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December 14, 2011

Ms. Pat Casanova
Director, Office of Medicaid Policy & Planning
Family & Social Services Administration
402 W. Washington Street
Indianapolis, IN 46204

RE: 1115 WAIVER – RENEWAL BUDGET NEUTRALITY FILING

Dear Pat:

Milliman, Inc. (Milliman) was retained by the State of Indiana, Family and Social Services Administration (FSSA), Office of Medicaid Policy and Planning (OMPP) to assist in the development of the 1115 waiver filing associated with the Healthy Indiana Plan. The 1115 waiver was effective for a five-year period from calendar year 2008 through 2012. OMPP is considering submitting a waiver renewal effective January 1, 2013. We were requested to prepare the budget neutrality filing materials associated with the waiver renewal filing. This letter provides the requested materials and documentation of the development of the values.

LIMITATIONS

The information contained in this letter and the attached model has been prepared for the State of Indiana, Family and Social Services Administration and Office of Medicaid Policy and Planning. The letter may not be distributed to any other party without the prior consent of Milliman. Any distribution of the information should be in its entirety. Any user of the data must possess a certain level of expertise in actuarial science and healthcare modeling so as not to misinterpret the information presented. The data and information included in the letter and model has been developed to assist OMPP in submitting financial information associated with the 1115 waiver renewal to the Centers for Medicare and Medicaid Services (CMS). The data and information presented may not be appropriate for any other purpose.

Milliman has relied upon certain data and information provided by the State of Indiana, Family and Social Services Administration and their vendors. The values presented in this letter are dependent upon this reliance. To the extent that the data was not complete or was inaccurate, the values presented in our report will need to be reviewed for consistency and revised to meet any revised data.

EXECUTIVE SUMMARY

The State of Indiana filed an 1115 waiver for the Healthy Indiana Plan. The waiver filing was for the period of calendar year 2008 through 2012. The waiver may be extended through a waiver renewal filing. We have prepared a budget neutrality calculation for the waiver renewal period of calendar year 2013 through 2015. Enclosure 1 illustrates the historical and projected waiver budget neutrality materials. Enclosure 1 illustrates information for the initial five-year period of the waiver, as well as the three subsequent years of the waiver renewal.

Table 1 illustrates the total “Without Waiver”, “With Waiver”, and “Waiver Margin” amounts for both the initial and renewal periods.

Table 1

**State of Indiana
Office of Medicaid Policy and Planning
1115 Waiver Cost Effectiveness Summary
Initial and Renewal Waiver Periods
{values in Millions}**

Initial Waiver Period

Calendar Year	Demonstration Year	Without Waiver Expenditures	With Waiver Expenditures	Waiver Margin
2008	1	\$1,721.0	\$1,625.2	\$95.8
2009	2	1,962.6	1,878.2	84.4
2010	3	2,159.9	1,684.4	475.4
2011	4	2,267.7	2,033.1	234.5
2012	5	2,409.8	2,485.9	(76.2)
Total		\$10,520.9	\$9,706.9	\$814.0

Renewal Waiver Period

Calendar Year	Demonstration Year	Without Waiver Expenditures	With Waiver Expenditures	Waiver Margin
2013	6	\$2,486.3	\$2,327.4	\$158.9
2014	7	4,391.2	3,874.6	516.6
2015	8	4,709.8	4,141.1	568.7
Total		\$11,587.2	\$10,343.0	\$1,244.2

Note: values have been rounded.

We are also including an Excel file version of the development of the waiver cost effectiveness materials, “HIP Budget Neutrality – Renewal v2.xls”.

The following outlines the key assumptions and development associated with the waiver cost effectiveness filing.

