

MILLIMAN REPORT

# Risk Adjustment for 2H Contract Year 2018-2019 Vital Capitation Rates

Administración de Seguros de Salud (ASES)

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## Background

Milliman, Inc. has been retained by the Administración de Seguros de Salud (ASES) to provide actuarial and consulting services related to the development of capitation rates for its Medicaid Managed Care Program effective November 1, 2018. This report replaces our report dated June 10, 2020 and provides sets of risk adjustment factors to be applied to the May 1, 2019 – October 31, 2019 capitation rates for the Vital program. The MCO risk score relativity factors and area cost relativity factors in this report were developed using updated rate cell assignments provided by ASES on June 15, 2020. The capitation rates are effective from November 1, 2018 through October 31, 2019.

The Vital program began on November 1, 2018 and marked a significant change in the capitation rate structure for the Government Health Plan (GHP). Vital eliminated the single MCO per region model and implemented an island wide model, where each participating MCO competes in attaining enrollees. There are five (5) MCOs participating in the program. The participating MCOs provide the same benefit package and need to establish an island wide network of providers. The model covers all enrollees except the foster children and domestic abuse victims (FC/DA) population, previously known as the “Virtual” region, which continues to be administered by one MCO.

The premium rates are developed for 36 distinct rate cells and a maternity kick payment. Each enrollee is qualified into a High Cost High Need (HCHN) rate cell, age gender rate cell, dual eligible rate cell, or FC/DA.

## Risk Adjustment Factors

ASES implemented a risk adjustment process for premium rates for its Medicaid Managed Care Program effective November 1, 2018. The risk adjustment process, performed separately for rates effective November 1, 2018 – April 30, 2019 and May 1, 2019 – October 31, 2019, will result in premium rates that account for MCOs' relative morbidity and area costs. The risk adjustment process uses two sets of factors – MCO risk score relativity factors and area cost relativity factors – to adjust the premium rates in 34 rate cells. The two Dual Eligible rate cells are not subject to the risk adjustment process.

**Table 1** below shows the MCO risk score relativity factors for the five MCOs participating in the Medicaid Managed Care Program effective May 1, 2019. The MCO risk score relativity factors were developed using prospective risk scores from CDPS-MRX Version 6.3.

**TABLE 1: MCO RISK SCORE RELATIVITY FACTORS**

MCO	Risk Score Relativity
First Medicaid Health Plan, Inc.	0.975
MMM Multi Health, LLC	0.971
Molina Healthcare of Puerto Rico, Inc.	1.014
Plan de Salud Menonita	0.965
Triple-S Salud, Inc.	1.040

**Table 2** below shows the area cost relativity factors for the eight regions in the Medicaid Managed Care Program effective May 1, 2019. The area cost relativity factors were developed using actual costs incurred in State Fiscal Year (SFY) 2017. The area cost relativity factors were not changed from the area factors effective November 1, 2018.

**TABLE 2: AREA COST RELATIVITY FACTORS**

Region	Area Cost Relativity
North	0.940
Metro-North	1.047
East	1.168
North-East	0.928
South-East	0.971
San Juan	1.177
South-West	1.014
West	0.814

In order to assess the impact of the risk adjustment process on the MCOs, total revenue for each MCO was imputed under the current process and under the risk adjustment process. **Table 3** below shows the total revenue under the current and risk-adjusted process. The total revenue was calculated using SFY 2019 premium rates and final rate cell assignments from May 2019 through October 2019.

**TABLE 3: COMPARISON OF REVENUE  
BEFORE AND AFTER RISK ADJUSTMENT**

<b>MCO</b>	<b>Revenue Before</b>	<b>Revenue After</b>	<b>Ratio</b>
First Medicaid Health Plan, Inc.	\$250,692,795	\$249,609,557	0.996
MMM Multi Health, LLC	\$280,057,804	\$262,205,598	0.936
Molina Healthcare of Puerto Rico, Inc.	\$186,657,861	\$204,272,936	1.094
Plan de Salud Menonita	\$70,715,591	\$71,779,381	1.015
Triple-S Salud, Inc.	\$346,700,975	\$346,957,554	1.001
<b>Total</b>	<b>\$1,134,825,026</b>	<b>\$1,134,825,026</b>	<b>1.000</b>

## Methodology and Assumptions

### MCO RISK SCORE RELATIVITY FACTORS

The following information was used to develop the MCO Risk Score Relativity Factors:

- Medical and prescription drug claims data – Diagnosis codes and NDC codes in the medical and prescription drug claims data incurred from January 1, 2018 through December 31, 2018 were used. Diagnosis codes from laboratory and radiology claims were excluded.
- Eligibility data – The number of eligible months from January 1, 2018 through December 31, 2018 for each member was used.

