

MILLIMAN REPORT DRAFT

Evaluation of Net Cost Guarantee Arrangement Calculations

2021 Review

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Executive Summary

Abarca Health, LLC (“Abarca”) engaged Milliman, Inc. (“Milliman”) to perform an independent third-party evaluation of the process and calculation of its 2021 Net Cost Guarantee Arrangement (“Arrangement”) with a health plan (“Plan”). The objective of the Arrangement is to guarantee that the Plan’s per script drug costs will neither exceed nor fall below a set dollar amount annually, with the guaranteed amount increasing every additional year for three years per the mutually established contract. The Arrangement includes pass through, guaranteed pharmacy network rates and excludes only new specialty drugs and specialty drugs not on the formulary and with no utilization in 2020. Additionally, the Plan will pay a per member per month (PMPM) administrative fee to Abarca as part of this arrangement. According to Abarca, the Arrangement intends to add transparency and predictability to participants’ drug claim cost per script by shifting the risk of unexpected drug mix and inflation onto Abarca as the pharmacy benefit manager (PBM) and leaving the participating party with only the overall utilization risk as well as having a straightforward method of reconciliation.

This report describes Milliman’s independent review of Abarca’s reconciliation process to provide an independent assessment of the actuarial appropriateness of the methodology and calculations. Based on our assessment of the reconciliation process, we conclude that Abarca’s methodology and calculations as they relate to the Net Cost Guarantee Agreement contract with the participating party in review are actuarially appropriate.

Study Review

BACKGROUND

Based on our understanding of the contractual language provided by Abarca, Abarca will reconcile the net cost guarantee quarterly. Abarca will report all eligible utilization, as defined in the Agreement, including the number of adjusted claims, any groups or drugs excluded per the contract definitions, and the reconciliation payment calculation on a quarterly basis to the participating party established in the contract.

Eligible utilization is dependent upon contractual amendments determined at the beginning of contract period. Any exclusions will be determined by Abarca on a quarterly basis and thus the guarantee will be adjusted for any changes in eligibility.

The reconciliation calculation, per the Arrangement contract, is equal to the difference between the Total Gross Claim Cost per adjusted claim (i.e., sum of the Total Plan Paid and Patient Paid amounts) and the Guaranteed Net Drug Cost per adjusted claim. Multiplying by the number of Adjusted Claims will calculate the total Net Cost True-Up payment.

Further, if the actual net drug cost is below the guarantee, Abarca will retain all of the dollars below the guarantee. Since the target net drug cost is targeted to be the projected drug cost net of rebates, Abarca retains all manufacturer rebates to use to pay the reconciliation payment.

The objective of Milliman’s review was to provide an independent assessment of the actuarial appropriateness of the methodology and calculations. We did not review the development of the Guaranteed Net Drug Cost per adjusted claim.

MILLIMAN PROCEDURES

To perform our independent evaluation, we first conducted a review of materials provided by Abarca describing the methodology for the arrangement. These materials included documents and Excel spreadsheets containing drug claims, Specialty Drug List (both included and excluded) per the contract with the participating party in review, and current year-to-date (YTD) Cost Summaries. A list of the files shared by Abarca can be found in the Caveats and Limitations section of this report.

STUDY POPULATION

Because Abarca has just begun entering into this agreement with health plans, the choice of population for our review was based on a single signed and active contractual agreement. Our review focused on only the methodology and calculations and not on the value of the Arrangement to the Plan. Future Net Cost Guarantee Agreements are expected to be contracted in a similar manner; however, reviewing additional contracts is outside the scope of this work. Additionally, our review focused only on the actuarial appropriateness of the net cost guarantee reconciliation. We did not review the contractual language for any other purpose.

METHODOLOGY OVERVIEW

To our understanding, the Net Cost True-Up payment is calculated by taking the total number of claims and the total allowed amount (i.e., Plan Paid + Patient Paid) and then adjusting these amounts based on exclusions in the contract.

Additionally, Abarca provided us with the applicable definition of “adjusted claims” which we have included below in Table 1. The purpose of the adjusted claims is to convert claims for longer days’ supply into multiple scripts to put all of the claims on a similar basis. For example, a 40-day script will count as 1 claim and a 70 day script will count as 2 claims.

Table 1: Adjusted Claims Definition

<u>Days' Supply</u>	<u>Adj Claims</u>
0-44	1
45-74	2
75-104	3
+30-day increment	+1

Our review began by processing 2021 incurred claims data provided through Q2. We then compared our total claim amounts to those reported by Abarca. We then independently reconciled adjusted claim counts and allowed dollars within 0.0% of the provided Abarca totals for this time period, as seen in Table 2 below. To our understanding, the small differences between our amounts and those reported by Abarca are due to timing of the data used in the analysis.

Table 2. Initial Data Reconciliation

	Q1 – 2021			Q2 - 2021		
	Abarca	Milliman	Δ	Abarca	Milliman	Δ
Total Adjusted Claims	788056	788056		810805	810805	
Total Allowed	\$44,124,235	\$44,124,735	0.00%	\$41,991,081	\$41,992,267	0.00%

As part of the Arrangement, there is a list of specialty drugs that are excluded from the net cost guarantee. In our next step we reviewed the drugs in the file “Excluded Specialty Drugs.xlsx” and identified these excluded claims within the Medical Claims data provided. Specialty drugs may be excluded for one of the following two reasons:

- "New specialty drugs"
- "Specialty drugs on formulary and no utilization in 2020"

In Q2 2021, only one drug was identified in the claims matching Abarca’s exclusion list, which meets the second criteria and is summarized below in Table 3.

