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October 18, 2005

***By E-mail and U.S. Mail***

Alessandro A. Iuppa, Superintendent  
Attn: Vanessa J. Leon, Docket No. INS-05-700  
Bureau of Insurance  
Maine Department of Professional & Financial Regulation  
124 Northern Avenue  
Gardiner, Maine 04345

**Re: In Re: Review of Aggregate Measurable Cost Savings Determined by Dirigo  
Health for the First Assessment Year  
Docket No. INS-05-700**


Dear Superintendent Iuppa:

Enclosed for filing in the above-referenced matter please find the original and one (1) copy of the following documents:

1. Filing Cover Sheet; and
2. Maine State Chamber of Commerce Supplemental Response to Dirigo Health First Information Request to Maine State Chamber of Commerce

Thank you for your attention to this matter.

Very truly yours,



William H. Stiles

WHS/rdl  
Enclosure

cc: Service List (*by e-mail*)  
John Kelly (*by e-mail and U.S. Mail*)  
Kristine Ossenfort

STATE OF MAINE  
DEPARTMENT OF PROFESSIONAL AND FINANCIAL REGULATION  
BUREAU OF INSURANCE

IN RE: REVIEW OF AGGREGATE )  
MEASURABLE COST SAVINGS )  
DETERMINED BY DIRIGO ) FILING COVER SHEET  
HEALTH FOR THE FIRST )  
ASSESSMENT YEAR )

DOCKET NO. INS-05-700

**To: Alessandro Iuppa, Superintendent of Insurance**  
**Attn: Vanessa J. Leon**

Dated Filed: October 18, 2005

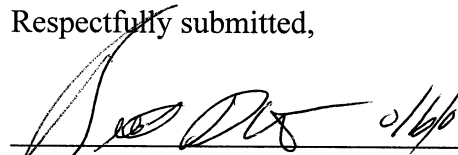
Name of Party: Maine State Chamber of Commerce

Document Title Supplemental Response to Dirigo Health First Information Request to  
Maine State Chamber of Commerce

Document Type: Response

Confidential: No

Respectfully submitted,

  
\_\_\_\_\_  
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STATE OF MAINE  
DEPARTMENT OF PROFESSIONAL AND FINANCIAL REGULATION  
BUREAU OF INSURANCE

IN RE:	)	
	)	
REVIEW OF AGGREGATE	)	
MEASURABLE COST SAVINGS	)	
DETERMINED BY DIRIGO HEALTH	)	<b>MAINE STATE CHAMBER OF</b>
FOR THE FIRST ASSESSMENT YEAR	)	<b>COMMERCE SUPPLEMENTAL</b>
	)	<b>RESPONSE TO DIRIGO</b>
	)	<b>HEALTH FIRST INFORMATION</b>
	)	<b>REQUEST TO MAINE STATE</b>
	)	<b>CHAMBER OF COMMERCE</b>
	)	
	)	
Docket No. INS-05-700	)	

Without waving objections filed on October 12, 2005, the Chamber responds to the Board of Directors of Dirigo Health's (the "Board") Information Requests as follows:

1. Please provide with regard to Attachment 7 to the Dirigo filing (Lewin Group presentation of September 13, 2005) the following information by hospital and hospital fiscal year for the years 1999-2004:

- a. Gross Patient Service Revenue (GPSR)
- b. Net Patient Revenue
- c. Total operating revenue
- d. Total operating expense
- e. Total operating income
- f. Total non-operating income
- g. Operating margin
- h. Case mix factors

- i. Discharges
- j. Cost per case mix adjusted discharges
- k. Annual growth inflation rates, indicating time periods and source

**Response (including all subparts): The Chamber did not create, with regard to Attachment 7, a document containing the information requested by the Board in the form requested by the Board. The information sought is available in Medicare Cost Reports, which are publicly available at the Centers for Medicare and Medicaid Services website, too voluminous to copy, and already in the possession of the Board's consultants. The Medicare Cost Report information is publicly available at [http://www.cms.hhs.gov/data/download/hcris\\_hospital/default.asp](http://www.cms.hhs.gov/data/download/hcris_hospital/default.asp).**

**Non-Medicare Cost Reporting documents that were utilized in the creation of Attachment 7 are attached to this Response at Attachment 1.**

