LAKESHORE
REGIONAL ENTITY

Meeting Agenda
Board of Directors Work Session
December 18, 2024, 11:00 AM
GVSU Muskegon Innovation Hub
200 Viridian Dr, Muskegon, MI 49440

1. Welcome and Opening Comments – Ms. Gardner
2. Public Comment
3. ISF Analysis Update – Jason Stading/Elliot McLeRoy
4. Public Comment
5. Adjourn

Attachment

Lakeshore Regional Entity
Internal Services Fund Analysis

PRESENTED BY:

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Going Beyond the Numbers

Sections

- Section 1: Background
- Section 2: Assumptions and Methodology
- Section 3: Results and Recommendations
- Appendix (Exhibits)

Section 1

Background

Section 1: Background

- The Internal Services Fund (ISF) was established by the state so that regional PIHPs could set aside funds for adverse deviations in expected claims experience

- Historically, the total ISF has been capped at 7.5% of annual revenue, though the contract language currently allows for payments into the ISF to be funded up to 7.5% of revenue each year

Section 2
Assumptions and Methodology

Section 2: Assumptions and Methodology

- In analyzing the needs of the ISF, the model utilizes several assumptions in three scenarios (Baseline, Pessimistic, and Optimistic):
  1. Projected Base Rate Changes
  2. Projected Claims Costs
  3. Projected Regional Entity Factor Changes
  4. Projected Admin/Non-Benefit Expense Costs

Section 2: Assumptions and Methodology

Model Input	Baseline	Optimistic	Pessimistic
Rate Change	2.0%	4.0%	0.0%
Claims Change	2.0%	3.0%	3.0%
Admin Increase	3.0%	1.0%	5.0%
Risk Score Change	-1.0%	0.0%	-2.0%

- A key driver in the results is the combination of the rate change and the claims change. For example, in the optimistic scenario, the projected claims are expected to increase by 3% annually compared to the expected annual rate increase of 4%.

- Overall, the risk score change (or Regional Entity Factor) has been decreasing for LRE.

Section 2: Assumptions and Methodology

- The modeling assumes the decrease in enrollment due to the end of the PHE is fully captured in the reported enrollment numbers. No additional membership decreases were forecasted.

- Projected claims costs are modeled using a bootstrapping methodology.
  - 1,000 scenarios are run to develop a statistical distribution based on the assumptions outlined above in each scenario.
  - This distribution is used to develop a range of potential outcomes associated with various confidence levels, shown in the Appendices.

Section 2: Assumptions and Methodology – Regional Factor

- The baseline assumption that the Regional Factor will decrease by 1% per year is based on recent Regional Factor experience.

- Below is a table of the composite regional factor since SFY2020:

Rating Period	Composite Regional Factor	Change
SFY 2020	0.969	N/A
SFY 2021	0.996	2.8%
SFY 2022	0.997	0.2%
SFY 2023	0.973	-2.4%
SFY 2024	0.945	-2.9%
SFY 2025	0.937	-0.9%

- The regional factor has dropped significantly in SFY23 and SFY24. This can be interpreted in two ways:

1. The covered population is getting healthier relative to the Statewide average.
2. Risk score / diagnosis coding is falling behind relative to the statewide average.

Section 2: Assumptions and Methodology – Regional Factor

Scenario 1: The covered population is getting healthier relative to the Statewide average

- This would suggest that relative claims costs would similarly decrease relative to the Statewide average.

- The ISF modeling would not need to adjust expected claims costs.

Scenario 2: Risk score / diagnosis coding is falling behind relative to the statewide average

- We would not expect claims costs to decrease to the level that revenue is dropping.

- LRE would need to focus on ensuring that diagnoses get fully and accurately submitted so that the Regional Factor accurately reflects the covered population.

The ISF modeling reflects an assumption that the relative regional factors from the State's rating documents are decreasing at a greater rate than the relative claims costs.

This is based on Wakely/HMA's analysis of the potential drivers of the risk score reduction over time in the DAB-MH rating group. See following slide.

DAB-Mental Health Risk Scores Over Time

Avg. Raw Risk Score

	Region 3				
	SFY 2020	SFY 2021	SFY 2022	SFY 2023	SFY 2024
BHTEDS:	3.7719	4.1657	4.1509	4.4127	4.5384
Without BHTEDS:	0.0055	0.0172	0.0555	0.0415	0.0132
Total:	**0.9631**	**0.9386**	**0.8958**	**0.8792**	**0.8866**

	Statewide				
	SFY 2020	SFY 2021	SFY 2022	SFY 2023	SFY 2024
BHTEDS:	3.5877	3.8896	3.8968	4.1439	4.0352
Without BHTEDS:	0.0300	0.0527	0.0434	0.0337	0.0215
Total:	**0.9976**	**0.9980**	**0.9947**	**0.9863**	**0.9518**

