



Actuarial Review of the TennCare Program

Development of State Fiscal Year 2017 Per Member Costs

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Section I — Executive Summary

At the request of the Bureau of TennCare, Aon has calculated per member costs for the TennCare program for State Fiscal Year (SFY) 2017. As part of our analysis, we have also restated the costs for SFY 2016. The per member costs shown in this report are calculated to assist in the development of the TennCare budget and to make recommendations regarding the distribution of an actuarial based capitation rate for the managed care organizations (MCOs).

TennCare's program utilizes risk contracts with managed care organizations for the majority of its members in each of its three regions: East, Middle, and West. The TennCare Select (TCS) population, however, continues to be paid on a partial risk basis in all regions.

Long Term Care (LTC) members began coverage under at-risk contracts through implementation of the CHOICES Program. The CHOICES program began in March 2010 for Tennessee's Middle region and August 2010 for the East and West regions. The CHOICES program provides comprehensive care for members eligible for LTC benefits. The CHOICES program provides nursing home (NH), home and community based services (HCBS), and acute care benefits.

The purpose of this report is to provide per member costs for SFY 2017 for the TennCare Bureau. Projected costs for fully capitated contracts are based on contractual capitation rates paid to the MCOs. Projected costs for not fully capitated services are based on a detailed analysis of data provided by the TennCare Bureau and review of the provider payments and invoices paid to managed care organizations (MCOs) for the current program's plan of benefits and eligible groups.

We received significant assistance in obtaining data and background information for this report from the TennCare Bureau. Aon has relied upon this data and its integrity. Although we have reviewed the data for reasonableness, we have not audited the data. Further details of the data received are discussed in Section IV of this report.

Summary

Based on methodologies and assumptions detailed in this report, Aon has developed per member costs for SFYs 2016 and 2017. Consistent with last year's methodology, Aon collected medical data for this year's report directly from the MCOs for the Managed Care programs and directly from TennCare for TCS, pharmacy, and dental encounter data. Aon defined the baseline data as April 1, 2015 through March 31, 2016 for the not fully capitated services. Contractual capitation rates were not explicitly developed for SFY 2016 and SFY 2017. Rather, MCO contractual capitation rates were developed for the periods July through December 2015 and January through June 2016 for SFY 2016 and July through December 2017 and January through July 2017 for SFY 2017. For the purposes of this report, the two sets of capitation rates covering SFY 2016 were weighted by actual SFY 2016 enrollment to develop a set of aggregate SFY 2016 capitation rates. The two sets of capitation rates covering SFY 2017 were weighted using projected enrollment to develop a set of aggregate SFY 2017 capitation rates.

The following is a brief summary of each projection:

- MCO acute care managed care (Non-CHOICES) and Long Term Care (CHOICES) costs were projected separately using the contractual capitation rates for each of the periods Calendar Year 2015 and Calendar Year 2016. These cost projections were then blended with actual SFY 2016 enrollment to restate the SFY 2016 costs.

- MCO acute care managed care (Non-CHOICES) and Long Term Care (CHOICES) costs were projected separately using the contractual capitation rates for each of the periods Calendar Year 2016 and Calendar Year 2017. These cost projections were then blended with projected enrollment to approximate SFY 2017 costs.
- Projected SFY 2016 and 2017 expenditures for TennCare Select (TCS), pharmacy, and dental services were based on incurred claims from April 1, 2015 through March 31, 2016, with claims run-out through July 2016 for TCS, Dental, and Pharmacy. Aon received further census and claims figures from TennCare for TennCare Select that allowed for a more accurate projection.

For services not fully capitated, Aon used the historical encounter data to develop completion factors and trend factors to calculate the baseline SFY 2016 per member costs. Details of these calculations and the various breakouts are included in the Exhibits. Reconciliation of these results to emerging invoices provided verification of our historical trends and completion factors. SFY 2016 results were then projected forward to SFY 2017.

The total expenditures for SFY 2016 and projected expenditures for SFY 2017 are shown below. This includes expenditures from the CHOICES program, which provides comprehensive care for the long term care needs of the state's elderly and individuals with physical disabilities.

