

to: **Wendy Edwards** date: **October 14, 2005**
from: **Pete Davidson** subject: **OHP Standard Capitation Rate Development**

Due to the changes that have occurred in the OHP Standard program and its population since the development of the 2005-2007 per capita costs, we were directed to develop OHP Standard capitation rates using more current encounter data as a means for understanding the effect of changes in program design on costs for the population. This memorandum describes the development of the OHP Standard per capita costs using this more recent data (referred to as “Rebased”) and compares that process to that used in developing capitation rates with the data underlying the 2005-2007 per capita costs (referred to as “05-07 PCC”).

The upper section of the attached Exhibit 1 shows the summarized calculation of the statewide OHP Standard capitation rates effective January 1, 2006 using the 05-07 PCC data. Similarly, the lower section shows the development of the capitation rates using the Rebased data. The following sections are organized to follow Exhibit 1.

Base Data

05-07 PCC

- Encounter and enrollment data for the period July 2001 through February 2003 served as the base. Data for the period March 2003 through June 2003, which were included in the development of the OHP Plus per capita costs were excluded due to the changes in the OHP Standard program that began largely in March 2003. Reported billed charges were divided by enrolled member months to produce billed charges per member per month (PMPM).
- Effective October 1, 2005, the drug Lamictal was carved out of the capitated benefit package. The historical utilization for Lamictal was removed from the base data.

Rebased

- Encounter and enrollment data for the period August 2004 through December 2004 served as the base for non-pharmacy services, and data for the period October 2004 through March 2005 served as the base for pharmacy services. The data for these periods was the most recent available validated data. Reported billed charges were divided by enrolled member months to produce billed charges PMPM.
- The historical utilization for Lamictal was removed from the base data.

Cost-to-Charge Ratios

05-07 PCC

- Hospital-specific cost-to-charge ratios (CCRs) from the most recent available audited hospital cost reports were applied to the billed charges. At the direction of the legislature, a reduction of 28% from the cost base for DRG hospitals was applied.
- For professional services, the Medicare fee schedule serves as the cost benchmark. Medicare allowable amounts were compared to average billed charges per unit of service to derive CCRs.
- For prescription drugs, OMAP re-priced the submitted encounter data to reflect the pricing arrangements it had in effect at the time each claim was incurred. Based on summary information provided by the managed care plans regarding discounts, dispensing fees, rebates, and administrative fees, we developed an adjustment to convert the OMAP-based costs to managed care plan-based costs. This adjustment was applied as a CCR.
- For dental services, due to apparent differences in the values represented as billed charge amounts, we calculated the ratios of the average unit costs for the three dental plans that also serve non-Medicaid members to the average unit costs for all dental plans. These ratios were applied as CCRs.
- For mental health services, it appeared that the amounts reported as billed charges were a reasonable reflection of costs. Therefore, a 100% CCR was used. For acute inpatient services, a CCR based on the hospital cost reports was applied.

Rebased

- For hospital services, the same hospital-specific CCRs and DRG hospital funding reduction were applied. Differences in the aggregate hospital CCR are caused by differences in the mix of services by hospital as compared to the '05-07 PCC values.
- Revised CCRs for each of the professional service categories were developed using August 2004 through December 2004 data. Reductions in the CCRs are caused by increases in average billed charge levels.
- The prescription drug CCR is unchanged.
- For dental services, the average billed charge in the updated encounter data of one of the baseline dental plans changed dramatically. Therefore, only two dental plans were used to determine average unit costs rather than the three plans used for the 05-07 PCC.
- For mental health services, the CCRs were unchanged. Differences in the aggregate mental health CCR are caused by a change in the relative utilization of acute inpatient services.

Trend Adjustments

05-07 PCC

- The annual trend rates were taken from our March 7, 2005 report “Analysis of Federal Fiscal Years 2006-2007, Average Costs.” The “Data Period” trend rates were applied from the midpoint of the data period to the endpoint of the data period, and the “Projection Period” trend rates were applied from the beginning of the projection period to the midpoint of the contract period. The trend rates and trend adjustments are shown in Exhibit 2.

Rebased

- Since insufficient information was available to develop new trend assumptions, the same trend rates were applied to the rebased data to project the data from the midpoint of the data period to the midpoint of the contract period. Only the “Projection Period” trend rates since new “Data Period” trends were not developed. Exhibit 2 shows the development of the trend adjustments applied in Exhibit 1.

