

CY2016 Actuarial Bid Training

Presentation: Points of Emphasis for CY2016

Slides and Script prepared by CMS Office of the Actuary

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[SLIDE #1] Points of Emphasis for CY2016

Welcome to the training session “Points of Emphasis for CY2016.”

[SLIDE #2] In This Session . . .

In this session, we will cover key changes to the Medicare Advantage (MA) and Part D bid pricing tools and bid instructions, other areas of emphasis from the instructions, and our compliance initiatives, including goals, CY2015 results, CY2016 expectations, and tips.

[SLIDE #3] Clarifications and Updates

We continue to remind you to read the bid instructions in their entirety for all clarifications and updates. For example, risk score supporting documentation must include an explanation for significant differences between actual and expected risk scores for CY2012, CY2013 and CY2014. In addition, there is a new definition section in the Medicare Advantage bid instructions, which emphasizes the meaning the of the term “bid” and includes information previously found in the Dual Eligible pricing consideration.

[SLIDE #4] BPT Changes – MA

There are three significant changes made to worksheet 4 in the MA BPT. Two of the changes involve gain/loss margin and are discussed in more detail later in the presentation. The third change is that the Plan Reimbursement column is now a user input for the DE# section.

[SLIDE #5] BPT Changes – Part D

There are two changes to Worksheet 4 of the Part D BPT: (1) column G in Section IV was inserted to display “Amounts in Gap”; and (2) cells E34 and H34 were changed from inputs to formula-driven.

[SLIDE #6] BPT Changes – Part D (cont.)

There are four changes to Worksheet 5 of the Part D BPT: (1) cells K37, M37 and K47 were changed from inputs to formula-driven; (2) the “Type of Gap Coverage” options in the drop-down box in cell M33 were changed to “DS ICL and cost sharing”, “increased ICL and DS cost sharing”, “all drugs covered in full” and “reduced cost sharing on some drugs”; (3) the input cell for “Alternative Coverage ICL” was moved to cell M34; and (4) an input cell for “Alternative Coverage Deductible Amount” was added to cell I34.

[SLIDE #7] Gain/Loss Margin

One key change to the MA BPT is the removal of the adjusted gain/loss margin calculation in Section V of Worksheet 4, which is in line with the requirement for both MA and Part D that “the margin requirements must be met with the gain/loss margin entered in the BPT.” For MA plans the margin is reported on Worksheet 4 Section IIC. For Part D plans, the margin is reported on Worksheet 2 Section VII. Refer to the session on non-benefit expenses and gain/loss margin for information related to the Platino program.

[SLIDE #8] Gain/Loss Margin - Aggregate

Another significant BPT change is the addition of new fields on MA Worksheet 4 and Part D Worksheet 3 to collect the corporate margin requirement and the basis for such requirement, that is, (1) the average margin for non-Medicare business, or (2) a margin based on the degree of risk and capital and surplus requirements. With access to such data, CMS will verify more of the aggregate margin numerical relationships during bid review; therefore, several gain/loss

margin supporting documentation requirements are no longer required. Further, several health insurance products have been added to the definition of non-Medicare business.

[SLIDE #9] Gain/Loss Margin

Regarding bid-level gain/loss margin requirements, MA and Part D business plan templates are available on the CMS website. CMS suggests that plan sponsors use the template to supplement supporting documentation for a bid with a negative projected gain/loss margin. Regarding the consistency of the gain/loss margin for the MA and Part D components of MA-PDs, such requirements have been moved from the MA bid instructions to the Part D bid instructions.

[SLIDE #10] Rebate Reallocation

CMS now requires Medicare Advantage organizations to apply all pricing assumptions to incremental benefit changes as a result of rebate reallocation, consistent with the pricing structure utilized in the initial June bid submission. Examples of acceptable pricing changes are shown on the next slide.

[SLIDE #11] Rebate Reallocation (cont.)

The requirement to adjust pricing assumptions as a result of rebate reallocation means, in effect, that the incremental cost of mandatory supplemental benefits “flows-through” the pricing approaches and methodologies utilized in the initial June bid submission. Examples include, but are not limited to: (1) induced utilization, (2) pricing assumptions determined as a percent of revenue such as global capitation or risk-sharing arrangements, (3) the portion of DE# plan reimbursement for a change in additional benefits, and (4) the portion of DE# plan reimbursement for a change in plan cost sharing for Medicare–covered services, but only to the extent DE# members pay some portion of the plan cost sharing.

[SLIDE #12] Base Period Experience

The instructions for data aggregation on Worksheet 1 of the MA and Part D bid pricing tools includes a new approach for taking into account cross-walks over the two-year period starting with the base period. The key change applies to MA bids and takes into account members that are dis-enrolled from a bid in certain circumstances. Refer to Appendix L of the MA bid instructions for examples, and to the session on Base Period Experience, Data Aggregation and Credibility for additional information.