- 2. With regard to your response to Request No. 1, please state:
  - a. What populations (Medicare, MaineCare, Private payors, charity care) are included in the data used

**Response: All populations; see also Attachment 1.**

- b. The exact formula utilized for the calculation of cost per case mix adjusted discharge (CMAD)

**Response: See Attachment 1; see also supplemental Attachment 4 formulas.**

- c. The exact formula utilized for the calculation of consolidated operating margin (COM)

**Response: See Attachment 1; see also supplemental Attachment 4 formulas.**

- d. The exact formula utilized for the calculation of average annual growth inflation adjusted CMAD

**Response: See Attachment 1; see also supplemental Attachment 4 formulas.**

- e. Any other factors not included in Requests No. 1 and No. 2 used in the calculations

**Response: See Attachment 1.**

3. With regard to your responses to Requests No. 1 and No. 2, please identify the sources of all data used.

**Response: See Attachment 7 to the Dirigo filing, which identifies source data for most pages; see also Response to Request No. 1. The analysis pertaining to the four major insurers was based on annual insurer filings supplied by the Maine Bureau of Insurance.**

4. Please provide with regard to Attachment 7 to the Dirigo filing (Lewin Group presentation of September 13, 2005) the following information by hospital and hospital fiscal year for the years 1999-2004:

- a. All components used to calculate COM
- b. All components used to calculate CMAD
- c. The formula used to calculate savings
- d. The formula used to calculate increases
- e. Include in your response any constraints such as the inclusion of only hospitals whose average margin is above 3% in COM

**Response (including all subparts): The Chamber did not create, with regard to Attachment 7, a document containing the information requested by the Board in the form requested by the Board. The information sought is available in Medicare Cost Reports, which are publicly available, too voluminous to copy, and already in the possession of the Board's consultants.**

**Non-Medicare Cost Reporting documents that were utilized in the creation of Attachment 7 are attached to this Response at Attachment 1. Please see Response to**

**Request 2, and also see Attachment A to Attachment 7 to the Dirigo filing, which contains formulas.**

5. To the extent not already provided in response to Requests No. 1-4, please provide all data, calculations, information, work papers, documents and other materials of whatever kind and nature used in developing GPSR, COM and CMAD.

**Response: See Attachment 1 to this Response.**

6. With regard to your responses to Requests No. 3 and No. 4, please identify the sources of all data used.

**Response: See responses to Requests No. 1 and No. 3.**

7. Please provide with regard to Attachment 7 to the Dirigo filing (Lewin Group presentation of September 13, 2005) (case-mix adjusted charges per adjusted discharge) the following information by hospital and hospital fiscal year for the years 1999-2004:

- a. Total inpatient charges
- b. Total outpatient charges
- c. Total charges
- d. Total discharges
- e. Adjusted discharges
- f. Total inpatient payments
- g. Total outpatient payments
- h. Total payments
- i. Total discounts
- j. Discount factor

**Response (including all subparts):** The Chamber did not create, with regard to Attachment 7, a document containing the information requested by the Board in the form requested by the Board. The information sought is available in Medicare Cost Reports, which are publicly available, too voluminous to copy, and already in the possession of the Board's consultants.

**Non-Medicare Cost Reporting documents that were utilized in the creation of Attachment 7 are attached to this Response at Attachment 1.**

8. With regard to your response to Request No. 7, please state:

a. What populations are included in the data and calculations.

**Response:** See Response to Request No. 2; See Attachment 1 to this Response;

**See Attachment 7 to Dirigo Filing.**

b. The exact formula used for the CHGD calculation

**Response:** See Attachment 1 to this Response; See Attachment 7 to Dirigo Filing; specifically, Attachment A.

c. When public, private or both types of data is used

**Response:** See Attachment 1 to this Response; See Attachment 7 to Dirigo Filing.

d. Any other factors not included in Requests No. 6 and No. 7 used in the calculations

**Response:** See Attachment 1 to this Response; See Attachment 7 to Dirigo Filing.

9. To the extent not already provided in response to Requests No. 7 and 8, please provide all data, calculations, information, work papers, documents and other materials of whatever kind and nature used in CHGD.

