

Actuarial Bid Training

Non-Benefit Expenses and Gain/Loss Margin for MA and Part D Bids

CMS Office of the Actuary
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In this session . . .

- Non-Benefit Expenses
 - Guidance
 - Documentation
- Gain/Loss Margin
 - Aggregate- and bid-level requirements
 - Documentation



Non-Benefit Expenses (NBE)

- At the bid level, includes all costs associated with operating a Medicare Advantage or Part D plan
- Base on actual experience
- Project to contract year
- Report consistent with appropriate Generally Accepted Accounting Principles (GAAP)



Non-Benefit Expenses (cont.)

- Report non-benefit expenses separately for—
 - Sales and marketing expenses
 - Direct administration
 - Indirect administration
 - Net cost of private reinsurance
 - Insurer fees
- Specify non-benefit expenses at the bid level
- For MA-PDs, allocate common expenses proportionately between the MA and Part D BPTs



NBE Documentation

- Upload NBE supporting documentation with initial bid submission
- NBE supporting documentation includes:
 - Reconciliation of base period NBE to—
 - Auditable material, such as corporate financials
 - Operational data
 - Description of expenses in each NBE category
 - Explanation for significant differences between actual and expected NBE for last 3 years



NBE Documentation (cont.)

- Detailed support for projected NBEs includes:
 - Description of pricing methodology
 - Description of data sources and relationship to base period NBEs
 - Demonstration of the development of each line item



Gain/Loss Margin Overview

- Overview of gain/loss presentation
- MA and Part D margins must—
 - Not be combined to fulfill requirements
 - Be reasonable
 - Exclude anti-competitive practices
 - Not subsidize other lines of business



Gain/Loss Margin–Bid Development

- Initial and final bids must comply with—
 - Gain/loss margin requirements, and
 - Other CMS requirements
- For conflicts between margin and other requirements, there is flexibility in the margin—
 - Only to the extent necessary to satisfy other requirements such as TBC or Medicare MLR
 - With adequate supporting documentation
- Resubmissions may require margin changes in other bids to satisfy margin requirements



Gain/Loss Margin–Medicaid

- If sponsor contracts with state/territory for Medicaid services, then—
 - For the Platino program, the sponsor may use—
 - The gain/loss margin for the bid in MA WS4 Section II, or
 - The adjusted margin in MA WS4, Section V
- For all other plans, MA margin requirements apply to adjusted gain/loss margin in MA WS4, Section V



Aggregate Gain/Loss Margin

- MA Plan categories
 - General enrollment plans, institutional-SNPs, chronic care-SNPs (GE+I/C)
 - Dual-eligible special needs plans (D-SNPs)
 - Employer/union group waiver plans (EGWPs)
- Aggregation: “level” to meet compliance
 - Contract, Organization, or Parent Organization
 - Designate in MA and Part D BPTs
 - EGWPs must comply at the Contract level



Aggregate Gain/Loss Margin—All Plan Categories

- Assumptions must be consistent from year to year
- Bids must meet the following requirement:

“CMS expects certifying actuaries to price bids such that actual aggregate returns over the long term are consistent with the margin assumptions used for pricing.”



Non-Medicare Business

- “Non-Medicare business” means all health insurance business that is not Medicare Advantage or Part D, including but not limited to—
 - Medicare-Medicaid programs
 - Medicare supplement business
 - Medicaid business
 - Commercial business



Aggregate Gain/Loss Margin—MA

- If plan sponsor—
 - Offers any MA GE+I/C plans, and
 - Has non-Medicare business for which it has discretion in rate setting $\geq 10\%$ of sponsor's total non-Medicare business
- Then—
 - MA GE+I/C margin must be within 1.5% of Sponsor's margin for non-Medicare business



Aggregate Gain/Loss Margin—MA (cont.)

- If plan sponsor—
 - Offers any GE+I/C plans, and
 - Has non-Medicare business for which it has discretion in rate setting <10% of sponsor's total non-Medicare business, or
 - Has no non-Medicare business,
- Then—
 - Aggregate margin must be based on the degree of risk and capital and surplus requirements



Aggregate Gain/Loss Margin—D-SNP & EGWP

- If MA sponsor offers any GE+I/C plans—
 - GE+I/C plans must satisfy GE+I/C margin requirements
 - D-SNPs & EGWPs must be within $-5\%/+1\%$ of GE+I/C
 - CMS may allow well-supported exceptions for D-SNPs
- If sponsor offers no GE+I/C plans—
 - Margin requirements for GE+I/C plans apply to EGWPs
 - D-SNPs must be within $-5\%/+1.5\%$ of sponsor's margin for non-Medicare business



Part D Margin for MA-PD Bids

- Two options for setting Part D margin:
 - Set margin within 1.5% of MA margin for each MA-PD bid, or
 - Set margin equal for all MA-PD bids within the same—
 - Plan category (GE+I/C, D-SNP), and
 - Aggregation level (as designated in BPT)



Aggregate Gain/Loss Margin–PDP

- If the plan sponsor has non-Medicare business for which it has discretion in rate setting $\geq 10\%$ of sponsor's total non-Medicare business then—
 - The margin must be within 1.5% of the plan sponsor's margin for non-Medicare business
- If the plan sponsor's non-Medicare business for which it has discretion in rate setting is $< 10\%$ of sponsor's total non-Medicare business or it has no non-Medicare business then—
 - Aggregate margin must be based on the degree of risk and capital and surplus requirements



