State of California—Health and Human Services Agency
Department of Health Care Services

Medi-Cal Children's Health Advisory Panel

Medi-Cal Managed Care Rate Setting Methodology

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This document outlines a general and high level Medicaid capitation rate setting process in accordance with rate setting guidelines established by the Centers for Medicare & Medicaid Services. The various steps in the rate development process include (but are not limited to):

Base Data
Trend
Program Changes
Administration
Underwriting Profit/Risk/Contingency

Base Data

The information used to form the base data for rate development can vary from ad hoc claims information to encounter data to industry-wide data (given client-specific information is unavailable). If we assume that detailed information is available (whether it is ad-hoc or encounter data), the base data is then further delineated into category of aid (COA) groupings, such as child, adult, aged/disabled, etc, which inherently represent differing levels of risk. The data for each COA is then further delineated into a category of service (COS) structure (inpatient hospital, physician primary care, FQHC, pharmacy, etc.). This step allows for better alignment of service-specific trends and program changes which are discussed below.

Trend

Trend is an estimate of the change in overall cost of medical services over a finite period of time. Trend factors are necessary to estimate the expenses of providing health care services in a future time period. The second step in rate development is to apply trend to the base data. Assuming the data is at the COS level discussed above trend rates are developed for each COS separately by utilization and unit cost components.

Program Changes

Program change adjustments recognize the impact of benefit or eligibility changes that took place during or after the base data period. Given the data is at the COS level discussed above, the program change adjustments are calculated at the COA and COS level of detail and applied to the trended base data. For an example, if a mandate was implemented to increase the provider rates for primary care providers, an increase would be applied to only unit cost portion of the trended base data.

Administration

Administration is the component of the rate development which takes into consideration amounts that are appropriate for non-medical expenses. Some of these expenses include marketing, claims processing, and general corporate overhead. These expenses are expressed as a percentage of the capitation rate.

Underwriting Profit/Risk/Contingency

The last step in the rate development process is to include an amount for underwriting gain and/or risk. This amount covers the cost of capital as well as a margin for risk or contingency. This amount is expressed as a percentage of the capitation rate.

These five components make up the general rate setting methodology; however, there are other components that could be implemented. Some of the additionally available components include, but are not limited to, managed care adjustments, efficiency adjustments, and risk adjustment.