BHTEDS Completion %* Comparison

	SFY 2020	SFY 2021	SFY 2022	SFY 2023	SFY 2024
Region 3:	25.4%	22.2%	20.5%	19.2%	19.3%
Statewide:	27.2%	24.6%	24.7%	23.2%	23.2%
Reg 3 % of Statewide:	**93.5%**	**90.2%**	**83.1%**	**82.7%**	**83.3%**

- The entity specific factor is primarily based on LRE's raw risk score _relative_ to the Statewide risk score (i.e., LRE's normalized risk score)

- Raw risk scores are driven by members with completed BHTEDs

- LRE's decreasing DAB-Mental Health entity specific factor appears to be caused by LRE's BHTEDS Completion % declining over time at a faster rate than the Statewide Completion %

*BHTEDS Completion % represents members with completed BHTEDs among _all_ DAB members

Section 2: Assumptions and Methodology

- The results discussed in Section 3 focus on the 50% confidence level, though it is important to note that in any given year there could be adverse experience leading to higher expected costs than modeled.
- Results also focus on a three-year time horizon to determine what level the ISF should be funded at to reasonably cover future expected operating deficits.

Section 3

Results and Recommendations

Section 3: Results and Recommendations

- Based on a three-year time horizon at a 50% probability using the baseline assumptions, the modeling projects that there could be a total overall loss of roughly $43.2 million (requiring the ISF to be funded at roughly 10.2% to cover these losses).

- However, it is important to note that any one year of more unfavorable results could significantly impact overall results.
  - For instance, if SFY 2025 results are more in line with the pessimistic scenario, overall losses in the three-year time horizon would increase to over $53 million.

Section 3: Results and Recommendations

- **Results are highly sensitive to certain assumptions, particularly the regional entity factor assumption.**
  - If LRE could maintain a level regional factor over the three years, then operating results over the three-year period would suggest a loss of $18.6 million in the baseline 50% probability threshold.
  - Conversely, if the regional factor continues to decrease beyond the 1.0% assumed in the baseline, operating results would be significantly adversely impacted

- **Recommendation:**
  - To the extent allowable by the contract, our recommendation would be to fund the ISF to at least an average of the 50% probability threshold of the Baseline and Pessimistic scenarios:
    - Recommended Funding Level = **$55.8 million**

Appendix
Exhibits

Exhibit A - Baseline

		Historical	Projected		
		SFY 2023	SFY 2024	SFY 2025	SFY 2026
A	Member Months:	4,154,749	3,475,240	3,170,474	3,202,178
B	Gross Revenue ($M):	$422.8	$405.40	$419.94	$428.29
C	HRA/IPA ($M):	$17.1	$16.37	$17.0	$17.3
D	Net Effective Revenue ($M):	$405.7	$389.0	$403.0	$411.0
E	Administrative Costs ($M):	$50.8	$52.3	$53.9	$55.5
F	Revenue Available for MH/SA Treatment Costs:	**$354.9**	**$336.7**	**$349.1**	**$355.5**
	Gross Revenue ($PMPM):	$101.75	$116.65	$132.45	$133.75
	HRA/IPA ($PMPM):	$4.11	$4.71	$5.35	$5.40
	Net Effective Revenue ($PMPM):	$97.64	$111.94	$127.10	$128.35
	Administrative Costs ($PMPM):	$12.23	$15.06	$17.01	$17.34
	Revenue Available for MH/SA Treatment Costs ($PMPM):	$85.41	$96.88	$110.10	$111.00
G	MH/SA Treatment Costs ($PMPM):				
	Expected (50% Probability Threshold):	$86.63	$99.71	$114.64	$116.93
	70.0% Probability Threshold:		$102.62	$117.90	$120.26
	95.0% Probability Threshold:		$108.82	$124.86	$127.35
H	MH/SA Treatment Total Costs ($M):				
	Expected (50% Probability Threshold):	$359.9	$346.5	$363.5	$374.4
	70.0% Probability Threshold:		$356.6	$373.8	$385.1
	95.0% Probability Threshold:		$378.2	$395.9	$407.8

						Cumulative Surplus/Deficit	ISF Need
I	Surplus / Deficit ($M):						
	Expected (50% Probability Threshold):	($5.0)	($9.8)	($14.4)	($19.0)	($43.2)	10.2%
	70.0% Probability Threshold:		($19.9)	($24.7)	($29.6)	($74.3)	17.6%
	95.0% Probability Threshold:		($41.5)	($46.8)	($52.4)	($140.6)	33.3%