**Response:** See Attachment 1 to this Response; See Attachment 7 to Dirigo Filing.

10. With regard to your responses to Requests No. 7 and No. 8, please identify the sources of all data used.

**Response: See Attachment 1 to this Response; See Attachment 7 to Dirigo Filing.**

11. Please provide with regard to Attachment 7 to the Dirigo filing (Lewin Group presentation of September 13, 2005) (Estimation Error for Savings Formulas as a Percent of Hospital Revenues) the following information:

- a. All backup data used to calculate the “Estimation Error for Savings Formulas as a Percent of Hospital Revenues.”
- b. A description of the methodology used for this calculation

**Response: The Chamber is waiting to receive this information from The Lewin Group and will supplement this response as soon as it receives it.**

**Supplemental Response: The Lewin Group calculated the estimation of errors as a percentage of total hospital revenues. Hospital revenues were taken from the Medicare cost report data for 2003. Errors are shown for the Dirigo method as compared to the payor group proposed method.**

12. To the extent not already provided in response to Request 11, please provide all data, calculations, information, work papers, documents and other materials of whatever kind and nature used in developing the Estimation Error for Savings Formulas as a Percent of Hospital Revenues.

**Response: See Attachment 1 to this Response; See Attachment 7 to Dirigo Filing.**

13. With regard to your responses to Requests No. 11, please identify the sources of all data used.

**Response: See Attachment 1 to this Response; See Attachment 7 to Dirigo Filing.**

14. Please provide with regard to Attachment 7 to the Dirigo filing (Lewin Group presentation of September 13, 2005) (Model Verification Exercise) the data underlying the calculations used on this page, including that used for New Hampshire.

**Response:** See Attachment 1 to this Response; See Attachment 7 to Dirigo Filing.

15. To the extent not already provided in response to Requests No. 14, please provide all data, calculations, information, work papers, documents and other materials of whatever kind and nature used in developing Hospital Uncompensated Care for 2004.

**Response:** See Attachment 1 to this Response; See Attachment 7 to Dirigo Filing

16. With regard to your responses to Requests No. 14, please identify the sources of all data used.

**Response:** See Attachment 1 to this Response; See Attachment 7 to Dirigo Filing, which states with respect to the Model Verification exercise: “Lewin Group estimates using the Medicare hospital cost report data and data supplied by the Maine Hospital Association.”

17. Please provide with regard to Attachment 7 to the Dirigo filing (Lewin Group presentation of September 13, 2005) (Hospital Uncompensated Care Measure Should be on a “Cost” Basis) a detailed description of the components that were used in developing the uncompensated care figure of \$61.5 million.

**Response:** See Attachment 1 to this Response; See Attachment 7 to Dirigo Filing, page

12.

18. To the extent not already provided in response to Requests No. 17, please provide all data, calculations, information, work papers, documents and other materials of whatever kind and nature used in developing Hospital Uncompensated Care for 2004.

**Response:** See Attachment 1 to this Response; See Attachment 7 to Dirigo Filing.

19. With regard to your responses to Requests No. 17, please identify the sources of all data used.

**Response:** See Attachment 1 to this Response; See Attachment 7 to Dirigo Filing.

20. If you contend that there have been increased costs in the health care system as a result of the operation of Dirigo Health, please:

a. Identify each cost

**Response:** To the extent that Dirigo has expanded coverage, there are additional costs associated with providing health care services to such patients.

b. State the amount of each cost identified

**Response:** The Chamber has not attempted to quantify such costs and is under no obligation to do so. However, the Chamber suggests that the cost for such care would be whatever amount Dirigo Health or such other payor pays for members who have received coverage as a result of the operation of Dirigo Health (including all Medicaid expansion or “Woodwork Effect” claimed to have arisen as a result of the operation of Dirigo Health). In addition, if the new payor is MaineCare through the “Woodwork Effect”, lower MaineCare rates of payment and delays in payment will produce greater cost-shifting, thus driving up cost for all other payors.

c. State how each cost identified is the result of the operation of Dirigo Health

**Response:** Although there may be some future positive impact on bad debt and charity care, it is reasonable to expect some bad debt to continue, associated with Dirigo Choice enrollees who do not pay their out-of-pocket amounts. The Board’s methodology does not take this into account.

