

Budget Change Proposal - Cover Sheet

Fiscal Year: 2020-21

Business Unit: 4150

Department: Department of Managed Health Care

Priority Number: L-1

Budget Request Name: 4150-020-BCP-2020-GB

Program: 3870-Health Plan Program

Subprogram: N/A

Budget Request Description: Large Group Rate Review (AB 731)

Budget Request Summary: The Department of Managed Health Care requests 5.0 positions and \$1,747,000 in FY 2020-21, and \$2,617,000 in FY 2021-22 and ongoing from the Managed Care Fund to meet the requirements of Chapter 807, Statutes of 2019 (AB 731), which requires the Department to create a new process for review of rates in the large group market and modify existing reporting requirements in the individual and small group markets.

Requires Legislation: Yes No

Code Section(s) to be Added/Amended/Repealed: N/A

Does this BCP contain information technology (IT) components? Yes No

If yes, departmental Chief Information Officer must sign.

Department CIO Name: Ralph Cesena

Department CIO Signature:

Signed On Date: January 8, 2020

For IT requests, specify the project number, the most recent project approval document (FSR, SPR, S1BA, S2AA, S3SD, S4PRA), and the approval date.

Project Number: Not an IT Project therefore not subject to PAL process.

Project Approval Document: N/A

Approval Date: N/A

If proposal affects another department, does other department concur with proposal?

Yes No

Attach comments of affected department, signed and dated by the department director or designee.

Prepared By: Gita Mehirdel

Date: January 8, 2020

Reviewed By: Teresa Gonzales

Date: January 8, 2020

Department Director: Mary Watanabe for Shelley Rouillard

Date: January 8, 2020

Agency Secretary: Brendan McCarthy for Mark Ghaly

Date: January 8, 2020

Department of Finance Use Only

Additional Reviews: Capital Outlay: ITCU: FSCU: OSAE:
Department of Technology:

PPBA: Iliana Ramos

Date submitted to the Legislature: January 10, 2020

A. Budget Request Summary

The Department of Managed Health Care (DMHC) requests 5.0 positions and \$1,747,000 in FY 2020-21 and \$2,617,000 in FY 2021-22 and ongoing from the Managed Care Fund to meet the requirements of AB 731, which requires the department to create a new process for review of rates in the large group market and modify existing reporting requirements in the individual and small group markets.

This request includes one-time consultant funding of \$50,000 in FY 2020-21 to assist with the development of reporting templates and procedures, ongoing consultant funding of \$567,000 beginning in FY 2020-21 to review 80 percent of community-rated and experience/blended-rated filings, and additional ongoing consulting funding of \$960,000 beginning in FY 2021-22 to assist in conducting the ongoing review of large group rate filings required by AB 731.

The following table notes the requested positions by program and classification:

Program/Classification	FY 20-21 and ongoing
OFFICE OF FINANCIAL REVIEW	
Senior Life Actuary	3.0
OFFICE OF TECHNOLOGY AND INNOVATION	
Information Technology Specialist II	1.0
OFFICE OF LEGAL SERVICES	
Attorney	1.0
Total	5.0

B. Background/History

The DMHC regulates health plans under the provisions of the Knox-Keene Health Care Service Plan Act of 1975, as amended (Knox-Keene Act). In 2018, 24 California health plans issued large group contracts covering over 7.8 million enrollees in approximately 13,600 renewing groups.

Existing law requires a health plan or health insurer offering a contract or policy in the individual and small group markets to submit rate information to the DMHC prior to any rate change. The DMHC currently reviews quarterly small group rate filings and annual individual rate filings for the 12 health plans participating in these markets, for a total of 60 filings per year. A health plan’s rate filing for its individual or small group market consists of a single filing that covers all of the plan’s benefit designs for that market, and the DMHC’s finding whether a rate is unreasonable or not justified applies to all of the benefit designs covered by the plan’s filing. There are no provisions in current law requiring health plans to submit large group rate filings to the DMHC in order to

determine whether rate increases are unreasonable or not justified.

Effective July 1, 2020, AB 731 requires a health care service plan offering a contract or policy in the large group market to file specified rate information with the DMHC annually and at least 120 days before implementing a rate change. Unlike the DMHC's individual and small group rate review program, AB 731 does not require the DMHC to review every specific contract holder rate in the large group market. Instead, the bill authorizes the DMHC to determine whether the methodology, factors and assumptions used to develop rates are unreasonable or not justified.

In addition, beginning July 1, 2021, specific contract holders that meet the criteria set out in the bill may seek DMHC review of a health plan's proposed rate before the health plans can move forward with a rate increase. In addition to establishing a rate program for the large group products, AB 731 also makes changes to the rate information reported by health plans in all market types, effective July 1, 2020.

As a result of AB 731, effective July 1, 2020, DMHC will be required to (1) develop forms and reporting templates to obtain the large group market data for its review of the large group rate methodology; (2) conduct the review of the large group rate methodology to determine whether it is unreasonable or not justified; and (3) modify existing reporting forms and templates in the individual and small group to account for the new rate information.

As a result of AB 731, effective July 1, 2021, DMHC will be required to (1) develop forms and templates to review a specific rate in the large group market; and (2) conduct a review of these specific rates to determine whether they are unreasonable or not justified.

C. State Level Considerations

This proposal supports the California Health and Human Services Agency strategic priority to reduce the rate of growth of health care costs in California. The DMHC's determination if a large group rate filing is reasonable or not justified and review of the existing rate reporting in the individual and small group markets will enable consumers to make better informed health coverage choices and help large group providers to negotiate better premium rates.

D. Justification

The DMHC's mission is to protect health care consumers and ensure a stable health care delivery system. As part of this mission, DMHC licenses and regulates health care service plans under the Knox-Keene Health Care Service Plan Act of 1975. The DMHC does not have sufficient resources to develop the methodology and forms to determine if a large group rate filing is reasonable or not justified, or to conduct the ongoing review of 169 large group rate filings to meet the requirements of this bill.

The DMHC has determined the following resources are necessary to implement the requirements of AB 731.

Office of Financial Review

The DMHC's Office of Financial Review (OFR) works to provide stability in California's health care delivery system by actively monitoring the financial status of health plans and provider groups to ensure they can meet their financial obligations to consumers and purchasers. The Division of Premium Rate Review, within OFR, reviews proposed health plan premium rate increases, analyzes the justification for such increases, educates the public to expand consumer understanding of how premium rates are established and promotes more accountability within the health care industry.

AB 731 requires the DMHC to determine whether a large group rate change is unreasonable or not justified, and review specified information by geographic region for all commercial products subject to rate filing requirements. OFR estimates receiving approximately 169 large group filings as a result of the bill. To perform the additional ongoing workload required by AB 731, OFR requests the following resources:

3.0 Senior Life Actuaries

These positions will be responsible for reviewing approximately 20 percent of experience rated, in whole or blended, and community rated large group filings; all other large group filings, such as In-Home Support Services; and the additional geographic region disclosures outlined in Health and Safety Code Section (HSC) 1385.03(c) for small, individual and large group rate filings.

One-time Consulting Services

This request includes one-time consulting costs of \$50,000 in FY 2020-21 to assist with the development of the new reporting templates that are necessary to obtain the large group rate information and geographic data required by the bill.

Ongoing Actuarial Consulting Services

This request also includes ongoing consultant funding of \$567,000 beginning in FY 2020-21 to review 80 percent of community-rated and experience/blended rated filings,

and additional ongoing consulting funding of \$960,000 beginning in FY 2021-22 to assist with the review of approximately 80 percent of large group rate filings and provide OFR with ongoing existing technical assistance with the large group rate review process. This is consistent with DMHC contracts for the review of individual and small group market rate filings.

