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August 9, 2013

Iowa Department of Human Services
Bureau of Managed Care and Clinical Services
Attention: Jennifer Vermeer
100 Army Post Road
Des Moines, IA 50315

Re: Iowa Wellness Plan 1115 Waiver Application Budget Neutrality – DRAFT

Dear Ms. Vermeer:

Milliman, Inc. (Milliman) was retained by the State of Iowa, Department of Human Services (DHS) to assist in the development of the 1115 waiver filing associated with the Iowa Wellness Plan. The Iowa Wellness Plan 1115 waiver request in concert with the Iowa Marketplace Choice Plan waiver request replace the Iowa Care 1115 waiver demonstration, which expires December 31, 2013. DHS is planning to submit a five-year waiver request effective January 1, 2014. The initial waiver request aims to fill the coverage gap in the post-2014 healthcare environment by extending coverage to non-pregnant individuals between 19 and 64 years of age with incomes up to and including 100% of the federal poverty level (FPL), and medically frail individuals with incomes up to and including 133% of FPL based on Modified Adjusted Gross Income (MAGI)¹ who are not currently eligible for comprehensive Medicaid or Medicare coverage and without access to cost-effective employer sponsored insurance (ESI) coverage. Milliman was requested to prepare the budget neutrality filing materials associated with the waiver renewal filing.

LIMITATIONS

The information contained in this letter and the attached model has been prepared for the State of Iowa, Department of Human Services (DHS), to assist with submitting financial information associated with the 1115 Iowa Wellness Plan waiver to the Centers for Medicare and Medicaid

¹ With the 5% of FPL disregard, individuals with incomes up to and including 138% of FPL may be eligible.

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Services (CMS). The data and information presented may not be appropriate for any other purpose. This letter may not be distributed to any other party without the prior written consent of Milliman, which consent will not be unreasonably withheld. Any distribution of this report must be in its entirety. Any user of this data must possess a certain level of expertise in actuarial science and healthcare modeling so as not to misinterpret the information presented.

Milliman makes no representations or warranties regarding the contents of this correspondence to third parties. Likewise, third parties are instructed that they are to place no reliance upon this correspondence prepared for DHS by Milliman that would result in the creation of any duty or liability under any theory of law by Milliman or its employees to third parties.

Milliman has relied upon certain data and information provided by DHS and its vendors. The values presented in this letter are dependent upon this reliance. To the extent that the data is not complete or is inaccurate, the values presented in our report will need to be reviewed for consistency and adjusted to meet any revised data.

Differences between our projections and actual amounts depend on the extent to which future experience conforms to the assumptions used in this analysis. It is certain that actual experience will not conform exactly to the assumptions used in this analysis. Actual amounts will differ from projected amounts to the extent that actual experience deviates from projected experience.

The services provided for this project were performed under the signed contract (MED-07-028) between Milliman and DHS, which was most recently extended on May 13, 2013.

METHODOLOGY AND ASSUMPTIONS

The State of Iowa is filing two new waiver requests to replace the IowaCare 1115 waiver demonstration that ends on December 31, 2013. The waiver requests are for the maximum allowable time of five years (2014-2018).

The waiver period corresponds with the availability of advance premium tax credits (APTC) authorized by the Patient Protection and Affordable Care Act (ACA) beginning January 1, 2014. The waiver will fill in the coverage gap for Iowans between the ages of 19 and 64 with incomes up

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to and including 100% of FPL, and medically frail individuals with incomes up to and including 133% of FPL, all of whom do not currently qualify for Medicaid or Medicare and do not have access to cost-effective employer health insurance. The individuals potentially eligible for the Iowa Wellness Plan have three potential coverage options:

1. Premium Assistance of Employer Sponsored Insurance (ESI) Health Plans – For individuals with access to ESI, the State will determine if the ESI is cost-effective. Premium assistance will be provided for individuals with access to cost-effective ESI under the state's existing Health Insurance Premium Payment (HIPP) program. Those with ESI that are determined to be not cost-effective will have access to other coverage options provided under this demonstration.
2. The Iowa Wellness Plan – For individuals at or below 100% of FPL without access to cost-effective ESI coverage, the State will provide a benefit plan that is indexed to the State Employee plan benefits supplemented to include dental services. This plan will utilize an innovative delivery system capitalizing on efficiencies gained through leveraging care coordination through primary care gatekeepers, managed care, and ACOs. Iowa has received a State Innovation Model (SIM) grant to roll-out system wide ACOs, and this demonstration request aligns with the SIM goals.
3. State Plan coverage for medically frail individuals who do not choose to opt out of the Iowa Wellness Plan coverage.

For each Demonstration Year (DY), the following table illustrates the total “Without Waiver”, “With Waiver”, and “Waiver Margin” amounts.

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Iowa Wellness Plan 1115 Waiver Estimated Expenditures				
Calendar Year	Demonstration Year	Without Waiver Expenditures	With Waiver Expenditures	Waiver Margin
2014	1	\$ 591,847,980	\$ 556,602,845	\$ 35,245,135
2015	2	728,212,496	684,326,646	43,885,850
2016	3	757,180,417	711,549,159	45,631,259
2017	4	787,303,342	739,857,140	47,446,202
2018	5	818,609,690	769,276,789	49,332,900
2014 – 2018	DY 1 – 5	\$ 3,683,153,926	\$ 3,461,612,579	\$ 221,541,347

Provided with this letter is the Excel file version of the waiver Cost Effectiveness materials.

The following outlines the key assumptions and development associated with the waiver cost effectiveness filing.

1. **Baseline Budget Neutrality Model**

We have utilized the budget neutrality model Excel workbook provided by CMS for Milliman's work with another state. We have updated and revised the model for the Iowa Wellness Plan.

2. **Enrollment**

The Iowa Wellness Plan is targeted at the Adult Group, which consists of:

- a. IowaCare members with incomes up to and including 100% of FPL
- b. Currently uninsured individuals with incomes up to and including 100% of FPL

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- c. Individuals without access to cost-effective employer sponsored insurance and incomes up to and including 100% of FPL
- d. Individuals up to and including 100% of FPL that drop individual health coverage (Crowd Out)
- e. Individuals with incomes up to and including 100% of FPL currently enrolled in Iowa's state funded Dependent Persons Program
- f. Medically frail individuals with incomes up to and including 133% of FPL

3. Historical Enrollment

- a. IowaCare up to and including 100% of FPL – The IowaCare enrollment was summarized from the state's eligibility file for each calendar year. Only those with income at or below 100% of FPL were included.
- b. Dependent Persons up to and including 100% of FPL – The enrollment was summarized from the state's eligibility file. Only those with incomes at or below 100% of FPL were included.

4. Projected Enrollment

It is estimated that all of the individuals currently enrolled in the IowaCare and Dependent Persons programs with incomes up to and including 100% of FPL will enroll in the Iowa Wellness demonstration; their take-up rate will be 100% as of 2014. IowaCare enrollees will be transitioned to the new program and outreach will be conducted to explain the new program components. Enrollment of the eligible population up to and including 100% of FPL that is not currently enrolled in IowaCare is expected to ramp up over two years with 60% of the potential enrollees joining in the first year and 30% joining in the second year. It is estimated that 10% of those potentially eligible for the Iowa Wellness demonstration will choose not to enroll. Medically frail individuals with incomes up to and including 133% of FPL are assumed to follow the same pattern of enrollment depending on whether they

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are currently enrolled in the IowaCare and Dependent Persons programs or are currently uninsured. It was estimated that 18% of IowaCare and Dependent Persons program eligibles, 7% of uninsured individuals, and 7% of employer-sponsored and individual health insurance insured members can be attributed to the medically frail group. For years 2015 through 2018, enrollment is further projected to increase at a natural growth rate of 1.5%.