Other Adjustments

05-07 PCC

- Benefit adjustments were applied to reflect the actuarial value of changes in services covered under OHP Standard effective August 2004. We modeled the expected impact of these changes based on benefit descriptions provided by DHS.
- Adjustments were applied to reflect the change in prioritized list coverage between the data period and the contract period.
- An adjustment was made to reflect an increase in funding for labor and delivery services.
- An adjustment was made to reflect the return of responsibility for Neurontin.
- An adjustment was made to reflect the cost of Frozen Drugs that became managed care plan responsibility.
- An adjustment was made to reflect the expected costs of DUII treatment that became managed care plan responsibility.
- An adjustment was made to reflect an increase in the number of community-based beds available to patients discharged from state mental facilities.

Rebased

- The underlying data for OHP Standard capitation rates reflects the benefit changes effective August 2004. Therefore, no further adjustments for benefit changes were applied.

- The rebasing data period reflects coverage through the equivalent of line 530 of the 2005-2007 prioritized list. Therefore, no adjustments were applied for prioritized list line changes.
- An adjustment was made to reflect an increase funding for labor and delivery services.
- During the rebasing data period, Neurontin was the responsibility of managed care plans. Therefore, we assumed that the prescription drug encounter data appropriately reflected utilization of Neurontin, and no further adjustments were made.
- Frozen Drug Adjustments were not applied since the October 2004 through March 2005 pharmacy data already reflects coverage of these drugs.

OREGON HEALTH PLAN: MEDICAID DEMONSTRATION

OHP Standard Capitation Rate Development - January 2006 Effective Date
Includes Maternity, Excludes Maternity Management and Admin Allowance

EXHIBIT 1

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FOR DISCUSSION PURPOSES ONLY

Development of January 2006 Capitation Rates from 05-07 Per Capita Cost (Based on Jul. 2001 - Jun. 2003 encounter data)										
Service Category	Billed Charges PMPM		Cost-to-Charge Ratios		Trend Adjustments		Other Adjustments		Adjusted PMPM	
	OHP Families	OHP Adults & Couples	OHP Families	OHP Adults & Couples	OHP Families	OHP Adults & Couples	OHP Families	OHP Adults & Couples	OHP Families	OHP Adults & Couples
Inpatient Hospital	\$64.82	\$135.93	47.0% ²	46.8% ²	2.229	2.229	0.787 ⁶	0.818 ⁶	\$53.48	\$115.95
Outpatient Hospital	\$76.29	\$104.26	42.0% ²	42.0% ²	1.159	1.159	0.825 ⁶	0.839 ⁶	\$30.66	\$42.59
Physician & Other Services	\$114.07	\$161.38	52.8% ³	51.7% ³	1.368	1.368	0.940 ^{6,8}	0.934 ^{6,8}	\$77.45	\$106.63
Prescription Drugs ¹	\$28.47	\$46.05	106.4%	106.4%	1.606	1.606	1.070 ⁶	1.070 ⁶	\$52.04	\$84.22
Chemical Dependency	\$6.18	\$22.84	100.0%	100.0%	1.325	1.325	1.109 ⁷	1.069 ⁷	\$9.08	\$32.35
Physical Health Total	\$289.83	\$470.45							\$222.71	\$381.74
Dental	\$28.05	\$32.62	90.6% ⁴	90.8% ⁴	1.235	1.235	0.255 ⁶	0.279 ⁶	\$8.01	\$10.20
Mental Health	\$10.93	\$28.25	82.6% ⁵	78.4% ⁵	1.325	1.325	0.991 ⁶	0.995 ^{6,9}	\$11.85	\$29.18
TOTAL	\$328.82	\$531.32							\$242.57	\$421.12

