly enrollment for SOBRA represents estimated average monthly deliveries.

Figure 2 compares the estimated state and federal expenditures based on the amended SFY 2023 capitation rates relative to the Original certification using estimated average monthly enrollment in SFY 2023.

|  |  |  |  |
| --- | --- | --- | --- |
| **FIGURE 2: COMPARISON WITH PRIOR EXPENDITURES ($ Millions)** | | | |
| **Population** | **Original  SFY 2023 Aggregate Expenditures** | **Amended SFY 2023 Aggregate Expenditures** | **Expenditure Change** |
| RIte Care | $ 641.3 | $ 670.6 | $ 29.3 |
| CSHCN | 140.1 | 156.2 | 16.1 |
| Rhody Health Partners | 345.7 | 350.4 | 4.7 |
|  |  |  |  |
| Subtotal Medicaid | 1,127.1 | 1,177.3 | 50.2 |
| Federal | 610.8 | 638.0 | 27.2 |
| State | 516.3 | 539.3 | 23.0 |
|  |  |  |  |
| Medicaid Expansion | 832.7 | 844.8 | 12.1 |
| Federal | 749.5 | 760.3 | 10.8 |
| State | 83.3 | 84.5 | 1.2 |
|  |  |  |  |
| SOBRA | 73.8 | 81.6 | 7.8 |
| Federal | 44.2 | 48.9 | 4.7 |
| State | 29.6 | 32.8 | 3.2 |
|  |  |  |  |
| **Total** | **$ 2,033.7** | **$ 2,103.7** | **$ 70.0** |
| **Total Federal** | **$ 1,404.4** | **$ 1,447.2** | **$ 42.8** |
| **Total State** | **$ 629.2** | **$ 656.6** | **$ 27.4** |

Notes:

1. The Original SFY 2023 Aggregate Expenditures represents the capitation rates contained in the certification dated June 22, 2022.
2. State expenditures for populations other than Medicaid Expansion are based on Federal Fiscal Year (FFY) 2022 Federal Medical Assistance Percentage (FMAP) of 54.88% for three months and FFY 2023 FMAP of 53.96% for nine months. No adjustment was made for Families First Coronavirus Response Act enhanced FMAP, Children’s Health Insurance Program (CHIP), or other enhanced FMAP rates.
3. State expenditures for the Medicaid Expansion population are based FMAP of 90.00%.
4. The federal and state SOBRA expenditures are allocated based on the portion of SOBRA capitation payments estimated to be associated with RIte Care and Medicaid Expansion members and their corresponding FMAP.
5. Values have been rounded.

Appendix 1 contains an actuarial certification for the SFY 2023 Medicaid managed care capitation rate amendment.

Appendix 2 contains a summary of the rate amendment benefit expense development. Note that the projected benefit expense provided in the Original certification serves as the starting point for the benefit expense development.

Appendix 3 illustrates the amended SFY 2023 Capitation Rate Development.

# Projected benefit cost and trends

This section provides information regarding the development of the projected benefit expense portion of the capitation rates. The impact of the items described in this section is illustrated in Appendix 2.

Prospective Program and Policy Adjustments

Figure 3 illustrates the fiscal impact of the prospective program changes applied in Appendix 2 of the rate development and is followed by a description of each adjustment.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **FIGURE 3: PROSPECTIVE PROGRAM ADJUSTMENTS** | | | | | | |
| **Program Change** | **Category of Service Impacted** | **% Impact RIte Care** | **% Impact CSHCN** | **% Impact Medicaid Expansion** | **% Impact Rhody Health Partners** | **% Impact SOBRA** |
| Pediatric Services | Professional | 4.4% | 3.4% | 0.3% | 0.0% | 0.1% |
| Early Intervention | Professional / LTSS / Ancillary | 1.2% | 1.6% | 0.0% | 0.0% | 0.0% |
| Children’s Therapeutic and Respite Services | Professional / LTSS | 2.4% | 20.4% | 0.0% | 0.0% | 0.0% |
| Hospital Labor and Delivery | Inpatient Hospital | 0.0% | 0.2% | 0.0% | 0.2% | 17.3% |

Note: The percentages illustrated are specific to the category of service impacted.