The DMHC estimates OFR costs to be 3.0 positions and \$1,392,000 in FY 2020-21 including \$617,000 in consulting services, and \$2,278,000 in FY 2021-22 and annually thereafter including \$1,527,000 in consulting services.

Office of Legal Services

The Office of Legal Services (OLS) conducts legal research, drafts legal analyses, and makes policy and operational recommendations consistent with those analyses. The OLS leads rulemaking activities for the DMHC including pre-notice stakeholder engagement, drafting regulation language, creating the regulation packages, conducting public hearings, responding to public comments and shepherding the regulation package through the Office of Administrative Law.

Following the passage of AB 731, the DMHC will need to determine rulemaking, conduct policy research and issue recurrent legal memorandum. The OLS will promulgate regulations to both establish new reporting template requirements developed by the OFR and to clarify health plan reporting requirements. In order to perform the additional ongoing workload, OLS is requesting the following position:

1.0 Attorney

This position will be responsible for conducting legal research and promulgating a regulation package to interpret and implement the requirements set forth in AB 731. This position will also be responsible for preparing recurrent legal memoranda, and addressing the ongoing legal workload resulting from the passage of this bill.

The DMHC estimates OLS costs to be 1.0 position and \$174,000 in FY 2020-21 and \$166,000 in FY 2021-22 and annually thereafter.

Office of Technology and Innovation

The Office of Technology and Innovation (OTI) is responsible for all DMHC IT-related facets, including application/system development and support, procurement and management of IT assets, data security and supporting staff members' IT needs. AB 731 amends HSC section 1385.046 to allow large group contract holders to request DMHC review to determine if the rate change is unreasonable or not justified. Health plans will be required to submit additional filings related to geographic region information as well as large group rate filings via the Federal System for Electronic Rate and Form Filing (SERFF). The current Rate Review system cannot facilitate

submissions and processing of such requests. The OTI is requesting the following position:

1.0 Information Technology Specialist II

This position will design, implement and maintain user interfaces to accommodate large group rate filings and geographic region information submissions and processing requirements. In addition, this position will design, implement and maintain a user interface to allow large group contract holders to request a review of a health plan’s proposed rate increase for a specific group. This position will also be responsible for ongoing maintenance for data extraction and reporting requirements.

The DMHC estimates costs for OTI to be 1.0 position and \$181,000 in FY2020-21 and \$173,000 in FY2021-22 and annually thereafter.

E. Outcomes and Accountability

Approval of this proposal will provide the DMHC with the resources to implement AB 731. The DMHC anticipates reviewing 169 large group rate filings each year as a result of this bill and will have positions and funding necessary to determine whether a large group rate change is unreasonable or not justified, and include large group and geographic region data in rate review filings. This proposal will also allow the DMHC to conduct policy research, issue recurrent legal memorandum and design user interfaces to accommodate large group contract holder and geographic region information as required by the bill.

Projected Outcomes

Workload Measure	FY2020-21	FY2021-22	FY2022-23	FY2023-24	FY2024-25
Large Group Rate Filings to be Processed	169	169	169	169	169

F. Analysis of All Feasible Alternatives

Alternative 1
 Approve DMHC’s request for 5.0 permanent positions and \$1,747,000 in FY 2020-21, \$2,617,000 in FY 2021-22 and ongoing from the Managed Care Fund to meet the requirements of AB 731.

Pros: The DMHC will have the necessary resources to implement the provisions of AB 731. Potential savings to consumers and purchasers.

Cons: Increases the size of State government and expenditures.

Alternative 2

Approve the request as limited-term.

Pros: Temporarily provides resources to implement the provisions of AB 731.

Cons: The DMHC will not be able to meet the requirements mandated by AB 731.

Alternative 3:

Deny the request.

Pros: No increase to the size of State government and expenditures.

Cons: The DMHC will not be able to meet the requirements mandated by AB 731.

G. Implementation Plan

The DMHC will begin implementation in late FY 2019-20 to fill the positions, execute the consultant contracts, and plan the necessary system changes by July 1, 2020.

H. Supplemental Information

This request will be funded through annual assessments of the health plans that are regulated by the DMHC. The ongoing fiscal impact of this request to full service health plans is approximately \$0.06 per enrollee.

Attachment A: BCP Fiscal Detail Sheet

Attachment B: Position Workload Analysis

Attachment C: Current Organizational Charts

Attachment D: Proposed Organizational Charts

I. Recommendation

Approve DMHC's request for 5.0 positions and \$1,747,000 in FY 2020-21, \$2,617,000 in FY 2021-22 and ongoing from the Managed Care Fund to meet the requirements of AB 731.

Attachment A: BCP Fiscal Detail Sheet

BCP Title: Large Group Rate Review (AB 731)

BR Name: 4150-020-BCP-2020-GB

Budget Request Summary

Personal Services

Personal Services	FY20 Current Year	FY20 Budget Year	FY20 BY+1	FY20 BY+2	FY20 BY+3	FY20 BY+4
Positions - Permanent	0.0	5.0	5.0	5.0	5.0	5.0
Total Positions	0.0	5.0	5.0	5.0	5.0	5.0
Salaries and Wages	0	630	630	630	630	630
Earnings - Permanent						
Total Salaries and Wages	\$0	\$630	\$630	\$630	\$630	\$630
Total Staff Benefits	0	355	355	355	355	355
Total Personal Services	\$0	\$985	\$985	\$985	\$985	\$985

Operating Expenses and Equipment

Operating Expenses and Equipment	FY20 Current Year	FY20 Budget Year	FY20 BY+1	FY20 BY+2	FY20 BY+3	FY20 BY+4
5301 - General Expense	0	49	9	9	9	9
5302 - Printing	0	5	5	5	5	5
5304 - Communications	0	5	5	5	5	5
5320 - Travel: In-State	0	15	15	15	15	15
5322 - Training	0	26	26	26	26	26
5324 - Facilities Operation	0	45	45	45	45	45
5340 - Consulting and Professional Services - External	0	617	1,527	1,527	1,527	1,527
Total Operating Expenses and Equipment	\$0	\$762	\$1,632	\$1,632	\$1,632	\$1,632

Total Budget Request

Total Budget Request	FY20 Current Year	FY20 Budget Year	FY20 BY+1	FY20 BY+2	FY20 BY+3	FY20 BY+4
Total Budget Request	\$0	\$1,747	\$2,617	\$2,617	\$2,617	\$2,617

Fund Summary

Fund Source

Fund Source	FY20 Current Year	FY20 Budget Year	FY20 BY+1	FY20 BY+2	FY20 BY+3	FY20 BY+4
State Operations - 0933 - Managed Care Fund	0	1,747	2,617	2,617	2,617	2,617
Total State Operations Expenditures	\$0	\$1,747	\$2,617	\$2,617	\$2,617	\$2,617
Total All Funds	\$0	\$1,747	\$2,617	\$2,617	\$2,617	\$2,617

Program Summary

Program Funding

Program Funding	FY20 Current Year	FY20 Budget Year	FY20 BY+1	FY20 BY+2	FY20 BY+3	FY20 BY+4
3870 - Health Plan Program	0	1,747	2,617	2,617	2,617	2,617
Total All Programs	\$0	\$1,747	\$2,617	\$2,617	\$2,617	\$2,617

Personal Services Details

Positions

Positions	FY20 Current Year	FY20 Budget Year	FY20 BY+1	FY20 BY+2	FY20 BY+3	FY20 BY+4
1414 - Info Tech Spec II (Eff. 07-01-2020)	0.0	1.0	1.0	1.0	1.0	1.0
5778 - Atty (Eff. 07-01-2020)	0.0	1.0	1.0	1.0	1.0	1.0
6086 - Sr Life Actuary (Eff. 07-01-2020)	0.0	3.0	3.0	3.0	3.0	3.0
Total Positions	0.0	5.0	5.0	5.0	5.0	5.0

