Iowa Department of Human Services

Kim Reynolds
Governor

Adam Gregg
Lt. Governor

Jerry R. Foxhoven
Director

December 7, 2018

W. Charles Smithson
Secretary of Senate
State Capitol
LOCAL

Carmine Boal
Chief Clerk of the House
State Capitol
LOCAL

Dear Ms. Boal and Mr. Smithson:

Enclosed please find copies of reports to the General Assembly relative to Tiered Rate Provider Workgroup Actuarial Finds, Recommendations, and Comments Report.

This report was prepared pursuant to the directive contained in 2018 Senate File 2418.

Please feel free to contact me if you need additional information.

Sincerely,

Mikki Stier
Deputy Director

MS/bw

Enclosure

cc: Kim Reynolds, Governor

Iowa Department of Human Services

Tiered Rates Review

December 2018

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Executive Summary

Effective December 1, 2017, Supported Community Living (SCL) waiver services began being reimbursed via the use of Tiered Rates for members enrolled in the HCBS Intellectual Disability (ID) Waiver within Iowa's Medicaid program. These rates are a departure from the provider-specific rates that had been reimbursed prior to December 1, 2017.

The Iowa Legislature created SF2418 in 2018, directing the Department of Human Services to review the Tiered Rates system of provider reimbursement. The effort was to be completed by gathering feedback and recommendations from a stakeholder workgroup. This request was carried out as directed.

The Department utilized its actuary, Optumas, to help with the analysis of the tiered rates system.

Introduction

As a result of the anticipated revenue impact this reimbursement change would have on each of the applicable providers, a phase-in approach was developed by IME's prior actuarial contractor, who also developed the initial Tiered Rates.

These phase-in rates were designed with Phase 1 in effect from December 1, 2017 – June 30, 2018, and Phase 2 in effect July 1, 2018 – June 30, 2019. Beginning July 1, 2019, the fully phased-in Tiered Rates are expected to be used for reimbursement of SCL services along with associated transportation utilization. The current Tiered Rates vary by a member's use of Day Services, in conjunction with each member's tier classification (based on anticipated level of resources needed) and whether the services are provided in a Residential Care Facility (RCF). These groupings are shown as follows:

SCL Tiered Rates	
With Day Services	**Without Day Services**
Tier 1	Tier 1
Tier 2	Tier 2
Tier 3	Tier 3
Tier 4	Tier 4
Tier 5	Tier 5
Tier 6	Tier 6
RCF	RCF

The Department, along with its actuary, Optumas, conducted analyses to identify areas where providers or similar groups of providers may be seeing large variation in reimbursement that could benefit from a realignment of revenue between tiers.

The remainder of this report provides a description of the process used to conduct these analyses, including the data, assumptions, methodology, and resulting recommendations.

Tiered Rates System Review

Data

Optumas worked with IME to identify the appropriate data to be used in support of the ID Tiered Rate review analysis. The following data sources were reviewed:

- State Fiscal Year (SFY) 2017 FFS data
- SFY 2017 IA Health Link Encounter data
- SFY 2017 IA Medicaid Enrollment data
- 2017 HCBS Provider Cost Reports
- RCF Identifiers
- SIS scores
- ID Tiered Rates

Optumas used the information above to identify the following:

- Members enrolled in an ID Waiver, by month, based on enrollment indicators found within the SFY 2017 IA Medicaid Enrollment data provided by IME.
- SCL services incurred in SFY 2017 under both FFS and IA Health Link, for members enrolled in the ID Waiver.
- Appropriate transportation services (procedure codes S0215, T2003, and A0130) for members enrolled in the ID Waiver and receiving SCL services.

The process described above was used to establish a historical baseline of applicable populations and services that needed to be considered in the review of the ID Tiered Rates.

The next step was to identify enrollee classification of “With” and “Without” Day Services. IME provided the logic used to classify enrollees into each of these categories. Optumas reviewed the utilization for applicable Day Services within the SFY 2017 data, to determine in any given month which enrollees received 40 or more hours of Day Services, and which received fewer than 40.

Optumas then utilized member-level SIS score information along with the list of enrollees residing in an RCF, to classify members and associated services into one of the 6 tiers, or into the RCF classification. Approximately 10% of the SCL service expenditures could not be classified due to missing SIS score information, which is consistent with the level of unscored utilization noted in the supporting documentation provided by IME’s prior actuarial vendor, supporting the development of the phase-in to the Tiered Rates.

