

Actuarial Bid Training

Presentation: Non-Benefit Expenses and Gain/Loss Margin

Slides and Script prepared by CMS Office of the Actuary

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[SLIDE #1] Title

Welcome to the training session for non-benefit expenses and gain/loss margin for Medicare Advantage and Part D Bids.

[SLIDE #2] In this session

The non-benefit expense portion of this presentation will focus on the guidance and documentation requirements. The gain/loss margin portion will concentrate on aggregate-level and bid-level margin requirements and supporting documentation. Please refer to the session titled “Related-Party Arrangements” for information concerning related-party arrangements.

[SLIDE #3] Non-Benefit Expenses (NBE)

With respect to non-benefit expenses, when completing the Medicare Advantage (MA) and Part D bid pricing tools, plan sponsors must include at the bid level all costs associated with operating the Medicare Advantage or the Part D plan, respectively. The expenses must be based on actual experience projected to the contract year and must be reported according to Generally Accepted Accounting Principles.

[SLIDE #4] Non-Benefit Expenses (cont.)

Non-benefit expenses must be reported separately for Sales and Marketing expenses, Direct Administration, Indirect Administration, Net Cost of Private Reinsurance, and Insurer Fees. Non-benefit expenses must be specified at the

bid level. Expenses that are common to the MA and Part D components of MA-PD plans must be allocated proportionately between the Medicare Advantage and Part D bid pricing tools.

[SLIDE #5] NBE Documentation

Plan sponsors are required to upload supporting documentation for non-benefit expenses with the initial bid submission. The supporting documentation includes (1) a reconciliation of base period non-benefit expenses reported in the bid pricing tool to auditable material, such as corporate financials, and plan-level operational data, (2) a description of the expenses included in each non-benefit expense category in the BPT, and (3) an explanation for the significant differences between actual and expected non-benefit expenses for the past three years, including a description of how that knowledge was incorporated into the contract year projection.

[SLIDE #6] NBE Documentation (cont.)

The initial bid upload must contain detailed support for the development of projected non-benefit expenses. This detailed support includes a description of the methodology used to develop projected non-benefit expenses, a description of the data source and its relationship to the base period non-benefit expenses reported in the BPT, and a demonstration of the development of each line item using relevant data, assumptions, contracts, financial information, business plans, and other projections.

[SLIDE #7] Gain/Loss Margin Overview

Now we will discuss the gain/loss margin instructions. This presentation will include summaries of general requirements as well as the aggregate-level and

bid-level requirements, examples illustrating flexibility in setting margins at the bid level, and highlights of supporting documentation items.

MA and Part D statutes require the MA and Part D bids, respectively, to represent the revenue requirement of the expected population. Therefore, the MA and Part D margins of an MA-PD plan cannot be combined to satisfy gain/loss margin requirements, including the comparison to the corporate requirement. Further, MA and Part D gain/loss margin requirements are generally designed to ensure that gain/loss margins are reasonable, that anti-competitive practices are not used, and that MA and Part D business is not priced to subsidize the plan sponsor's other insurance lines of business.

[SLIDE #8] Gain/Loss Margin—Bid Development

Initial and final approved bids must satisfy all gain/loss margin requirements outlined in the Instructions for Completing the MA and Part D Bid Tools and comply with other CMS requirements. If there is a conflict between satisfying gain/loss margin requirements and complying with other CMS requirements, such as Total Beneficiary Cost (TBC) or Medicare Medical Loss Ratio (MLR), flexibility will be given to margin requirements only to the extent necessary to meet other CMS requirements. In this case, the plan sponsor must provide in supporting documentation an adequate explanation of the need for flexibility in the margin. Note that a resubmission that changes the gain/loss margin in one bid may require margin changes in other bids to satisfy gain/loss margin requirements.

[SLIDE #9] Gain/Loss Margin—Medicaid

If the plan sponsor has a separate contract with a state or territory for Medicaid services and is participating in the Platino program, the sponsor may use either the gain/loss margin for the bid in MA Worksheet 4 Section II or the

adjusted margin in MA Worksheet 4, Section V. For all other plans, the margin used to satisfy all MA gain/loss margin requirements is the adjusted gain/loss margin for the bid calculated in MA Worksheet 4, Section V.