* **Pediatric Services:** Effective July 1, 2022, a state directed minimum fee schedule was implemented for evaluation and management services for members ages zero through 20. We utilized the minimum fee schedule provided by EOHHS to adjust the estimated SFY 2023 reimbursement levels for these services contained in the Original certification (the CY 2019 base data trended a SFY 2023 basis) to the state directed minimum fee schedule.No adjustment was made for services that were already reimbursed above the state directed minimum fee schedule.
* **Early Intervention:** Effective July 1, 2022, a state directed minimum fee schedule was implemented for early intervention service providers. We utilized a consistent method as described for the pediatric services to estimate the SFY 2023 capitation rate impact.
* **Children’s Therapeutic and Respite Services:** Effective July 1, 2022, a state directed minimum fee schedule was implemented for children’s therapeutic and respite service providers. The minimum fee schedule includes home based therapeutic services, applied behavior analysis services, Personal Assistance Services and Supports (PASS), and respite services. We utilized a consistent method as described for the pediatric and early intervention services to estimate the SFY 2023 capitation rate impact.
* **Hospital Labor and Delivery:** Effective July 1, 2022, MCOs are instructed to increase hospital labor and delivery reimbursement by 20%. EOHHS is using a state directed uniform percentage increase to implement this increase. We applied a 20% increase to the Inpatient Maternity Delivery category of service to reflect this state directed payment.

Projected Benefit Cost Trends

**Inpatient Hospital Increase:** Effective July 1, 2022, MCOs are instructed to increase inpatient hospital reimbursement by 5%. This increase replaces the previous effective July 1, 2022 increase of 2% included in the Original certification. EOHHS is using a state directed uniform percentage increase to implement the 5% increase.

This legislative increase affects the per diem reimbursement rate for level IV detoxification services described in the Original certification. The estimated SFY 2023 per diem increased from $1,621.80 in the Original certification to $1,669.50 in this rate amendment as a result of the increase to hospital trends documented above.

* **Outpatient Hospital Increase:** Effective July 1, 2022, MCOs are instructed to increase outpatient hospital reimbursement by 5%. This increase replaces the previous effective July 1, 2022 increase of 2% included in the Original certification. EOHHS is using a state directed uniform percentage increase to implement the 5% increase.
* **Nursing Home / Staffing Increase:** Effective October 1, 2022, EOHHS increased nursing home rates by 3% (plus an additional 1% staffing adjustment). This increase replaces the previously effective October 1, 2022 increase of 2% included in the Original certification. The 1% nursing home staffing reimbursement adjustments remain consistent with the values included in the Original certification.

Figure 4 illustrates the updated legislatively mandated trend factors for Inpatient Hospital, Outpatient Hospital, Nursing Home, and Hospice services. The factors below represent a change from a SFY 2022 to SFY 2023 basis and serve as a replacement for the factors applied in the Original certification.

|  |  |  |
| --- | --- | --- |
| **FIGURE 4: ANNUAL LEGISLATIVELY MANDATED PRICE TREND FACTORS** | | |
| **Service Category** | **Trend Factor** |
| Inpatient Hospital | 1.0500 |
| Outpatient Hospital | 1.0500 |
| Nursing Home | 1.0368 |
| Hospice | 1.0368 |

Notes:

1. Nursing Home and Hospice trends include the inflation and staffing adjustment, consistent with the values included in the Original certification.

Additional State Directed Payments

* **Home Delivered Meals:** Effective July 1, 2022, a state directed minimum fee schedule was implemented for home delivered meals and added cultural and therapeutic meal offerings. We examined the Medicaid managed care encounter data and did not observe a material number of utilizers of these services. An explicit adjustment is not applied for this minimum fee schedule due to the immaterial volume of claims.
* **Home Health Agency Rates:** Effective July 1, 2022, a state directed minimum fee schedule was implemented for home health services. We reviewed the Medicaid managed care encounter data and observed home health reimbursement levels were generally higher than the minimum fee schedule. As current reimbursement generally above the minimum fee schedule, no explicit adjustment was applied for this state directed payment.

While the Home Delivered Meals and Home Health Agency state directed minimum fee schedules did not result in explicit rating adjustments, full documentation of these payment arrangements is included in this report.

