

Actuarial Bid Training

Non-Benefit Expenses and Gain/Loss Margin



CMS Office of the Actuary
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Non-Benefit Expenses (NBE)

- At the bid level, include 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
 - ACA Insurer fees
- Specify non-benefit expenses at the bid level
- Expenses solely attributable to MA or Part D must be reported only on the corresponding MA or Part D BPT
- 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

- MA and Part D margins must—
 - Not be combined to fulfill requirements
 - Be reasonable
 - Offer benefit value in relation to the margin level
 - Exclude anti-competitive practices



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
 - With adequate supporting documentation
- Resubmissions may require margin changes in other bids to satisfy margin requirements



Gain/Loss Margin–Bid Development (cont.)

- If an outside source funds benefits offered by the MAO, then gain/loss margin must be consistent between Medicare benefits and benefits funded by other sources.
- For the Platino program, the MAO may request that gain/loss margin requirements be met inclusive of the effect of the program.



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 Definition

- “Non-Medicare business” means all health insurance business that is not Medicare Advantage or Part D, including but not limited to—
 - Medigap (Medicare Supplement)
 - Medicaid
 - Commercial lines of business
 - Medicare-Medicaid Plans (MMPs) offered through the Financial Alignment Demonstration
 - Stop Loss
 - The non-Part D portion of:
 - Section 1876 Cost plans
 - Section 1833 Cost plans
 - PACE plans
- ASO business is excluded from non-Medicare



Aggregate Gain/Loss Margin—MA

- If plan sponsor—
 - Offers any MA GE+I/C plans, and
 - Volume of 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
 - Volume of 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
 - For MA segmented plans, each MA bid must be within 1.5% of the Part D bid
 - 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's volume of 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 volume of 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 1.05 premium ratio between plans
 - Expected claims: Reflect 1.05 ratio
 - Actual claims: Reflect 0.97 ratio
- The problem: Without margin flexibility, premiums will not produce desired ratio
- Solution: Use 1% margin in Low Plan and 8.5% margin in High plan to attain desired premium relativity
- This is acceptable (if provisions listed previously are also met)



Bid-level Margin Flexibility—Example 1 (cont.)

- Note that these plans have different service areas therefore
 - If one of the plans has a negative margin
 - Product pairing is not an option
 - Negative margin requirements would need to be followed



Bid-level Margin Flexibility—Example 2 (Product Pairing)

- Example 2: Same as Example 1 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 Low Plan and 6.7% margin in High plan to attain desired premium relativity
- This is a legitimate product pairing and therefore is acceptable



Bid-level Margin Flexibility—Example 2 (cont.)

- If the combined margin is positive, this is a legitimate product pairing and therefore is acceptable
- If the combined margin is negative, this is not a legitimate product pairing and therefore is not acceptable



Bid-level Margin Requirement for Negative Margin

- Plan sponsor must submit business plan
 - Describing plan to become profitable within 5 years
 - 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 year of original negative margin, and
 - Reduce benefits or increase premium, if necessary



Bid-level 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 to achieve profitability, and
 - Include incremental changes to benefits and premiums
- A business plan for an invalid product pairing is not allowed



Bid-level 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.”



Bid-level 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



Bid-level 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



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
- Describe any change in the margin requirement for non-Medicare business in the prior two years



Gain/Loss Margin

Supporting Documentation (cont.)

- Demonstrate consistency of—
 - Projected margins from year to year
 - Projected margins to actual margins



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)



Other Resources

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