Salaries and Wages

Salaries and Wages	FY20 Current Year	FY20 Budget Year	FY20 BY+1	FY20 BY+2	FY20 BY+3	FY20 BY+4
1414 - Info Tech Spec II (Eff. 07-01-2020)	0	98	98	98	98	98
5778 - Atty (Eff. 07-01-2020)	0	92	92	92	92	92
6086 - Sr Life Actuary (Eff. 07-01-2020)	0	440	440	440	440	440
Total Salaries and Wages	\$0	\$630	\$630	\$630	\$630	\$630

Staff Benefits

Staff Benefits	FY20 Current Year	FY20 Budget Year	FY20 BY+1	FY20 BY+2	FY20 BY+3	FY20 BY+4
5150350 - Health Insurance	0	97	97	97	97	97
5150500 - OASDI	0	48	48	48	48	48
5150630 - Retirement - Public Employees - Miscellaneous	0	196	196	196	196	196
5150820 - Other Post-Employment Benefits (OPEB) Employer Contributions	0	14	14	14	14	14
Total Staff Benefits	\$0	\$355	\$355	\$355	\$355	\$355

Total Personal Services

Total Personal Services	FY20 Current Year	FY20 Budget Year	FY20 BY+1	FY20 BY+2	FY20 BY+3	FY20 BY+4
Total Personal Services	\$0	\$985	\$985	\$985	\$985	\$985

Attachment B: Workload Standards

WORKLOAD STANDARDS
Full-time Permanent Positions
Office of Financial Review
Division of Premium Rate Review
3.0 Senior Life Actuaries

Activities	Number of Items per Year	Hours per Item	Total Hours (FY2020-21)	Total Hours Ongoing
Develop large group single employer filing template.	1	1,200	1,200	0
Facilitate and/or assist with stakeholder meetings related to the large group single employer filing template and process, including various communications with health plans and the incorporation of feedback.	2	200	400	0
Work with DMHC's Office of Technology and Innovation to develop web-based filing form and update existing Premium Rate Review dashboard.	1	400	400	0
Develop policies and procedures related to the review of large group single employer filings.	1	400	400	0
Review additional geographic region disclosures as outlined in Section 1385.03(c). (48 small group filings, 12 individual filings)	60	23.33	1,400	1,400
Review 20% of community-rated filings. (Estimate 12 plans will file annually and five plans will file quarterly)	6	80	480	480
Review 20% of experience/blended-rated filings. (Estimate 12 plans will file annually and five plans quarterly)	6	120	720	720
Review 100% of filings from IHSS plans.	5	80	400	400
Review 20% of large group single employer filings (estimate 100 filings [1,000 x 10% will file] per year x 20%) per HSC Section 1385.046.	20	120	0	2,400
Total Hours Worked			5,400	5,400
Number of Positions Requested			3.0	3.0

Attachment B

Office of Technology and Innovation 1.0 Information Technology Specialist II

Activities	Number of Items per Year	Hours per Item	FY 2020-21 Total Hours	FY 2021-22/ Ongoing Total Hours
Gather new system requirements to allow for the submission of large group rate filings.	10	8	80	0
Gather new system requirements to allow for the submission of requests to review health plans' proposed rate increases by large group contract holders.	30	8	240	0
Utilize requirements to design User Interfaces and software functionality to receive and process large group rate filings and requests for review of health plans' proposed rate increases.	28	40	1120	0
Design and configure database schema to capture new data.	5	8	40	0
Design and implement user interfaces to meet modern UI / UX standards.	5	8	40	0
Collaborate with business intelligence analysts to design and implement reporting and analytic data stores, reports and/or analytics.	20* 60**	4	80	240
Provide ongoing Tier 2 application support and perform system maintenance/ enhancements.	80**	16	0	1280
Collaborate with Quality Assurance team to execute system testing and support program staff during user acceptance testing events.	20* 60**	2	40	120
Establish and maintain design and coding standards for modernization of application User Interfaces to comply with Web Content Accessibility Guidelines WCAG (compliance with AB-434 and ADA section 508).	15	8	120	120
Collaborate with Quality Assurance team to define testing standards for WCAG.	10	4	40	40
Total Hours Worked			1,800	1,800
Number of Positions Requested			1.0	1.0

*Represents number of tasks in FY 2020-21 only.

** Represents number of tasks starting in FY 2021-22 and ongoing.

Attachment B

Office of Legal Services 1.0 Attorney

Activities	Number of Items per Year	Hours per Item	FY 2020-21 Total Hours	FY 2021-22/ Ongoing Total Hours
Conduct stakeholder meetings.	1	40	40	0
Capture and compile stakeholder feedback.	1	20	20	0
Research, analysis and provide policy recommendations to management.	1	85	85	0
Draft initial text of proposed regulation and other documents as required (Notice, Initial Statement of Reasons, Economic Analysis, etc.) and process internally.	1	70	70	0
Hold public hearings.	1	20	20	0
Summarize, compile, analyze and respond to comments.	1	10	10	0
Revise text based on public comments.	1	90	90	0
Process regulation through formal rulemaking process, and draft final rulemaking documents.	1	5	5	0
Review legal question(s) presented.	5	10	50	60
Gather initial data and supporting documentation.	5	50	250	300
Meet with impacted staff.	5	3	15	18
Review applicable law.	5	95	475	570
Gather legal references, craft position, and draft initial memo.	5	95	475	570
Follow up with impacted staff.	5	3	15	18
Meet and brief management, and receive direction.	5	4	20	72
Conduct additional research and/or revise draft.	5	30	150	180
Present final determination to impacted staff.	5	2	10	12
Total Hours Worked			1,800	1,800
Number of Positions Requested			1.0	1.0