1. **Baseline Budget Neutrality Model.** We utilized the budget neutrality model, “*IN HIP BN with 36500 noted.xls*” Excel workbook provided by CMS as the current budget neutrality model for the 1115 waiver. We have updated the model for historical experience. We utilized the experience through June 30, 2011, as reported through the quarterly HIP monitoring report. The model was updated with both actual and projected experience for the five-year initial waiver period.
2. **Non-Caretaker Population Enrollment.** The projection includes an increase in the non-Caretaker population of approximately 8,000 lives to reflect the opening of the waitlist for this population through calendar year 2012.
3. **Hospital Assessment Fee.** The projection includes the implementation of a hospital rate increase for the Hoosier Healthwise populations for state fiscal years 2012 through 2013, i.e., July 1, 2011 through June 30, 2013. The increase included reimbursement increase for both the fee-for-service population and the managed care population. An increase was not applied for the Healthy Indiana Plan population. The increase was \$593.3 million (State and Federal) in SFY 2012 and \$639.1 million in SFY 2013.
4. **Diverted Disproportionate Share Hospital (DSH) Payments.** The initial waiver filing included diverting DSH payments to maintain budget neutrality. The waiver renewal did not require diverting DSH payments in the renewal period to meet the budget neutrality requirement.
5. **Without Waiver Trend Rate.** The without waiver projection model requires a baseline trend rate to project future per member per month expenditures for the Mandatory and Optional populations. We have maintained the 4.4% annual trend rate for the waiver renewal periods, consistent the trend rate for the initial waiver filing.
6. **Non-Caretaker Population.** The non-Caretaker population has been illustrated as an expansion population during the initial waiver budget neutrality filing. The non-Caretaker population was maintained as an expansion population in calendar year 2013 or DY 6. Under the Affordable Care Act (ACA), the non-Caretaker population will become a mandatory population in calendar year 2014 or DY 7. Beginning with calendar year 2014, we have included the non-Caretaker population in both the “Without Waiver” and “With Waiver” calculations.

7. **ACA Impact.** We have included the following items to reflect the changes due to the Affordable Care Act (ACA).
- a. We have not increased the Hoosier Healthwise expenditures in 2013 and 2014 to reflect an increase in the physician fee schedule to Medicare reimbursement levels for primary care physician services.
 - b. We have included selection factors to reflect that the population that will enroll in calendar years 2014 and 2015 will have higher morbidity than the eligible population, but lower morbidity than current HIP enrollees. We have included a 10% increase in morbidity for the Caretaker / Parent population and a 20% increase in morbidity for the non-Caretaker / Childless Adult population.
 - c. Increased the enrollment for the HIP populations to reflect the ACA expansion effective January 1, 2014. The HIP Parent population was projected to have an average 81% participation rate. The projected enrollment was estimated to grow to an average of 192,000 in calendar year 2014. The HIP Adult population is projected to have an average 67% average participation rate. The projected enrollment was estimated to grow to an average of 164,000 in calendar year 2014.



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 report

After you have had an opportunity to review the enclosed material, please do not hesitate to contact me at 317-524-3512.

Sincerely,



Robert M. Damler, FSA, MAAA
Principal and Consulting Actuary

RMD/lrb
Enclosure



ENCLOSURE 1

Healthy Indiana Plan Summary Budget Neutrality Estimates - DRAFT - Waiver Renewal

Scenario: Reflects experience through June 30, 2011
Updated 12/14/11

Without Waiver Summary	DY 01	DY 02	DY 03	DY 04	DY 05	TOTAL
XIX - Mandatory Populations	1,616,712,979	1,803,638,206	1,963,823,871	2,054,666,614	2,183,605,202	9,622,446,872
HIP Parents	22,228,587	70,691,444	107,238,702	117,397,643	123,608,932	441,165,309
HIP Adults	-	-	-	-	-	-
DSH	82,044,372	88,267,580	88,802,013	95,607,071	102,552,474	457,273,510
Total	1,720,985,938	1,962,597,231	2,159,864,586	2,267,671,329	2,409,766,608	10,520,885,691

With Waiver Summary	DY 01	DY 02	DY 03	DY 04	DY 05	TOTAL
XIX - Mandatory Populations	1,543,803,468	1,637,941,654	1,450,524,309	1,801,342,837	2,204,448,968	8,638,061,235
HIP Parents	25,851,342	73,274,394	114,881,772	130,734,145	140,470,143	485,211,796
HIP Adults	-	-	-	-	-	-
Waiver Populations	55,535,073	166,963,492	119,030,866	101,064,067	141,001,996	583,595,493
Total	1,625,189,882	1,878,179,540	1,684,436,947	2,033,141,048	2,485,921,106	9,706,868,524
Waiver Margin	95,796,056	84,417,691	475,427,639	234,530,280	(76,154,499)	814,017,167

