

MEMORANDUM

To: Health Connector Board of Directors
Cc: Louis Gutierrez, Executive Director
From: Michael Norton, Senior Advisor on Market Reforms
Edward DeAngelo, General Counsel
Date: July 10, 2017
Re: Recommendation to Enter into a Work Order with FTI Consulting, Inc. as Risk Adjustment Data Validation Auditor for Benefit Year 2016

EXECUTIVE SUMMARY

The Health Connector recommends entering into a work order with FTI Consulting, Inc. (FTI) to perform Risk Adjustment Data Validation (RADV) services for plan year 2016 in an amount not to exceed \$1,459,972, of which 50% will be paid for by issuers through an issuer user fee. These services will consist of validation of the claims data submitted by carriers and used by the Health Connector to calculate the risk adjustment transfer payments for 2016. Consistent with recent federal guidance, explained below, the 2016 RADV will be a limited pilot. Half of the cost of the RADV program will be covered by a user fee paid by the insurance carriers, as explained below.

BACKGROUND

Under regulations governing risk adjustment, annual RADV audits are required in order to ensure risk adjusted payment integrity and accuracy. The goal of RADV is to review the diagnostic coding in the claims data provided by carriers, which serves as the basis for the risk adjustment calculation, in order to determine whether that coding is supported by clinical documentation and accurately states the underlying medical condition.

As a state operating its own risk adjustment program, Massachusetts is required to provide for a RADV program, but may leverage an approach that is different from the U.S. Department of Health and Human Services (HHS). See 45 CFR § 153.350. After conducting a competitive procurement, the Health Connector selected FTI to perform the RADV audit. This Board authorized the Health Connector to enter into a multi-year contract with FTI in March 2016 and approved the first year of RADV, which covered plan year 2015, at a cost not to exceed \$1.6 million. The work order for which the Health Connector is currently seeking Board approval is the second work order under this multi-year contract. The cost is slightly lower than last year’s program, because of the more limited scope explained above.

RADV AUDITOR SCOPE OF WORK AND LEVEL OF EFFORT

SCOPE OF WORK

In May 2017 HHS issued guidance that it will perform RADV for the 2016 benefit year as a pilot program, similar to how it was conducted for 2015. This means that there will be no adjustments to the payments

made or owed for 2016 as a result of the RADV findings; instead the findings will be advisory with a goal of pointing out areas for improvement in diagnostic coding to the carriers. Further, the federal RADV pilot will exempt small issuers with total premiums of \$15 million or less.

Based on this guidance, the Health Connector will follow a similar approach for the 2016 benefit year. Accordingly, the 2016 RADV will not result in adjustments to payments made or received for that plan year. Further, it will exempt small issuers as defined by HHS guidance. Further, carriers with multiple issuer licenses will have the option of limiting the number of issuers participating in the pilot.

The pilot audit done by FTI will include a smaller sample size than used in earlier years (25 members per issuer in the sample) and a greater emphasis on clinical and medical coding discussions of the results for each sampled member. Carriers will be offered the option to enlist a separate auditor to conduct initial review and FTI will then audit the results of the initial review similar to the federal two level audit process.

The Health Connector's proposed approach to the RADV for 2016 was presented to carriers in May. The Health Connector believes that this approach will assist carriers in readying themselves for the 2017 plan year, when federal HHS will be administering the risk adjustment program and conducting RADV.

LEVEL OF EFFORT

The cost of the 2016 RADV audit will not exceed \$1,459,972. Billing will be based on actual hours worked at an hourly rate that varies depending on the position of the individual working (with a range from \$270 for consultants to \$610 for senior managing director. FTI has estimated that the total level of effort will be 3,903 hours.

Work will be conducted over the period from July 2017 through May 2018. Initially, FTI will prepare a detailed program guide setting forth the procedures for the audit. After collecting the sample data and auditing it, FTI will prepare issuer-specific reports and a market-wide report. FTI will discuss the findings with individual issuers.

RADV USER FEE

For the 2016 Benefit Year, which is the final year that the Commonwealth will administer the Risk Adjustment Program, the user fee will be calculated such that the issuers and the Commonwealth will each cover 50% of the total costs of the 2016 RADV pilot. For the 2015 RADV pilot, the issuer user fee was determined by calculating a per-member amount and apportioning that amount to each issuer based upon the issuer's billable member count in the merged market. The Health Connector will follow a similar approach in determining the per issuer 2016 user fee.

BOARD RECOMMENDATION

Health Connector staff recommend entering into a work order with FTI to perform the Data Validation Audit and related activities for the 2016 benefit year, for an amount not to exceed \$1,459,972 effective July 14, 2017 through May 30, 2018.