[SLIDE #10] Aggregate Gain/Loss Margin

Aggregate gain/loss margin requirements are those that apply to certain plan categories and are met at an aggregation level chosen by the plan sponsor. The MA plan categories are general enrollment and institutional-special needs plans or chronic care-special needs plans (referred to in this presentation as GE plus I/C plans), dual-eligible special needs plans (or D-SNPs), and employer group waiver plans (or EGWPs). The aggregation level that the certifying actuary chooses indicates the “level” at which the plan sponsor’s bids comply with the aggregate gain/loss margin requirements. The aggregation level choices are Contract, Organization, or Parent Organization. This choice is designated in the MA and Part D bid pricing tools and applies to all plan categories; however, EGWPs must comply at the Contract level.

[SLIDE #11] Aggregate Gain/Loss Margin—All Plan Categories

Some of the aggregate gain/loss margin requirements apply only to certain plan categories; however, two important requirements apply to all plan categories. The first requirement is that aggregate gain/loss margin assumptions be consistent from year to year. The second requirement is that bids meet the following statement taken directly from the bid instructions: “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.” In other words, it is not acceptable for plans to maintain a practice of pricing bids using margin assumptions that are not consistent with their actual experience.

[SLIDE #12] Medicare Business vs. Non-Medicare Business

Throughout this presentation we will use the term “non-Medicare business” to mean 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, and commercial business.

[SLIDE #13] Aggregate Gain/Loss Margin—MA

The aggregate MA gain/loss margin requirements that are plan-category specific depend on whether or not the plan sponsor offers MA GE+I/C plans, and the proportion of the plan sponsor’s non-Medicare business for which it has discretion in rate setting. If (1) the plan sponsor offers any MA GE+I/C plans, and (2) the volume of the plan sponsor’s non-Medicare business for which it has discretion in rate setting is greater than or equal to 10 percent of the plan sponsor’s total non-Medicare business, then the aggregate MA margin must be within 1.5 percent (above or below) of the plan sponsor’s margin for its total non-Medicare business.

[SLIDE #14] Aggregate Gain/Loss Margin—MA (cont.)

On the other hand, if (1) the plan sponsor offers any GE+I/C plans, and the volume of the plan sponsor’s non-Medicare business for which it has discretion in rate setting is less than 10 percent of the plan sponsor’s total non-Medicare business, or (2) the plan sponsor has no non-Medicare business; then the aggregate MA margin must be set by taking into account the degree of risk and capital and surplus requirements of the business.

[SLIDE #15] Aggregate Gain/Loss Margin—D-SNP & EGWP

The aggregate MA margin requirements for D-SNPs and EGWPs depend on whether or not the plan sponsor offers GE+I/C plans. If a plan sponsor offers

any GE+I/C plans, then the projected aggregate MA GE+I/C SNP margin resulting from the margin values in the BPT must be within 1.5 percent of projected margin for non-Medicare business. Further, the aggregate MA margin for the D-SNPs and the aggregate margin for the EGWPs must be no more than 5 percent below and no more than 1 percent above the aggregate MA margin for GE+I/C plans. However, CMS may allow exceptions for aggregate MA D-SNP margins outside the stated range when those exceptions are supported with a comprehensive justification.

In the event that a plan sponsor offers *no* GE+I/C plans, EGWPs must meet the aggregate margin requirements as discussed for MA GE+I/C plans for the margin relative to the plan sponsor's non-Medicare business. For D-SNPs, the aggregate MA margin must be no more than 5 percent below and no more than 1.5 percent above the plan sponsor's margin for its total non-Medicare business.

[SLIDE #16] Part D Margin for MA-PD Bids

For setting the margin on the Part D component of an MA-PD bid, there are two options. One approach is to set the margin for the Part D component of the bid within 1.5 percent of the margin for the MA component of the same bid. If this method is chosen, it must be applied consistently to all MA-PD bids submitted. The other approach is to set the Part D margin component equal for all MA-PD bids within a plan category. Under this approach, the margin percentage chosen for the Part D bids must be within 1.5 percent of the aggregate margin for the corresponding MA bids in the same plan category. Also, for the latter approach, the aggregation level designated in the BPT applies. For example, if the plan sponsor designates in the BPT that the aggregation level is "Parent Organization," then the margin for the Part D

component of all MA-PD bids offered by the Parent Organization—within a plan category—must be equal.