Attachment C: Current Organizational Charts

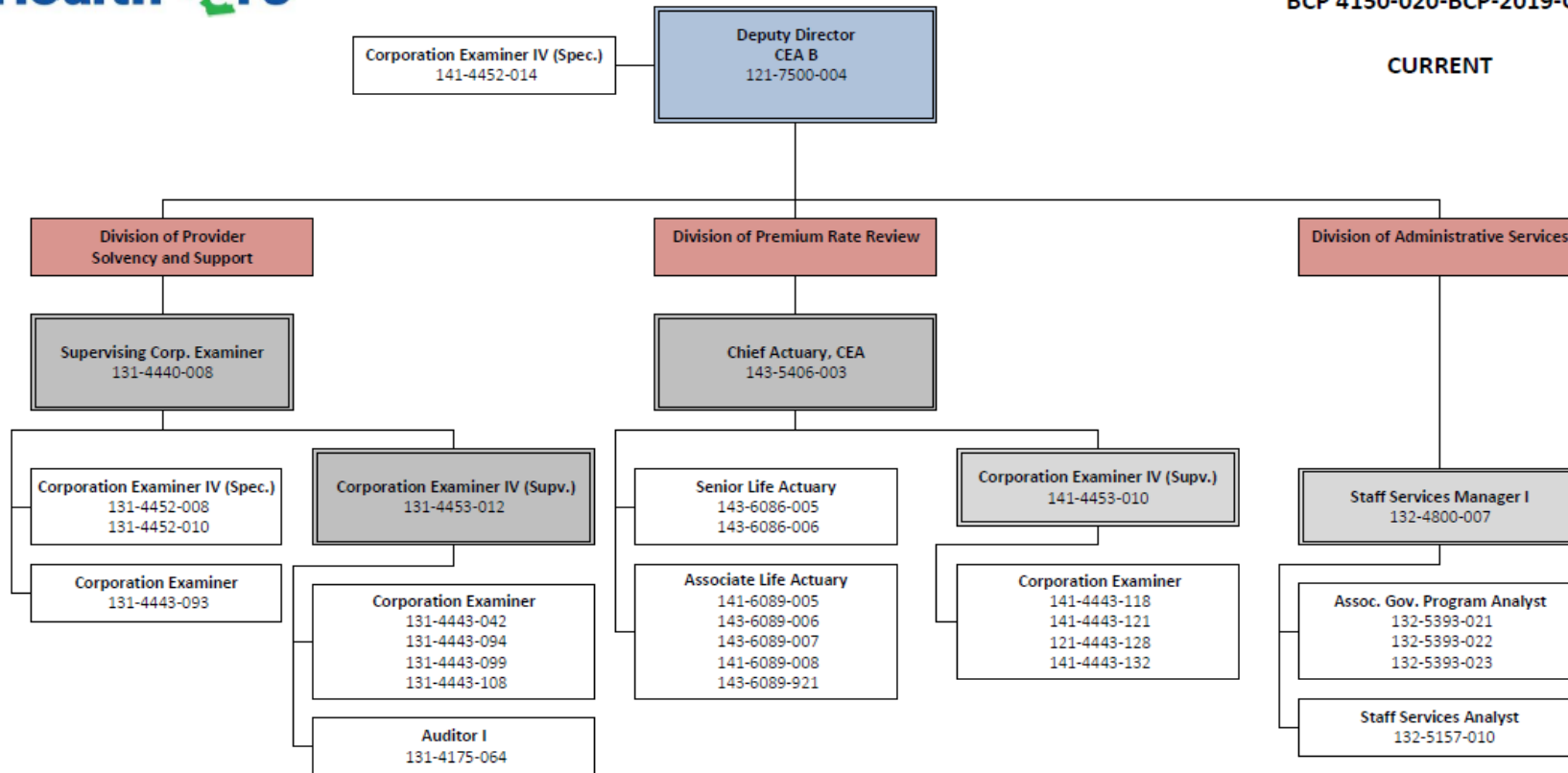
Current organizational structure of DHMC's Office of Financial Review



Office of Financial Review

BCP 4150-020-BCP-2019-GB

CURRENT



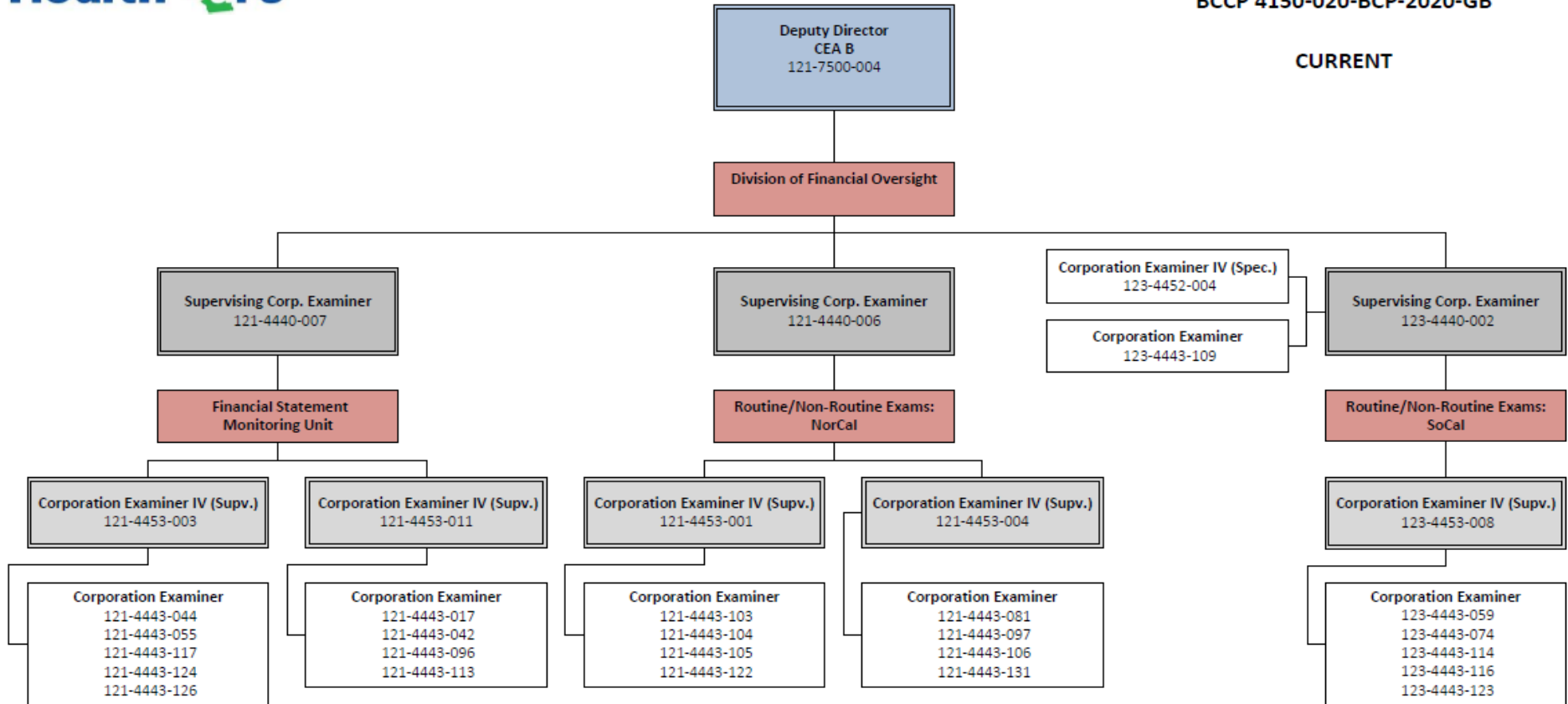
Current organizational structure of DHMC's Office of Financial Review