Program and Policy Adjustments Deemed Immaterial

Adjustment factors were developed for policy and program changes estimated to ***materially*** affect the managed care program which were not known during the development of the Original certification. *We defined a program adjustment to be ‘material’ if the total benefit expense for any individual rate cell is impacted by more than 0.1%.* The following is a list of other recently enacted program changes that were deemed immaterial.

* **RIte Track Expansion:** Effective July 1, 2022, EOHHS expanded Medicaid coverage to all children residing within the state of Rhode Island, regardless of immigration status. We reviewed the estimated number of children that could be enrolled into the managed care program based on EOHHS legislative analyses, the estimated pent-up demand, and estimated service utilization relativity of this population. We compared the estimated relative morbidity of this population to the existing children in the managed care program and estimated the overall impact to be immaterial.
* **Postpartum Continuous Coverage:** Effective October 1, 2022, EOHHS will expand postpartum Medicaid coverage to 12 months after delivery. We examined the Medicaid managed care eligibility and found that most members are already maintaining managed care enrollment 12 months after delivery because of the public health emergency (PHE) continuous enrollment requirements. Consistent with the Original certification, we assumed the PHE continues throughout SFY 2023. Any potential impacts associated with the termination of the PHE may be evaluated when the PHE termination date is known.

All other components of the projected benefit cost and trends are consistent with the Original certification dated June 22, 2022.

# Special contract provisions related to payment

Incentive Arrangements

This section provides documentation of the incentive payment structure in the Medicaid managed care program. Incentive payments under this plan are below 105% of the certified capitation rates paid under the contract. EOHHS operates the following incentive program for its MCOs.

**Health System Transformation Program**: The Health System Transformation Program invests in the development of certified accountable entities through the approval of the Rhode Island 1115 waiver Special Terms and Conditions. Incentive payments for the development of accountable entities are funded via an incentive payment to the MCOs with EOHHS approval. MCOs may be eligible for incentive payment under this program up to the PMPM illustrated in Figure 5 below.

|  |  |  |  |
| --- | --- | --- | --- |
| **FIGURE 5: MAXIMUM INCENTIVE PAYMENT (PMPM)** | | | |
| **Population** | **SFY 2023 Composite Rates** | **105% of Capitation Rates** | **Maximum Incentive Payment** |
| RIte Care | $ 329.63 | $ 346.11 | $ 16.48 |
| CSHCN | 1,347.72 | 1,415.11 | 67.39 |
| Medicaid Expansion | 657.37 | 690.24 | 32.87 |
| Rhody Health Partners | 2,007.57 | 2,107.95 | 100.38 |
| SOBRA | 16,100.21 | 16,905.22 | N/A |

Note: Health System Transformation Program incentive payments do not include the SOBRA or extended family planning rate cells.

The sum of the incentive payments does not exceed 105% of the certified capitation rates. There is no explicit adjustment to the capitation rates for the incentive arrangement.

Withhold Arrangements

The withhold arrangement is consistent with information documented in the Original certification.

State Directed Payments

The following describes new and updated state directed payments relative to the Original certification.

#### Rate Development Standards

The state directed payments are reflected in the capitation rates effective July 1, 2022, consistent with guidance in 42 CFR §438.6(c). The capitation rates include consideration for the following new state directed payments not included in the Original certification.

* Pediatric services
* Early intervention services
* Children’s therapeutic and respite services
* Hospital labor and delivery services
* Home delivered meals
* Home health agency rates

In addition, the capitation rates were adjusted to reflect changes to the following state directed payments that were included in the Original certification.

* Inpatient hospital
* Outpatient hospital
* Nursing home

The arrangements outlined in the directed payment documentation are developed in accordance with 42 CFR §438.4 and §438.5 and follow generally accepted actuarial principles and practices.

#### Appropriate Documentation

##### Delivery system and provider payment initiatives

###### Description delivery system and provider payment initiatives

The state directed payments are described in the “Projected benefit cost and trends” section of this report. The state has not yet submitted preprints for the directed payments described below; however, the capitation rate development is consistent with the anticipated preprint submissions. We anticipate the preprints will be submitted to CMS shortly after this capitation rate amendment is submitted to CMS. The state directed payment for pediatric services, early intervention services, children’s therapeutic and respite services, home delivered meals, and home health are based on a state plan fee schedule and do not have a corresponding preprint.