[SLIDE #17] Aggregate Gain/Loss Margin—PDP

For standalone Part D, the aggregate Part D gain/loss margin requirements depend on the proportion of the plan sponsor's non-Medicare business for which it has discretion in rate setting. If the volume of the plan sponsor's non-Medicare business for which it has discretion in rate setting is greater than or equal to 10 percent of the plan sponsor's total non-Medicare business, then the aggregate Part D margin must be within 1.5 percent of the plan sponsor's margin for its total non-Medicare business. Otherwise, if (1) the volume of the plan sponsor's non-Medicare business for which it has discretion in rate setting is less than 10 percent of the plan sponsor's total non-Medicare business, or (2) the plan sponsor has no non-Medicare business; then the aggregate margin must be set by taking into account the degree of risk and capital and surplus requirements of the business.

[SLIDE #18] Bid-level Margin Flexibility

At the bid level, the bid instructions offer flexibility in setting gain/loss margin assumptions provided that all other margin requirements are met and provided that (1) the bid offers benefit value in relation to the margin level, (2) anti-competitive practices are not used, and (3) the margin is non-negative (or follows the rules for bids with negative margin which are explained later in this presentation).

[SLIDE #19] Bid-level Margin Flexibility—Example 1

We now offer a few examples to illustrate proper and improper uses of the flexibility allowed by the instructions. First, consider a sponsor that offers plans

in neighboring counties. We will assume that these are fully credible plans with different benefit richness levels (a “high” plan and a “low” plan) and that the actuary wishes to maintain a constant premium ratio of, say, 1.3. However the actual claims experience is significantly different from expected results. The problem is that—without flexibility in setting the bid-level margin—pricing could produce premium levels in each plan that are different from the desired premium ratio. Here’s the solution: the pricing actuary has determined that if the margin in plan 1 is set at 1 percent and the margin in plan 2 is set at 6 percent, the desired premium levels can be achieved. Provided that the plan sponsor’s bid meets the provisions in the previous slide, this is an acceptable example of using flexibility in bid-level margin requirements to achieve pricing results.

[SLIDE #20] Bid-level Margin Flexibility—Example 2

An example of an unacceptable bid-level margin assumption can be demonstrated by making one modification to example 1. In example 2, the actuary determines that, in order to achieve the desired premium levels, a margin assumption of negative 1 percent is needed in plan 1. This is unacceptable because it violates one of the provisions in slide 16, which is that the bid margin must be non-negative. The next slides describe a possible remedy as well as certain requirements that are associated with bids that are submitted with negative margin assumptions. The negative margin for plan 1 is not acceptable, UNLESS—

[SLIDE #21] Bid-level Margin Requirement for Negative Margin

The plan sponsor submits a business plan that demonstrates how the plan with negative margin will become profitable (that is, have a positive margin) within a 3- to 5-year period. The business plan must be included with supporting

documentation uploaded at the time of the initial bid submission, and it must include the year-by-year projected margin levels.

In the subsequent years' submissions, CMS expects the margin level for the bid to be equal to or greater than the margin levels included with the initial business plan. If these margin levels cannot be achieved, the plan sponsor must explain how the assumptions of the initial business plan deviated from what actually happened by providing the details and sources of the deviations. The plan sponsor must also submit a new business plan demonstrating that the plan will reach profitability within 5 years of the original business plan and must reduce benefits or increase premium as necessary to satisfy this requirement.

[SLIDE #22] Bid-level Margin Flexibility—Example 3

Making modifications to example 2 and an additional assumption, we can describe the one situation in which a negative bid margin assumption is acceptable without submitting a business plan. The first modifications are that the service areas in the two plans are identical, and that the combined margin for the two plans is positive. The next modification is that the MA bids are the same type. That is, (1) they are both local coordinated care plans, or are both regional PPOs, or are both private fee-for-service plans; and (2) they are both the same SNP type, or are both non-SNPs; and (3) they are both EGWPs or both non-EGWPs. With these modifications, the two plans satisfy all the criteria for product pairing, and the two plans are said to be a valid product pairing, so a negative margin is allowed without submitting a business plan. This is a special case that emerges when use of actual plan experience in a given market (that is, in a particular service area) would result in premiums that significantly misrepresent the relative benefit richness of the two plans.