The following steps were performed to develop the MCO risk score relativity factors.

1. CDPS-MRX Version 6.3 was used to develop risk score for each member. A prospective risk score using the combined medical and prescription drug risk adjuster was calculated for each member with at least six months of eligibility from January 1, 2018 through December 31, 2018.
2. A straight average risk score for each rate cell by MCO was calculated.
3. Risk score relativities among MCOs in each rate cell was calculated using a ratio of MCO-specific risk score to the average risk score in the rate cell.
4. A composite risk score relativity for each MCO was calculated by weighted averaging the risk score relativity in each rate cell across all the rate cells for the MCO. Dollar weights (i.e., the product of May 2019 – October 2019 member months and SFY 2019 premium rate in each rate cell) were used in the weighted averaging calculation.

### AREA COST RELATIVITY FACTORS

The following information was used to develop the area cost relativity:

- Medical and prescription drug claims data – The paid amounts in the claims data incurred in SFY 2017 were used.
- Costs for services paid under capitation – The capitation rates per member per month (PMPM) shown in the actuarial certification of the SFY 2017 premium rates were used.
- Eligibility data – The number of eligible months in SFY 2017 for each member was used.

The following steps were performed to develop the area cost relativity factors.

1. The cost of care PMPM paid under a fee-for-service (FFS) arrangement was calculated by dividing the paid amounts in the FFS claims data by eligible member months. The FFS cost of care PMPM was calculated for each rate cell by region.

2. The total cost of care PMPM was calculated by adding the FFS cost of care PMPM and capitated cost of care PMPM. The total cost of care PMPM was calculated for each rate cell by region.
3. Cost relativities among regions in each rate cell was calculated using a ratio of region-specific cost of care PMPM to the average cost of care PMPM in the rate cell.
4. A composite area cost relativity for each region was calculated by weighted averaging the area cost relativity in each rate cell across all the rate cells for the region. Dollar weights (i.e., the product of May 2019 – October 2019 member months and SFY2019 premium rate in each rate cell) were used in the weighted averaging calculation.
5. The composite area cost relativity for each region was further adjusted to maintain revenue neutrality by multiplying the area cost relativity factors by a uniform factor.

## Caveats and Limitations of Use

We used fee-for-service data, MCO encounter data, eligibility data, historical reimbursement information, and capitation amounts to calculate the Puerto Rico GHP managed care capitation rates shown in this report. This data was provided by ASES and the MCOs. We have not audited or verified this data and other information. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete. We performed a limited review of the data used directly in our analysis for reasonableness and consistency and have not found material defects in the data. If there are material defects in the data, it is possible that they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable or for relationships that are materially inconsistent. Such a review was beyond the scope of our assignment.

In order to provide the information requested by ASES we constructed several projection models. Differences between the capitation rates and actual experience will depend on the extent that future experience conforms to the assumptions made in the capitation rate calculations. It is certain that actual experience will not conform exactly to the assumptions used. Actual amounts will differ from projected amounts to the extent that actual experience is better or worse than expected.

Milliman prepared this report for the specific purpose of risk adjustment for CY 2018-2019 GHP managed care capitation rates. This report should not be used for any other purpose. This report has been prepared solely for the internal business use of and is only to be relied upon by the management of ASES. We anticipate the report will be shared with contracted MCOs and other interested parties. Milliman does not intend to benefit or create a legal duty to any third party recipient of its work. It should only be reviewed in its entirety.

The results of this report are technical in nature and are dependent upon specific assumptions and methods. No party should rely on these results without a thorough understanding of those assumptions and methods. Such an understanding may require consultation with qualified professionals.

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 for performing the analyses in this report.

The terms of Milliman's consulting service agreement with ASES, signed on August 2, 2019, apply to this letter and its use.



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