Figure 6 summarizes information the state directed payments.

|  |  |  |  |
| --- | --- | --- | --- |
| **FIGURE 6: STATE DIRECTED PAYMENTS** | | | |
| **Control Name of State Directed Payment** | **Type of Payment** | **Brief Description** | **Is the Payment Included as a Rate Adjustment or Separate Payment Term?** |
| Pediatric Services | Minimum fee schedule | Minimum fee schedule for pediatric evaluation and management services | Rate Adjustment |
| Early Intervention Services | Minimum fee schedule | Minimum fee schedule for early intervention services | Rate Adjustment |
| Children’s Therapeutic and Respite Services | Minimum fee schedule | Minimum fee schedule for children’s therapeutic and respite services | Rate Adjustment |
| Hospital Labor and Delivery | Uniform Percentage Increase | Uniform increase for inpatient maternity delivery services | Rate Adjustment |
| Inpatient Hospital Increase | Uniform Percentage Increase | Uniform increase to inpatient hospital reimbursement | Rate Adjustment |
| Outpatient Hospital Increase | Uniform Percentage Increase | Uniform increase to outpatient hospital reimbursement | Rate Adjustment |
| Nursing Home / Staffing Increase | Uniform Percentage Increase | Uniform increase to nursing home reimbursement | Rate Adjustment |
| Home Delivered Meals | Minimum fee schedule | Minimum fee schedule applied for home delivered meals | Rate Adjustment  (Immaterial) |
| Home Health Agency Rates | Minimum fee schedule | Minimum fee schedule applied for home health services | Rate Adjustment  (Immaterial) |

###### Effect on capitation rates

Consistent with 42 CFR §438.7(b)(6) and 438.6(d), state directed payments are incorporated into the rate certification consistent with the anticipated preprint submission. The effect of each state directed payment incorporated as a rate adjustment in the SFY 2023 capitation rates is outlined in Figure 7 below.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **FIGURE 7: EFFECT OF STATE DIRECTED PAYMENTS** | | | | |
| **Control Name of the State Directed Payment** | **Rate Cells Affected** | **Impact** | **Description of the Adjustment** | **Confirmation the Rates are Consistent with the Preprint** |
| Pediatric Services | All rate cells containing children ages 0 through 20 | The state directed payment rate impact is illustrated in Appendix 2, in the “Pediatric Services” column. | Minimum fee schedule applied for pediatric evaluation and management services | N/A; no preprint submission |
| Early Intervention | All rate cells utilizing early intervention services | The state directed payment rate impact is illustrated in Appendix 2, in the “Early Intervention” column | Minimum fee schedule applied for early intervention services | N/A; no preprint submission |
| Children’s Therapeutic and Respite Service | All rate cells utilizing children’s therapeutic and respite services | The state directed payment rate impact is illustrated in Appendix 2, in the “Children’s Therapeutic and Respite” column | Minimum fee schedule applied for children’s therapeutic and respite services | N/A; no preprint submission |
| Hospital Labor and Delivery | SOBRA rate cell, Rhody Health Partners and CSHCN populations | The state directed payment rate impact is illustrated in Appendix 2, in the “Hospital Labor and Delivery” column | Uniform increase for inpatient maternity delivery services | Consistent with anticipated preprint |
| Inpatient Hospital Increase | All rate cells | 5.0% increase effective July 1, 2022 | Uniform increase to inpatient hospital reimbursement | Consistent with anticipated preprint |
| Outpatient Hospital Increase | All rate cells | 5.0% increase effective July 1, 2022 | Uniform increase to outpatient hospital reimbursement | Consistent with anticipated preprint |
| Nursing Home / Staffing Increase | All rate cells | 4.0% increase effective July 1, 2022 | Uniform increase to nursing home reimbursement | Consistent with anticipated preprint |
| Home Delivered Meals | All rate cells utilizing home delivered meals | Determined to be immaterial | No explicit adjustment applied | N/A; no preprint submission |
| Home Health Agency Rates | All rate cells utilizing home health | Determined to be immaterial | No explicit adjustment applied | N/A; no preprint submission |

The pediatric services, early intervention, children’s therapeutic and respite service, and hospital labor and delivery columns in Appendix 2 reflect the full adjustment for the state directed payment. The adjustment for the inpatient hospital increase, outpatient hospital increase, and nursing home / staffing increase illustrated in the “Hospital / Nursing Home Trend” column represents the incremental trend relative to assumptions used in the Original certification.