Coverage Estimates	DY 01	DY 02	DY 03	DY 04	DY 05	TOTAL
Test A						
Limit	1,698,757,351	1,891,905,786	2,052,625,884	2,150,273,685	2,286,157,676	10,079,720,382
Expenditures	1,599,338,540	1,804,905,146	1,569,555,175	1,902,406,903	2,345,450,964	9,221,656,728
Limit less Expenditures	99,418,810	87,000,641	483,070,709	247,866,782	(59,293,288)	858,063,654
Test B						
Limit	22,228,587	70,691,444	107,238,702	117,397,643	123,608,932	441,165,309
Expenditures	25,851,342	73,274,394	114,881,772	130,734,145	140,470,143	485,211,796
Limit less Expenditures	(3,622,755)	(2,582,950)	(7,643,070)	(13,336,501)	(16,861,210)	(44,046,486)
Combined Test A and Test B	95,796,056	84,417,691	475,427,639	234,530,280	(76,154,499)	814,017,167
Cumulative Combined Test	95,796,056	180,213,747	655,641,386	890,171,666	814,017,167	

Anticipated Enrollment	DY 01	DY 02	DY 03	DY 04	DY 05	TOTAL
HIP Parents	5,926	18,052	26,230	27,505	27,739	105,452
HIP Adults	9,389	26,377	18,860	14,693	18,946	88,265
Total	15,315	44,428	45,090	42,197	46,686	193,717

Healthy Indiana Plan Summary Budget Neutrality Estimates - DRAFT - Waiver Renewal

Scenario: Reflects experience through June 30, 2011
Updated 12/14/11

Without Waiver Summary	DY 06	DY 07	DY 08	TOTAL
XIX - Mandatory Populations	2,354,863,702	2,539,848,779	2,739,713,166	7,634,425,646
HIP Parents	131,418,092	791,671,440	841,686,641	1,764,776,174
HIP Adults	-	1,059,630,240	1,128,377,203	2,188,007,443
DSH	-	-	-	-
Total	2,486,281,794	4,391,150,459	4,709,777,010	11,587,209,263

With Waiver Summary	DY 06	DY 07	DY 08	TOTAL
XIX - Mandatory Populations	2,031,948,059	1,846,455,253	1,991,335,552	5,869,738,864
HIP Parents	148,770,786	968,487,661	1,025,714,697	2,142,973,145
HIP Adults	-	1,059,630,240	1,124,061,379	2,183,691,619
Waiver Populations	146,641,217	-	-	146,641,217
Total	2,327,360,061	3,874,573,154	4,141,111,629	10,343,044,845

Waiver Margin **158,921,733** **516,577,305** **568,665,381** **1,244,164,418**

Coverage Estimates	DY 06	DY 07	DY 08	TOTAL
Test A				
Limit	2,354,863,702	2,539,848,779	2,739,713,166	7,634,425,646
Expenditures	2,178,589,276	1,846,455,253	1,991,335,552	6,016,380,081
Limit less Expenditures	176,274,426	693,393,526	748,377,613	1,618,045,566
Test B				
Limit	131,418,092	1,851,301,680	1,970,063,844	3,952,783,617
Expenditures	148,770,786	2,028,117,901	2,149,776,077	4,326,664,764
Limit less Expenditures	(17,352,693)	(176,816,221)	(179,712,232)	(373,881,147)
Combined Test A and Test B	158,921,733	516,577,305	568,665,381	1,244,164,418
Cumulative Combined Test	158,921,733	675,499,038	1,244,164,418	

Anticipated Enrollment	DY 06	DY 07	DY 08	TOTAL
HIP Parents	28,249	191,768	195,289	415,306
HIP Adults	18,946	164,000	167,280	350,226
Total	47,195	355,768	362,569	765,532