

AMENDMENT OF SOLICITATION/MODIFICATION OF CONTRACT			1. Contract Number NA	Page of Pages 1 2	
2. Amendment/Modification Number DCHC-2007-R-5050 0001		3. Effective Date 4/10/2007	4. Requisition/Purchase Request No. NA	5. Solicitation Caption Managed Care Organizations - Healthcare Services DC Healthy Families and Health Care Safety Net	
6. Issued By: Office of Contracting and Procurement Human Care Supplies and Services Commodity Group 441 4th Street, NW, Suite 700 South Washington, DC 20001			7. Administered By (If other than line 6)		
8. Name and Address of Contractor (No. Street, city, country, state and ZIP Code) All Potential Offerors			9A. Amendment of Solicitation No. X DCHC-2007-R-5050		
			9B. Dated (See Item 11) 3/23/2007		
			10A. Modification of Contract/Order No.		
			10B. Dated (See Item 13)		
Code			Facility		
11. THIS ITEM ONLY APPLIES TO AMENDMENTS OF SOLICITATIONS					
<input checked="" type="checkbox"/> The above numbered solicitation is amended as set forth in Item 14. The hour and date specified for receipt of Offers <input checked="" type="checkbox"/> is extended. <input type="checkbox"/> is not extended. Offers must acknowledge receipt of this amendment prior to the hour and date specified in the solicitation or as amended, by one of the following methods: (a) By completing Items 8 and 15, and returning 1 copies of the amendment; (b) By acknowledging receipt of this amendment on each copy of the offer submitted; or (c) By separate letter or fax which includes a reference to the solicitation and amendment number. FAILURE OF YOUR ACKNOWLEDGEMENT TO BE RECEIVED AT THE PLACE DESIGNATED FOR THE RECEIPT OF OFFERS PRIOR TO THE HOUR AND DATE SPECIFIED MAY RESULT IN REJECTION OF YOUR OFFER. If by virtue of this amendment you desire to change an offer already submitted, such change may be made by letter or fax, provided each letter or telegram makes reference to the solicitation and this amendment, and is received prior to the opening hour and date specified.					
12. Accounting and Appropriation Data (If Required)					
13. THIS ITEM APPLIES ONLY TO MODIFICATIONS OF CONTRACTS/ORDERS, IT MODIFIES THE CONTRACT/ORDER NO. AS DESCRIBED IN ITEM 14					
A. This change order is issued pursuant to: (Specify Authority) The changes set forth in Item 14 are made in the contract/order no. in item 10A.					
B. The above numbered contract/order is modified to reflect the administrative changes (such as changes in paying office, appropriation date, etc.) set forth in item 14, pursuant to the authority of 27 DCMR, Chapter 36, Section 3601.2.					
C. This supplemental agreement is entered into pursuant to authority of:					
D. Other (Specify type of modification and authority)					
E. IMPORTANT: Contractor <input type="checkbox"/> is not, <input checked="" type="checkbox"/> is required to sign this document and return 1 copies to the issuing office.					
14. Description of amendment/modification (Organized by UCF Section headings, including solicitation/contract subject matter where feasible.) Solicitation No. DCHC-2007-R-5050 is hereby modified as described on page 2:					
Except as provided herein, all terms and conditions of the document referenced in Item (9A or 10A) remain unchanged and in full force and effect					
15A. Name and Title of Signer (Type or print)			16A. Name of Contracting Officer James H. Marshall, Contracting Officer		
15B. Name of Contractor		15C. Date Signed	16B. District of Columbia		16C. Date Signed 4/10/07
(Signature of person authorized to sign)			(Signature of Contracting Officer)		

DCHC-2007-R-5050 0001

DCHC-2007-R-5050 Amendment 0001

Section J, List of Attachments

Insert:

J.25	Rate Development process and Information
J.25.1	DC Healthy Families Rate Data Book
J.25.2	DC Healthy Families Rate Data Book Presentation Pre-proposal Conference April 5, 2007
J.25.3	Alliance Rate Development
J.25.4	DC Alliance Base Year Costs Exhibit