According to Abarca, this difference is the result of timing differences between the claim reporting and Abarca’s Q2 reconciliation process. Abarca confirmed that this exclusion meets the criteria set out in the contractual language. Any difference, such as this, due to timing of the provided specialty exclusions list will be reconciled and addressed with the participating party in a later reconciliation payment. Abarca will need to clearly identify these excluded claims in a true-up reconciliation with the participating party.

Table 3. Summary of Excluded Claim Amounts

Recognized Exclusions:	Q1 - 2021		Q2 – 2021	
	Milliman	Milliman	Milliman	Milliman
Excluded Claims	0		1	
Excluded Allowed	\$0		\$18,675	

After reconciling the total adjusted claims, we calculated the gross cost per adjusted claim. The gross cost per adjusted claim is equal to the total adjusted allowed cost divided by total number of adjusted claims. The 2021 guarantee per adjusted claim is \$48.22, as provided within the agreed upon contract Amendment 9.

To finalize the quarterly net cost true-up reconciliation payment, we reviewed the difference between the gross cost per adjusted claim amount and the guarantee per adjusted claim amount multiplied by the total number of adjusted claims. The Milliman calculated reconciliation payment amount for Q1 2021 and Q2 2021 was within 1% of the provided Abarca reported payments provided in the "YTD Cost Guarantees Summary" file. Table 4 below shows true-up payments for Q1 2021 and Q2 2021.

Table 4. Summary of Reconciliation Comparison

	Q1 – 2021			Q2 – 2021		
	Abarca	Milliman	Δ	Abarca	Milliman	Δ
<u>2021 YTD Total Adjusted Experience</u>						
Total Adjusted Claims	788,056	788,056		810,805	810,804	
Gross Cost per Adjusted Claim	\$55.99	\$55.99	0.00%	\$51.79	\$51.77	0.04%
¹ Less Guarantee per Adjusted Claim	\$48.22	\$48.22	0.00%	\$48.22	\$48.22	0.00%
Reconciliation Payment Due per Adjusted Claim						
	\$7.77	\$7.77	-0.02%	\$3.57	\$3.55	0.62%
² Reconciliation Payment –Before Exclusions per Adjusted Claim	\$7.77	\$7.77	-0.02%	\$3.57	\$3.57	-0.02%

RESULTS SUMMARY

As illustrated above, the only material difference between the Reconciliation payment amounts calculated by Abarca and Milliman is due to the specialty exclusion in Q2, which, as stated previously, Abarca will reconcile with the participating party in a later reconciliation. It is likely that the remaining difference of 0.02% in our independent reconciliation calculation differs from Abarca due to timing of claims processing and reporting. Therefore, we have concluded that Abarca's calculations as they relate to the Net Cost Guarantee contract with the Plan are actuarially appropriate.

Conclusions

We have reviewed the calculations used to generate the reconciliation payment due quarterly as part of the Net Cost Guarantee agreement between Abarca and the Plan. We agree that it is an appropriate methodology and that the calculations we reviewed from Abarca follow the prescribed methodology and are actuarially appropriate. We have also confirmed that the arrangement did allow the plan to cap its average per script drug cost at the targeted amount. In addition, based our review, we believe the arrangement provides transparency and predictability while including a straightforward methodology for reconciliation.

Caveats and Limitations

This Milliman report has been prepared for the specific purpose of assessing the calculation and process of Abarca's Net Cost Guarantee Reconciliation Program. This information may not be appropriate, and should not be used, for any other purpose. This work has been prepared for Abarca to share with third party stakeholders. Milliman does not intend to benefit or create a legal duty to any third party recipient of this work. This report may only be provided to other parties in whole. If Abarca intends to use all or part of this report in other materials that are distributed to third parties, Milliman

¹ Provided by Abarca and not reviewed by Milliman

² Includes claims that will be excluded but have not yet been excluded in Abarca's reconciliation.

must review those materials and provide our permission for that distribution. Our analysis was performed under the Consulting Services Agreement with Abarca. Furthermore, the terms of Milliman's Statement of Work with Abarca signed on October 12th, 2021 apply to this report and its use.

In performing this analysis, we relied on data and other information, including verbal and written correspondence, as well as prepared files containing methodology documentation, provided by Abarca:

- "Abarca Specialty List Oct 2021.xlsx"
- "Excluded Specialty Drugs.xlsx"
- "Claims Data.csv"
- "YTD Cost Guarantees Summary.xlsx"
- "9th Amendment (Exhibit A).pdf"

We have not audited or verified this data and other information but reviewed it for general reasonableness. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete. If there are material defects in the data, it is possible that they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable or for relationships that are materially inconsistent. Such a review was beyond the scope of our assignment.

Our analysis was limited to assessing the reasonability of the current methodology as of January 2021 employed by Abarca, and no commentary regarding the validity of the contractual nature regarding the Net Cost Guarantee Agreement has been provided. We have also not provided any commentary or opinion related to Abarca's performance and no commentary or opinion on the impact of specialty drugs being excluded from the agreement.

ACKNOWLEDGMENT OF QUALIFICATION

Alex Cires, Matthew Hayes, and Joanna Amend are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.



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