

EDUCATION AND EXAMINATION COMMITTEE  
OF THE  
SOCIETY OF ACTUARIES

COURSE 8 HEALTH, GROUP LIFE, AND MANAGED CARE STUDY NOTE

**COURSE 8 HEALTH, GROUP LIFE, AND MANAGED CARE CASE STUDY  
MANAGED CARE EXTENSION**

Copyright 2001 by the Society of Actuaries

The Education and Examination Committee provides study notes to persons preparing for the examinations of the Society of Actuaries. They are intended to acquaint candidates with some of the theoretical and practical considerations involved in the various subjects. While varying opinions are presented where appropriate, limits on the length of the material and other considerations sometimes prevent the inclusion of all possible opinions. These study notes do not, however, represent any official opinion, interpretations or endorsement of the Society of Actuaries or its Education and Examination Committee. The Society is grateful to the authors for their contributions in preparing the study notes.

**COURSE 8: HEALTH, GROUP LIFE AND MANAGED CARE  
CASE STUDY**

**MANAGED CARE EXTENSION**

I.	Managed Care Division.....	2
	• Financial and Utilization Data .....	2
	• Provider Contract Provisions .....	3
	• Provider Risk Share Arrangements .....	4

## MANAGED CARE EXTENSION

### I. MANAGED CARE DIVISION

The Managed Care division of Wonderful Life Insurance Company includes a single location managed care organization (MCO), The Bedford Group. The Bedford Group provides both point-of-service (POS) and health maintenance organization (HMO) products.

The Bedford Group attempts to provide the best managed care for its insureds at the least possible cost. The organization recognizes that it is in a competitive marketplace and needs to maintain good relations with providers. Provider contracts are renewed each year and have been in place as described for the most recent three-year period. The Bedford Group has contracted with three hospitals and three individual physician associations (IPAs) to provide coverage. The MCO membership has always included only commercial group business; there are no Medicare or Medicaid members.

The Bedford Group has contracted with the following providers:

- Hospital ID 1 – Managed care in-network hospital
- Hospital ID 2 – Tertiary care hospital for more intensive diagnoses
- Hospital ID 3 – Out-of-network hospital
- IPA 1 – In-network physician services with both primary care physicians (PCPs) and specialty care physicians (SCPs) services covered and admitting privileges at Hospital 1 only;
- IPA 2 – Exclusively in-network specialty referral services with admitting privileges at both Hospital 1 and Hospital 2;
- IPA 3 – Out-of-network physician services with admitting privileges at all hospitals.

Prescription drugs are administered through a Prescription Benefit Management (PBM) Company but The Bedford Group maintains the risk on the drug benefit.

All hospital outpatient services are performed at each hospital. The Bedford Group has no disease management programs but does provide case management and utilization review.

All numbers found in this case study are for illustration only and may not be representative of true costs or actual relationships. Any similarities with actual company results are purely coincidental.

#### ***Financial and Utilization Data***

The most recent three years of experience for The Bedford Group are illustrated in Table MC-1. Premium revenue and expenses include all HMO and POS business. Claims

expense includes paid claims, the change in incurred but not reported (IBNR) claim liabilities and the change in provider liabilities. General expense includes division expenses and corporate overhead allocated to the product line. Investment income includes earnings on the assets that support the business as well as earnings on operating income.

Premium income over the last two years has grown at an annual rate of over 8% per year over the entire period. Higher than anticipated incurred claims contributed to a negative operating margin in 1998 and 1999. However, the medical loss ratio has been decreasing and total expenses have been stable as a percentage of premium over this time period. Therefore, operating margins have been improving. Investment income has fluctuated during the three years shown in Table MC-1. Operating income both pre- and post-tax has also been increasing over the past two years.

Total inpatient days and admissions per 1,000 members for 1998 through 2000 by type of service are shown in Table MC-2. The distribution of days and admissions by hospital is also shown. Utilizations include those experienced by both HMO and POS members.