##### Additional directed payments

There are no additional directed payment arrangements other than those listed in the Original certification and this amendment.

##### Required reimbursement rates outside the certification

There are no requirements regarding reimbursement rates the plans must pay to any providers unless specified in the certification as a directed payment or authorized under applicable law, regulation, or waiver.

# Projected non-benefit costs

Administrative Expense Cost Allowance

The development of the actuarially sound capitation rates for SFY 2023 includes non-benefit expense assumptions consistent with the Original certification. Figure 8 provides a summary of the non-benefit expense loads applied to the rate amendment projected benefit expenses.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **FIGURE 8: NON-BENEFIT EXPENSE LOADS** | | | | |
| **Population** | **Care Coordination** | **Administrative Cost** | **Risk Margin** | **Premium Tax** |
| RIte Care <15 | 1.50% | 7.50% | 1.50% | 2.00% |
| RIte Care 15+ | 1.50% | 6.75% | 1.50% | 2.00% |
| EFP | 1.50% | 10.00% | 1.50% | 2.00% |
| CSHCN - Adoption/Sub Care | 1.50% | 9.00% | 1.50% | 2.00% |
| CSHCN - Other | 1.50% | 7.00% | 1.50% | 2.00% |
| Medicaid Expansion | 1.50% | 6.75% | 1.50% | 2.00% |
| Rhody Health Partners | 1.50% | 6.00% | 1.50% | 2.00% |
| SOBRA | 1.00% | 2.00% | 1.50% | 2.00% |

In addition to items above, the development of actuarial sound capitation rates considers the following other program components:

Personal Care Shift Differential

Behavioral Health Certification Enhancement

Care Transformation Collaborative of Rhode Island

State-Supplied Vaccine Program (vaccine assessment).

All values for these items are consistent with information included in the Original certification and are further illustrated in Appendix 3 of this report.

# Limitations

The information contained in this report has been prepared for the Rhode Island Executive Office of Health and Human Services (EOHHS) to provide documentation of the development of an amendment to the certified state fiscal year (SFY) 2023 capitation rates for the Rhode Island Medicaid managed care program. The data and information presented may not be appropriate for any other purpose.

The information contained in this report, including the enclosures, has been prepared for EOHHS and their consultants and advisors. It is our understanding that the information contained in this report may be shared with managed care organizations (MCO) participating in the managed care program and the Centers for Medicare and Medicaid Services (CMS). Any distribution of the information should be in its entirety. Any user of the data must possess a certain level of expertise in actuarial science and healthcare modeling so as not to misinterpret the information presented.

Milliman makes no representations or warranties regarding the contents of this report to third parties. Likewise, third parties are instructed that they are to place no reliance upon this report prepared for EOHHS by Milliman that would result in the creation of any duty or liability under any theory of law by Milliman or its employees to third parties. Other parties receiving this report must rely upon their own experts in drawing conclusions about the capitation rates, assumptions, and trends.

Milliman has developed certain models to estimate the values included in this correspondence. The intent of the models was to develop the SFY 2023 Medicaid managed care capitation rates. We have reviewed the models, including their inputs, calculations, and outputs for consistency, reasonableness, and appropriateness to the intended purpose and in compliance with generally accepted actuarial practice and relevant actuarial standards of practice (ASOP). The models rely on data and information as input to the models. We have relied upon certain data and information provided by EOHHS and the MCOs for this purpose and accepted it without audit. To the extent that the data and information provided is not accurate, or is not complete, the values provided in this correspondence may likewise be inaccurate or incomplete. Milliman’s data and information reliance includes the data sources outlined in the body of this report and the Original certification. The models, including all input, calculations, and output may not be appropriate for any other purpose.

It should be emphasized that capitation rates are a projection of future costs based on a set of assumptions. Differences between our projections and actual amounts depend on the extent to which future experience conforms to the assumptions made for this analysis. It is certain that actual experience will not conform exactly to the assumptions used in this analysis. Actual amounts will differ from projected amounts to the extent that actual experience deviates from expected experience.