Fiscal Year 2016 - Expenditures					
Region	MCO Acute Care	CHOICES	Acute Care & CHOICES	Pharmacy	Total
East	\$ 1,535,827,425	\$ 548,161,361	\$ 2,083,988,786	\$ 484,010,026	\$ 2,567,998,812
Middle	\$ 1,578,612,533	\$ 516,758,755	\$ 2,095,371,289	\$ 381,468,782	\$ 2,476,840,071
West	\$ 1,166,663,771	\$ 460,729,501	\$ 1,627,393,272	\$ 276,947,281	\$ 1,904,340,554
TennCare Select	\$ 398,579,079	N/A	\$ 398,579,079	N/A	\$ 398,579,079
Total	\$ 4,679,682,809	\$ 1,525,649,617	\$ 6,205,332,426	\$ 1,142,426,089	\$ 7,347,758,516
Total - PMPM	\$ 265.96	\$ 4,318.29	\$ 345.73	\$ 63.65	\$ 409.38
Member Months	17,595,192	353,299	17,948,492	17,948,492	17,948,492

Fiscal Year 2017 - Projected Expenditures					
Region	MCO Acute Care	CHOICES	Acute Care & CHOICES	Pharmacy	Total
East	\$ 1,581,137,714	\$ 580,859,190	\$ 2,161,996,904	\$ 520,624,806	\$ 2,682,621,710
Middle	\$ 1,578,665,149	\$ 533,248,669	\$ 2,111,913,818	\$ 413,240,565	\$ 2,525,154,382
West	\$ 1,173,578,313	\$ 474,913,374	\$ 1,648,491,687	\$ 296,237,528	\$ 1,944,729,215
TennCare Select	\$ 398,707,037	N/A	\$ 398,707,037	N/A	\$ 398,707,037
Total	\$ 4,732,088,213	\$ 1,589,021,233	\$ 6,321,109,445	\$ 1,230,102,898	\$ 7,551,212,344
Total - PMPM	\$ 259.52	\$ 4,522.38	\$ 340.11	\$ 66.19	\$ 406.29
Member Months	18,234,252	351,368	18,585,620	18,585,620	18,585,620
PMPM % Change	-2.42%	4.73%	-1.63%	3.98%	-0.75%

Acute Care per member expenditures are projected to decrease 2.42% from SFY 2016 to SFY 2017 and CHOICES per member expenditures are projected to increase by 4.73% from SFY 2016 to SFY 2017. The increase in total CHOICES expenditures is driven by various factors, including expected increases in nursing home costs due annual per diem rate increases and the implementation of increased acuity and quality based rates.

The Health Insurance Provider's Fee is excluded in these SFY 2017 projections. Section 9010 of the ACA required each non-exempt health insurer to pay a portion of the total HIF amount based on the insurer's share of total non-exempt net written health insurance premiums. This includes Medicaid MCOs. This fee and the tax consequence of the fee being non-tax deductible must be included in the capitation rates to

maintain the actuarial soundness of the capitation rates. The actual HIF payments were calculated, including any adjustments for Federal and State taxes, in accordance with the MCO contract and paid out to MCOs as a separate payment. The MCOs were paid an additional HIF payment of \$130.5M in SFY 2017 for capitation rates in effect during Calendar Year 2015. No payments are expected to be made for SFY 2018 due to the moratorium. Note that this fee would apply only to acute care costs, not long term care costs, if the moratorium were rescinded.

Enrollment and Membership Review

Below is a summary of the enrollment numbers received from the TennCare detailed eligibility file:

MCO Enrollment (Member Months) Summary by Category of Aid					
	SFY2015	SFY2016	SFY2017	SFY2016 vs. SFY2015	SFY2017 vs. SFY2016
Acute Care					
Medicaid (TANF & Related)	12,494,596	13,845,745	14,504,663	1,351,149	658,917
Uninsured / Uninsurable	225,923	206,200	188,475	(19,723)	(17,725)
Disabled	1,345,024	1,337,427	1,299,610	(7,597)	(37,817)
Duals / Waiver Duals	1,313,833	1,412,000	1,486,941	98,167	74,941
Total Acute Care	15,379,376	16,801,372	17,479,689	1,421,996	678,316
TennCare Select	656,974	793,820	754,563	136,846	(39,257)
LTC (CHOICES)					
Duals / Waiver Duals	317,710	309,582	307,980	(8,128)	(1,601)
Non-Duals	44,706	43,718	43,388	(988)	(330)
Total LTC Care	362,416	353,299	351,368	(9,117)	(1,931)
Total Enrollment	16,398,766	17,948,492	18,585,620	1,549,726	637,128

There was a net enrollment increase from SFY 2015 to SFY 2016 of 1.55m member months for the year, an average of around 130k members. A smaller increase in membership is expected for SFY2017, since TennCare has resumed eligibility re-verification.