Table MC-3 illustrates total incurred claims by type of service and by product for the past three years. Incurred claims are shown gross of any provider risk or provider profit sharing payments. Incurred claims are shown net of member cost sharing (i.e., copayments, deductibles and coinsurance).

Table MC-4 illustrates the 2001 budgeted utilization per 1,000 members by service type as compared to 2000 actual utilization. Services per 1,000 members in each year are based on incurral dates.

Services by type per 1,000 members and associated per member per month (PMPM) physician costs for the past three years are shown separately in Table MC-5 for both PCPs and SCPs by service type. The distribution of physician services by IPA is also illustrated. For both PCPs and SCPs, the mix of services is assumed to be the same across all IPAs. Services and PMPM costs reflect the combined experience of both the HMO and POS products.

The past three years' administrative expenses for the HMO and POS products are illustrated in Table MC-6. The Bedford Group has long-term leases or fixed mortgages on administration and facilities. Average commission expenses and premium taxes are calculated as a percent of premium and are included separately. Corporate functions include overhead costs for the finance, actuarial, underwriting, legal, and executive departments. The Management Information Systems (MIS) and Information Technology (IT) departments experienced an unusual expense increase in 2000 due to system upgrades.

### ***Provider Contract Provisions***

The provisions of The Bedford Group's provider contracts are outlined in Table MC-7. The Bedford Group uses a combination of reimbursement methods, depending on the

provider. All admissions for Hospital ID 1 are reimbursed on either a per diem or per case basis. Hospital ID 2 admissions are reimbursed at a day 1 level per diem rate with lower per diem rates for days 2 and greater. The Bedford Group has contracted for a straight 20% discount off charges for all admissions at Hospital ID 3.

The Bedford Group also uses a variety of reimbursement methods for emergency room and outpatient hospital surgery. Emergency room services at both Hospital ID 1 and Hospital ID 2 are reimbursed on a flat per case basis, although the amount per case varies for Hospital ID 2, depending upon the case level. Outpatient surgeries are reimbursed on a per case basis for Hospital ID 1 and are based on either a discount off charges (for services without a published Medicare Ambulatory Surgical Center (ASC) payment) or a factor applied to the Medicare ASC schedule for Hospital ID 2. Radiology, pathology, and other outpatient services are reimbursed on a discount off charges basis for Hospital ID 1 and Hospital ID 2. All hospital outpatient services (including emergency room and outpatient surgeries) are reimbursed to Hospital ID 3 on a straight discount off charges basis.

All physicians are reimbursed based on a contracted percentage of the 1999 Medicare Resource Based Relative Value Scale (RBRVS) schedule. The percentage varies by IPA group.

The Prescription Benefit Management (PBM) Company has provided The Bedford Group with separate discounts off the Average Wholesale Price (AWP) for brand and generic drugs. Other pharmacy fees charged by the PBM are outlined in Table MC-7. The Bedford Group does not currently offer a mail order prescription drug service through the PBM.

### ***Provider Risk Share Arrangements***

The Bedford Group has provider risk share arrangements in place with Hospital ID 1, Hospital ID 2, IPA 1, and IPA 2. Descriptions of the arrangements for year 2001 are provided in Table MC-8.

Hospital ID 1 shares in The Bedford Group's financial risk for the HMO and POS products. The Bedford Group has established a combined inpatient and outpatient PMPM target cost of \$35.00 for Hospital ID 1. The risk corridor on the contract is +/- 5%. That is, if the ultimate incurred combined PMPM falls within the range of \$33.25 ( $\$35.00 \times 0.95$ ) to \$36.75 ( $\$35.00 \times 1.05$ ), Hospital ID 1 receives no additional payments beyond the original contracted levels and does not return any of the payments already received to The Bedford Group. However, if the ultimate incurred combined PMPM falls outside the range of the risk corridor, Hospital ID 1 will share equally with The Bedford Group in the difference between the ultimate PMPM level and the applicable high or low end of the range. Hospital ID 1's risk share exposure is capped at 10% of the target PMPM outside of the risk corridor range.