5. Historical Costs

- a. IowaCare up to and including 100% of FPL – Historical IowaCare costs were based on claim files for each of the calendar years. IowaCare is a limited benefit program. Estimated administrative costs were added.
- b. Dependent Persons up to and including 100% of FPL – Historical costs were based on claim files for each of the calendar years. Estimated administrative costs were added.

6. Projected Costs – Without Waiver

The per member per month (PMPM) calendar year 2014 without waiver healthcare expenditures were estimated to be \$410.41 for the group excluding the medically frail. This amount includes the Medicaid Temporary Assistance for Needy Families (TANF) PMPM increased for mental health, including 1915(i) habilitation rates, remedial services, dental, and pharmacy. The amount was increased for Medicaid administrative expenses using information from the state's budget. The expenditures were projected forward at a combined utilization and cost trend rate of 2.44%, which was calculated using TANF calendar year (CY) 2007-2011 fee for service (FFS) data. The PMPM calendar year without waiver cost for the medically frail was estimated to be \$1,132.64 and was assumed to be equivalent to Iowa's SSI disabled individual cost trended to CY 2014. Note that the IowaCare program's trend rate was assumed not to be credible since IowaCare is a limited benefit program with a limited network. In addition, as the enrollment in the IowaCare program grew from 2007 to 2009, the program had a waiting list for services of up to 8 months.

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7. Projected Costs – With Waiver

The Iowa Health and Wellness demonstration utilizes the Secretary Approved 1937 coverage option for non-medically frail individuals at or below 100% of FPL. Medically frail individuals with incomes up to and including 133% of FPL may opt out of State Plan coverage and access the Secretary Approved 1937 coverage option. All eligible individuals are without cost-effective ESI coverage and are not eligible for comprehensive Medicaid or Medicare coverage. The State's commercial essential health benefit package is slightly richer than the state-employee plan benefits that the Iowa Wellness Plan demonstration will use. As required at 42 CFR 440.315(f), individuals identified as medically frail will not be mandated to enroll in the alternative benefit plan coverage but will be defaulted into coverage under the State Plan and have the option to opt out and enroll in the 1937 coverage option.

Benefits under the Iowa Wellness Plan demonstration for individuals at or below 100% of FPL without access to cost-effective ESI coverage are indexed to the benefits offered through the State Employee plan with dental benefits. Waiver of the requirements to offer non-emergency transportation services and Early Periodic Screening, Diagnoses, and Testing (EPSDT) services to individuals between the ages of 19 and 21 are being requested to standardize the benefit package for enrollees. All benefits will be provided through the current Iowa Medicaid contracted provider network.

For eligible individuals with access to cost-effective ESI, the individual will be eligible to have their portion of premiums paid by the existing HIPP program.

With the exception of managed care entities (MCEs), all providers will be compensated on a FFS basis using the State Plan fee schedule. MCEs will be compensated based on actuarially sound capitation rates. Based on a risk-adjusted global budget, ACOs will be eligible to receive shared-savings if they meet quality metrics and manage care to keep the total by region expenditures below the global budget amount. Primary care providers will receive PMPM care coordination payments and will be eligible to receive bonuses based on quality and process goals. MCEs may also have bonus payments for achievement of quality targets built into their contracts.

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Projected “With Waiver” costs are based on the anticipated cost, taking into account the health status of the population. The ACO coverage option “With Waiver” costs assume management of care by the regional ACOs in the state.

QUALIFICATION

Guidelines issued by the American Academy of Actuaries require actuaries to include their professional qualifications in all actuarial communications. I am a member of the American Academy of Actuaries, and I meet the qualification standards for performing the analyses in this report.

Please do not hesitate to contact us if you have any questions regarding the enclosed information. You may contact me at (314) 231-3031.

Sincerely,

Timothy F. Harris, F.S.A., M.A.A.A.
Principal & Consulting Actuary

TFH/efj