SFY 2017 enrollment projections were based on current enrollment information received from the Bureau. A portion of the enrollment growth since CY2013 is attributed to changes in Medicaid enrollment process implemented under the ACA, which makes it easier for people to apply and enroll in Medicaid by requiring states to simplify and modernize enrollment processes and coordinate enrollment with HealthCare Marketplaces. People applying for healthcare coverage through these Marketplaces are enrolled in Medicaid if they are qualified.

In addition to growth due to the implementation of the ACA, some of the increased enrollment is the result of a temporary disruption in the TennCare eligibility re-verification process. This disruption largely affected Medicaid eligibility categories for the Non-CHOICES population, whereas eligibility categories such as "Age less than 1", "Disabled", and "Duals" appear to be unaffected. The CHOICES program enrollment was also not affected by the disruption in re-verifying eligibility. However, the eligibility re-verifications resumed in 2016, which will assist to stabilize and regress to SFY 2014 levels. However, the enrollment increases due to the impact of the ACA are expected to persist.

Non-CHOICES and TCS Per Member Costs—SFY 2016

Last year's report projected SFY 2016 per member costs to be \$263.18 without pharmacy and \$323.00 with pharmacy. The restated SFY 2016 estimate of \$265.96 without pharmacy is marginally higher, whereas the restated SFY 2016 estimate of \$329.61 including pharmacy is slightly higher.

MCO (Non-CHOICES) Per Capita Costs (Excluding Pharmacy) - Fiscal Year 2016						
Summary By Region and Rate Group						
Aid Category	East	Middle	West	MCO Total	TennCare Select	NC + TCS
Medicaid (TANF & Related)	\$ 223.15	\$ 221.32	\$ 185.46	\$ 211.33	\$ 175.06	\$ 209.69
Uninsured/Uninsurable	\$ 169.56	\$ 148.83	\$ 142.46	\$ 155.32	\$ 150.99	\$ 155.12
Disabled	\$ 745.38	\$ 912.37	\$ 840.42	\$ 824.93	\$ 792.95	\$ 823.48
Duals/Waiver Duals	\$ 126.24	\$ 201.08	\$ 149.82	\$ 155.68	\$ 165.84	\$ 156.14
All Eligibility Groups	\$ 258.87	\$ 266.01	\$ 236.45	\$ 254.81	\$ 502.10	\$ 265.96
Member Months	5,932,854	5,934,370	4,934,149	16,801,372	793,820	17,595,192

Pharmacy Per Capita Costs - Fiscal Year 2016				
Summary By Region and Rate Group				
Aid Category	East	Middle	West	All Regions
Medicaid (TANF & Related)	\$ 49.45	\$ 39.19	\$ 31.92	\$ 40.55
Uninsured/Uninsurable	\$ 64.56	\$ 61.14	\$ 40.18	\$ 57.64
Disabled	\$ 337.43	\$ 294.76	\$ 225.29	\$ 287.81
Duals/Waiver Duals	\$ 1.45	\$ 1.59	\$ 1.54	\$ 1.52
All Eligibility Groups	\$ 76.63	\$ 60.29	\$ 52.20	\$ 63.65
Member Months	6,316,415	6,327,007	5,305,070	17,948,492

*Note that these Pharmacy Costs include Costs for TennCare Select and CHOICES Members

MCO (Non-CHOICES) Per Capita Costs (Including Pharmacy) - Fiscal Year 2016						
Summary By Region and Rate Group						
Aid Category	East	Middle	West	MCO Total	TennCare Select	NC + TCS
Medicaid (TANF & Related)	\$ 272.59	\$ 260.51	\$ 217.38	\$ 251.88	\$ 215.61	\$ 250.24
Uninsured/Uninsurable	\$ 234.12	\$ 209.97	\$ 182.64	\$ 212.95	\$ 208.63	\$ 212.76
Disabled	\$ 1,082.81	\$ 1,207.13	\$ 1,065.72	\$ 1,112.74	\$ 1,080.76	\$ 1,111.29
Duals/Waiver Duals	\$ 127.69	\$ 202.67	\$ 151.36	\$ 157.20	\$ 167.36	\$ 157.66
All Eligibility Groups	\$ 335.50	\$ 326.30	\$ 288.65	\$ 318.46	\$ 565.75	\$ 329.61
Member Months	5,932,854	5,934,370	4,934,149	16,801,372	793,820	17,595,192

