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January 30, 2013

Ms. Pat Casanova
Director, Office of Medicaid Policy & Planning
Family & Social Services Administration
402 W. Washington Street
Indianapolis, IN 46204

RE: 1115 WAIVER RENEWAL - BUDGET NEUTRALITY

Dear Pat:

Milliman, Inc. (Milliman) was retained by the State of Indiana, Family and Social Services Administration (FSSA), Office of Medicaid Policy and Planning (OMPP) to assist in the development of the 1115 waiver filing associated with the Healthy Indiana Plan (HIP). The 1115 waiver was effective for a five-year period from calendar year 2008 through 2012, and was extended through 2013. OMPP is planning to submit a three-year waiver renewal effective January 1, 2014, proposing HIP as the coverage vehicle should Indiana choose to implement a Medicaid expansion, as authorized by the Patient Protection and Affordable Care Act (ACA). 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 Indiana, Family and Social Services Administration and Office of Medicaid Policy and Planning (OMPP), to assist with submitting financial information associated with the 1115 waiver renewal to the Centers for Medicare and Medicaid Services (CMS). The data and information presented may not be appropriate for any other purpose. The letter may not be distributed to any other party without the prior consent of Milliman. Any distribution of the information should be in its entirety. Any user of the 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 OMPP 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 the State of Indiana, Family and Social Services Administration and their vendors. The values presented in this letter are dependent upon this reliance. To the extent that the data was not complete or was inaccurate, the values presented in our report will need to be reviewed for consistency and revised to meet any revised data.

Differences between our projections and actual amounts depend on the extent to which future experience conforms to the assumptions made for 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 Consulting Services Agreement between Milliman and OMPP approved May 14, 2010.

EXECUTIVE SUMMARY

The State of Indiana filed an 1115 waiver for the Healthy Indiana Plan (HIP). The initial waiver filing was for the period of calendar year 2008 through 2012. The waiver was extended for a one year period through calendar year 2013. The State is currently submitting a waiver filing that provides for extending the waiver for an additional three years in the context of a Medicaid expansion.

The waiver renewal period corresponds with the beginning of the optional Medicaid expansion to 133% FPL, authorized by the Patient Protection and Affordable Care Act (ACA). The State of Indiana has not yet decided whether to implement a Medicaid Expansion.

Under the expansion, HIP enrollment during the waiver renewal period would be projected to increase sharply as of January 1, 2014 in order to accommodate the newly eligible. Consistent with newly eligible enrollment estimates developed for Milliman's ACA analysis, over 400,000 individuals are projected to enroll in HIP. The program would be eligible for the enhanced FMAP (100% for the waiver renewal period of calendar years 2014 – 2016).

Two other ACA-related adjustments are included in the projections effective January 1, 2014. Mandatory population enrollment reflects projected additional enrollment from populations that are currently eligible (woodwork enrollment). Also, ACA has mandated a health insurer assessment fee. Milliman has estimated that this will increase managed health plan costs by approximately 2.5%, including gross-up for taxes.

For each Demonstration Year, Table 1 illustrates the total "Without Waiver", "With Waiver", and "Waiver Margin" amounts. These are illustrated separately for the initial waiver period (with extension to six years) and the waiver renewal period.

Table 1

State of Indiana
Office of Medicaid Policy and Planning
1115 Waiver Cost Effectiveness Summary
Initial Waiver Period and Waiver Renewal Period
{values in Millions}

Initial Waiver Period with Extension

Calendar Year	Demonstration Year	Without Waiver Expenditures	With Waiver Expenditures	Waiver Margin
2008	1	$1,722.2	$1,623.6	$98.6
2009	2	1,967.9	1,876.4	91.5
2010	3	2,159.9	1,678.8	481.2
2011	4	2,248.0	1,960.0	288.0
2012	5	2,360.9	2,363.9	(3.0)
2013	6	2,414.1	2,449.7	(35.6)
Total DY1 – DY6		$12,872.9	$11,952.3	$920.6

Waiver Renewal Period

Calendar Year	Demonstration Year	Without Waiver Expenditures	With Waiver Expenditures	Waiver Margin
2014	7	$5,258.6	$5,114.3	$144.3
2015	8	5,609.4	5,453.4	156.0
2016	9	5,984.3	5,815.7	168.6
Total DY1 – DY9		$29,725.2	$28,335.7	$1,389.5

Note: values have been rounded.

Enclosure 1 illustrates historical and projected waiver budget neutrality materials. It includes information for the initial five-year period of the waiver, the subsequent one-year extension period, and the three-year waiver renewal period.

We are also including Excel file versions of the development of the waiver cost effectiveness materials, "HIP Budget Neutrality – 2014 Renewal.xlsx".