**District of Columbia
Medical Assistance Administration**

April 5, 2007

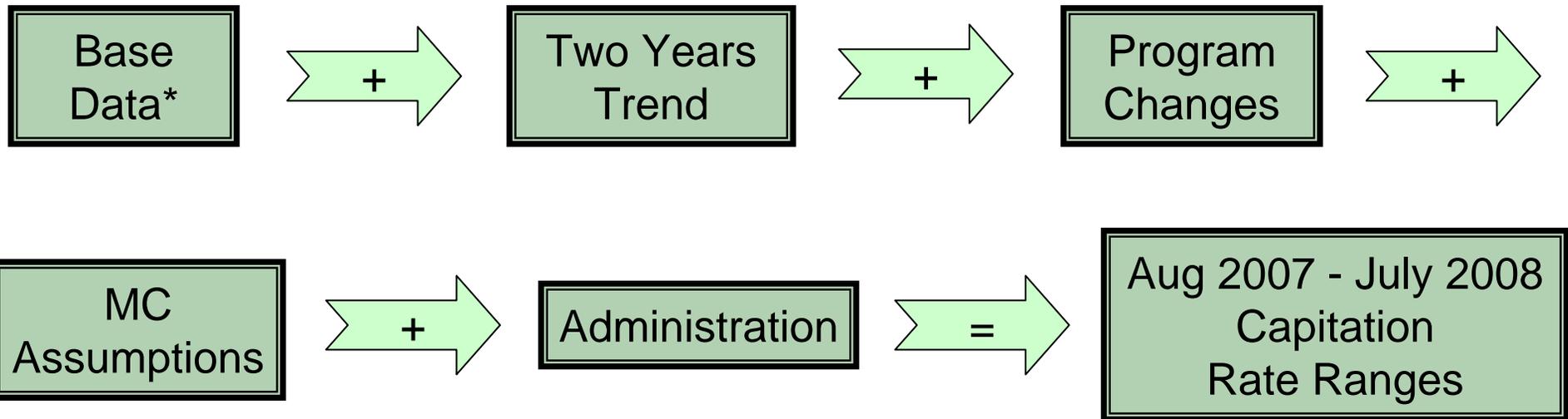
DCHFP Rate-Setting Methodology

Jon Marsden, FSA, MAAA
Mercer Government Human Services Consulting

Managed Care Rate Range Development

- In accordance with CMS regulations
 - “Rates must be actuarially sound” and developed by a credentialed actuary
 - Appropriate for covered populations and benefit package
 - In accordance with generally accepted actuarial principles and practices
- Components of managed care rate setting
 - Data sources
 - Trend
 - Program changes
 - Managed care adjustments
 - Administration

Managed Care Rate Range Development



** Base data consists of a blend of financial (90%) and encounter data (10%).*

DCHFPP Rate Cells

- Male & Females <1
- Male & Females 1-12
- Female 13-18
- Male 13-18
- Female 19-36
- Male 19-36
- Female 37+
- Male 37+
- Male & Female 50-64-year-old Expansion Population
- Infant's Month of Birth
- Mother's Month of Delivery



DCHFPP Covered Services

- Inpatient Hospital (excluding transplants)
- Outpatient Hospital (including ER)
- Physician Services
 - EPSDT, Family Planning, FQHC, Nurse Practitioner
- Prescription Drugs
- Dental Services for Children
- Transportation
- Mental Health Services
 - Inpatient Hospital, Outpatient Hospital, Partial Hospitalization, Psychotherapy, Case Management
- Other
 - Lab/X-ray, Home Health, Vision, Therapy

Data Sources

- Financial data (August 2005 - July 2006) will be primary data source
 - Fee-for-Service (FFS), financial and encounter data are acceptable databases for base utilization and cost assumptions per CMS Medicaid Managed Care Regulation (AA2.0)
 - FFS data was used for the subcapitation redistribution
- Encounter data (October 2005 - July 2006) will be supplemental data source
 - Data represents actual service encounters from each current health plan
 - Consistent with District and CMS desire to incorporate actual utilization data source into rate setting
- Additional data submitted by the current health plans
 - Subcapitation data
 - Lag triangles