Office of Financial Review

BCCP 4150-020-BCP-2020-GB

CURRENT



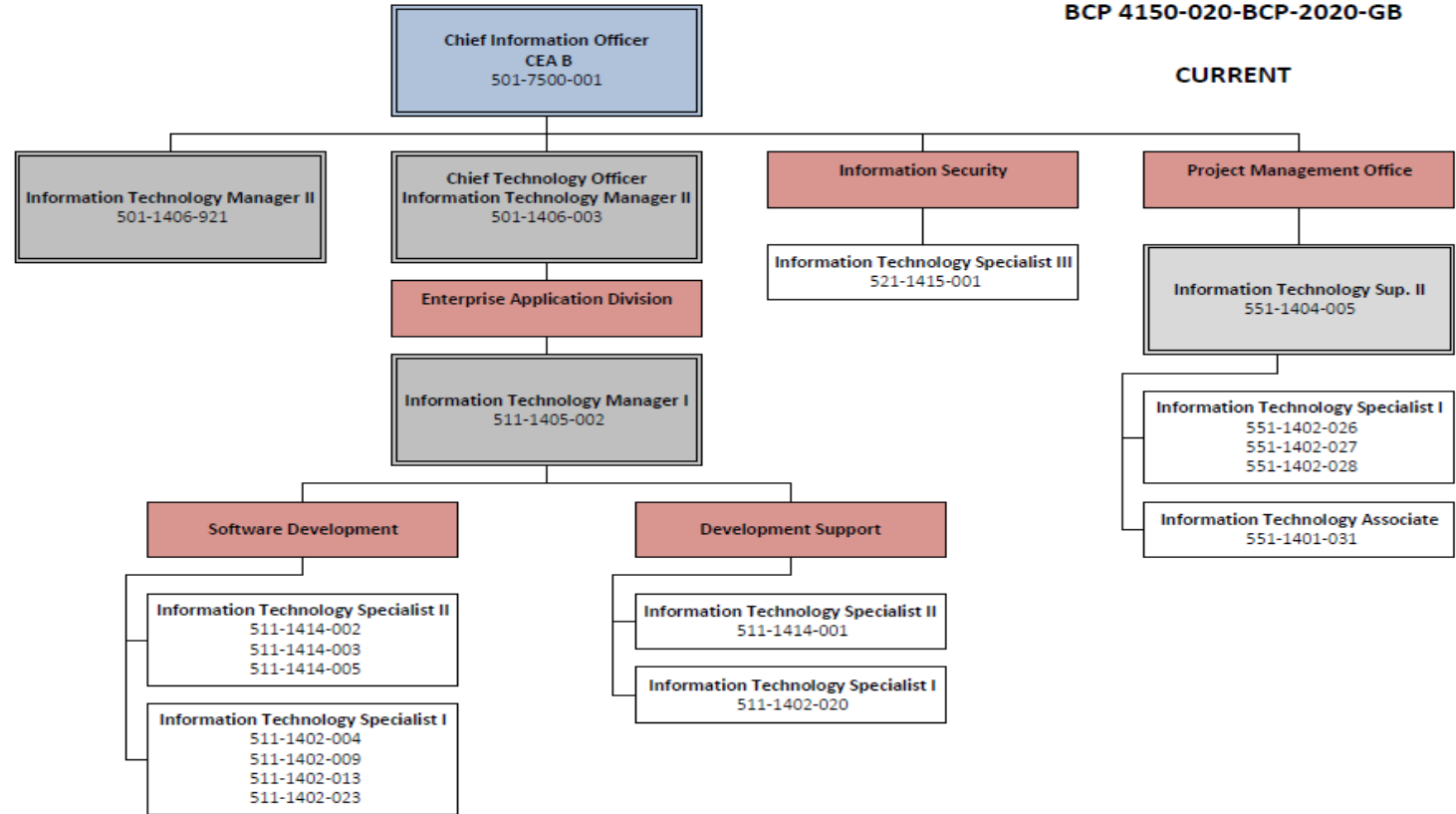
Current organizational structure of DHMC's Office of Technology and Innovation



Office of Technology and Innovation

BCP 4150-020-BCP-2020-GB

CURRENT



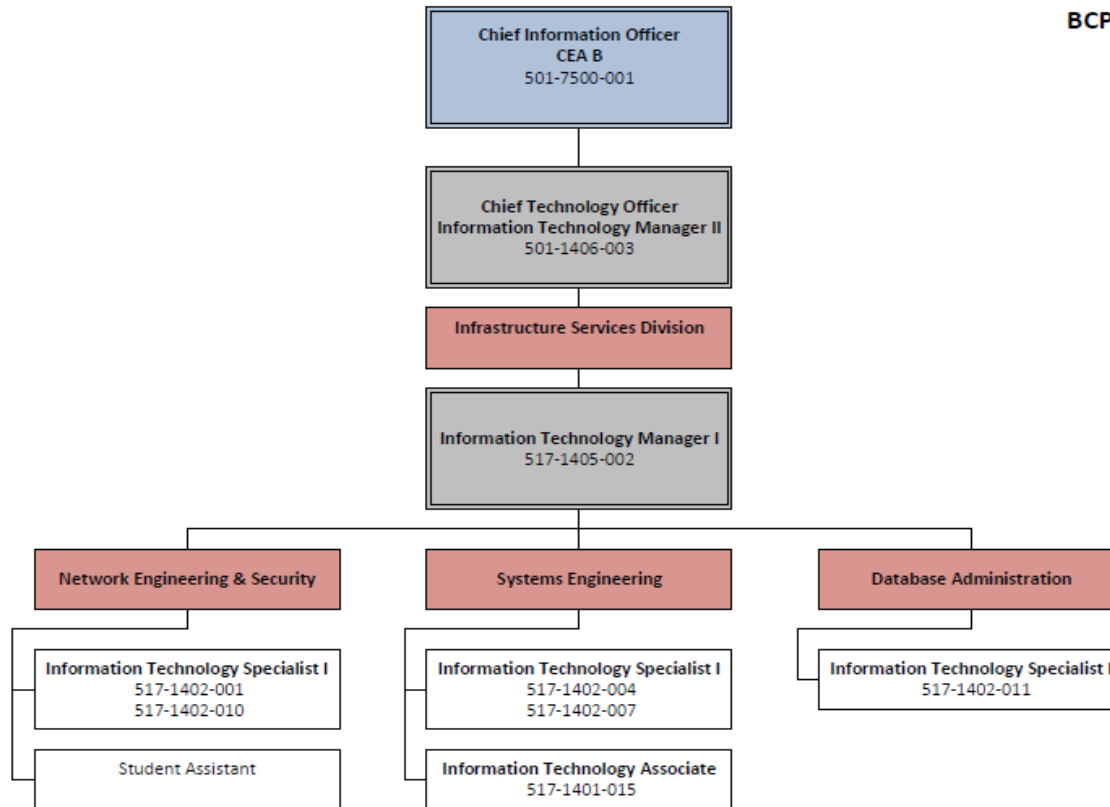
Current organizational structure of DHMC's Office of Technology and Innovation



Office of Technology and Innovation

BCP 4150-020-BCP-2020-GB

CURRENT



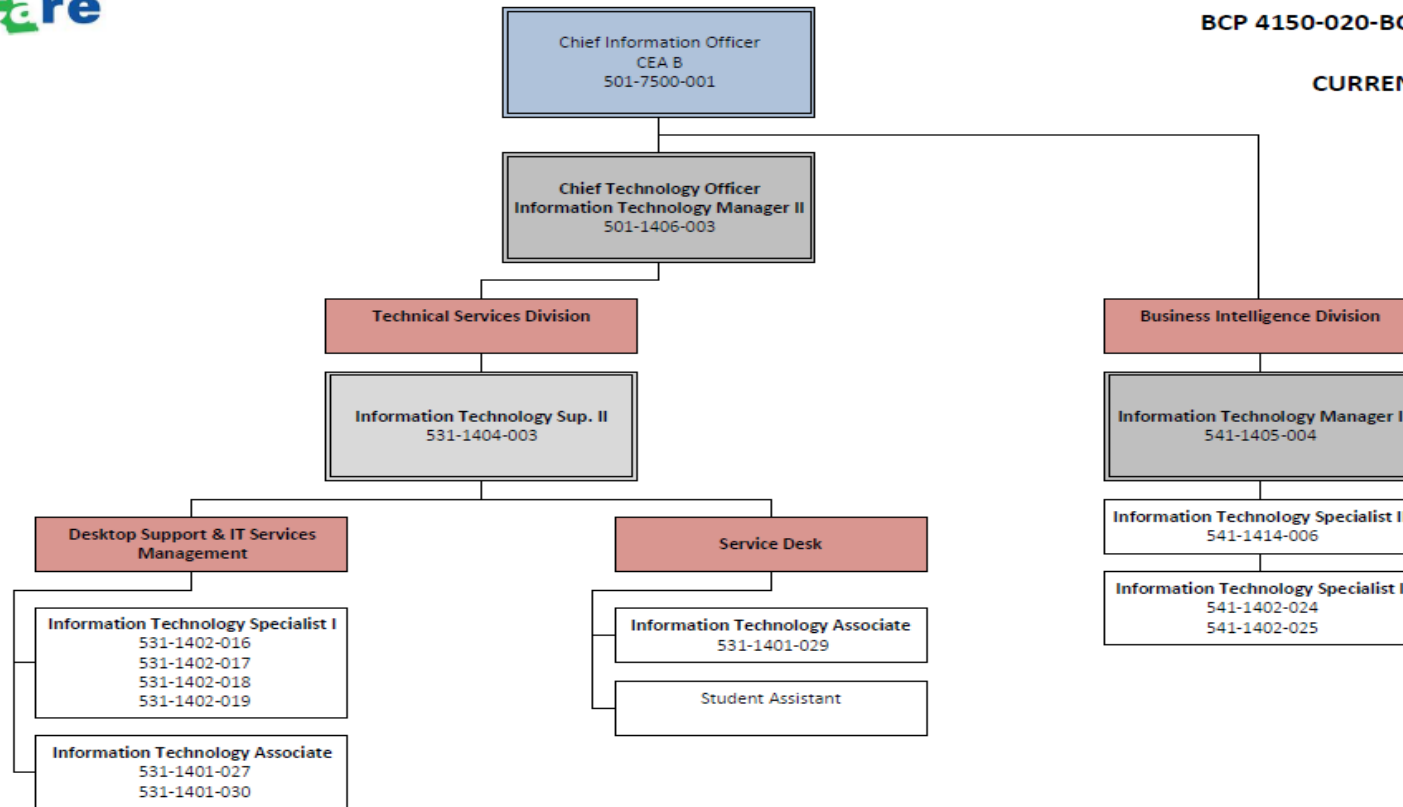
Current organizational structure of DHMC's Office of Technology and Innovation