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

1. **Baseline Budget Neutrality Model.** We utilized the budget neutrality model, "*IN HIP BN with 36500 noted.xls*" Excel workbook provided by CMS as the current budget neutrality model for the 1115 waiver. We have updated the model for historical experience through September 30,2012, as reported through the quarterly HIP monitoring report. The model was updated with both actual and projected experience for the five-year initial waiver period and subsequent one-year period. Projections illustrated for the initial waiver period and one-year extension are unchanged from those provided in December 19, 2012 correspondence demonstrating budget neutrality for the one-year extension period.

2. **Enrollment Growth – Mandatory Populations.** For the mandatory populations, the baseline growth trend projected for the waiver renewal period was developed using average growth rates from 2008 through 2013 (DY01 through DY06). Additional growth of approximately 92,000 adults and children has been projected to reflect health care reform (Woodwork Effect). These individuals represent approximately 75% for those who are currently eligible for Medicaid but un-enrolled.

3. **HIP Enrollment.** HIP enrollment has been projected assuming HIP is designated the vehicle for the Medicaid Expansion to 133% FPL and HIP expenditures are eligible for the enhanced FMAP. Projected newly eligible enrollment was developed based on Milliman's ACA Report dated September 18, 2012.

4. **Non-Caretaker Population – Optional Status Effective 2014.** The Adult non-Caretaker population has been illustrated as an expansion population during the initial waiver budget neutrality filing through the calendar year 2013 or DY06. Under the Affordable Care Act (ACA), the non-Caretaker population will become an optional population in calendar year 2014 or DY07. Beginning with calendar year 2014, we have included the non-Caretaker population in both the "Without Waiver" and "With Waiver" calculations.

5. **Adjustment to Test A and Test B Language.** The Special Terms and Conditions define Test A and Test B under the assumption that the HIP Caretaker population is an Optional population and the HIP Adult population is a Waiver population. The cost neutrality calculation related to Test A and Test B has been adjusted to reflect the change in status for the HIP Adult population, from a Waiver population to an Optional population. This will need to be reflected in an adjustment to the Special Terms and Conditions document, as adjusted for the renewal.

6. **Hospital Assessment Fee.** The projection reflects the implementation of a hospital rate increase for the Hoosier Healthwise population, effective July 1, 2011. The increase included a reimbursement increase for both the fee-for-service population and the managed care population. An increase was not applied for the Healthy Indiana Plan population. The increase was $593.3 million (State and Federal) in SFY 2012. The reimbursement increase funded by the Hospital Assessment Fee has been assumed to continue through the projection period (December 31, 2016).

7. **Diverted Disproportionate Share Hospital (DSH) Payments.** The initial waiver filing included diverting DSH payments to maintain budget neutrality. This was discontinued during the one-year extension. The current waiver renewal for 2014 through 2016 also does not require diverting DSH payments to meet the budget neutrality requirement.

8. **Without Waiver Trend Rate.** The without waiver projection model requires a baseline trend rate to project future per member per month expenditures for the Mandatory and Optional populations. We have maintained the 4.4% annual trend rate for the waiver renewal periods, consistent with the trend rate for the initial waiver filing.

9. **2014 One Time Adjustment to Without Waiver Trend Rate – HIT.** Under the without waiver projections, the trend from DY 06 to DY 07 has been increased from 4.4% to 7.0% in order to reflect the health insurer assessment fee. The trend from DY 07 to DY 08 and years following has been allowed to return to the initial 4.4% included with the original filing.

10. **Physician Primary Care Fee Schedule Increase**. Hoosier Healthwise expenditures illustrated for 2013 and 2014 do not reflect an increase in the physician fee schedule to Medicare reimbursement levels for primary care physician services. This mandated reimbursement increase was not anticipated when the 4.4% annual trend rate was initially established. Consequently, the State proposes to remove related expenditures from the cost neutrality calculations and reporting.

11. **Cost per Eligible Assumptions (With Waiver Projections).**
    - **a.** Healthy Indiana Plan reimbursement is projected to remain at Medicare levels for both hospital and physician services.
    - **b.** Hoosier Healthwise reimbursement is also projected to remain at approximately the current level relative to Medicare.
    - **c.** Newly Eligible morbidity adjustment: Average HIP cost has been reduced from prior years to reflect that the newly eligible population is younger than current HIP enrollees. However, we have also included a 10% selection factor for the Caretaker / Parent population and a 20% selection factor for the non-Caretaker / Childless Adult population. The selection factors are needed because the projections do not reflect full participation. These assumptions result in projected costs that are approximately 20% lower than for current HIP enrollees.
    - **d.** HIT Adjustment: The HIT is projected to increase managed care costs by approximately 2.5%.
    - **e.** Retention of Annual and Lifetime Limits: The projections do not reflect any change to current annual and lifetime limits currently in place. Should the limits be removed, HIP cost per eligible is estimated to increase by 3%.

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

After you have had an opportunity to review the enclosed material, please do not hesitate to contact me at 317-524-3512.

Sincerely,

Robert M. Damler, FSA, MAAA
Principal and Consulting Actuary

RMD/lrb
Enclosures

Milliman

ENCLOSURE 1