[SLIDE #13] Related-Party Arrangements

For MA administrative, MA medical services, and Part D administrative related-party arrangements, the CY2016 instructions clarify the actual cost method. See the Related-Party Arrangements session for more information.

[SLIDE #14] Credibility

CMS provides credibility guidance as a resource to certifying actuaries, not as a requirement. The bid instructions include guidance for determining full credibility and partial credibility. Actuaries that use this guidance should read the synopsis on how CMS developed the guidelines for full credibility, as can be found on the CMS website listed on this slide.

[SLIDE #15] Credibility (cont.)

The bid instructions include credibility guidance for several pricing assumptions. Guidance is provided for non-ESRD and ESRD allowed costs on the MA BPT. The Part D allowed costs credibility guidelines apply to all allowed costs. Additional guidance has been developed for MA and Part D risk scores. The risk score guidance applies only to risk scores based on the CMS preferred methodology. CMS has not developed credibility guidelines for risk scores based on alternate approaches. Refer to the session on Base Period Experience, Data Aggregation, and Credibility for additional information.

[SLIDE #16] Compliance Initiative

OACT's compliance initiative will continue for CY2016, as we have found this to be an effective means to provide constructive feedback to certifying actuaries. The over-arching goals of OACT's compliance initiative are to produce more accurate and transparent bids and to enable more efficient and effective bid reviews. When preparing MA and Part D bids for review by CMS, each actuary must ensure that his or her work complies with relevant professional standards; these include —the American Academy of Actuaries' Code of Professional Conduct, any applicable Actuarial Standards of Practice (or ASOPs); all applicable laws, and regulations; and any agency guidance, including the MA and Part D bid instructions, guidance promulgated by OACT during the User Group Calls, and notices released via the Health Plan Management System (or HPMS).

[SLIDE #17] Compliance Initiative (cont.)

Note that these standards apply not only to how actuaries prepare bids, but also to how they conduct themselves during bid review and bid audit. As always, we emphasize that adequate peer review and documentation are critical components of an efficient bid desk review. Therefore, the compliance process places great emphasis on accurate bid submissions and CMS' supporting documentation requirements, and considers excessive resubmissions, email exchanges and post bid submission uploads to be strong indicators of an inadequate peer review process.

[SLIDE #18] Compliance Initiative (cont.)

For CY2015 OACT identified compliance cases through a combination of analysis and manual review. HPMS data on activity from the bid desk review was analyzed to isolate areas where excessive workload was required in terms of systems and bid review time, and a manual investigation was performed to better understand each case.

[SLIDE #19] Compliance Initiative (cont.)

Data on pricing-related bid resubmissions was relied upon in this review because a high rate of bid resubmissions is a strong indicator that the initial bids were not prepared with adequate peer review or that the bids did not comply with the bid instructions. Data on the frequency of uploads into HPMS was relied upon because a high intensity of upload activity of supporting documents into HPMS after the initial bid submission is a strong indicator that the support provided with the initial bid submission did not meet the requirements in ASOP No. 41, *Actuarial Communications*. Data on the intensity and size of email exchanges in the bid desk review was considered because it is a strong indicator of the need for prolonged discussion on errors or omissions or the need for additional supporting documents to support the initial bid submission.

[SLIDE #20] Compliance Initiative (cont.)

When sponsors and certifying actuaries fail to comply with the standards outlined above, CMS may take action, including (but not limited to) a compliance notice via e-mail to the sponsor and certifying actuary; a formal compliance phone call with the certifying actuary to identify compliance issues and discuss their remedy; a notice of non-compliance or warning letter sent to the plan sponsor to alert it to the areas of non-compliance by its certifying actuary; a Corrective Action Plan to formalize a process to remedy issues arising from non-compliant actions; the placing of limitations on a plan's marketing and enrollment practices until the situation is remedied; and plan termination.

[SLIDE #21] Compliance Initiative (cont.)

OACT conducted four phone calls with actuaries to discuss compliance issues associated with CY2015 bid submissions. We also reached out to 21 sponsors with compliance notices on bids for 36 contracts to inform them of concerns we identified in bid review. Our goal was to provide constructive feedback to be used to improve future bid submissions. On a positive note, no cases were forwarded to the CMS compliance group to initiate further compliance action with the plan sponsor for CY2015. It should be noted that the majority of certifying actuaries are

highly supportive of the bid submission and review processes and *are* compliant with the requirements. So even though we addressed issues with only a small number of actuaries, OACT believes that everyone can benefit from a review of these cases as a reminder to avoid conduct that can result in unwanted action and significantly hinder submission of accurate bids.