Office of Technology and Innovation

BCP 4150-020-BCP-2020-GB

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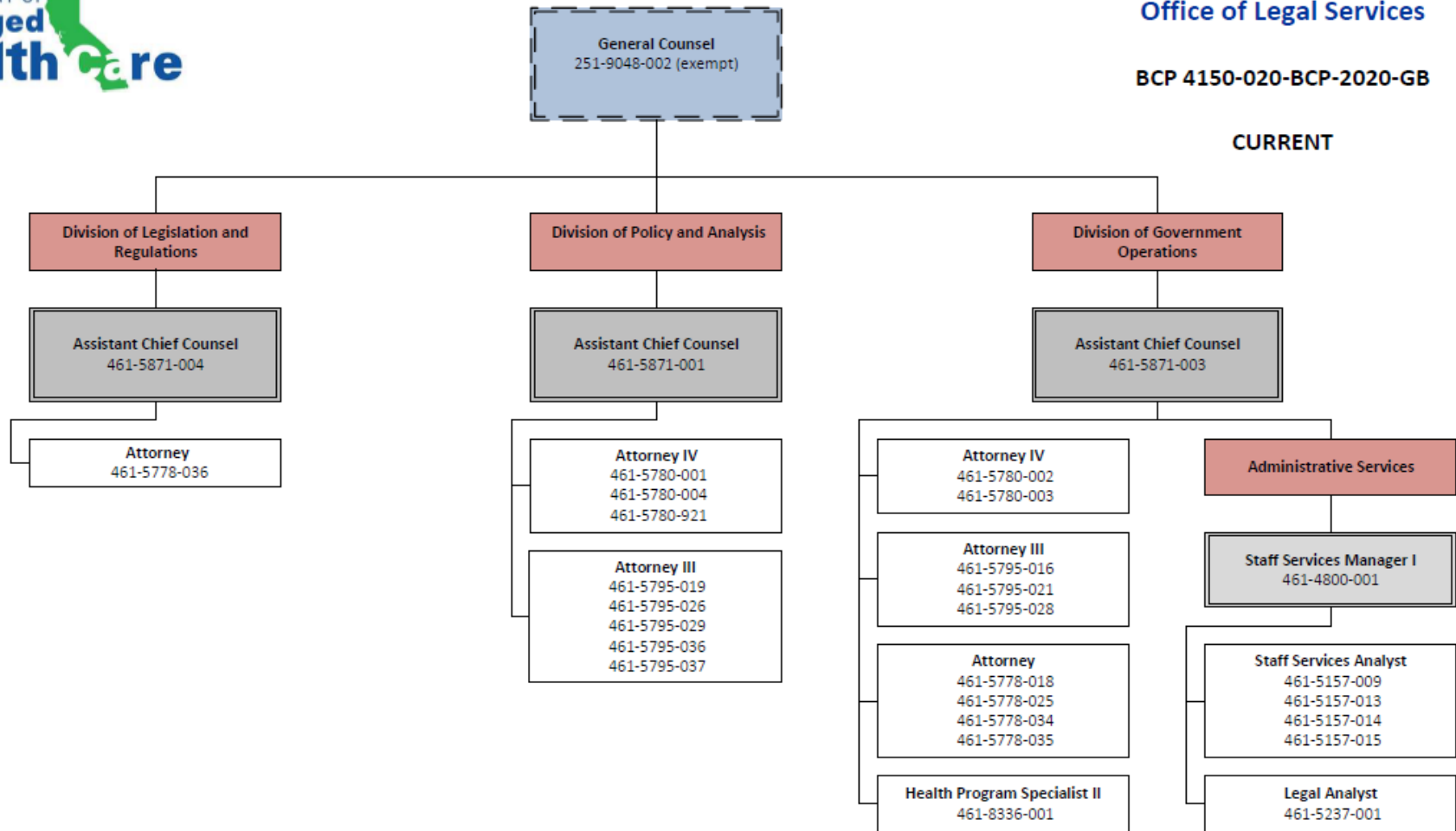


Current organizational structure of DHMC's Office of Legal Services



Office of Legal Services

BCP 4150-020-BCP-2020-GB



Attachment D: Proposed Organizational Charts

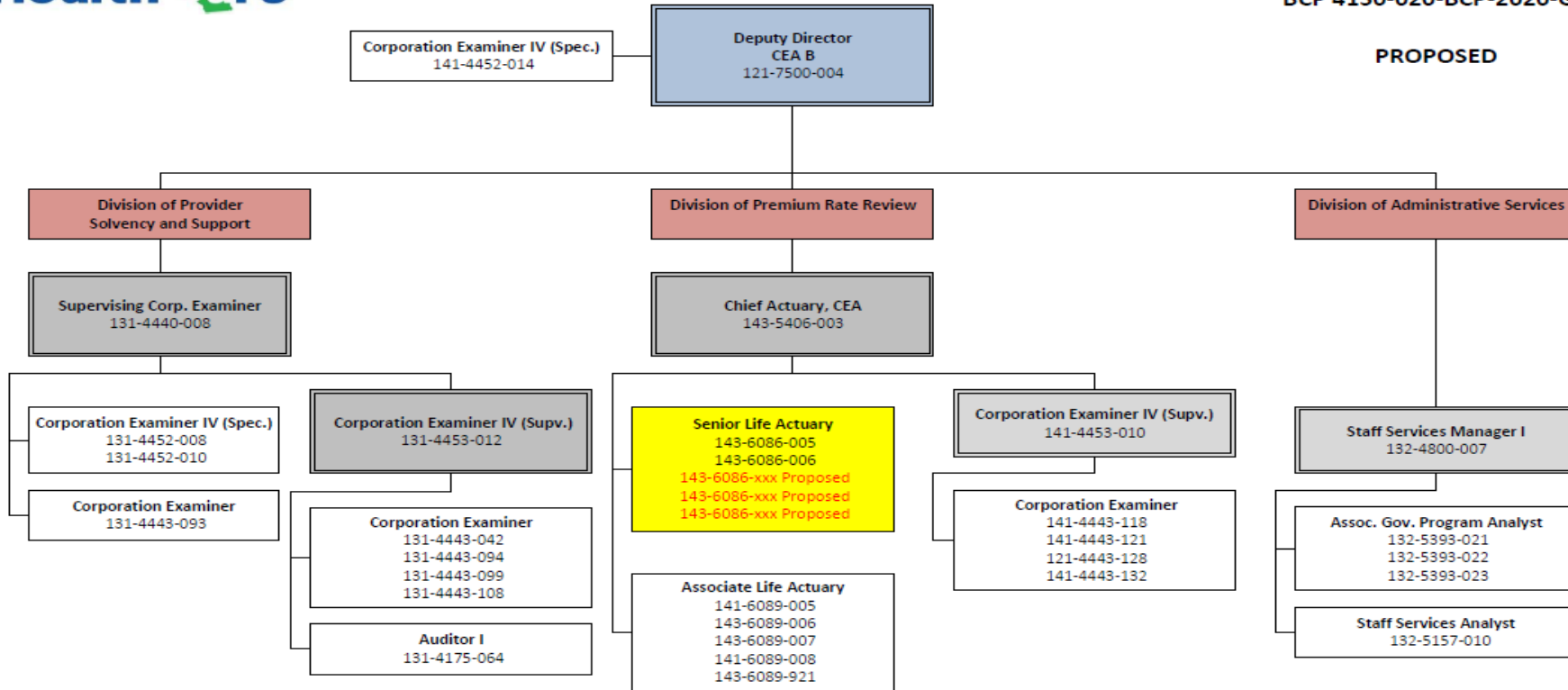
Proposed organizational structure of DHMC's Office of Financial Review



