

## MEMORANDUM

To: Health Connector Board of Directors  
Cc: Jean Yang, Executive Director  
From: Ed DeAngelo, General Counsel  
Jen Bullock, Director of Customer Service & Operations  
Lauren Ripley, Assistant General Counsel  
Daniel Apicella, Director of Finance  
Date: March 14, 2014  
Re: Commonwealth Care Contract Extensions

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This memorandum recommends that the Board authorize the Health Connector to enter into contract extensions with the five Commonwealth Care managed care organizations and with Dell Marketing L.P. (Dell), to provide for the continuation of coverage and services for Commonwealth Care and former Medical Security Program (MSP) members.

### BACKGROUND

The Commonwealth Care program was designed to offer health insurance to members at 0-300% of the Federal Poverty Level (FPL). Under the Affordable Care Act (ACA), a new coverage structure is available, including Medicaid expansion for adults with incomes up to 133% FPL and federal tax credits for individuals earning up to 400% FPL for the direct purchase of insurance through the Health Connector. While the ACA provides subsidies to an expanded population of individuals earning between 300% and 400% FPL, the ACA also effectively requires current membership in many of the Commonwealth's subsidized health insurance programs, including the Commonwealth Care program, to transition to the new ACA-defined models.

The Commonwealth Care program formally ended on December 31, 2013, however, the Health Connector and EOHHS worked collaboratively with the Centers for Medicare and Medicaid Services (CMS) to provide continuation coverage through March 31, 2014 for non-Medicaid eligible Commonwealth Care members and former MSP members. The Health Connector recently secured a further extension to allow for continued coverage for these members through June 30, 2014.

### CONTINUATION OF COMMONWEALTH CARE HEALTH PLAN CONTRACTS

In April 2013, this Board voted to extend the then-existing contracts with the five Commonwealth Care managed care organizations past the June 30, 2013 deadline. This extension was anticipated to run through December 31, 2013, to cover the period before the January 1, 2014 effective date of the ACA and the introduction of new ACA-compliant health coverage. The contract extension executed in April 2013 also gave the Health Connector the option of further extending through March 31, 2014 in order to ensure continued Commonwealth Care coverage during the transition to ACA-compliant plans.

The Health Connector engaged its independent actuary the Wakely Consulting Group (Wakely) to assist in rate development for the period in question. Due to the fact that the MCOs' existing capitation rates had been developed for a shorter program period (six months versus nine) we applied a modest adjustment to the medical capitation rate (an upwards trend adjustment of 1%). Second, in recognition that the Commonwealth Care program extension had operational implications on MCOs, who had otherwise been implementing the wind down of Commonwealth Care we also implemented a change to the administrative rate from \$27.50 Per Member Per Month (PMPM) to \$35.00 PMPM. In summary we applied a 3% overall rate adjustment to the capitation rate in place for January 1 through March 31, 2014 relative to the rates in place for July 1, 2013 through December 31, 2013.

Due to the need for further continuation coverage after March 31, 2014, the Health Connector seeks to further extend its contracts with the managed care organizations. During this further extension, the same level of benefits and services will be provided to members.

The Health Connector's actuary, Wakely utilized updated experience through September 2014 and determined an actuarially sound rate range for the extension period of April 1 through June 30, 2014. As a result of their analysis, Wakely determined that a rate adjustment of between 3.3% (at the lowest bound) and 12.6% (at the upper bound) was necessary to generate a capitation rate for the program that is actuarially sound. The Health Connector accordingly provided an 8% upward adjustment to the medical capitation rate for the extension period with no adjustment to the administrative rate, which is currently \$35.00 PMPM. The rate adjustments result in a 7% overall rate increase between FY14 Q3 and FY14 Q4. If approved, the capitation rates for the carriers would be as follows:

<b>FY14 Q3 (First Extension Period)</b>				<b>FY14 Q4 (Second Extension Period)</b>				
<b>Total Capitation Rate (Medical &amp; Admin.) Plan Type I, II and III</b>				<b>Total Capitation Rate (Medical &amp; Admin.) Plan Type I, II and III</b>				
<b>Commonwealth Care MCO</b>	<b>FY14 Q3 Medical Cap</b>	<b>FY14 Q3 Admin Rate</b>	<b>FY14 Q3 Capitation Rate (Medical &amp; Admin.)</b>	<b>Commonwealth Care MCO</b>	<b>FY14 Q4 Medical Cap</b>	<b>FY14 Q4 Admin Rate</b>	<b>FY14 Q4 Capitation Rate (Medical &amp; Admin.)</b>	<b>Overall Rate Increase FY14 Q3 to FY14 Q4</b>
BMCHP	\$327.24	\$35.00	\$362.24	BMCHP	\$353.42	\$35.00	\$388.42	7%
NWH	\$335.60	\$35.00	\$370.60	NWH	\$362.45	\$35.00	\$397.45	7%
CeltiCare (PT I)	\$358.68	\$35.00	\$393.68	CeltiCare (PT I)	\$387.38	\$35.00	\$422.38	7%
CeltiCare (PT II, III)	\$327.24	\$35.00	\$362.24	CeltiCare (PT II, III)	\$353.42	\$35.00	\$388.42	7%
Neighborhood	\$397.55	\$35.00	\$432.55	Neighborhood	\$429.35	\$35.00	\$464.35	7%
Fallon	\$397.61	\$35.00	\$432.61	Fallon	\$429.42	\$35.00	\$464.42	7%

*Note: During the FY14 renewal MCOs were given the opportunity to lower their capitation rate for Plan Type II and III members enrolled between July 2013 and December 2013; CeltiCare was the only MCO that chose to lower their rate for Plan Type II and III members; CeltiCare continues to have differential rates for the FY14 Q3 and FY14 Q4 periods as reflected above.*

Other than the change to the medical capitation rate, the other essential contract provisions will remain unchanged during the extension period. The contract extensions also provide that, if the Health Connector determines that further extension is needed after June 30, 2014, it has the right to request one or two three-month extensions up to December 31, 2014; for each additional extension period, it will be necessary to determine the actuarially sound rate based on actuarial analysis.

The only significant change to the program during the April to June extension period is that, because of changes in its provider contracts, Network Health will no longer be able to provide coverage to its approximately 800 members who live on the Islands. The Health Connector is currently making plans to transfer these Island residents to other Commonwealth Care health plans that do serve the area; transfers will be made in a way that attempts as much as possible to put the transferred members into plans where they can continue to see their current primary care physician.

**CONTINUATION OF COMMONWEALTH CARE CUSTOMER SERVICE & OPERATIONS**

In order to continue servicing Commonwealth Care enrollees through June 2014, the Health Connector is proposing to extend its contract with Dell Marketing L.P. The Health Connector is proposing to extend the contract through April 30, 2015, for coverage effective through January 2015. While the current coverage extension is authorized through June 30, 2014, we want to ensure necessary customer service and operations support is secured and maintained in the event of any additional program extensions. This will allow for continuity of support for these members during the transition period and allows the Health Connector to seamlessly continue to administer benefits to individuals enrolled in the program. The contract extension includes continuing all aspects of the existing Commonwealth Care contract through January 2015 as well as a final three-month “run off” period from February 2015 through April 2015 to administer any retroactivity, audit and reconciliation needs.

We expect that membership will decrease over the extension period as we are able to transition members to their new ACA coverage. Existing PMPM payments will remain unchanged for membership above 150,000. A lower PMPM is proposed for membership between 60,001 to 150,000, and a flat monthly fee is proposed for membership up to 60,000 in order to cover fixed costs related to supporting the overall functionality and servicing.

**DELL CONTRACT EXTENSION**

**Dell Commonwealth Care Extension**

<b>Membership Band</b>	<b>Pricing Within Band</b>	
0 to 60,000	\$300,000*	Flat monthly fee for membership at or below 60,000
60,001 to 150,000	\$4.37	PMPM (applies only to this band)
150,001 to 155,000	\$4.60	PMPM (applies only to this band)
155,001 to 165,000	\$1.55	PMPM (applies only to this band)
165,001 to 175,000	\$1.39	PMPM (applies only to this band)
175,001 to 200,000	\$1.29	PMPM (applies only to this band)
200,001 to 215,000	\$1.24	PMPM (applies only to this band)
215,001 to 230,000	\$2.32	PMPM (applies only to this band)
230,001 to 250,000	\$2.06	PMPM (applies only to this band)

\*During any month in which the total number of enrolled members is 0 to 60,000, the Health Connector will be invoiced a monthly flat fee equal to \$400,000. This amount will cover fixed costs associated with administering the program including costs related to infrastructure, IT and staff.

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**RECOMMENDATION**

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Health Connector staff recommends that the Board authorize the Executive Director to enter into extensions with our five current Commonwealth Care managed care organizations through June 30, 2014, with options to renew through December 31, 2014, as provided herein. Further, Health Connector staff recommends that the Board authorize the Executive Director to enter into an extension of the current contract with Dell Marketing L.P. to provide for continued administration of the Commonwealth Care program through April 30, 2015.