[SLIDE #22] Compliance Initiative (cont.)

The main areas of concern resulting in compliance action by OACT for CY2015 fell into two categories—peer review and documentation.

In some cases we noted a large number of errors in submissions and resubmissions, which demonstrate a lack of adequate peer review. Other cases contained supporting documentation that failed to meet the standard stated in ASOP 41 that “another actuary qualified in the same practice area could make an objective appraisal of the reasonableness of the actuary’s work.” Bid instructions require an upload to HPMS with each resubmission summarizing the changes, including the cause and effect. Lack of such uploaded documentation was noted several times in the compliance initiative. It should be noted that OACT did not take explicit action on every case reported by reviewers. OACT maintains historical feedback from reviewers and incorporates that feedback into the initiative as needed. Although compliance issues may not necessarily warrant OACT action in one year, continued non-compliance over several years is likely to result in OACT action. So if an actuary didn’t receive a compliance notice regarding the CY2015 bid, that doesn’t mean there is no room for improvement.

[SLIDE #23] Compliance Initiative (cont.)

Compliance issues are treated like audit findings and observations, which means that CY2015 issues must be remedied in CY2016 bids, and a description of those remedies must be included in supporting documentation for all bids in the affected contract. As with audit findings and observations, this requirement applies to ALL compliance issues, even those with which the certifying actuary disagreed.

[SLIDE #24] CY2016 Tips and Recommendations

We offer tips and recommendations taken from comments made by both internal and external bid reviewers. These are intended to help actuaries avoid the pitfalls that have constrained the bid process in the past. Of primary importance is the adequate and thorough documentation that meets the standards that “another actuary qualified in the same practice area could make an objective appraisal of the reasonableness of the actuary’s work.” By definition, this documentation will prevent many reviewers’ questions and can significantly increase the efficiency of the review. Providing quantitative support and files with working formulas is a key component to meeting this requirement. Additionally, an accompanying narrative explaining the flow of, inputs to, and calculations in complex spreadsheets allow for easier understanding of the bid development. It is also important to provide clearly labeled supporting documentation files that include the contract number or organization name and topic in the file name, to include the word “revised.” CMS requires that plan sponsors develop and upload bid-specific information. Supporting documentation must include ALL the necessary information about that bid. The support must explain why the pricing assumption is appropriate for the circumstances of the bid, especially when data and studies are not available. Plan sponsors must upload additional supporting documentation during bid review to explain any bid values that have been revised with each bid resubmission. Additionally, complete documentation in support of the final bid must be uploaded before the certifying actuary completes the final actuarial certification.

[SLIDE #25] CY2016 Tips and Recommendations (cont.)

Ensuring that the BPT is consistent with the PBP is another proactive way to lessen the burden of the bid review process and make it more efficient. For CY 2016, OACT is again providing a tool for plan sponsors to help them assess the consistency between the MA BPT and the PBP. It is important that the certifying actuary resolve all failed tests prior to bid submission, for example, by reading the “Notes” tab to see if one of the acceptable explanations for a failed test applies. Also check the plan benefit package file and the MA bid instructions. This slide contains an

example of best practices for documentation in support of a zero projected cost of a mandatory supplemental benefit for a particular bid.

[SLIDE #26] CY2016 Tips and Recommendations (cont.)

The certifying actuary must check that each gain/loss margin requirement is met. OACT is supplying a tool to assist the certifying actuary in evaluating compliance with some of the gain/loss margin requirements for CY 2016. To avoid resubmissions, it is critical to pay attention to detail and build sufficient time in the process for adequate peer review. We recommend that plan sponsors and certifying actuaries review all flagged data validations and correct those that are in error; check the accuracy of every upload; and avoid carelessness (such as repeatedly uploading incorrect files and/or uploading files to the wrong bid).

[SLIDE #27] Planning Information

Since responsiveness is one of the evaluation categories in OACT's compliance initiative and we expect responses to desk review inquiries within 48 hours, we provide information on this slide to assist certifying actuaries in planning resource availability for bid review. OACT expects its contracted reviewers to send all initial correspondence by June 26. Additionally, OACT will conduct several reviews internally, including a review of red-circle validations and other data checks, MA BPT to PBP consistency, support for related-party arrangements, and optional supplemental pricing. These reviews will be conducted by different individuals. To the extent possible, OACT will attempt to consolidate correspondence on these areas of review. However, inquiries can be avoided through the due diligence described in this presentation—namely adequate peer review and thorough documentation.

[SLIDE #28] Other Resources

For more details on the information contained in this presentation, please refer to the CY2016 MA and Part D Bid Instructions. In particular, the "Bidding Resources" section of the

Introduction of the bid instructions contains links to various types of bidding guidance. This concludes the presentation on “Points of Emphasis for CY2016.”