Office of Financial Review

BCP 4150-020-BCP-2020-GB

PROPOSED



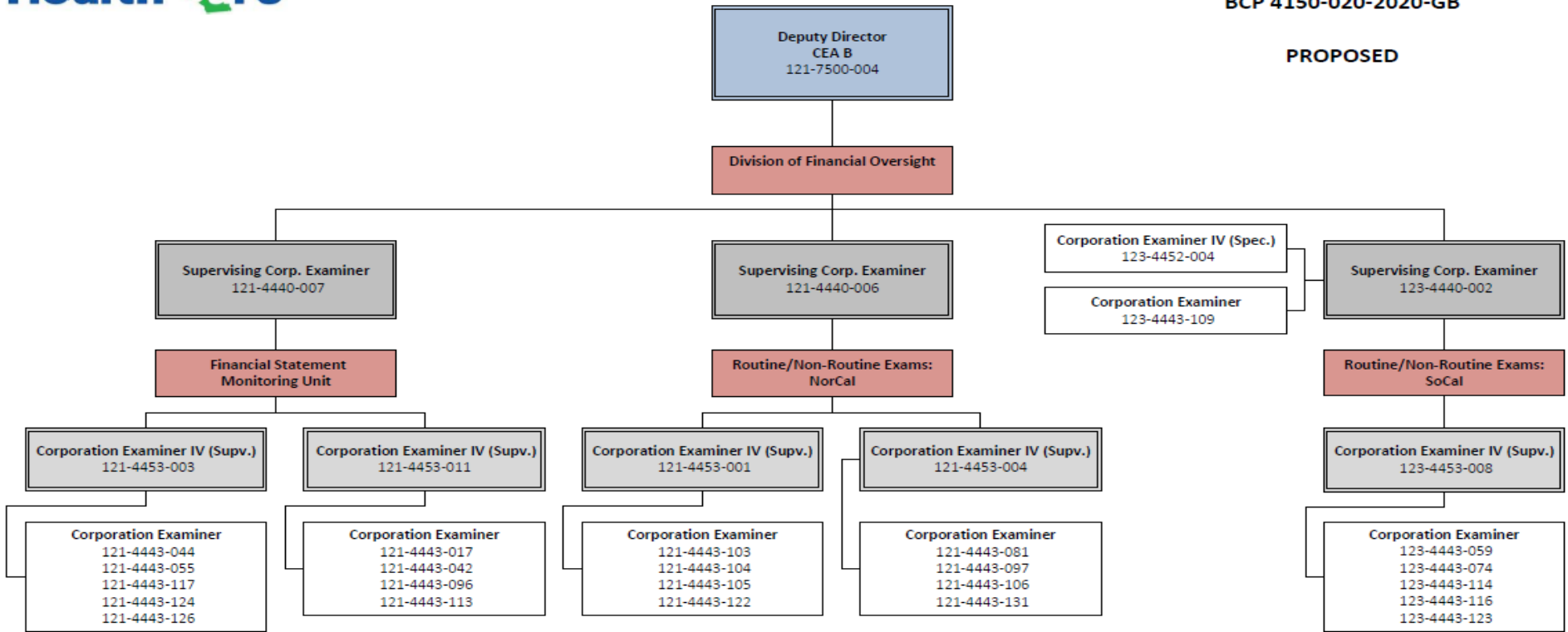
Proposed organizational structure of DHMC's Office of Financial Review



