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Mr. Andrew J. Bond
Director of Finance
State of Missouri
Missouri Department of Social Services
MO HealthNet Division
P.O. Box 6500
Jefferson City, MO 65102

June 23, 2016

FINAL

Subject: RFP S30034901600685 Managed Care Data Book and Capitation Rates Correction Announcement – Southwest and Central Regions

Dear Andrew,

The State of Missouri (State) contracted with Mercer Government Human Services Consulting, as a part of Mercer Health & Benefits LLC, (Mercer) to develop May 1, 2017 through June 30, 2018 actuarially sound capitation rate ranges for the MO HealthNet Managed Care Program. In the course of a separate actuarial project under Mercer's contract with the State, Mercer recently discovered an error in the processing of fee-for-service (FFS) data that directly impacts the FFS base data summarized in the Data Book and the development of the actuarially sound capitation rate ranges for certain rate cells that used the Missouri FFS data as a base data source. This error only impacts the Data Book and resulting capitation rate ranges for the May 1, 2017 through June 30, 2018 period and does not impact the current SFY 2017 capitation rates. This error requires the Data Book and capitation rate ranges for RFP S30034901600685 to be reissued. This letter provides a description of the issue and a high-level impact to the FFS base data in advance of the reissue of the Data Book and capitation rate ranges.

The FFS data processing error results in an understatement of inpatient costs in the FFS base data. The specific categories of service impacted include Inpatient – Physical Health and Inpatient – Mental Health. The utilization data (days) for the inpatient categories of service are not impacted, while the unit cost and per member per month (PMPM) amounts produced in the Data Book dated June 8, 2016 are impacted.

Mercer has estimated the impact is an understatement of unit cost and PMPMs of approximately 15% of inpatient costs on the FFS base data. Inpatient costs represent approximately 25% of total costs in the FFS base data and therefore the overall impact to the FFS base data is an estimated understatement of approximately 5%. Please note the estimates provided represent the impact to

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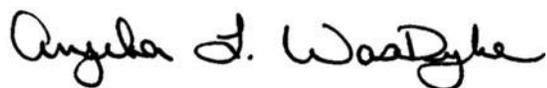
the FFS base data only and are not estimates of the impact to the capitation rate ranges. Multiple rate adjustment factors are applied to the base data which may slightly alter the impacts cited. The discovered data processing error is limited to the FFS base data and therefore the impact is limited to capitation rate ranges that are developed from the FFS base data. This will include all capitation rates for the Southwest and Central regions including the capitation rates for the ACA expansion population (COA 3). In addition, the capitation rate development for the Central region uses both the FFS and managed care data and, therefore, the impact to the capitation rate ranges in the Central region may be less than the estimated 5% impact. Missouri FFS data was not used in the development of the capitation rates for the Eastern and Western regions and therefore no change is expected to the capitation rates for the Eastern and Western regions.

Furthermore, overall impacts by rate cell will vary depending upon the distribution of inpatient services within a rate cell. Therefore, the impact on the NICU payments and delivery payments, for example, may be higher than the estimated impact while other rate cells may see a lessor impact.

Finally, the impact on the FFS inpatient services is specific to the FFS per diem amounts reflected in the base data and is separate from the Full Medicaid Pricing adjustment to incorporate the Direct Medicaid Payment currently made in FFS. While this correction to inpatient costs will result in a different adjustment percentage in the impacted regions for Full Medicaid Pricing, it does not change the overall dollars included in the impacted capitation rate ranges for the Direct Medicaid Payment.

Mercer is currently completing an in-depth review of all aspects of the base data and rate-setting adjustments and will be producing updated Data Book and RFP Pricing Pages. Mercer will coordinate with the State in reissuing the Data Book and new RFP Pricing Pages through an addendum to the RFP and Mercer expects to deliver the updated materials to the State no later than July 15, 2016.

Sincerely,



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