

## **MEMORANDUM**

To: Health Connector Board of Directors  
Cc: Louis Gutierrez, Executive Director  
From: Michael Norton, Senior Manager of External Affairs & Carrier Relations  
Sam Osoro, Senior Financial Analyst  
Edward DeAngelo, General Counsel  
Date: November 6, 2015  
Re: Request for Proposals (RFP) Recommendation for a Risk Adjustment Technical Consultant

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### **EXECUTIVE SUMMARY**

At the April 9, 2015 Board of Director's meeting, Health Connector staff obtained Board approval to extend the Health Connector's current contract with its risk adjustment technical consultant, Milliman, which expires on December 31, 2015. The Health Connector is currently obligated to conduct risk adjustment for the Massachusetts merged market for the 2015 and 2016 Benefit Years, and thus continues to require technical support to administer the program. To that end, a Request for Proposals for a risk adjustment technical consultant was released in September 2015. The Health Connector has now completed that procurement and is recommending that the Health Connector enter into a new contract with Milliman as its risk adjustment technical consultant for a three-year term with an initial work order from January 1, 2016 to December 31, 2016 in an amount not to exceed \$2,003,336.

### **BACKGROUND**

The Health Connector, on behalf of the Commonwealth and in collaboration with other state agencies, has implemented a state-administered, Massachusetts-specific Affordable Care Act (ACA) risk adjustment program. At a high level, the Massachusetts ACA risk adjustment program can be summarized as follows:

In July 2015, the Health Connector completed risk adjustment calculations and received and made risk adjustment transfer payments for the 2014 Benefit Year, the first year of risk adjustment. Currently, the Health Connector is receiving and analyzing data for the 2015 Benefit Year and has begun running simulations for the benefit of carriers subject to Risk Adjustment. At the same time, Health Connector staff are interested in considering the question of whether to maintain a state-based risk adjustment program or transition our market to the federal program instead. As previously noted, the Health Connector is the only state in the country that operates its own risk adjustment program, and with that role comes considerable administrative costs to the Commonwealth and the need for intensive staff resources. As such, Health Connector staff has issued a Request for Information (a copy of which is enclosed with this memorandum) to the market soliciting written feedback to the question of whether the Commonwealth should retain its Alternative ACA risk adjustment program or whether, beginning in Benefit Year 2017 or later, the Commonwealth should transition to the Federally administered ACA risk adjustment program. The Health Connector will continue to administer the ACA risk adjustment

program for the 2015 and 2016 Benefit Years which, as noted above, will require the services of a risk adjustment technical consultant to assist the Health Connector in completing all risk adjustment required activities for those benefit years.

#### **RISK ADJUSTMENT TECHNICAL CONSULTANT SCOPE OF WORK**

The risk adjustment technical consultant will complete risk adjustment quarterly simulations utilizing data from the Massachusetts All Payer Claims Database (APCD). The vendor will analyze and report on APCD data quality and implement the Commonwealth's federally-certified risk adjustment methodology, including funds transfer calculations, for the 2015 and 2016 Benefit Years. This work will be performed under a work order for Calendar Year 2016. The contract will run from January 1, 2016 through 2018. Were the Health Connector to relinquish oversight of the risk adjustment program for the 2017 benefit year, work to support the 2015 and 2016 benefit years is expected to be required through at least 2017, when considering simulations, administration, and appeals.

Below please find the Health Connector's expenses from Milliman in the last three calendar years. Of note, actual costs incurred have historically been below budget.

Expenses for Milliman, Inc by Year/Contract						
	CY2012	CY2013	CY2014	Jan-April 2015	May-Dec 2015	Jan 2016- Dec 2016
<b>Budgeted</b>	\$1,712,700	\$2,162,722	\$1,524,189	\$765,244	\$1,174,918	\$2,003,336
<b>Actual</b>	\$1,267,387	\$1,081,108	\$1,103,815	\$544,883	\$455,637 May-Sep	TBD
<b>Difference</b>	(\$445,313)	(\$1,081,614)	(\$420,374)	(\$220,361)	TBD (ongoing)	TBD

The below outlines work phases for the proposed work order with Milliman, showing costs by hours of work for each type of staff member engaged.