Data Sources

Financial Data Review

- Consistency between submitted financial data and annual Department of Insurance (DOI) filings
- Consistency among health plan submissions by rate cell
- Consistency within the financial reports submitted by health plans
 - Expenses in the Medical Expenses Report tie to the expenses in the Lag Triangles
 - Member Months in the Medical Expenses Report tie to the Enrollment Report
- Review estimate of liability associated with incurred-but-not-paid claims for August 1, 2004 through July 31, 2005 and August 1, 2005 through July 31, 2006

Data Sources

Financial Data Adjustments

- Redistribute sub-capitation dollars
 - Adjustments for physician, transportation and other subcapitation PMPM rates that do not vary by age/sex cell
 - Better matches payment to risk by rate cell
 - Creates consistent data set for the DCHFP program
- Adjust for incurred-but-not-paid claims (if necessary)
- Validate pharmacy rebates received by plans for reasonableness
- Review reinsurance premiums and recoveries

Data Sources

Example of Sub-Capitation Adjustment

- Assume physician sub-capitation PMPM of \$20.00 for each age/sex cell
- Key Points:
 - Expenses are not removed, just redistributed
 - The sub-capitation PMPM is only removed from age/sex rate cells, not the Delivery and Birth rate cells

	FY 2006 MMs	FFS Physician PMPMs	% Distribution	Redistributed PMPMs
<1 M&F	4,200	\$32.00	7.10%	\$33.79
1-12 M&F	44,100	\$12.00	27.94%	\$12.67
13-18 F	9,400	\$17.00	8.44%	\$17.95
13-18 M	8,500	\$12.00	5.39%	\$12.67
19-36 F	18,300	\$27.00	26.09%	\$28.51
19-36 M	2,400	\$7.00	0.89%	\$7.39
37+ F	10,000	\$33.00	17.43%	\$34.85
37+ M	2,000	\$28.00	2.96%	\$29.57
50-64 M&F	1,100	\$65.00	3.78%	\$68.65
Infants	250	\$0.00	0.00%	\$0.00
Mothers	250	\$0.00	0.00%	\$0.00
Total	100,000	\$18.94		\$20.00

Note: Numbers are for illustration purposes only.

Data Sources

Encounter Data Review

- Data validation
 - Reviewed encounter data for incurred dates of service between October 2005 through July 2006
 - Health Plans have been submitting encounter data beginning with October 2003 dates of service
 - MAA and Mercer worked with the Health Plans to ensure accurate and complete data from October 2005 forward
 - Generally, total expenses in the encounter data were lower than financial data
 - Possible issues with reporting of subcapitated encounters
 - Pharmacy not included yet in encounter data

Data Sources

Encounter Data Adjustments

- Completion factors to adjust for incurred encounters not reflected in the data
- Claims outside of encounter data
 - Certain recipient claims reported in the Excel workbook were added into encounter data
 - Pharmacy costs are not captured in encounter data. Financial data will be primary for this service
- Adjustment to include net reinsurance costs

Trend Development

- Medical trend is the projection of utilization and unit cost changes over time
- Trend sources
 - Review the annual trend exhibited in the financial data submitted by the health plans (regression analysis)
 - Review provider-related issues raised by current health plans
 - Review national trend indices (CPI, DRI, etc.)
 - Review trends in neighboring State Medicaid programs



Program Changes

- District Dental fee schedule increase, effective January 1, 2006
- Pharmacy adjustment for Medicare Part D, effective January 1, 2006

Managed Care Assumptions

- 50-64-year-old Expansion Population
 - This population has been covered under managed care since March 1, 2005. The costs for this population have been reduced over the 17 months represented in our data due to the continuity of coverage for this population. Mercer and the District believe additional cost containment is achievable and have accounted for this in the rate range.

- Provider contracting
 - Based on a review of the provider contractual arrangements among the current health plans, Mercer and the District believe costs could be contained through more aggressive provider contracting. This determination is based on a comparison among the current health plans and also other state experience, and is accounted for in the rate range.

Administration

- Review the components of the administrative allowances
 - Review factors including overall program enrollment (including Alliance) reporting requirements, and organizational requirements of the RFP
- Compare the requirements of the DCHFP contracts to other Medicaid programs
- Final Administrative Load: 12.5% of premium

Questions?