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Exhibit B - Optimistic

		Historical	Projected		
		SFY 2023	SFY 2024	SFY 2025	SFY 2026
A	Member Months:	4,154,749	3,477,820	3,220,177	3,316,783
B	Gross Revenue ($M):	$422.8	$409.81	$435.18	$457.20
C	HRA/IPA ($M):	$17.1	$16.55	$17.6	$18.5
D	Net Effective Revenue ($M):	$405.7	$393.3	$417.6	$438.7
E	Administrative Costs ($M):	$50.8	$52.3	$53.9	$55.5
F	Revenue Available for MH/SA Treatment Costs:	$354.9	$340.9	$363.7	$383.2
	Gross Revenue ($PMPM):	$101.75	$117.84	$135.14	$137.84
	HRA/IPA ($PMPM):	$4.11	$4.76	$5.46	$5.57
	Net Effective Revenue ($PMPM):	$97.64	$113.08	$129.68	$132.28
	Administrative Costs ($PMPM):	$12.23	$15.05	$16.74	$16.74
	Revenue Available for MH/SA Treatment Costs ($PMPM):	$85.41	$98.02	$112.94	$115.53
G	MH/SA Treatment Costs ($PMPM):				
	Expected (50% Probability Threshold):	$86.63	$99.72	$114.64	$116.93
	70.0% Probability Threshold:		$102.62	$117.90	$120.26
	95.0% Probability Threshold:		$108.82	$124.86	$127.35
H	MH/SA Treatment Total Costs ($M):				
	Expected (50% Probability Threshold):	$359.9	$346.8	$369.2	$387.8
	70.0% Probability Threshold:		$356.9	$379.7	$398.9
	95.0% Probability Threshold:		$378.5	$402.1	$422.4

		SFY 2023	SFY 2024	SFY 2025	SFY 2026	Cumulative Surplus/Deficit	ISF Need
I	Surplus / Deficit ($M):						
	Expected (50% Probability Threshold):	($5.0)	($5.9)	($5.5)	($4.6)	($16.0)	3.8%
	70.0% Probability Threshold:		($16.0)	($16.0)	($15.7)	($47.6)	11.3%
	95.0% Probability Threshold:		($37.5)	($38.4)	($39.2)	($115.1)	27.2%

Exhibit C - Pessimistic

		Historical	Projected		
		SFY 2023	SFY 2024	SFY 2025	SFY 2026
A	Member Months:	4,154,749	3,473,935	3,145,584	3,145,584
B	Gross Revenue ($M):	$422.8	$401.15	$408.26	$408.10
C	HRA/IPA ($M):	$17.1	$16.20	$16.5	$16.5
D	Net Effective Revenue ($M):	$405.7	$384.9	$391.8	$391.6
E	Administrative Costs ($M):	$50.8	$52.3	$53.9	$55.5
F	Revenue Available for MH/SA Treatment Costs:	$354.9	$332.6	$337.9	$336.1
	Gross Revenue ($PMPM):	$101.75	$115.47	$129.79	$129.74
	HRA/IPA ($PMPM):	$4.11	$4.66	$5.24	$5.24
	Net Effective Revenue ($PMPM):	$97.64	$110.81	$124.55	$124.50
	Administrative Costs ($PMPM):	$12.23	$15.07	$17.14	$17.66
	Revenue Available for MH/SA Treatment Costs ($PMPM):	$85.41	$95.74	$107.41	$106.84
G	MH/SA Treatment Costs ($PMPM):				
	Expected (50% Probability Threshold):	$86.63	$99.71	$114.64	$116.93
	70.0% Probability Threshold:		$102.61	$117.90	$120.26
	95.0% Probability Threshold:		$108.82	$124.86	$127.35
H	MH/SA Treatment Total Costs ($M):				
	Expected (50% Probability Threshold):	$359.9	$346.4	$360.6	$367.8
	70.0% Probability Threshold:		$356.5	$370.9	$378.3
	95.0% Probability Threshold:		$378.0	$392.7	$400.6

						Cumulative Surplus/Deficit	ISF Need
I	Surplus / Deficit ($M):						
	Expected (50% Probability Threshold):	($5.0)	($13.8)	($22.8)	($31.7)	($68.3)	16.2%
	70.0% Probability Threshold:		($23.9)	($33.0)	($42.2)	($99.1)	23.4%
	95.0% Probability Threshold:		($45.4)	($54.9)	($64.5)	($164.8)	39.0%

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Qualifications/Reliances/Limitations

Jason Stading is a fellow of the Society of Actuaries and meets the qualification requirements of the American Academy of Actuaries to provide the opinions that are included within this communication. To prepare this communication, Wakely/Cirdan relied on data provided by Lakeshore Regional Entity (LRE). While we have reviewed the data for reasonableness, we have not completed any audit of the data provided. This communication was prepared for LRE for the purpose of analyzing the Internal Services Fund. Distribution to parties outside of LRE should not be made without permission from Wakely/Cirdan. If this communication is further distributed within LRE, it should be shared in its entirety.