

Actuarial Bid Training

Presentation: Base Period Experience, Data Aggregation, and Credibility

Slides and Script prepared by CMS Office of the Actuary

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[Slide 1]

Welcome to the training session on Base Period Experience, Data Aggregation, and Credibility for Medicare Advantage and Part D.

[Slide 2] In this session . . .

This session will cover the pricing considerations for reporting and projecting base period experience, data aggregation, and credibility. In this session, the term “bid” will refer to the contract-plan and segment ID, if applicable, for Medicare Advantage plans and to the contract-plan ID for Part D plans.

[Slide 3] Pricing Considerations

In pricing the Medicare Advantage and Part D benefits, it is important to consider the following: (1) the bid must represent the revenue requirement of the expected population and (2) bid specific experience must be used, in most circumstances, in the development of projected allowed costs. The bid must reflect actual experience even if it differs from expected relationships based on benefit design, area, and population. To facilitate meeting these requirements, OACT has provided Plan sponsors with gain/loss margin requirements that allow flexibility at the bid level to achieve pricing targets, such as relativity among benefit designs, provided the overall margin satisfies the gain/loss margin requirements, anti-competitive practices are not used, each bid provides benefit value in relation to margin level, and other CMS requirements are met. Refer to the session on non-benefit expenses and gain/loss margin for additional information.

[Slide 4] Reporting Base Period Experience

Plan sponsors must submit bid-specific base period experience on Worksheet 1 for a bid with experience two years prior to the contract year, regardless of the level of enrollment. Base period experience must be reported without adjustment. The base period experience in Medicare Advantage bids must reconcile to the Plan sponsor's audited financial statements and any differences must be quantified and substantiated in the supporting documentation. The base period experience in Part D bids must reconcile to the plan level Prescription Drug Event data submitted to CMS for payment and reconciliation and to the Plan sponsor's audited financial statements and must be quantified and substantiated in the supporting documentation. Refer to the Pricing Considerations sections and Appendices B of the Instructions for Completing the Medicare Advantage and Part D Bid Pricing Tools for more information.

[Slide 5] Projecting Base Period Experience

Base period experience is projected to the contract period through the use of the projection factors on Worksheet 1, Section IV of the Medicare Advantage bid pricing tool and Worksheet 2, Sections II and III of the Part D bid pricing tool. Adjustments for population, benefit design, cost, utilization and other changes from the base period to the contract period can be accommodated in these sections.

[Slide 6] Aggregating Base Period Experience

It is required and permissible to aggregate experience from more than one plan for reporting purposes on Worksheet 1 only when (1) two or more plans are consolidated and the members are formally cross-walked into an existing or new plan or (2) a significant proportion of members in a plan are cross-walked into existing or new plans through MARx enrollment transactions. Aggregating base period experience on Worksheet 1 to achieve credibility is not permitted.

[Slide 7] Aggregating Base Period Experience (cont.)

As discussed in the previous slide, the requirements for aggregating base period data may depend on whether or not enrollment changes apply to a “significant proportion” of members in the bid from which the members are moving. In this case, the determination of “significant proportion” is determined by the certifying actuary. For Part D, any proportion is considered significant. For Medicare Advantage, the proportion accounts for members dis-enrolled from a bid after being cross-walked or moved into such bid. Aggregating base period experience on Worksheet 1 to reflect non-significant shifts in enrollment is not permitted. Refer to Appendix L of the Instructions for Completing the Medicare Advantage Bid Pricing Tool for an example.

[Slide 8] Aggregating Base Period Experience (cont.)

When data are appropriately aggregated, the bid ID and corresponding number of member months of each bid ID being mapped must be reported in Worksheet 1, Section II of the bid pricing tool.

[Slide 9] Aggregating Base Period Experience (cont.)

The base period experience for each bid identified in Section II of Worksheet 1 must be reported in total at the bid level. Partial experience may not be reported on Worksheet 1. Adjustments for partial experience may be made in the projection of the base period experience to the contract period through the use of projection factors. Depending upon the mapping of the enrollment, it is possible for the experience of a consolidated plan to be reported on more than one bid.

[Slide 10] Credibility

CMS has established guidelines for determining the credibility of allowed costs and risk scores, as used in the Medicare Advantage and Part D bid pricing tools. This guidance is

provided as a resource to certifying actuaries, not as a requirement. The certifying actuary has the responsibility to choose and support the level of credibility used in bid pricing. While, in most circumstances, bid specific experience must be used as the basis for the projection of allowed costs, actuaries must consider the quality of the base period experience when calculating credibility. Please note that the documentation of the credibility methodology must be uploaded into HPMS with the initial bid submission.

[Slide 11] Credibility (cont.)

Information on the development of the CMS guidelines for full credibility can be found on the “Medicare Advantage Rates & Statistics” page of the CMS website. The certifying actuary should review this information, including the synopsis of how CMS developed the guidelines for full credibility. This information may be useful to determine whether or not the CMS guideline is appropriate for a specific pricing situation. Refer to the website indicated on this slide.

[Slide 12] Credibility (cont.)

The CMS claims credibility guidelines apply to allowed costs, not net costs. The risk score guidelines apply only to risk scores based on the CMS preferred methodology. CMS has not developed credibility guidelines for risk scores based on alternate approaches or for CMS-HCC ESRD risk scores.

[Slide 13] Claims Credibility

Based on an application of classical credibility theory to program experience, the CMS guidelines for full credibility are 24,000 member months for Medicare Advantage non-ESRD allowed costs; 4,000 member months for Medicare Advantage ESRD allowed costs; and 18,000 member months for Part D allowed costs.

[Slide 14] Risk Score Credibility

The CMS guidelines for full credibility of risk scores are 300 and 125 beneficiaries for the estimated Part C and Part D risk scores posted on HPMS, respectively; and 3,600 and 1,500 member months for risk scores from the beneficiary-level file distributed by CMS to support Part C and Part D bids, respectively.

[Slide 15] Partial Credibility

When the base period experience is not fully credible, then it must be used in the projection of the allowed costs to the extent credible and blended with a manual rate. The CMS formula for partial credibility is the square root of the exposure associated with the experience, measured appropriately as member months or the number of beneficiaries, divided by the applicable guideline for full credibility, as shown in the formula on this slide.

[Slide 16] Partial Credibility (cont.)

If the CMS formula for partial credibility is applied and the resulting credibility is less than or equal to 20 percent, then the actuary may override the computed credibility with 0 percent. If the resulting credibility is greater than or equal to 90 percent, then the actuary may override the computed credibility with 100 percent. These override levels may not be suitable for any alternate credibility formula.

[Slide 17] Other Resources

For more information concerning the topics covered in this training session, please refer to the resources indicated on this slide. This concludes the session on Base Period Experience, Data Aggregation, and Credibility for Medicare Advantage and Part D.