Overview of Alliance Rate Development

The District contracted with the Lewin Group to summarize the historical service costs and eligibility of the District's Health Care Safety Net Program otherwise known as the Alliance program. This data is presented in the attached Excel file (dc alliance base year cost exhibit.xls). The historical data represents the costs and eligibility for the program from March 2004 through February 2005. The adjustments reflected in the base data are described in footnotes to the exhibit.

The District relied on this base data to develop the rates for the Alliance program under managed care. The District considered medical inflation as well as expectations for managed care efficiencies to arrive at the medical costs for the Alliance rates for the initial contract year. The District also reviewed the rates for the DCHFP population adjusted to a similar benefit package as a benchmark cost for a managed care population. This review resulted in adjustments to the rates specifically for the small rate cohorts.

Since the base time period, the Alliance program has seen a significant increase in the enrollment. To gauge the impact of this enrollment increase on the costs, the District reviewed the annual statements as submitted to the District's Department of Insurance and Securities Board (DISB) for the two current health plans serving the Alliance population. These statements indicated the current plans have been able to earn more than a reasonable return covering the Alliance population. Therefore, the District did not make any specific adjustment to the PMPM for the population increase.

Finally, the District included an administrative load of 12.5% to arrive at the overall rate for each rate cohort. This assumption accounts for the administrative responsibilities of the MCOs under this contract.