The Bedford Group has a bonus pool contract with Hospital ID 2. Outpatient services and Skilled Nursing Facility (SNF) admissions are excluded from the bonus pool calculations.

The Bedford Group has a bonus pool contract with Hospital ID 2. Outpatient services and Skilled Nursing Facility (SNF) admissions are excluded from the bonus pool calculations. The target average length of stay (LOS) for Hospital ID 2 is 7.0 days in 2001. If the actual LOS experienced in 2001 is greater than the target LOS, Hospital ID 2 does not receive a bonus pool payout (but also is not required to return any of the payments already received). If the actual LOS is less than the target LOS, The Bedford Group pays a bonus amount to Hospital ID 2, based on the formula specified in Table MC-8.

IPA 1 is subject to a provider withhold arrangement. Providers are initially paid at 90% of the contracted levels (a 10% withhold). The target combined PCP and SCP PMPM incurred claim level is \$38.00 in 2001. If the ultimate incurred PMPM level is less than the target level, the entire withhold is returned to the provider group. If the ultimate incurred PMPM level is greater than the target level, the withheld amount is applied to offset the difference. Any remaining withheld amount is returned to the provider group once The Bedford Group has been "reimbursed" for any claims expenses over the target PMPM level.

IPA 2 is subject to a bonus pool arrangement. The target incurred PMPM claim level is \$25.00 in 2001. If the actual ultimate incurred PMPM claim level is greater than the target level, IPA 2 does not receive any additional compensation over the original contracted levels. If the actual ultimate incurred PMPM claim level is less than the target level, The Bedford Group pays IPA 2 a bonus equal to the lesser of 10% of the target PMPM or 50% of the difference between the target and the actual PMPM.

**TABLE MC-1**  
**THREE YEAR FINANCIAL STATEMENT FOR THE MANAGED CARE DIVISION**  
(Amounts in \$1,000s)

	1998	% of Premium	1999	% of Premium	2000	% of Premium
<b>Premium Income</b>	<b>\$426,300</b>		<b>\$427,900</b>		<b>\$499,500</b>	
Paid Claims	\$387,300	90.9%	\$382,600	89.4%	\$421,600	84.4%
Change in IBNR	<u>\$1,600</u>	0.4%	<u>\$300</u>	0.1%	<u>\$13,700</u>	2.7%
Total Incurred Claims	\$388,900	91.2%	\$382,900	89.5%	\$435,300	87.1%
Change in Provider Liabilities	<u>\$300</u>	0.1%	<u>(\$100)</u>	0.0%	<u>\$300</u>	0.1%
<b>Claims Expense</b>	<b>\$389,200</b>	<b>91.3%</b>	<b>\$382,800</b>	<b>89.5%</b>	<b>\$435,600</b>	<b>87.2%</b>
<b>Gross Margin</b>	<b>\$37,100</b>	<b>8.7%</b>	<b>\$45,100</b>	<b>10.5%</b>	<b>\$63,900</b>	<b>12.8%</b>
General Administrative Expense	\$36,400	8.5%	\$36,000	8.4%	\$42,000	8.4%
Commissions	\$10,700	2.5%	\$10,700	2.5%	\$12,500	2.5%
Premium Tax	<u>\$300</u>	0.1%	<u>\$300</u>	0.1%	<u>\$300</u>	0.1%
<b>Total Expense</b>	<b>\$47,400</b>	<b>11.1%</b>	<b>\$47,000</b>	<b>11.0%</b>	<b>\$54,800</b>	<b>11.0%</b>
<b>Operating Margin</b>	<b>(\$10,300)</b>	<b>-2.4%</b>	<b>(\$1,900)</b>	<b>-0.4%</b>	<b>\$9,100</b>	<b>1.8%</b>
Investment Income	\$4,200	1.0%	\$9,100	2.1%	\$6,900	1.4%
Other Income	\$100	0.0%	\$0	0.0%	\$100	0.0%
<b>Operating Earnings Before Taxes</b>	<b>(\$6,000)</b>	<b>-1.4%</b>	<b>\$7,200</b>	<b>1.7%</b>	<b>\$16,100</b>	<b>3.2%</b>
Taxes	(\$2,300)	-0.5%	\$2,700	0.6%	\$6,100	1.2%
<b>Operating Earnings After Taxes</b>	<b>(\$3,700)</b>	<b>-0.9%</b>	<b>\$4,500</b>	<b>1.1%</b>	<b>\$10,000</b>	<b>2.0%</b>