Development of Rebased January 2006 Capitation Rates (Based on Aug. 2004 - Dec. 2004 encounter data, Oct. 2004 - Mar. 2005 Rx encounter data)										
Service Category	Billed Charges PMPM		Cost-to-Charge Ratios		Trend Adjustments		Other Adjustments		Adjusted PMPM	
	OHP Families	OHP Adults & Couples	OHP Families	OHP Adults & Couples	OHP Families	OHP Adults & Couples	OHP Families	OHP Adults & Couples	OHP Families	OHP Adults & Couples
Inpatient Hospital	\$46.75	\$136.77	45.5% ²	45.4% ²	1.386	1.386	1.000	1.000	\$29.51	\$86.03
Outpatient Hospital	\$82.20	\$132.02	40.7% ²	40.6% ²	1.060	1.060	1.000	1.000	\$35.46	\$56.81
Physician & Other Services	\$107.26	\$179.65	48.6% ³	47.9% ³	1.145	1.145	1.004 ⁸	1.000 ⁸	\$59.93	\$98.62
Prescription Drugs ¹	\$34.86	\$75.07	106.4%	106.4%	1.185	1.185	1.000	1.000	\$43.96	\$94.65
Chemical Dependency	\$4.24	\$13.93	100.0%	100.0%	1.115	1.115	1.152 ⁷	1.088 ⁷	\$5.45	\$16.90
Physical Health Total	\$275.32	\$537.43							\$174.31	\$353.01
Dental	\$4.25	\$4.56	87.1% ⁴	87.1% ⁴	1.099	1.099	1.000	1.000	\$4.06	\$4.37
Mental Health	\$6.25	\$25.99	75.9% ⁵	66.4% ⁵	1.115	1.115	1.000	1.003 ⁹	\$5.29	\$19.32
TOTAL	\$285.82	\$567.99							\$183.67	\$376.70

Notes:

¹ Prescription Drug billed charges exclude Lamictal.

² Hospital-specific CCRs unchanged. Changes in aggregate IP and OP CCRs due to differences in hospital mix.

³ Physician cost funding in capitation rates is targeted at Medicare Allowables. Reductions in aggregate CCRs after rebasing primarily due to increases in average billed charge levels.

⁴ To determine Dental CCRs under the rebased data, an additional DCO was removed from the cost base due to significant increases in billed charges per unit.

⁵ Changes in aggregate Mental Health CCRs due to an increase in utilization of MH Acute IP services relative to total MH services.

⁶ Primarily reflects the actuarial value of OHP Standard benefit reductions relative to the coverage underlying the 05-07 base data. Prioritized list coverage adjustments are also included.

⁷ Primarily reflects DUII programmatic adjustment.

⁸ Reflects Labor and Delivery reimbursement enhancement.

⁹ Reflects adjustments for increase in the number of MH community long term care beds.

OREGON HEALTH PLAN: MEDICAID DEMONSTRATION
OHP Standard Capitation Rate Development - January 2006 Effective Date
Comparison of Trend Adjustments from Base Data to CY 2006 Contract Period

EXHIBIT 2
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FOR DISCUSSION PURPOSES ONLY

	05-07 Per Capita Cost-to-Charge Ratios					Rebasing Data				
	Annualized Trend Rates		Midpoint Months of Trend		Trend Adjustments	Annualized Trend Rates		Midpoint Months of Trend		Trend Adjustments
	Data Period	Projection Period	Data Period	Projection Period		Data Period	Projection Period	Data Period	Projection Period	
	A	B	C	D	= [(1+A)^(C/12)] x [(1+B)^(D/12)]	E	F	= (1+E)^(F/12)		
Inpatient Hospital	\$0.22	21.08%	10	40	2.229	NA	\$0.21	NA	20.5	1.386
Outpatient Hospital	\$0.04	3.49%	10	40	1.159	NA	\$0.03	NA	20.5	1.060
Physician & Other Services	\$0.06	8.24%	10	40	1.368	NA	\$0.08	NA	20.5	1.145
Prescription Drugs	\$0.12	11.97%	10	40	1.606	NA	\$0.12	NA	18	1.185
Chemical Dependency	\$0.09	6.59%	10	40	1.325	NA	\$0.07	NA	20.5	1.115
Dental	\$0.03	5.67%	10	40	1.235	NA	\$0.06	NA	20.5	1.099
Mental Health	\$0.09	6.59%	10	40	1.325	NA	\$0.07	NA	20.5	1.115

For 05-07 PCC-based cap rates, the underlying data covered the period 7/1/01-2/28/03. The data period trends were applied from the midpoint of the data period (5/1/02) to the end of the data period (2/28/03). Projection period trends were applied from the beginning of the projection period (3/1/03) to the midpoint of the contract period (7/1/06).

For the rebased capitation rates, the underlying data covered the period 10/1/04-3/31/05 for prescription drugs and 8/1/04-12/31/04 for all other services. The data period trends were not applied since new trend rates were not developed from the data. The projection period trends were applied from the midpoint of the data period (1/1/05 for drugs, 10/15/04 for everything else) to the midpoint of the contract period (7/1/06).