At the time of this report, we acknowledge there is substantial uncertainty regarding the impact of the COVID-19 pandemic on future projections. It is possible that the COVID-19 pandemic could have a material impact on the projected enrollment and capitation rates presented in this report.

The services provided by Milliman to EOHHS were performed under the signed contract agreement between Milliman and EOHHS dated March 10, 2022.

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

# Appendix 1: Actuarial Certification

**State of Rhode Island**

**Executive Office of Health and Human Services**

**State Fiscal Year 2023 Capitation Rates**

**Medicaid Managed Care**

**Actuarial Certification**

I, Jason A. Clarkson, am a Principal and Consulting Actuary with the firm of Milliman, Inc. I am a Member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. I meet the qualification standards established by the American Academy of Actuaries and have followed the standards of practice established by the Actuarial Standards Board. I have been contracted by the State of Rhode Island, Executive Office of Health and Human Services to perform an actuarial review and certification regarding the development of capitation rates for the Medicaid Managed Care program effective July 1, 2022. I am generally familiar with the state-specific Medicaid program, eligibility rules, and benefit provisions.

The capitation rates provided with this certification are considered “actuarially sound” for purposes of 42 CFR 438.4(a), according to the following criteria:

* the capitation rates provide for all reasonable, appropriate, and attainable costs that are required under terms of the contract and for the operation of the MCO for the time period and population covered under the terms of the contract, and such capitation rates were developed in accordance with the requirements under 42 CFR 438.4(b).

For the purposes of this certification and consistent with the requirements under 42 CFR 438.4(a), “actuarial soundness” is defined as in ASOP 49:

*“Medicaid capitation rates are “actuarially sound” if, for business for which the certification is being prepared and for the period covered by the certification, projected capitation rates and other revenue sources provide for all reasonable, appropriate, and attainable costs. For purposes of this definition, other revenue sources include, but are not limited to, expected reinsurance and governmental stop-loss cash flows, governmental risk-adjustment cash flows, and investment income. For purposes of this definition, costs include, but are not limited to, expected health benefits; health benefit settlement expenses; administrative expenses; the cost of capital, and government-mandated assessments, fees, and taxes.”*

The assumptions used in the development of the “actuarially sound” capitation rates have been documented in my correspondence with the State of Rhode Island. The “actuarially sound” capitation rates that are associated with this certification are effective for State Fiscal Year 2023.

The capitation rates are considered actuarially sound after adjustment for the amount of the withhold not expected to be earned. The “actuarially sound” capitation rates are based on a projection of future events. Actual experience may be expected to vary from the experience assumed in the rates. In developing the “actuarially sound” capitation rates, I have relied upon data and information provided by the State. I have relied upon the State for audit of the data. However, I did review the data for reasonableness and consistency.

I acknowledge that the state may elect to amend the capitation rates in accordance with 42 CFR 438.7(c)(3), which indicates that a capitation rate certification is not required for adjustments that increase or decrease capitation rates by 1.5% or less. The capitation rates developed may not be appropriate for any specific managed care plan. An individual managed care plan will need to review the rates in relation to the benefits that it will be obligated to provide. The managed care plan should evaluate the rates in the context of its own experience, expenses, capital and surplus, and profit requirements prior to agreeing to contract with the State. The managed care plan may require rates above, equal to, or below the “actuarially sound” capitation rates that are associated with this certification.

At the time of this rate certification, there is uncertainty regarding the impact of the COVID-19 pandemic, including whether the pandemic will increase or decrease costs in SFY 2023. We acknowledge that the COVID-19 pandemic could have a material impact on morbidity, enrollment, providers, and other factors related to the capitation rates illustrated in this rate certification.

Jason A. Clarkson, FSA

Member, American Academy of Actuaries

August 15, 2022

Date

# Appendix 2: SFY 2023 Projected Benefit Expense Development

# Appendix 3: SFY 2023 Capitation Rate Development



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1. <http://www.actuarialstandardsboard.org/asops/medicaid-managed-care-capitation-rate-development-and-certification/> [↑](#footnote-ref-1)