**TABLE MC-2  
INPATIENT UTILIZATION SUMMARY BASED ON INCURRAL DATES**

	Hospital ID 1			Hospital ID 2			Hospital ID 3			Total		
	1998	1999	2000	1998	1999	2000	1998	1999	2000	1998	1999	2000
<b>Hospital Inpatient Days per 1,000 Members</b>												
Medical	75.0	90.0	70.0	35.0	20.0	30.0	15.0	10.0	20.0	125.0	120.0	120.0
Surgical	60.0	60.0	60.0	30.0	25.0	20.0	15.0	15.0	10.0	105.0	100.0	90.0
Psychiatric	-	-	-	18.0	15.0	15.0	28.0	25.0	30.0	46.0	40.0	45.0
Alcohol & Drug Abuse	2.0	3.0	2.0	10.0	8.0	12.0	1.0	2.0	1.0	13.0	13.0	15.0
Maternity	20.0	35.0	30.0	10.0	8.0	4.0	-	2.0	4.0	30.0	45.0	38.0
Skilled Nursing Care	4.0	4.0	5.0	6.0	5.0	5.0	-	-	-	10.0	9.0	10.0
<b>Total Inpatient Days</b>	<b>161.0</b>	<b>192.0</b>	<b>167.0</b>	<b>109.0</b>	<b>81.0</b>	<b>86.0</b>	<b>59.0</b>	<b>54.0</b>	<b>65.0</b>	<b>329.0</b>	<b>327.0</b>	<b>318.0</b>
<b>Hospital Inpatient Admissions per 1,000 Members</b>												
Medical	19.0	22.0	20.0	4.5	4.0	3.5	3.2	2.5	3.5	26.7	28.5	27.0
Surgical	11.0	13.0	14.0	2.5	2.3	2.0	3.2	2.8	2.0	16.7	18.1	18.0
Psychiatric	-	-	-	1.2	1.4	1.5	2.2	1.8	2.0	3.4	3.2	3.5
Alcohol & Drug Abuse	0.5	0.6	0.4	0.9	0.5	1.0	0.5	0.6	0.6	1.9	1.7	2.0
Maternity	8.0	13.5	13.0	3.0	2.8	1.5	-	0.6	1.0	11.0	16.9	15.5
Skilled Nursing Care	0.5	0.4	0.5	0.4	0.3	0.2	-	-	-	0.9	0.7	0.7
<b>Total Hospital Admissions</b>	<b>39.0</b>	<b>49.5</b>	<b>47.9</b>	<b>12.5</b>	<b>11.3</b>	<b>9.7</b>	<b>9.1</b>	<b>8.3</b>	<b>9.1</b>	<b>60.6</b>	<b>69.1</b>	<b>66.7</b>
<b>Hospital Outpatient Cases per 1,000 Members</b>												
Emergency Room	90.0	100.0	100.0	50.0	50.0	60.0	35.0	40.0	40.0	175.0	190.0	200.0
Surgery	65.0	80.0	85.0	10.0	12.0	15.0	10.0	8.0	10.0	85.0	100.0	110.0



**TABLE MC-3**  
**SUMMARY OF INCURRED CLAIMS \***  
(Amounts in \$1,000s)

	HMO Product		Point-of-Service Product	
	1998	1999	1998	1999
	2000	2000	2000	2000
Hospital Inpatient	\$33,200	\$33,500	\$62,400	\$56,400
Hospital Outpatient	\$24,200	\$25,400	\$44,000	\$42,000
Primary Care Physicians	\$11,600	\$12,700	\$16,400	\$15,900
Specialty Physicians	\$56,700	\$59,600	\$96,800	\$91,500
Other Ancillary	\$1,800	\$1,800	\$3,500	\$3,400
Prescription Drugs	\$13,400	\$14,900	\$24,900	\$25,800
Total	\$140,900	\$147,900	\$248,000	\$235,000
Average Monthly Members	75,000	77,000	125,000	115,000
		80,000		130,000
				\$62,200
				\$52,200
				\$20,100
				\$104,600
				\$3,900
				\$33,800
				\$276,800

\* Payments are net of member cost sharing and gross of provider risk or profit sharing.