The total dollars identified for SCL services as well as transportation services by each of the classifications noted above are shown in the tables below:

	SCL Expenditures								
	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5	Tier 6	RCF	Unclassified	Total
W/ Day Services	$6,611,189	$100,020,071	$36,581,464	$10,529,442	$11,909,072	$2,711,320	$7,742,491	$21,035,729	$197,140,778
W/O Day Services	$8,420,087	$49,711,282	$23,708,572	$4,647,028	$6,649,689	$2,515,746	$3,585,948	$11,667,722	$110,906,075

	SCL Units								
	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5	Tier 6	RCF	Unclassified	Total
W/ Day Services	34,924	531,609	182,939	50,201	53,157	10,734	54,158	106,113	1,023,835
W/O Day Services	41,172	237,845	104,347	19,343	26,766	8,053	24,677	54,562	516,765

	Transportation Expenditures								
	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5	Tier 6	RCF	Unclassified	Total
W/ Day Services	$347,912	$5,619,095	$1,947,917	$614,498	$466,823	$117,497	$578,907	$1,143,459	$10,836,108
W/O Day Services	$149,427	$1,218,892	$305,533	$41,987	$35,306	$3,178	$44,845	$177,916	$1,977,084

Approach

Once the historical experience was stratified, Optumas developed comparisons to review historical experience by provider. While SCL services are identified by billing provider, the corresponding transportation expenditures were not necessarily billed by the HCBS providers. These transportation expenditures were allocated by provider, based on each enrollee's use of SCL services in a given month. If an enrollee received all of its SCL services from "Provider X" in a given month, all transportation expenditures for that month and that enrollee are attributed to "Provider X" regardless of billing provider on the claim. While generally all SCL services for an enrollee were provided by the same provider in a given month, there were some instances observed where an enrollee received SCL services from multiple providers in a given month; in this case, transportation expenditures were allocated based on the distribution of units observed by each provider: if 90% of SCL units were received from "Provider X" and 10% from "Provider Y", then 90% of the transportation dollars for the enrollee that month were attributed to "Provider X" and 10% were attributed to "Provider Y".

The purpose of including transportation dollars as noted above is to ensure that comparisons between historical experience and Tiered Rates are conducted on a like-for-like basis. Prior to the Tiered Rates, certain providers had some transportation expenditures embedded in their SCL rates, while the majority of the transportation expenditures were billed outside of the SCL services. Moving forward, all applicable transportation expenditures are included within the Tiered Rates. Therefore, the historical experience must include the value of transportation expenditures for comparison purposes.

The historical experience was then re-priced using the Standard Tiered Rates, which are planned to go into effect July 1, 2019. This was achieved by applying the Tiered Rate schedule to the SCL units present in the SFY 2017 FFS and Encounter data. Re-pricing was conducted for those enrollees with a SIS score; for purposes of reviewing aggregate impacts across all ID Waiver SCL recipients, the underlying mix of SCL services by each tier and RCF designation was assumed to hold for the unscored enrollees (the approximately 10% of enrollees without a SIS score, as noted in the Data section of this narrative). The table below shows the aggregate experience for SFY 2017 compared with the re-priced SFY 2017 data using Standard Tiered Rates:

	SFY17 Data (SCL + Transp.)	SFY17 Data @ Tiered Rates	Percentage Difference
Total	$320,860,045	$324,168,456	1.0%

In addition to comparing the SFY 2017 claims experience to the experience as re-priced using the Standard Tiered Rates, Optumas used provider-reported cost reports from SFY 2017 to compare reported expenditures to revenue (SFY 2017 claims). Cost reports were received for 116 of the applicable HCBS providers, of which these providers represented 91.3% of the SCL expenditures identified within the SFY 2017 base data. In developing the cost report to revenue comparisons, Optumas added the transportation claims as described above into both the SFY 2017 claim and SFY 2017 cost report expenditure buckets to ensure that comparisons to implied revenue under the Tiered Rates could be completed on a like-for-like basis.

As a method to group providers with similar acuity, Optumas grouped providers into one of 5 'Acuity Bands' as approximated based on the underlying volume of SCL services by tier within SFY 2017. These bands were developed based on the weighted average unit cost for each provider implied using the Tiered Rates based on SFY 2017 utilization; this method uses the Tiered Rate variation as a 'proxy' for underlying acuity for each provider. Optumas first calculated the weighted average SCL unit cost across all providers based on the Tiered Rates. Once this was calculated, providers were grouped into each band based on their relative difference to the all-provider weighted average. The table below shows the definition of each grouping:

Acuity Band	Variation from Average Unit Cost
Low Acuity	**- >10%**
Mid-Low Acuity	**- 5-10%**
Mid Acuity	**+/- 5%**
Mid-High Acuity	**+ 5-10%**
High Acuity	**+ >10%**