[SLIDE #23] Bid-level Margin Flexibility—Example 4

Making a modification to example 3, we can describe a negative margin situation that requires a business plan for the bid with negative margin. The modification is that the combined margin for both plans is negative. Under this scenario, the product pairing is not valid, and the plan sponsor would be required to submit a business plan for plan 1 showing profitability within 3 to 5 years. In subsequent bids for plan 1, the sponsor would be required to submit updated business plans demonstrating profitability within 5 years of the original business plan. This requirement will continue until plan 1 is (1) profitable, or (2) satisfies all product pairing requirements.

[SLIDE #24] Gain/loss Margin Supporting Documentation

A comprehensive list of the supporting documentation requirements for MA and Part D bid submissions can be found within Appendix B of the bid instructions. The next few slides highlight supporting documents that are associated with the gain/loss margin requirements mentioned above. First, the support must describe the methodology used to determine the gain/loss margin assumptions, including the level of margin aggregation. Note that if the plan sponsor chooses the organization level aggregation, then each contract offered by the organization must be listed. Support must also include the plan sponsor's margin requirement for non-Medicare business and any change in the prior 2 years.

[SLIDE #25] Gain/loss Margin Supporting Documentation (Cont.)

Supporting documentation must demonstrate compliance with aggregate gain/loss margin requirements. Compliance includes (1) consistency of projected margins from year to year; (2) consistency of actual and projected margins over the long term; (3) consistency between aggregate PDP, MA

GE+I/C margins (or the margin for D-SNP and EGWP, if there are no GE+I/C plans) and the applicable measure of the plan sponsor's margin requirement—that is, the plan sponsor's margin requirement for all non-Medicare business, or the plan sponsor's capital and surplus requirement; and (4) consistency of margins among the various MA plan categories—that is, between D-SNP and GE+I/C, or between EGWP and GE+I/C.

[SLIDE #26] Gain/loss Margin Supporting Documentation (Cont.)

We've discussed supporting documentation requirements for bids with negative margins and pointed out that if a revised business plan is submitted in subsequent years, the plan sponsor must also upload a copy of the original business plan to the Health Plan Management System (HPMS) in a separate file. Other supporting documentation requirements include (1) a list and description of plans in valid product pairings; (2) justification for bids with relatively large projected overall gains or losses, such as an explanation of how the plan benefit package offers benefit value in relation to the margin level; and (3) the approach for setting the Part D margin in relation to the MA margin for MA-PD plans. See Appendix B of the MA bid instructions for gain/loss margin supporting documentation sample formats.

[SLIDE #27] Business Plans

Note that both the original and subsequent business plans must be bid specific, be separate for MA and Part D, include a numerical demonstration, and describe steps taken in the contract year or to be taken to achieve profitability. CMS expects plan sponsors to take a long-term planning view and make incremental changes to benefits and premiums annually in order to stay within the 3- to 5-year time frame to achieve profitability. A combined business plan

for an invalid product pairing—for example, a desired product pairing with a negative combined margin—is not allowed.

[SLIDE #28] Gain/Loss Margin—High

Under the bid-level gain/loss margin requirements, the 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.” On the next slide, we’ll discuss how this requirement applies to supporting documentation for a bid with a high projected gain/loss margin.

[SLIDE #29] Gain/Loss Margin—High (Cont.)

In reviewing the reasonableness of a bid with a relatively high projected gain/loss margin, CMS will consider factors described in supporting documentation, such as a need for a contingency margin that correlates to the “risk” to the plan sponsor, low credibility, or significant claim variability from year to year. Absent these factors, the supporting documentation must demonstrate that the plan sponsor is making incremental benefit and premium changes over time to reduce margin while maintaining stability and 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 already provided by the State.

[SLIDE #30] Gain/Loss Margin—High (Cont.)

Pairing a high margin bid with another positive margin bid cannot be used to justify high margin, since this would not be a valid product pairing. A valid product pairing must include one bid with negative margin. Further, the purpose of a valid product pairing is to allow an exception to the business plan

requirement for a negative margin bid. For bids in a valid product pairing with relatively large projected overall gains/loss margin, CMS will consider the reasonableness of benefit relativities in order to assure that the excess margin for the high margin bid is commensurate with the difference in benefits and other considerations covered in the previous slides.

[SLIDE #31] Resources

This slide contains bidding resources. This concludes the session on non-benefit expense and gain/loss margin for MA and Part D bids.