**TABLE MC-4  
SUMMARY OF UTILIZATION PER 1,000 MEMBERS \***

<b>Benefit Category</b>	<b>2000 Actual</b>	<b>2001 Budget</b>
<b>Hospital Inpatient</b>		
Medical	120 Days	115 Days
Surgical	90 Days	85 Days
Psychiatric	45 Days	35 Days
Alcohol & Drug Abuse	15 Days	15 Days
Maternity	38 Days	30 Days
Skilled Nursing Care	10 Days	10 Days
<b>Total Inpatient Days</b>	<b>318 Days</b>	<b>290 Days</b>
<b>Hospital Outpatient</b>		
Emergency Room	200 Cases	180 Cases
Surgery	110 Cases	120 Cases
Radiology	230 Cases	200 Cases
Laboratory	250 Cases	200 Cases
Other Outpatient Services	150 Services	100 Services
<b>Primary Care Physician</b>		
Outpatient Surgery	90 Proced.	80 Proced.
Inpatient Visits	140 Visits	135 Visits
Office Visits	2,150 Visits	2,000 Visits
Well Baby Exams	70 Exams	100 Exams
Routine Physical Exams	500 Exams	500 Exams
<b>Specialty Physician</b>		
Inpatient Surgery	40 Proced.	45 Proced.
Outpatient Surgery	360 Proced.	320 Proced.
Anesthesia	90 Proced.	80 Proced.
Maternity	15 Cases	20 Cases
Inpatient Visits	100 Visits	90 Visits
Emergency Room Visits	180 Visits	150 Visits
Office Visits	1,160 Visits	1,100 Visits
Physical Medicine	650 Services	600 Services
Radiology	1,200 Proced.	1,000 Proced.
Laboratory	2,625 Proced.	2,250 Proced.
Vision, Hearing, Speech Exams	400 Exams	325 Exams
Outpatient Psychiatric & Sub Abuse	600 Visits	550 Visits
Chiropractor	900 Visits	700 Visits
Podiatrist	60 Visits	50 Visits
Other Medical	550 Proced.	500 Proced.
<b>Other Ancillary</b>		
Home Health	45 Visits	30 Visits
Ambulance	10 Runs	20 Runs
DME/Prosthetics	90 Units	100 Units
<b>Prescription Drugs</b>	<b>7,200 Scripts</b>	<b>7,000 Scripts</b>

\* Based on incurral date. The incurral date is defined as the date of admission for inpatient claims and the date of service for outpatient or physician claims.