Non-CHOICES and TCS Per Member Costs—SFY 2017

The SFY 2017 Non-CHOICES and TCS per member costs, including pharmacy but excluding CHOICES, are anticipated to decrease 1.2% (\$3.91 per member) over SFY 2016 per member costs. The MCO excluding pharmacy per member costs are expected to decrease by 2.4% driven in part by the expected continued shift in the enrollment mix towards lower cost rate cells.

MCO (Non-CHOICES) Per Capita Costs (Excluding Pharmacy) - Fiscal Year 2017						
Summary By Region and Rate Group						
Aid Category	East	Middle	West	MCO Total	TennCare Select	NC + TCS
Medicaid (TANF & Related)	\$ 221.09	\$ 212.22	\$ 181.82	\$ 206.35	\$ 176.78	\$ 205.13
Uninsured/Uninsurable	\$ 161.86	\$ 152.92	\$ 135.59	\$ 152.36	\$ 153.17	\$ 152.39
Disabled	\$ 774.59	\$ 908.01	\$ 840.19	\$ 835.03	\$ 785.56	\$ 832.98
Duals/Waiver Duals	\$ 122.53	\$ 190.41	\$ 154.61	\$ 152.24	\$ 169.06	\$ 152.94
All Eligibility Groups	\$ 256.09	\$ 253.99	\$ 230.56	\$ 247.91	\$ 528.39	\$ 259.52
Member Months	6,174,066	6,215,419	5,090,204	17,479,689	754,563	18,234,252

Pharmacy Per Capita Costs - Fiscal Year 2017				
Summary By Region and Rate Group				
Aid Category	East	Middle	West	All Regions
Medicaid (TANF & Related)	\$ 52.77	\$ 41.87	\$ 34.03	\$ 43.31
Uninsured/Uninsurable	\$ 67.98	\$ 64.33	\$ 42.43	\$ 60.70
Disabled	\$ 355.75	\$ 310.86	\$ 237.29	\$ 303.31
Duals/Waiver Duals	\$ 1.53	\$ 1.68	\$ 1.63	\$ 1.60
All Eligibility Groups	\$ 79.56	\$ 62.68	\$ 54.36	\$ 66.19
Member Months	6,543,764	6,592,468	5,449,388	18,585,620

*Note that these Pharmacy Costs include Costs for TennCare Select and CHOICES Members

MCO (Non-CHOICES) Per Capita Costs (Including Pharmacy) - Fiscal Year 2017						
Summary By Region and Rate Group						
Aid Category	East	Middle	West	MCO Total	TennCare Select	NC + TCS
Medicaid (TANF & Related)	\$ 273.86	\$ 254.09	\$ 215.85	\$ 249.67	\$ 220.09	\$ 248.44
Uninsured/Uninsurable	\$ 229.84	\$ 217.25	\$ 178.02	\$ 213.06	\$ 213.87	\$ 213.09
Disabled	\$ 1,130.35	\$ 1,218.87	\$ 1,077.47	\$ 1,138.34	\$ 1,088.87	\$ 1,136.30
Duals/Waiver Duals	\$ 124.06	\$ 192.09	\$ 156.24	\$ 153.84	\$ 170.66	\$ 154.54
All Eligibility Groups	\$ 335.65	\$ 316.68	\$ 284.92	\$ 314.10	\$ 594.58	\$ 325.70
Member Months	6,174,066	6,215,419	5,090,204	17,479,689	754,563	18,234,252

Long Term Care (CHOICES) Per Member Costs

Last year's report projected SFY 2016 per member costs to be \$4,176.53. The restated SFY 2016 estimate is 3.4% higher, at \$4,318.29. There are various factors contributing to the change in per member costs, which include member mix change, expected increases in nursing home costs due annual per diem rates, and the increase in acuity and quality based rates.

CHOICES expenditures were entirely capitation payments which covered NH, HCBS, and acute care claims for the covered individuals.

