

Actuarial Bid Training



Bid Pricing Reviews and Bid Audits

CMS Office of the Actuary
Updated April 2013



In this session . . .

- What is the pricing review process?
- When does the process start?
- How are the reviews performed?
- When does the process end?
- What is a bid audit?



Review Timeline

- 1st Monday in June: Bids due
- Mid-June: Initial actuarial certification due
- Mid-June: Office of the Actuary (OACT) distributes review materials to contracted reviewers
- Until late July: Dialogue on bid issues between plan sponsors, reviewers, and OACT occurs



Review Timeline (cont.)

- Early August: Benchmarks released
- Early August: Rebate re-allocation period
- Mid-August: Final actuarial certification
- Mid-August: OACT completes its review



Bid Submission

- The bid must reflect the “best and final” proposal.
- Assumptions in the bid are considered final.
- OACT recognizes that not all arrangements and contracts are finalized at that time.
- The bid must reflect the best expectation of plan costs as of the initial bid submission.
- Bid resubmissions must be consistent with the assumptions originally submitted.



Supporting Documentation

- Plan sponsors are required to upload substantiation to support the development of the bid.
- Most substantiation must be uploaded with the initial bid submission.
- Plan sponsors must be ready to provide additional support upon request throughout the bid desk review.



Supporting Documentation (cont.)

- Plan sponsors will be required to provide incomplete or missing documentation before the review process can be completed.
- Supporting documentation requirements are detailed in Appendix B of the instructions.
- Changes in the bid during resubmission period must be accounted for in documentation.



Reviews

- Goal: Determine reasonableness of bids.
- OACT's review process begins with a statistical analysis of bid data:
 - Identification of key bid elements
 - Determination of ranges
 - Flagging of elements outside these ranges
- Flagged elements serve as starting point and focus of the review.



Reviews (cont.)

- OACT defines the protocol for review of each flagged element.
- Reviewers evaluate submitted material to determine if support exists for each flagged element.
- Reviewers contact the plan sponsor/actuary to directly resolve open issues.
- OACT is copied on these communications.



Reviews (cont.)

- OACT meets regularly with each reviewer.
- OACT conducts group discussions with all reviewers.
- Plan sponsor/actuary must work through issues with the reviewers.
- OACT gets involved in sensitive or unresolved issues.



Reviews (cont.)

- Reviewer makes a recommendation.
- OACT reviews the recommendation.
- OACT makes all final pricing determinations.



Recommendation of Approval

- If OACT agrees with the recommendation of the reviewer to approve, OACT accepts the bid pricing.
- If OACT disagrees, OACT asks reviewer to continue working with the plan sponsor.



Recommendation of Denial

- If OACT disagrees with the recommendation of the reviewer to disapprove, OACT works with reviewer to reach resolution.
- If OACT agrees, direct discussions begin with the plan sponsor.



Direct Discussions (cont.)

- OACT or reviewers identify concerns with particular assumptions.
- Direct discussions occur if OACT determines that bid assumptions lack sufficient support.
- Plan sponsor may propose remedy that will be reviewed.
- OACT authorizes resubmission if remedy addresses concerns identified.



Direct Discussions (cont.)

- During discussions, additional material gathered after original bid submission cannot be introduced.
 - Options are limited to what can be demonstrated and supported by the original supporting documentation uploaded with the initial bid submission.
 - OACT also applies these guidelines to review bid changes resulting from discussions conducted on formulary and benefits by other CMS divisions.



Direct Discussions (cont.)

- CMS may accept proposed reductions in plan margins in response to CMS required benefit enhancements.
- CMS may accept changes in margins to account for mistakes or unacceptable assumptions surface during bid review.



Direct Discussions (cont.)

- CMS will accept changes to margin if:
 - Benchmarks have not been released
 - Margin is compliant with guidance
 - Resulting bid is not anti-competitive
 - Resulting bid does not present solvency concerns



Bid Approval

- The review of a bid submission involves multiple components at CMS.
- The review is not necessarily complete when OACT makes its determination on pricing.
- Additionally, multiple resubmissions may be necessary.



Bid Audits

- Audits are a more detailed evaluation of the bid than the review process.

Audits:

- Start in September.
- Occur after the contract has been issued.
- Are directed at a limited number of bids each year.



Bid Audits (cont.)

- Audit is an examination of whether:
 - Bid was developed using appropriate data and methodology.
 - Bid was developed in accordance with CMS guidance.
 - Actuarial Standards of Practice were followed.
 - Documentation is appropriate and complete.
- Preparation for the audit begins with proper bid development and documentation.



Bid Audits (cont.)

- Primarily, audits are intended to:
 - Validate reasonableness of development.
 - Provide feedback to plan sponsor and certifying actuary on areas for improvement.
 - Generate improvements to BPT instructions and other CMS guidance.
 - Improve CMS' bid review procedures.



Bid Audits (cont.)

- Audit results are communicated to plan sponsor via formal report.
 - Egregious errors or misrepresentations may lead to financial remedies or be referred for additional investigation.
 - Findings and observations must be remedied in the submission of the following year's bids.