**TABLE MC-5  
SUMMARY OF AVERAGE PMPM COST FOR PHYSICIAN SERVICES (1)**

	Services per 1000 Members			PMPM cost		
	1998	1999	2000	1998	1999	2000
	<b>Primary Care Physician Services</b>					
Outpatient Surgery	85	95	90	\$1.42	\$1.66	\$1.65
Inpatient Visits	160	150	140	\$1.00	\$0.94	\$0.93
Office Visits	1,950	2,080	2,150	\$6.50	\$6.93	\$8.06
Well Baby Exams	75	65	70	\$0.31	\$0.27	\$0.29
Routine Physical Exams	450	480	500	\$2.44	\$2.60	\$2.92
<b>Total PCP</b>	<b>2,720</b>	<b>2,870</b>	<b>2,950</b>	<b>\$11.67</b>	<b>\$12.40</b>	<b>\$13.85</b>
<b>Specialty Physician Services</b>						
Inpatient Surgery	45	43	40	\$5.78	\$5.66	\$5.50
Outpatient Surgery	300	330	360	\$10.00	\$11.55	\$13.20
Anesthesia	118	100	90	\$4.52	\$4.00	\$3.90
Maternity	16	13	15	\$1.53	\$1.26	\$1.50
Inpatient Visits	112	108	100	\$0.70	\$0.68	\$0.67
Emergency Room Visits	140	200	180	\$1.11	\$1.67	\$1.35
Office Visits	1,050	1,120	1,160	\$3.50	\$3.73	\$4.35
Physical Medicine	530	630	650	\$3.53	\$4.20	\$4.06
Radiology	1,245	1,230	1,200	\$8.92	\$9.02	\$8.50
Laboratory	2,870	2,680	2,625	\$10.28	\$9.83	\$8.75
Well Baby Exams	0	0	0	\$0.00	\$0.00	\$0.00
Routine Physical Exams	0	0	0	\$0.00	\$0.00	\$0.00
Vision, Hearing, Speech Exams	340	380	400	\$1.08	\$1.20	\$1.33
Outpatient Psychiatric & Sub Abuse	580	610	600	\$3.87	\$4.07	\$4.00
Chiropractor	860	740	900	\$2.72	\$2.34	\$3.00
Podiatrist	64	65	60	\$0.45	\$0.47	\$0.42
Other Medical	585	590	550	\$5.95	\$5.90	\$5.96
<b>Total SCP</b>	<b>8,855</b>	<b>8,839</b>	<b>8,930</b>	<b>\$63.94</b>	<b>\$65.58</b>	<b>\$66.49</b>
<b>Total All</b>	<b>11,575</b>	<b>11,709</b>	<b>11,880</b>	<b>\$75.61</b>	<b>\$77.98</b>	<b>\$80.34</b>

Physician Utilization by IPA in Current Year (2)	IPA		
	IPA 1	IPA 2	IPA 3
PCP Utilization	95%	0%	5%
SCP Utilization	45%	40%	15%

(1) Based on incurred dates. The incurred date is defined as the date of admission for inpatient claims and the date of service for outpatient or physician claims.  
(2) Average relative value units (mix of professional services) by PCP are assumed to be the same for all PCPs and similarly for SCPs.

**TABLE MC-6  
THREE YEAR ADMINISTRATIVE EXPENSES**

	Group Experience					
	HMO		POS		POS	
	1998	1999	2000	1998	1999	2000
Average Monthly Members	75,000	77,000	80,000	125,000	115,000	130,000
<b>Annual Expenses (in \$1,000s)</b>						
Administration & Facilities (1)	\$400	\$400	\$500	\$700	\$700	\$800
Billing and Enrollment	\$600	\$600	\$600	\$900	\$800	\$1,000
Claims	\$2,200	\$2,300	\$2,500	\$3,700	\$3,800	\$4,400
Corporate (2)	\$3,300	\$3,600	\$3,900	\$5,700	\$5,500	\$6,600
Customer Service	\$1,800	\$1,800	\$1,800	\$3,000	\$2,700	\$3,000
MIS & IT (3)	\$1,700	\$1,800	\$2,200	\$2,800	\$2,600	\$3,500
Network Development	\$1,300	\$1,300	\$1,400	\$2,200	\$2,100	\$2,400
Sales & Marketing	\$1,000	\$1,100	\$1,400	\$1,700	\$1,400	\$1,800
UM/CM/Disease Management	\$1,400	\$1,500	\$1,700	\$2,000	\$2,000	\$2,500
<b>Total Expenses (Excluding Commissions, Premium Tax, and Margin) (4)</b>	\$13,700	\$14,400	\$16,000	\$22,700	\$21,600	\$26,000
Average Commissions Percentage	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Premium Tax Percentage	0.25%	0.25%	0.25%	1.00%	1.00%	1.00%
Margin & Contingency	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%

(1) Administration and facilities have long term leases or fixed mortgages.