**Also, even conceding some future positive impact on bad debt and charity care, providers are typically reimbursed by MaineCare at below cost, so any purported benefit of adding additional MaineCare enrollees through the so-called “Woodwork Effect” must take into account the overall increased cost and resultant cost shift that must occur for providers to meet their costs.**

**Finally, Dirigo has the potential to increase costs in the health care system to the extent that it imposes a savings offset payment before those savings are passed through to payors and consumers. See also Response to Request No. 20(b).**

d. Provide all data, calculations, information, work papers, documents and other materials of whatever kind and nature used in developing each cost identified.

**Response: See Response to Request No. 20(b).**

21. If you contend there are savings in the health care system not the result of the operation of Dirigo Health, please:

a. Identify each savings

**Response: Some or all of the savings identified by the Board Filing with respect to COM, CMAD, VUG are the result of randomly occurring factors in a complex industry, including but not limited to patient volume fluctuations, expense fluctuations, adjustments to case mix index, fluctuating payor mix, national and state trends, and hospital affiliation.**

**In addition, the Chamber is aware of many employer and insurer efforts to reduce costs, including employee wellness programs, disease management initiatives, co-payment incentives and other cost-containment initiatives.**

b. State the amount of each savings identified

**Response:** The Chamber has not attempted to quantify each such savings and is under no obligation to do so. It is the Board's obligation to show that its savings determination is reasonable, including that any alleged savings is "as a result of Dirigo."

c. State how each savings identified was achieved

**Response:** See Response to Request 21(a).

d. Provide all data, calculations, information, work papers, documents and other materials of whatever kind and nature used in developing each savings identified.

**Response:** See Response to Request 21(a) and (b).

22. Please identify the persons, organizations, groups or other entities that developed or contributed to development of the methodology presented by the payor group to the Board on August 29, 2005, which is Attachment 4 to the Dirigo filing. Include in your answer the contribution made by each person, organization, group or entity.

**Response:** The methodology presented by the payor group was developed by the payor group, and not by the Chamber. The methodology was developed principally by Sharon Roberts of Anthem and Frank McGinty of MaineHealth, with input from other payor group members in a caucus meetings of the payor representatives of the Dirigo Health working group on August 8 and August 9, 2005.

The interested parties present, who may or may not have participated in the discussion, included Frank McGinty (MaineHealth), Sharon Roberts (Anthem), John Benoit (Employee Benefit Solutions), Dan Roet (BIW), David Brenerman (UNUMProvident), Joe Mackey (Cigna/Public Affairs Group), Katherine Pelletreau (MAHP), James Reid (Aetna), Katie Fullam Harris (Anthem), Bill Ferdinand (Eaton

**Peabody), David Winslow (Maine Hospital Association) and Kristine Ossenfort (MSCC).**

**It is impossible to identify the contribution made by each person. See also Attachments 1 and 2 of the Dirigo Filing.**

23. Please state in detail the role, if any, the Lewin Group played in the development of the methodology presented by the payor group to the Board on August 29, 2005, which is Attachment 4 to the Dirigo filing.

**Response: See response to Request 22. As previously stated, the methodology presented to the Dirigo Health Board on August 29, 2005, was developed by the payor representatives on the Dirigo Health Working Group.**

24. Please state the purpose for which the Lewin Group was retained. Include in your answer a detailed description of the work performed by the Lewin Group.

**Response: See Attachment 2 to this response.**

25. Please explain the reasons that the methodology presented by the Lewin Group to the Board on September 13 and 14, 2005 (Attachments 7 and 10 to the Dirigo filing) was different from the methodology presented by the payor group on August 29, 2005 (Attachment 4).

**Response: As indicated on p. 4 of the Draft Payor Caucus Report that was submitted to the Dirigo Health Board of Directors on August 29, 2005, and as explained by a representative of the Maine State Chamber of Commerce at the September 13, 2005, meeting of the Dirigo Health Board of Directors, the methodology presented on September 13 was simply a proxy measure for the methodology presented on August 29, 2005, in response to concerns expressed by working group members representing the interests of Dirigo Health.**

**The proxy measure was developed for use on an interim basis in response to concerns expressed by working group members representing the interests of Dirigo Health that the data was not available and/or not auditable or verifiable in order to implement the methodology described on August 29. The payor representatives presented the September 13 methodology as an interim measure, which would allow sufficient time for the collection of data to permit the future implementation of the August 29 methodology.**

26. Please identify the persons, organizations, groups or other entities that developed or contributed to development of the methodology presented by the Lewin Group to the Board on September 13 and 14, 2005. Include in your answer the contribution made by each person, organization, group or entity.