ALLIANCE MEDICAL COSTS BY TYPE OF SERVICE AND MEDICAID RATE COHORT

SERVICES INCURRED FROM MARCH 2004 THROUGH FEBRUARY 2005

Base Year Total \$\$	1 - 12 M & F	13 - 18 FEMALE	13 - 18 MALE	19 - 36 FEMALE	19 - 36 MALE	37+ FEMALE	37+ MALE	TOTAL Expenses
MEMBERMONTHS	5,047	2,063	1,798	62,020	56,557	87,553	91,100	306,138
MEDICAL EXPENSES								
Inpatient Hospital - Physical Health	\$ 27,936	\$ 49,041	\$ 10,912	\$ 1,637,151	\$ 1,946,307	\$ 5,732,414	\$ 6,710,510	\$ 16,114,272
Outpatient Hospital - Physical Health	\$ 35,598	\$ 11,131	\$ 4,785	\$ 779,699	\$ 524,469	\$ 2,222,722	\$ 1,566,038	\$ 5,144,442
Emerg. Room Facility	\$ 7,696	\$ 6,795	\$ 1,307	\$ 243,781	\$ 180,041	\$ 447,517	\$ 397,467	\$ 1,284,604
Amb. Surg Ctr	\$ 1,639	\$ 3,311	\$ 1,117	\$ 154,524	\$ 102,541	\$ 582,064	\$ 437,963	\$ 1,283,158
Physician - Physical Health	\$ 81,366	\$ 33,980	\$ 14,854	\$ 2,374,810	\$ 818,970	\$ 4,536,648	\$ 3,503,472	\$ 11,364,101
Pharmacy	\$ 1,439	\$ 818	\$ 267	\$ 89,566	\$ 57,106	\$ 512,133	\$ 338,671	\$ 1,000,000
Ambulance	\$ 3,525	\$ 1,740	\$ -	\$ 73,508	\$ 57,061	\$ 189,477	\$ 209,036	\$ 534,346
Dental	\$ 18,966	\$ 5,125	\$ 4,110	\$ 436,695	\$ 283,154	\$ 954,553	\$ 880,685	\$ 2,583,289
Home Care	\$ -	\$ -	\$ -	\$ 3,146	\$ 2,015	\$ 8,269	\$ 6,152	\$ 19,582
DME	\$ 9,257	\$ 2,451	\$ 1,102	\$ 147,819	\$ 127,643	\$ 493,282	\$ 463,465	\$ 1,245,018
Other	\$ 8,190	\$ 3,219	\$ 3,044	\$ 143,446	\$ 150,710	\$ 304,956	\$ 328,782	\$ 942,348
TOTAL EXPENSES	\$ 195,611	\$ 117,611	\$ 41,498	\$ 6,084,146	\$ 4,250,015	\$ 15,984,037	\$ 14,842,243	\$ 41,515,161
Base Year PMPM	1 - 12 M & F	13 - 18 FEMALE	13 - 18 MALE	19 - 36 FEMALE	19 - 36 MALE	37+ FEMALE	37+ MALE	TOTAL Expenses
MEMBERMONTHS	5,047	2,063	1,798	62,020	56,557	87,553	91,100	306,138
MEDICAL EXPENSES								
Inpatient Hospital - Physical Health	\$ 5.54	\$ 23.77	\$ 6.07	\$ 26.40	\$ 34.41	\$ 65.47	\$ 73.66	\$ 52.64
Outpatient Hospital - Physical Health	\$ 7.05	\$ 5.40	\$ 2.66	\$ 12.57	\$ 9.27	\$ 25.39	\$ 17.19	\$ 16.80
Emerg. Room Facility	\$ 1.52	\$ 3.29	\$ 0.73	\$ 3.93	\$ 3.18	\$ 5.11	\$ 4.36	\$ 4.20
Amb. Surg Ctr	\$ 0.32	\$ 1.60	\$ 0.62	\$ 2.49	\$ 1.81	\$ 6.65	\$ 4.81	\$ 4.19
Physician - Physical Health	\$ 16.12	\$ 16.47	\$ 8.26	\$ 38.29	\$ 14.48	\$ 51.82	\$ 38.46	\$ 37.12
Pharmacy	\$ 0.29	\$ 0.40	\$ 0.15	\$ 1.44	\$ 1.01	\$ 5.85	\$ 3.72	\$ 3.27
Ambulance	\$ 0.70	\$ 0.84	\$ -	\$ 1.19	\$ 1.01	\$ 2.16	\$ 2.29	\$ 1.75
Dental	\$ 3.76	\$ 2.48	\$ 2.29	\$ 7.04	\$ 5.01	\$ 10.90	\$ 9.67	\$ 8.44
Home Care	\$ -	\$ -	\$ -	\$ 0.05	\$ 0.04	\$ 0.09	\$ 0.07	\$ 0.06
DME	\$ 1.83	\$ 1.19	\$ 0.61	\$ 2.38	\$ 2.26	\$ 5.63	\$ 5.09	\$ 4.07
Other	\$ 1.62	\$ 1.56	\$ 1.69	\$ 2.31	\$ 2.66	\$ 3.48	\$ 3.61	\$ 3.08
TOTAL PMPM	\$ 38.76	\$ 57.01	\$ 23.08	\$ 98.10	\$ 75.15	\$ 182.56	\$ 162.92	\$ 135.61

Adjustments Included In Above Figures

Claims from first six months of base period were assumed to be 100% complete. Claims from the second six months of the base period are assumed to be 94% complete.

The 94% completion factor was applied evenly to all service categories during the second half of the base year.

An increased cost of \$3.00 PMPM was applied to all rate cohorts in the second half of the base period, due to an unsustainable laboratory capitation contract being implemented in January 2005.

Approximately \$3.3 million in additional costs were added to the base year total, reflecting estimated value of claims filed too late for payment (but within the 180 filing deadline used by DC Medicaid).

Managed Care Pharmacy Cost Development

The majority of pharmacy claims are carved out of the managed care program and provided by the Alliance clinics on a fee-for-service basis. The drugs not on the formulary and prescriptions dispensed after clinic hours by other providers will be the responsibility of the MCOs. The District assumes these costs represent \$1 million in the base data or 10% of the total pharmacy costs.

Rate Cohort	Historical Rx Costs	MCO Responsibility
Ages 1-12, F & M	\$ 14,022	\$ 1,439
Age 13-18 F	\$ 7,969	\$ 818
Age 13-18 M	\$ 2,603	\$ 267
Age 19-36 F	\$ 872,900	\$ 89,566
Age 19-36 M	\$ 556,543	\$ 57,106
Age 37+ F	\$ 4,991,185	\$ 512,133
Age 37+ M	\$ 3,300,645	\$ 338,671
TOTAL	\$ 9,745,867	\$ 1,000,000