

|->

Title 28@ Managed Health Care

|->

Division 1@ The Department of Managed Health Care

|->

Chapter 2@ Health Care Service Plans

|->

Article 9@ Financial Responsibility

|->

Section 1300.77.2@ Calculation of Estimated Liability for Reimbursements

1300.77.2 Calculation of Estimated Liability for Reimbursements

(a)

Each plan subject to subdivision (b) of Section 1377 shall calculate the estimate of incurred and unreported claims pursuant to a method held unobjectionable by the Director. Such method may include a lag study as defined and illustrated in subsection (c), an actuarial estimate as defined in subsection (d), or other reasonable method of estimating incurred and unreported claims. The amount required by Section 1300.77.1 to be accrued in the plan's books and records must equal the estimated total of all claims incurred but not yet received as of the end of the month as calculated in working papers, schedules or reports prepared in support of the unobjectionable lag study, actuarial estimate, or other method of estimating incurred and unreported claims.

(b)

Working papers which support the incurred and unreported claims calculation shall be maintained as part of the records of the plan. Lag study working papers shall include a detailed allocation of all claims received each month to the various months in which the services were performed. Actuarial estimate working papers must detail all underlying assumptions and calculations in establishing the actuarial rate. Any other method used to determine the amount of incurred and unreported claims must be supported by adequate working papers, schedules or

reports which detail all aspects of the incurred and unreported calculation.

(c)

A "lag study" is a schedule which analyzes historical claims information on an ongoing basis to determine the length of time lag between the date of service and the date a claim is submitted to the plan for payment. Such a study distributes all claims received each month in which the services were performed. An example of a lag study containing the minimum information necessary to be held

unobjectionable by the Director is as follows: ABC HEALTH PLAN OF CALIFORNIA
SCHEDULE TO CALCULATE HISTORIC PERCENTAGE OF INCURRED BUT UNREPORTED
CLAIMS FOR PRIOR MONTHLY PERIODS WHICH HAVE BEEN FULLY OR

SUBSTANTIALLY REPORTED

JULY 31, 19X2	MONTH CLAIM RECEIVED	Same Month	2nd	3rd	4th	5th	6th	7th	Totals for Months of Service																																		
Month of Service:	Oct. 19X1	\$150	\$500	\$200	\$100	\$50	\$1,000	Nov. 19X1	\$220	\$500	\$240	\$110	Dec. 19X1	\$150	\$600	\$300	\$100	\$75	\$25	1,250	Jan. 19X2	\$210	\$750	\$375	\$105	\$60	1,500	Feb. 19X2	\$230	\$670	\$290	\$85	\$100	\$75	\$1,450	Totals	\$960	\$3,020	\$1,405	\$500	\$315	\$100	\$6,300

Percentages: Monthly 15% 48% 22% 8% 5% 2%

Cumulative 15% 63% 85% 93% 98% 100% Explanatory notes: 1. The above represents the first schedule that is prepared to determine the incurred and unreported claims for any month following February. 2. The schedule allocates claims as they are received to the month in which the service was performed. For example, in October, the plan received \$150 of claims which had service dates in October (same month). Because this schedule begins in October, the \$150 amount would be the only entry which the plan would be able to make in October. In November, the plan received \$220 in claims which had service dates in November (same month), and \$500 of claims which had service dates in October (second month). In December, the plan received \$150 of claims which had service dates in

December (same month), \$500 of claims which had service dates in November (second month), and \$200 in claims which had service dates in October (third month). 3. The schedule indicates that \$6,300 in claims were received which had service dates of October through February. Of this amount, \$960 was received during the month of service (same month), \$3,020 in the following (second) month, \$1,405 in the third month, \$500 in the fourth month, etc. By converting these amounts to percentages of the total claims, the schedule indicates that on the average, 15% ($\$960 / \$6,300 =$) of all claims incurred during any month are received in the same month, 48% are received in the following (second) month, for a cumulative total of 63% ($15\% + 48\% =$) of all claims incurring during any month being received in the same and second months. By employing these cumulative percentages, the amount incurred but unreported claims can be estimated as of July 31, after the claims information for the current but incomplete monthly periods is analyzed, as illustrated in the following schedule: ABC HEALTH PLAN OF

MONTH CLAIM RECEIVED Same Month2nd3rd4th5th6th7thTotals for Months of
Service Month of Service: Mar., 19X2\$225\$720\$300\$120\$50 \$1,415 April,
19X2250700330110 1,390 May, 19X2240750350 1,340 June, 19X2250775
1,025 July, 19X2270 270 Total Claims received for period March 1 through July
31\$5,440 COMPUTATION OF INCURRED BUT UNREPORTED CLAIMS AS OF JULY 31
(A) (B) (C) (D) (E) Month of ServiceTotal claims received for each month of service
as of July 31Claims received as of July 31 as a cumulative percentages of total
claims to be receivedTotal claims to be received (B-C)Incurred But unreported (D-B)
July\$270(i)15%\$1,800\$1,530 June1,025(ii)63%1,625600

May 1,340(iii)85%1,575 235 April 390(iv)93%1,495 105 March 1,415(v)98%1,440 25
 February 1,450(vi)100%1,450 0 Total incurred but unreported claims as of July
 31 \$2,495 Explanatory notes: (i) Represents July claims received in July. (ii)
 Represents June claims received in June and July. (iii) Represents May claims
 received in May, June and July. (iv) Represents April claims received in April, May,
 June and July. (v) Represents March claims received in March, April, May, June and
 July. (vi) Represents February claims received in February, March, April, May, June
 and July.

(d)

An "actuarial estimate" is a calculation of incurred and unreported claims which is based on adequate and reasonable assumptions with respect to risk factors and trends which have been found to be applicable to the plan, such as utilization patterns of the plan's enrollees, the average benefit which will be payable, the enrollment mix in terms of age and sex of enrollees and geographic location, actual plan contract experience, and any other factors reasonably believed to affect the amount of incurred and unreported claims. Actuarial estimates must be supported by an actuarial certification, consisting of a signed declaration of any actuary who is a member in good standing of the American Academy of Actuaries in which such actuary states that the assumptions used in calculating the incurred and unreported claims are appropriate and reasonable. If the plan employs an actuarial study to estimate the amount of the incurred and unreported claims, it must compare the actual claims amounts to those estimated, and make adjustments at least quarterly whenever a 5% difference from actual experience is noted.

(e)

A plan may employ any other unobjectionable alternative method of estimating

the amount of incurred and unreported claims other than the "lag study" or "actuarial estimate," so long as such alternative method accurately estimates incurred and unreported claims. For example, a plan may receive daily reports of actual hospital admissions and referrals, thereby permitting the plan to compare these reports to the actual invoices and calculate the estimated amount due hospitals for the enrollees whose claims had not been received by the plan at that time.