**Response: The methodology presented on September 13 and September 14, 2005, was developed by John Sheils of The Lewin Group, with input from Mr. Grady Catterall, and Mr. Randy Hought, also of the Lewin Group.**

27. Please provide with regard to Attachment 7 to the Dirigo filing (Lewin Group presentation of September 13, 2005) all data, calculations, information, work papers, documents and other materials of whatever kind and nature used in developing savings from:

- a. COM
- b. CMAD
- c. CHGD

**Response: See Attachment 7 to the Dirigo Filing; See Attachment 1 to this Response.**

28. Please provide with regard to Attachment 10 to the Dirigo filing (Lewin Group presentation of September 14, 2005) all data, calculations, information, work papers, documents and other materials of whatever kind and nature used in developing increases from:

- a. COM
- b. CMAD
- c. CHGD

**Response:** See Attachment 1 to this Response.

29. With regard to your responses to Requests No. 27 and 28, please identify the sources of all data used.

**Response:** See Attachment 10 to the Dirigo Filing; See Response to Request 1 and Attachment 1 to this Response.

30. With regard to Attachment 4 to the Dirigo filing, please identify which of the 11 savings initiatives list in Attachment 11 to the Dirigo filing are included in the GPSR calculation.

**Response:** The methodology presented by the payor group was developed by the payor group, and not by the Chamber. See also Attachment 4 to Dirigo Filing, where the payor group explained its proposed methodology for determining any appropriate savings.

31. With regard to Attachment 7 to the Dirigo filing, please identify which of the 11 savings initiatives list in Attachment 11 to the Dirigo filing are included in the CHGDs calculation.

**Response:** The Chamber does not agree that the savings identified in all 11 savings initiatives are appropriate. All appropriate savings are fully reflected in the CHGD calculation. See Attachment 7 to Dirigo Filing, at page 2.

32. With regard to Attachment 10 to the Dirigo filing, please identify which of the 11 savings initiatives list in Attachment 11 to the Dirigo filing are included in the CHGDs calculation.

**Response:** The Chamber does not agree that the savings identified in all 11 savings initiatives are appropriate. All appropriate savings are fully reflected in the CHGD calculation. See Attachment 10 to Dirigo Filing.

33. With regard to Attachment 10 to the Dirigo filing, if you have not already done so, please provide the source data AHRQ, Medical Expenditure Panel Survey-Insurance Component, 2001, 2002 and 2003 data.

**Response:** The Chamber does not have the source data for this Request. The source data for this Request is in the possession of AHRQ. The source data is extremely voluminous and is publicly available at <http://www.meps.ahrq.gov/MEPSNet/IC/MEPSnetIC.asp>.

34. Please state the date on which the Maine State Chamber and/or other members of the payor group retained or otherwise engaged the Lewin Group.

**Response:** The Lewin Group was retained by the Maine State Chamber of Commerce and the Maine Association of Health Plans on July 27, 2005. See also Attachment 2 to this Response.

35. Please provide copies of any agreement pursuant to which the Lewin Group has provided services to the Maine State Chamber and/or other members of the payor group.

**Response:** Please see Attachment 2 to this Response.

36. Please state the amount that the Maine State Chamber and/or other members of the payor group have paid to the Lewin Group to date.

**Response:**  
**\$47,075.00.**

37. Please state the rate at which the Maine State Chamber and/or other members of the payor group have agreed to pay the Lewin Group for services in connection with this proceeding.

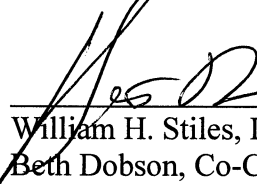
**Response:** To the extent services rendered in connection in this proceeding are not covered by the contract entered into on July 27, 2005, they will be reimbursed at the rate of \$310 per hour, plus travel expenses.

38. Please provide copies of all consultant or expert reports you intend to submit as evidence or otherwise use for this proceeding.

**Response:** See Attachment 3 to this Response. The Chamber's experts are currently developing final reports, but such reports are not complete at this time because Dirigo has not yet provided its Responses to the Chamber's Request for Information. These responses will be necessary before the Chamber's experts can finalize their reports. These reports will be provided to the Board when they are complete.