Office of Financial Review

BCP 4150-020-2020-GB

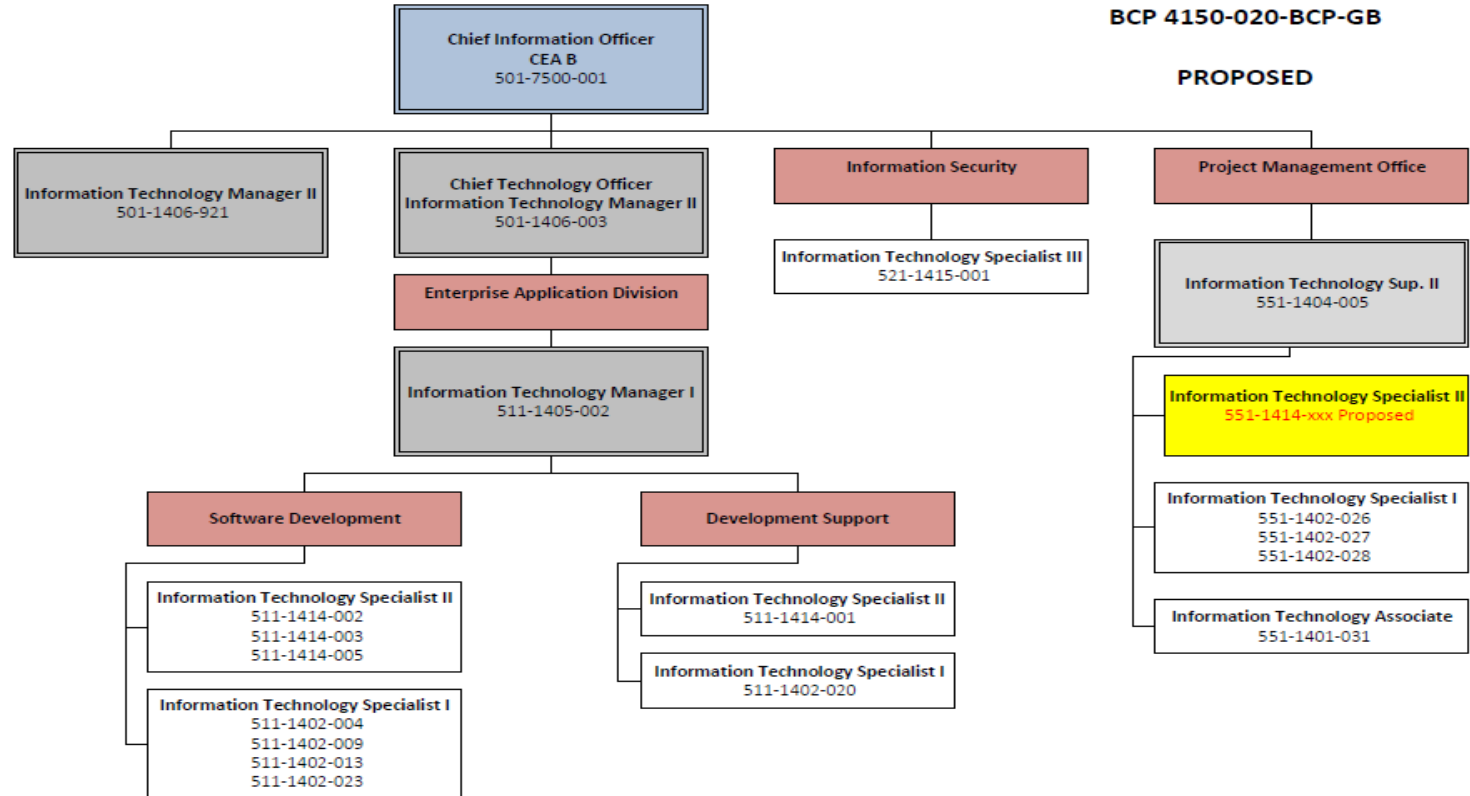
PROPOSED



Proposed organizational structure of DHMC's Office of Technology and Innovation



Office of Technology and Innovation



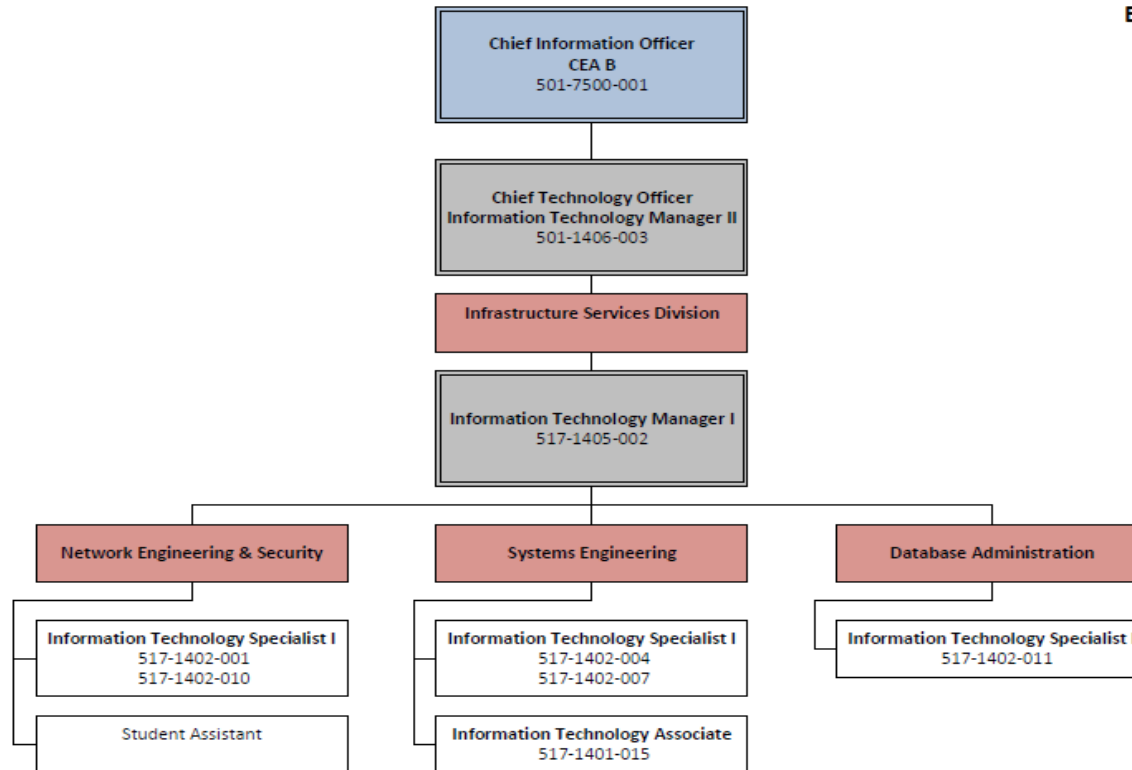
Proposed organizational structure of DHMC's Office of Technology and Innovation



Office of Technology and Innovation

BCP 4150-020-BCP-GB

PROPOSED



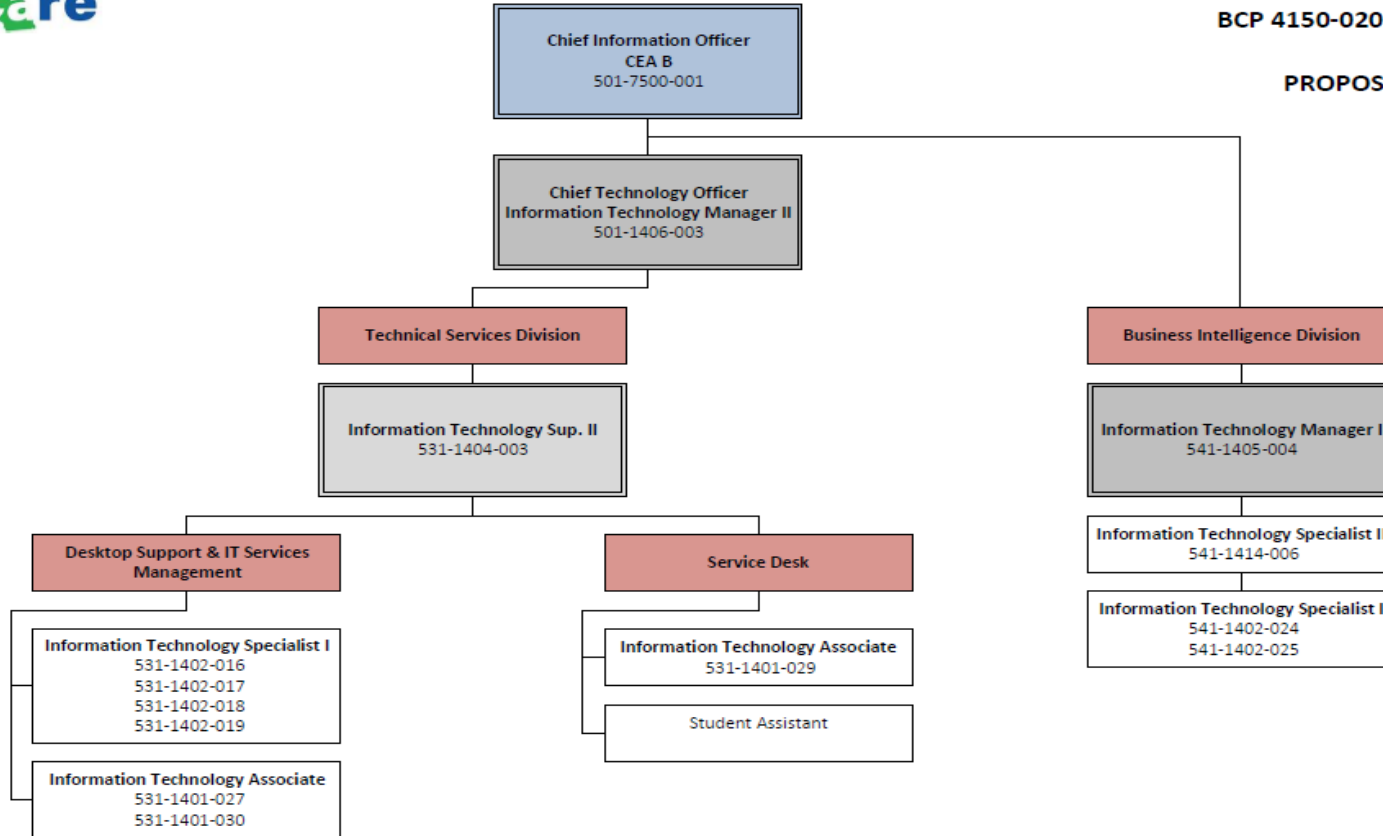
Proposed organizational structure of DHMC's Office of Technology and Innovation



Office of Technology and Innovation

BCP 4150-020-BCP-GB

PROPOSED



Proposed organizational structure of DHMC's Office of Legal Services



Office of Legal Services

BCP 4150-020-BCP-2020-GB

PROPOSED