The table below shows the SFY 2017 experience, compared to the implied Tiered Rate revenue, by each of the acuity bands:

Acuity Band	SFY17 Data (SCL + Transp.)	SFY17 Data @ Tiered Rates	Percentage Difference
Low Acuity	$18,771,325	$20,151,233	7.4%
Mid-Low Acuity	$29,359,573	$34,244,823	16.6%
Mid Acuity	$191,043,705	$196,318,923	2.8%
Mid-High Acuity	$27,559,776	$24,772,245	-10.1%
High Acuity	$54,058,674	$48,614,238	-10.1%
Total*	**$320,793,052**	**$324,101,463**	**1.0%**

One provider could not be grouped into an Acuity Band because all of its experience was for unscored members

As observed in the table above, the group of providers within the two lowest acuity bands received a significant increase in revenue while the providers within the two highest acuity bands received the largest reduction in revenue. Based on this review, various scenarios were conducted to identify opportunities to more consistently align the revenue changes by each of the provider acuity bands.

Scenario Modeling

The first step in this process was to review the distribution of utilization by each tier that underlies each of the 5 acuity bands noted above. The table below shows the percentage of SCL service utilization by each tier, for the 5 acuity bands:

	Distribution of SCL Units - W/ and W/O Day Services Combined							
Acuity Band	**Tier 1**	**Tier 2**	**Tier 3**	**Tier 4**	**Tier 5**	**Tier 6**	**RCF**	**Total**
Low Acuity	**3.5%**	**38.3%**	**10.1%**	**1.7%**	**1.8%**	**0.2%**	**44.3%**	**100.0%**
Mid-Low Acuity	**6.9%**	**66.1%**	**13.9%**	**1.8%**	**0.7%**	**0.0%**	**10.5%**	**100.0%**
Mid Acuity	**6.6%**	**60.6%**	**21.5%**	**4.8%**	**4.5%**	**0.7%**	**1.4%**	**100.0%**
Mid-High Acuity	**3.2%**	**53.8%**	**27.0%**	**7.3%**	**7.7%**	**1.0%**	**0.0%**	**100.0%**
High Acuity	**2.0%**	**36.0%**	**27.2%**	**10.0%**	**18.1%**	**6.7%**	**0.0%**	**100.0%**
Total	**5.5%**	**55.8%**	**20.9%**	**5.1%**	**5.9%**	**1.4%**	**5.4%**	**100.0%**

Upon review of the utilization patterns between the 5 acuity bands, it was evident that the Low and Mid-Low bands contained a higher concentration of utilization for the combination of RCF and Tier 1 and 2 enrollees, which reflect the 3 lowest cost tiers. On the contrary, the Mid-High and High bands contained lower prevalence of RCF and Tier 1 and 2, and a higher concentration of Tiers 5 and 6. As a result of these observations, Optumas focused analyses primarily on the impact of adjusting Tiers 1, 2, 5, 6 and RCF rates. While multiple scenarios were reviewed to understand the sensitivity of adjusting the various Tiered Rates to the overall revenue change by acuity band, the remainder of this narrative focuses on one scenario which will be described further below:

Tiered Rate Adjustment Scenario

The Tiered Rates in place for RCF and Tier 1 and 2 reflect the tiers with the lowest Tiered Rate unit cost. Tiers 5 and 6 reflect the tiers with the highest Tiered Rate unit cost. As noted above, these are also tiers for which utilization varies significantly between the 5 acuity bands. As a result, these tiers served as the focal point when considering Tiered Rate adjustments. The table below shows the proposed adjustments to each tier in this scenario:

Tier	Scenario Change
Tier 1	-10.0%
Tier 2	-7.5%
Tier 3	0.0%
Tier 4	0.0%
Tier 5	50.0%
Tier 6	70.0%
RCF	-15.0%

The results of this scenario create a larger spread between the lowest cost tiers and the highest cost tiers. For example, the RCF rate is the lowest rate, and receives the largest proposed reduction, followed by Tier 1 and Tier 2. Tier 6 is the highest rate and receives the largest increase, followed by Tier 5 which is the second highest Tiered Rate. The table below shows the resulting difference in revenue by each of the 5 acuity bands:

Acuity Band	SFY17 Data (SCL + Transp.)	SFY17 Data @ Tiered Rates	Scenario Impact to Tiered Rates	SFY17 Data @ Adj. Tiered Rates	Percentage Difference to SFY17
Low Acuity	$18,771,325	$20,151,233	-6.8%	$18,775,839	0.0%
Mid-Low Acuity	$29,359,573	$34,244,823	-6.3%	$32,086,695	9.3%
Mid Acuity	$191,043,705	$196,318,923	-1.5%	$193,330,975	1.2%
Mid-High Acuity	$27,559,776	$24,772,245	1.9%	$25,247,680	-8.4%
High Acuity	$54,058,674	$48,614,238	14.5%	$55,652,333	2.9%
Total	**$320,793,052**	**$324,101,463**	**0.3%**	**$325,093,522**	**1.3%**