	Senior-Level Consultant	Mid-Level Consultant	Junior-Level Consultant	Amount (Not to Exceed)
<b>2015 Annual funds settlement</b>	52	227	260	\$200,127
<b>2015 Annual risk adjustment program report to CMS</b>	10	7	7	\$11,395
<b>2016 Q1, Q3, Q4 quarterly statewide risk adjustment simulation and data quality reporting</b>	102	510	510	\$421,590
<b>Assist the Health Connector and CHIA in data discrepancy resolution and reconsideration</b>	186	225	270	\$291,270
<b>Assist the Health Connector and its contractor(s) in RADV program development and implementation</b>	36	90	44	\$74,255

<b>Assist the Health Connector and CHIA in the collection of supplemental diagnoses for risk adjustment</b>	50	60	20	\$66,985
<b>Assist the Health Connector in its communications with the federal government on matters relating to risk adjustment</b>	70	80	20	\$86,435
<b>Project operations and management</b>	128	330	317	\$338,406
<b>Monitor and analyze federal rules, regulations and guidance as they relate to risk adjustment</b>	89	34	4	\$70,135
<b>Explore changes to risk adjustment methodology and assist the Health Connector in federal recertification</b>	89	213	204	\$197,660
<b>Ad hoc analyses (e.g., policy extract)</b>	40	90	50	\$81,708
<b>Additional Services (ISA, identification of analytical requirements, etc.)</b>	60	68	10	\$75,923
<b>Additional Payment Notice Development (if needed)</b>	80	70	16	\$87,448
<b>Total (Not to Exceed)</b>	<b>991</b>	<b>2003</b>	<b>1732</b>	<b>\$2,003,336</b>

#### **RISK ADJUSTMENT TECHNICAL CONSULTANT PROCUREMENT**

The Health Connector issued the risk adjustment technical consultant Request for Proposals (RFP) in September 2015. A cross-functional team from the Health Connector's finance, strategy and legal departments formed a Procurement Management Team (PMT). The PMT received and reviewed a bid from only one bidder, Milliman.

#### **Procurement Management Team Review**

Milliman demonstrated a strong understanding of the scope of work, possesses the required risk adjustment technical knowledge and has a strong track record in forming effective, collaborative working relationships with carriers in the merged market as well as with the Health Connector's sister state agencies. In addition, Milliman proposed retaining its current risk adjustment team which comprises an appropriate mix of senior, mid-level and junior staff including actuarial subject matter experts.

The table below illustrates the quality of the bidder's response against the Health Connector's review criteria.

Criteria	Weight	Score
<b>Bidder Experience and Qualifications</b>	25	25
<b>Programmatic Response</b>	30	28

<b>References</b>	5	5
<b>Financial Proposal</b>	30	25
<b>Overall value to the Health Connector</b>	10	10
<b>Overall Total Procurement Score</b>	<b>100</b>	<b>93</b>

The Health Connector proposes to continue its engagement with Milliman, under the same contractual terms currently in place, to perform the risk adjustment activities listed in the above scope of work. The initial term of the contract will be from January 1, 2016 through December 31, 2018, with an initial work order covering the period from January 1, 2016 to December 31, 2016. The range of hourly rates from junior level staff to senior level consultant staff will be \$221 to \$650 with a total amount not to exceed \$2,003,336 for the 2016 calendar year.

#### **BOARD RECOMMENDATION**

Health Connector staff recommends entering into a contract with Milliman as the Health Connector's risk adjustment technical consultant. Milliman's response to the RFP evidenced a strong understanding of the required scope of work, a demonstration of considerable experience as risk adjustment technical consultants and a thorough understanding of the Massachusetts risk adjustment program. The statement of work described in this memorandum will go into effect January 1, 2016 and end on December 31, 2018 and will not exceed \$2,003,336.