Bid-level Margin Flexibility

- Bid-level guidance offers flexibility,
Provided that All Other Margin Requirements are met, and provided that—
 - Bid offers benefit value in relation to margin,
 - Anti-competitive practices are not used, and
 - Margin is non-negative
(or meets negative margin requirements)



Bid-level Margin Flexibility—Example 1

- Assume—
 - Neighboring counties, fully credible plans, high/low benefits
 - Actuary wants to maintain 1.3 premium ratio between plans
 - Expected claims: Reflect 1.3 ratio
 - Actual claims: Reflect 0.95 ratio
- The problem: Without margin flexibility, premiums will not produce desired ratio
- Solution: Use 1% margin in Plan 1 and 6% margin in plan 2 to maintain same premium level in both plans
- This is acceptable (if provisions listed previously are also met)



Bid-level Margin Flexibility—Example 2

- Assume—
 - Neighboring counties, fully credible plans, high/low benefits
 - Actuary wants to maintain 1.3 premium ratio between plans
 - Expected claims: Reflect 1.3 ratio
 - Actual claims: Reflect 0.95 ratio
- The problem: Without margin flexibility, premiums will not be in desired ratio
- Solution: Use **-1%** margin in Plan 1 and 4% margin in plan 2 to maintain same premium level in both plans
- This is **NOT acceptable** (bid margin in plan 1 is negative), UNLESS—



Bid-level Margin Requirement for Negative Margin

- Plan sponsor must submit business plan
 - Describing 3-5 year plan to become profitable
 - Including projected interim margin levels
- Subsequent bid submissions
 - Bid margin expected to be \geq projected interim margins in initial business plan, or
 - Plan sponsor must—
 - Provide details and sources of deviations, and
 - Submit new business plan demonstrating profitability within 5 years of original business plan, and
 - Reduce benefits or increase premium, if necessary



Bid-level Margin Flexibility—Example 3

- Example 3: Same as example 2 except—
 - Service areas are identical (exactly same county or counties)
 - Combined gain/loss margin for both plans is positive
 - MA bids are the same type:
 - Both are LCCPs, or both are RPPOs, or both are PFFS; and
 - Both are the same SNP type, or both are non-SNPs; and
 - Both are EGWPs or both are non-EGWPs
- The problem: Without margin flexibility, premiums will not produce desired premium ratio
- Solution: Use **-1%** margin in Plan 1 and 4% margin in plan 2 to maintain same premium level in both plans
- This is a legitimate product pairing and therefore is acceptable



Bid-level Margin Flexibility—Example 4

- Example 4: Same as Example 3 except—
 - Combined gain/loss margin for both plans is negative (-1% for Plan 1 and 4% for Plan 2)
- The problem: not a valid product pairing
- Solution: Submit business plan for plan 1 demonstrating profitability within 3 to 5 years
- Subsequent years: Submit updated business plans for plan 1 demonstrating profitability within 5 years of original business plan until—
 - Plan 1 is profitable, or
 - Plan 1 satisfies all product pairing requirements



Gain/Loss Margin Supporting Documentation

- Describe methodology used to develop margin assumptions
 - Identify aggregate level chosen/designated in BPT
 - List contract numbers for Organization level aggregation
- Provide plan sponsor's margin requirement for non-Medicare business
 - Include any change in prior 2 years



Gain/Loss Margin Supporting Documentation (cont.)

- Demonstrate consistency of—
 - Projected margins from year to year
 - Projected margins to actual margins
 - Aggregate PDP, MA GE+I/C (or D-SNP and EGWP, if no GE+I/C) margins to applicable Plan sponsor's requirement for non-Medicare business
 - MA plan category margins
 - D-SNP to GE+I/C, EGWP to GE+I/C



Gain/Loss Margin

Supporting Documentation (cont.)

- If revised business plan is submitted in subsequent years for a bid with negative margin, then—
 - Plan sponsor must upload original business plan as a separate file in the Health Plan Management System (HPMS)
- Plan sponsors must—
 - List and describe valid product pairings
 - Justify bids with relatively large gain/loss margin
 - Provide approach for setting Part D margin in relation to MA margin (MA-PDs)
- See MA bid instructions for sample formats of gain/loss margin supporting documentation



Business Plans

- Note that original and modified business plans must—
 - Be bid specific,
 - Be separate for MA and Part D,
 - Include a numerical demonstration,
 - Describe steps taken and to be taken to achieve profitability, and
 - Include incremental changes to benefits and premiums
- A business plan for an invalid product pairing is not allowed



Gain/Loss Margin—High

- Initial bid submission must provide—
 - “Justification for bids with relatively large projected gain/loss margin, including an explanation of how the PBP offers benefit value in relation to the margin level.”
- Supporting documentation . . .



Gain/Loss Margin—High (cont.)

- Supporting documentation considerations:
 - Risk margin, low credibility, high claims variability
 - Demonstration that Plan sponsor—
 - Is making incremental benefit and premium changes over time to reduce margin while maintaining stability
 - Is providing all possible benefits such as rebates applied to Part B premium buydown
 - For DE# enrollees, the plan sponsor must indicate if most supplemental benefits are provided by the State



Gain/Loss Margin–High (cont.)

- Pairing a high margin bid with another positive margin bid is not valid and cannot be used for high margin justification
- For a high margin bid in a valid product pairing, CMS will consider the reasonableness of benefit relativities for bids in the pairing



Resources

- MA Bid Instructions
- Part D Bid Instructions
- OACT mailbox: actuarial-bids@cms.hhs.gov
- OACT weekly actuarial user group calls