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March 18, 2019

Mr. Jeffrey A. Meyers
Commissioner
New Hampshire Department of Health and Human Services
129 Pleasant Street
Concord, NH 03301

Re: March 11, 2019 Executive Council Meeting Follow-Up

Commissioner Meyers:

At your request, we are providing the Department of Health and Human Services (DHHS) information to help address questions raised by the New Hampshire Executive Council during its March 11, 2019 meeting. The provided information is as follows:

- Total projected SFY 2020 administrative and risk margin allowance under the Medicaid Care Management (MCM) program
- Total CY 2017 gross and net prescription drug expenditure components

It is our understanding this information will be shared with the Executive Council.

RESULTS

Table 1 below shows our estimated SFY 2020 projections for administrative and risk margin allowance for the MCM program.

Table 1 New Hampshire Department of Health and Human Services SFY 2020 Medicaid Care Management Program Projected Total MCO Administration / Margin Allowance			
Population	MCO Administration Allowance	Risk / Profit Margin	Total Allowance
Standard Medicaid Population			
Base Population	\$35,320,035	\$5,662,128	\$40,982,163
CHIP	3,052,804	442,739	3,495,543
Behavioral Health Population	13,286,133	2,518,770	15,804,903
Standard Medicaid	\$51,658,972	\$8,623,637	\$60,282,609
GAHCP Population			
Medically Frail	\$9,299,245	\$1,658,013	\$10,957,258
Non-Medically Frail	26,149,114	3,586,361	29,735,474
GAHCP	\$35,448,358	\$5,244,374	\$40,692,733
Total			
Total	\$87,107,331	\$13,868,011	\$100,975,342

The information in Table 1 is based on the SFY 2020 MCM capitation rates developed and certified in our February 11, 2019 letter. We used projected enrollment levels by rate cells provided by DHHS. The actual administrative and risk margin expenditure will depend on actual enrollment by rate cell.

We used Milliman’s *Medicaid risk-based managed care: Analysis of administrative costs for 2017*¹ Research Report to benchmark the non-benefit cost allowance included in the SFY 2020 MCM capitation rates. We compared the SFY 2020 MCM administration allowance to administrative costs reported by Medicaid MCOs in their 2017 financial statements, excluding amounts for taxes and fees.

The average SFY 2020 PMPM load for MCM program administrative expenses across all populations is \$41.28 PMPM. This average administrative load falls between the 50th and 75th percentile of the administrative costs reported by all MCOs after accounting for a 2% annual trend in administrative costs between calendar year 2017 and SFY 2020.

The increased MCM administration allowance relative to prior years provides additional funding to support the programmatic changes that are part of the new MCO contract. The new MCO contract includes a substantial increase for MCO administrative activities requirements compared to the previous one. The expanded programmatic activities include prescription drug counselling, increased care management, and support of community engagement.

Table 2 provides a high level summary of estimated gross and net prescription drug expenditures for CY 2017.

Table 2 New Hampshire Department of Health and Human Services Medicaid Care Management Program Estimated CY2017 Expenditures				
	MCM	Medically Frail	PAP ¹	Total
Gross Drug Cost	\$113,495,570	\$21,028,473	\$38,153,789	\$172,677,832
Federal Rebates	51,331,918	10,762,226	0	62,094,144
Net Drug Cost	62,163,652	10,266,246	38,153,789	110,583,687
MCO Supplemental Rebates (3.25% of Gross Cost)	3,688,606	683,425	1,239,998	5,612,030
Total Net Cost to DHHS	\$58,475,046	\$9,582,821	\$36,913,791	\$104,971,658

¹ Federal rebates were not collected on PAP drug expenditures.

Please note, the total federal pharmacy rebates equal CMS mandated rebates plus FFS supplemental rebates minus rebate offset amounts. We used detailed NDC-11 unit level data from Magellan to estimate these amounts in the absence of actual reported rebates. Federal pharmacy rebates include the following rebates:

- CMS mandated federal rebates (also known as unit rebate amount or URA)
- Rebate offset amount (ROA)
- Supplemental rebates the state is able to obtain due to control of the Preferred Drug List (also referred to as “State supplemental rebates”)

MCO supplemental rebates are rebates the MCOs are able to procure due to control of the PDL through negotiations with drug manufacturers. Through the capitation rate setting process we do not get NDC-11 unit level data, and only apply high level assumptions based on information reported by the MCOs to estimate prescription drug costs net of supplemental rebates. The MCOs have historically reported approximately 3.25% of gross cost as supplemental rebate revenue for a PDL fully controlled by the MCOs.

¹ <http://us.milliman.com/insight/2018/Medicaid-managed-care-financial-results-for-2017/>

DHHS is implementing a state-controlled PDL under the new MCO contract. Due to this change and the movement of the expansion population into the Medicaid Care Management program, DHHS will collect federal pharmacy rebates on scripts dispensed to the population previously enrolled in PAP. Additionally, we estimate MCO supplemental rebates will decrease from the current 3.25% of gross prescription drug costs to about 0.5% of gross prescription drug costs, due to the loss of PDL control for most therapeutic drug classes.

Please note, the values in Table 2 represent a reasonable estimate of the various pharmacy expenditures during CY 2017. Since all three populations were in a capitated arrangement, DHHS pays an all-inclusive capitation rate to MCOs who then incur the actual pharmacy expenses. The values in Table 2 represent the actual pharmacy costs incurred by the MCOs rather than the capitation payments.

Also, the information shown in Table 2 represents only medications for which MCOs are at risk. As such, Hepatitis C, hemophilia, and other high cost drugs are excluded from this analysis.

CAVEATS AND LIMITATIONS ON USE

This letter is designed to assist DHHS with providing answers to questions raised during the March 11, 2019 Executive Council meeting. This information may not be appropriate, and should not be used, for other purposes.

The information contained in this letter has been prepared for DHHS. To the extent that the information contained in this letter is provided to third parties, this letter should be distributed in its entirety. Any user of this information 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 letter to third parties. Likewise, third parties are instructed that they are to place no reliance upon this letter prepared for DHHS 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 letter must rely upon their own experts in drawing conclusions about the information presented.

We used fee-for-service (FFS), MCO encounter, and Comprehensive Health Care Information System (CHIS) cost and eligibility data for January 2017 through December 2017, and other DHHS and MCO information to develop the estimates shown in this letter. This data was provided by DHHS and participating MCOs. We did not audit 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 did not find material defects in the data. If there are material defects in the data, it is possible 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.

Guidelines issued by the American Academy of Actuaries require actuaries to include their professional qualifications in all actuarial communications. I am a member of the American Academy of Actuaries, and I meet the qualification standards for performing the analyses in this letter.

The terms of Milliman's contract with DHHS effective July 1, 2017 apply to this letter and its use.





Mr. Jeffrey A. Meyers
New Hampshire Department of Health and Human Services
March 18, 2019
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Please call me at 262 784 2250 if you have any questions.

Sincerely,

A handwritten signature in black ink that reads "Mathieu Doucet". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Mathieu Doucet, FSA, MAAA
Consulting Actuary

MD/zk