As observed above, the revised funding allocation under this scenario would result in more consistent alignment of revenue between provider acuity bands as it pertains to changes in revenue and profitability pre-and post-Tiered Rates. Note that the overall dollars have increased slightly under this scenario (0.3%), as a function of using rounded percentage adjustments for proposed Tiered Rate adjustments. Upon implementation of any changes, a budget-neutral factor would be implemented to ensure that this difference becomes $0.

The tables below show the impact to Profit/(Loss) when comparing expenses to the SFY 2017 data, the SFY 2017 data repriced to the Standard Tiered Rates, and the SFY2017 data repriced to the Tiered Rates adjusted for the scenario above. The purpose of including these comparisons is to show directional consistency between the change in revenue and change in Profit/ (Loss) from SFY 2017 compared to the Standard Tiered Rates and to the adjusted Standard Tiered Rates resulting from the modeled scenario. As previously noted, SFY 2017 transportation claims have been added to both the SFY 2017 data and cost report expenditures to ensure comparability to the Tiered Rates. Additionally, these tables have been limited to providers with valid cost report information.

Profit / (Loss) under SFY 2017 claims experience

Acuity Band	SFY17 Data (SCL + Transp.)	SFY17 Expenses	Profit/(Loss) $	Profit/(Loss) %
Low Acuity	$18,612,141	$18,475,604	$136,536	0.7%
Mid-Low Acuity	$24,777,663	$24,168,762	$608,901	2.5%
Mid Acuity	$173,712,959	$171,183,428	$2,529,530	1.5%
Mid-High Acuity	$27,486,443	$27,549,354	-$62,911	-0.2%
High Acuity	$48,428,953	$48,790,267	-$361,314	-0.7%
Total	**$293,018,158**	**$290,167,416**	**$2,850,742**	**1.0%**

Profit / (Loss) under Standard Tiered Rates

Acuity Band	SFY17 Data @ Tiered Rates	SFY17 Expenses	Profit/(Loss) $	Profit/(Loss) %
Low Acuity	$19,947,269	$18,475,604	$1,471,665	8.0%
Mid-Low Acuity	$29,576,995	$24,168,762	$5,408,234	22.4%
Mid Acuity	$176,457,179	$171,183,428	$5,273,750	3.1%
Mid-High Acuity	$24,698,209	$27,549,354	-$2,851,146	-10.3%
High Acuity	$42,867,722	$48,790,267	-$5,922,546	-12.1%
Total	**$293,547,373**	**$290,167,416**	**$3,379,957**	**1.2%**

Profit / (Loss) under adjusted Standard Tiered Rates

Acuity Band	SFY17 Data @ Adj. Tiered Rates	SFY17 Expenses	Profit/(Loss) $	Profit/(Loss) %
Low Acuity	$18,590,599	$18,475,604	$114,994	0.6%
Mid-Low Acuity	$27,701,364	$24,168,762	$3,532,602	14.6%
Mid Acuity	$173,947,456	$171,183,428	$2,764,028	1.6%
Mid-High Acuity	$25,165,615	$27,549,354	-$2,383,739	-8.7%
High Acuity	$48,949,833	$48,790,267	$159,566	0.3%
Total	**$294,354,867**	**$290,167,416**	**$4,187,451**	**1.4%**

Recommendations

Based on the review described above, Optumas recommends a re-alignment of rates be completed such that funding is shifted from the RCF and Tier 1 and 2 rates and added to Tiers 5 and 6. The scenario presented in this report provides an effective illustration of how this adjustment re-aligns revenue changes between the lowest and highest acuity provider groups. The workgroup and the state agree that implementation of the new rates would be effective March 1st, 2019. Also observed in the presented scenario is the fact that the Mid-Low and Mid-High acuity bands still result in revenue changes that deviate materially from the average (9.3% and -8.4% change respectively). Optumas has focused its analysis on the impact of revising funding between tiers in this iteration, and not on re-defining current tier structures. While the revisions noted within the presented scenario result in improved alignment between providers by each of the acuity bands, it is important to note that Tiers 2 and 3 comprise approximately 77% of the SCL utilization. The high concentration of utilization present in these tiers represents an area that could be re-opened for further review and may provide improvement in differentiation between the Mid-Low and Mid-High acuity bands in future iterations.