(2) Corporate functions include finance, actuarial, underwriting, legal, and executive departments.

(3) Systems had an unusual increase in 2000 due to system upgrades.

(4) Average commissions, premium tax, and margin are determined as a percent of premium and included separately.

**TABLE MC-7  
 PROVIDER CONTRACT MATRIX  
 CONTRACTS IN EFFECT FOR 1998, 1999, AND 2000**

	Type of Admission					
	Medical	Surgical	Psychiatric	Substance Abuse	Maternity	Skilled Nursing
Hospital Inpatient						
Hospital ID 1	Per Diem: \$1,200	Per Diem: \$1,500	N/A	Per Diem: \$600	Per Case: \$2,200	Per Case: \$600
Hospital ID 2	Day 1 Per Diem: \$1,800 Day 2+ Per Diem: \$1,200	Day 1 Per Diem: \$4,000 Day 2+ Per Diem: \$1,500	Per Diem: \$1,000	Per Diem: \$1,000	Day 1 Per Diem: \$1,500 Day 2+ Per Diem: \$1,000	Per Diem: \$700
Hospital ID 3	Discount: 20%	Discount: 20%	Discount: 20%	Discount: 20%	Discount: 20%	Discount: 20%

	Emergency Room	Surgery	Radiology	Pathology	Other
	Hospital Outpatient				
Hospital ID 1	Per Case: \$300	Per Case: \$1,500	Discount: 20%	Discount: 20%	Discount: 20%
Hospital ID 2	Level 1: \$200 Per Case Level 2: \$500 Per Case Level 3: \$1,000 Per Case	150% of Medicare ASCs Discount: 30% for Non-ASC services	Discount: 20%	Discount: 20%	Discount: 20%
Hospital ID 3	Discount: 20%	Discount: 20%	Discount: 20%	Discount: 20%	Discount: 20%

Physician Group	All Physician Services
IPA 1	120% of 1999 Medicare RBRVS
IPA 2	135% of 1999 Medicare RBRVS
IPA 3	150% of 1999 Medicare RBRVS

Prescription Drugs	Pharmacy Benefit Manager
Discount on Brand	AWP less 10%
Discount on Generic	AWP less 40%
Dispensing Fee per Script	\$2.00
Administrative Fee per Script	\$0.50
Average Rebate per Script	\$0.75

**TABLE MC-8  
PROVIDER RISK SHARE ARRANGEMENTS**

*Hospital Risk Arrangement*

Hospital ID 1	Risk Share
	<p>Inpatient and outpatient combined target rate, PMPM = \$ 35.00 for POS and HMO products                      Risk corridor = +/- 5%                      No risk sharing inside risk corridor                      Percent risk share outside risk corridor = 50%                      Maximum risk share = Maximum payment is 10% of the target PMPM outside the risk corridor</p>

Hospital ID 2	Bonus Pool Only
	<p>No profit share for outpatient services or SNF admissions                      Profit share criteria:                      Target average length of stay = 7.0 days                      Profit share formula:                      Paid only if actual LOS &lt; target LOS, otherwise no payout                      Amount paid based on average of 2nd day and later per diems                      Formula = (target LOS - actual LOS) x (average 2nd day per diem) x members/1000 x admits/1000</p>

Hospital ID 3	None

*Physician Risk Arrangements*

IPA 1	Withhold
	<p>Amount of withhold = 10% of paid claims                      Target combined PCP and SCP claim rate = \$ 38.00 PMPM                      The withhold amount is retained by the MCO until the target PMPM is met and any excess is returned to IPA 1. If the experienced PMPM is &lt; target PMPM, then the entire withhold is returned to IPA 1.</p>

IPA 2	Bonus Pool Only
	<p>Target SCP claim rate = \$ 25.00 PMPM                      Profit share formula                      if target PMPM &gt; actual PMPM, profit share =                      if target PMPM &lt; actual PMPM, profit share =</p> <p style="text-align: right;">Min{10% of target PMPM; 50%*(target PMPM - actual PMPM)} \$0</p>

IPA 3	None