

Healthy Indiana Plan

Capitation Rate Risk Adjustment Process

CY 2011 Capitation Rates

I. SUMMARY: Milliman will apply risk adjustment to the capitation rates paid to each individual health plan. Risk adjustment will normalize morbidity differences between participating health plans that are not captured by the age / gender factors built into the capitation rates. The following steps outline the risk adjustment process that will be employed to establish the capitation rates that are paid to each health plan:

1. All participating health plans will receive the same age group and gender specific base rates for the Caretaker and Non-Caretaker populations, with adjustments for each health plan's bid amounts.
2. On an aggregate basis for the Caretaker and Non-Caretaker populations, the age/gender composite for each individual health plan relative to the statewide average will be determined.
3. A risk adjustment analysis will be performed separately for each participating health plan for its Caretaker and Non-Caretaker aggregate populations. The risk scores for each individual health plan will be compared relative to the composite risk score of all participating plans (separately for the Caretaker and Non-Caretaker populations).
4. The morbidity adjustment factor for each health plan's Caretaker and Non-Caretaker populations will be established by taking the health plan's risk score and dividing by the health plan's composite age / gender factor.
5. The final capitation rates paid to each individual health plan will be the product of the base rates and the morbidity adjustment factor.

II. RISK ADJUSTMENT MODEL DETAIL:

- a. **Model:** Medicaid Rx Version 5.1 (or most recently updated model).
- b. **Prospective / Concurrent Weights:** Prospective.
- c. **Standard Disease Weights:** Restricted TANF Adult.
- d. **Pharmacy Carve-Out:** Yes.

III. RISK ADJUSTMENT PROCESS DETAIL

- a. **NDC Collection Period:** Scripts dispensed during the most recently completed fiscal year prior to the beginning of the capitation rate period. For the CY 2011 rates, scripts dispensed between July 1, 2009 and June 30, 2010 would be included in the analysis.
- b. **Collection Period Claim Run Out Period:** Three months. For the CY 2011 rates, scripts paid through September 30, 2010 will be included in the risk adjustment analysis.

- c. **Minimum Eligibility Period for Individual to be Scored:** Six months during the collection period.
- d. **Risk Score Given to Beneficiaries not Scored:** Average population risk score of MCO.
- e. **Frequency:** Risk scores for each HIP beneficiary will be updated on an annual basis for the rate renewal period. The State would consider a risk adjustment update if a large enrollment expansion for the Healthy Indiana Plan occurred.
- f. **Member Plan Changes:** The risk score for each MCO's Caretaker and Non-Caretaker populations will be calculated on an annual basis. The risk score for each MCO's Caretaker and Non-Caretaker populations will not vary on a monthly basis during the calendar year.
- g. **Maximum Risk Score Adjustment:** It is not anticipated that risk corridors will be applied.
- h. **Beneficiary Medicaid Rx Scores:** At the direction of OMPP, Milliman will be available to provide to each MCO, individual beneficiary Medicaid Rx risk scores for its enrolled members.
- i. **Credibility:** A MCO's Medicaid Rx risk score for a population (Caretaker, Non-Caretaker) will be given full credibility if a minimum of 1,000 members receive a risk score. If the number of scored members is less than 1,000 for the MCO's population, the MCO's Medicaid Rx score for the population will be calculated by using the following formula:

Medicaid Rx MCO Population Risk Score =

$$= \text{MCO}_{\text{RiskScore}} \times (.5) \times [2 \times (1,000 \div \text{MCO}_{\text{ScoredMembers}})^{-2}] +$$

$$\text{Statewide}_{\text{RiskScore}} \times (1 - (.5) \times [2 \times (1,000 \div \text{MCO}_{\text{ScoredMembers}})^{-2}])$$

The risk score in the formula, both the MCO's and the statewide, is the actual Medicaid Rx risk score. The statewide risk score for each population will reflect all scored members on a statewide basis.

- j. **Risk Score Neutrality:** The risk score adjustments applied to each MCO's population will composite to a 1.0 factor on a statewide basis, separately for the Caretaker and Non-Caretaker populations. The capitation revenue received by an individual MCO is dependent upon two factors: its bid amount and risk score adjustment factor. It is not dependent upon the bid amount of other participating MCOs.