DEPARTMENT OF HEALTH & HUMAN SERVICES
Centers for Medicare & Medicaid Services
7500 Security Boulevard, Mail Stop S2-26-12
Baltimore, Maryland 21244-1850

Disabled and Elderly Health Programs Group

MAR 25 2014

Lawrence Kissner, Commissioner
Department for Medicaid Services
Commonwealth of Kentucky Cabinet for Health and Family Services
275 East Main Street, 6 West A
Frankfort, KY 40621

Dear Mr. Kissner:

As you know, CMS began a consultation process with each state, which intended to implement the Medicaid expansion on the state's approach to setting actuarially sound capitation rates for newly eligible beneficiaries on January 1, 2014. We began that work by distributing a rate-setting consultation guide to all states on September 4, 2013, followed by an all-state call to review the guide on September 12, 2013. Finally, we completed that process by reviewing the most recently available rate setting documentation for each state and discussing the consultation guide questions with state staff (and consulting actuaries where appropriate). Kentucky's consultation call was held on September 25, 2013, among my staff, actuaries from CMS' Office of the Actuary (OACT), staff from your department, and your consulting actuaries from PricewaterhouseCoopers (PwC), to discuss the state's managed care program.

Based on those preliminary answers, we shared, via email with Neville Wise, the numerous concerns we had about the state's rate-setting process and requested revised responses. On January 2, 2014, CMS received revised responses to the rate-setting consultation guide completed by PwC. Subsequently, CMS staff and actuaries from CMS OACT conducted a follow-up call with your staff, as well as PwC, on January 12, 2014. During this call, we addressed questions and concerns we identified based on our discussion and from the consultation guide responses.

We appreciate the time and cooperation from your agency's staff as we sought to understand your approach. However, at this point, we still have significant concerns about the state's rate-setting process for the existing managed care program. These concerns impact our review of the rates for the newly eligible Medicaid population enrolled on January 1, 2014. While these concerns exist— which need to be addressed before 2015 rates are developed—we recognize that an overhaul of that process for the 2014 capitation rate development is not feasible.

As such, we will move ahead with rate and contract approvals allowing the state to continue to use its current processes for 2014, but only if the state agrees to implement a risk mitigation strategy for the rates set for your newly eligible population rates. Without such an arrangement, CMS will be unable to approve your 2014 capitation rates. CMS recommends that Kentucky

implement either a symmetrical risk corridor (protecting the financial interest of both the payer and the MCOs) or a medical-loss ratio.

We recognize that current self-identified deficiencies in your managed care encounter data may make it more difficult to implement such a risk mitigation strategy. However, our actuaries are most willing to discuss ways that your staff and PwC could manage the reconciliation of that strategy using the financial data you have available to you.

We seek to meet with your staff as soon as possible to discuss ways that we can reach a mutually agreeable solution to this issue and move forward with approval of your 2014 managed care rates. Our colleagues in our Atlanta regional office will contact your staff to arrange that meeting. After we reach agreement on your 2014 rates, we intend to re-engage to discuss improvements necessary to support approvable capitation rates next year. Thank you for your continued attention to this matter.

Sincerely,

Carrie Smith for

Nancy L. Klimon, DrPH, Director
Division of Integrated Health Services

cc: Neville Wise, Deputy Commissioner, Department for Medicaid Services
Jackie Glaze, Associate Regional Administrator, Region IV