Dated: October 18, 2005

Respectfully submitted,



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William H. Stiles, Lead Attorney  
Beth Dobson, Co-Counsel  
Brett D. Witham, Co-Counsel  
Counsel for the Maine State Chamber  
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**CERTIFICATE OF SERVICE**

I, Brett D. Witham, attorney for the Maine State Chamber of Commerce, hereby certify that on this day the foregoing document was served on the following parties via first-class mail and electronic mail:

Alessandro A. Iuppa, Superintendent  
Attn: Vanessa J. Leon, Docket No. INS-05-700  
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I, Brett D. Witham, attorney for the Maine State Chamber of Commerce, hereby certify that on this day the foregoing document was served on the following parties via and electronic mail only, as follows:

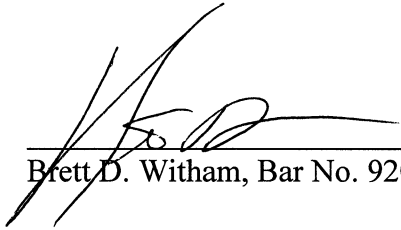
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Dated: 10/18/05

  
Brett D. Witham, Bar No. 9209

# ATTACHMENT 4

**Formulas used in Case-mix adjusted charges per adjusted discharge methodology (CHGD)**

$$\text{CHGD} = \frac{\text{inpatient charges} + \text{outpatient charges}}{\text{adjusted discharges}}$$

where:

$$\text{adjusted discharges} = \text{discharges} \times \frac{\text{total charges}}{\text{inpatient charges}}$$

***Calculation of expected growth rate for 2004:***

$$\text{Exp Growth} = \frac{\text{CHGD for 2003}}{\text{CHGD for 2000} \times \text{HMKT adj.} \times \text{CMI adj.}}$$

where:

HMKT – Hospital Market Basket Price Index

$$\text{HMKT adjustment} = \frac{\text{HMKT index for 2003}}{\text{HMKT index for 2000}}$$

$$\text{Case mix (CMI adjustment)} = \frac{\text{CMI for hospital in 2003}}{\text{CMI for hospital in 2000}^1}$$

***Computation of expected CHGD (ECHGD) in 2004:***

$$\text{ECHGD} = \text{CHGD ion 2003} \times \text{Exp Growth} \times \text{HMKT change 2004}$$

where:

HMKT change 2004 =	$\frac{\text{HMKT index for 2004}}{\text{HMKT index for 2003}}$

***Savings (increase) for hospitals in 2004:***

$$(\text{Actual CHGD for 2004} - \text{ECHGD for 2004}) \times \text{adjusted discharges} \times \text{discount factor}$$

where:

Discount factor = average percentage discount for commercial insurers

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<sup>1</sup> Severity of caseload adjustment developed for the Medicare Cost Report data for each hospital in each year.

**Formulas used in Case-mix adjusted costs per adjusted discharge methodology (CMAD)**

$$\text{CMAD} = \frac{\text{inpatient costs} + \text{outpatient costs}}{\text{adjusted discharges}}$$

where:

$$\text{adjusted discharges} = \text{discharges} \times \frac{\text{total charges}}{\text{inpatient charges}}$$

***Calculation of expected growth rate for 2004:***

$$\text{Exp Growth} = \frac{\text{CMAD for 2003}}{\text{CMAD for 2000} \times \text{HMKT adj.} \times \text{CMI adj.}}$$

where:

HMKT - Hospital Market Basket Price Index

$$\text{HMKT adjustment} = \frac{\text{HMKT index for 2003}}{\text{HMKT index for 2000}}$$

$$\text{Case mix (CMI adjustment)} = \frac{\text{CMI for hospital in 2003}}{\text{CMI for hospital in 2000}^2}$$

***Computation of expected CMAD (ECMAD) in 2004:***

$$\text{ECMAD} = \text{CMAD ion 2003} \times \text{Exp Growth} \times \text{HMKT change 2004}$$

where:

HMKT change 2004 =	$\frac{\text{HMKT index for 2004}}{\text{HMKT index for 2003}}$

***Savings (increase) for hospitals in 2004:***

$$(\text{Actual CMAD for 2004} - \text{ECMAD for 2004}) \times \text{adjusted discharges} \times \text{discount factor}$$

where:

Discount factor = average percentage discount for commercial insurers

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<sup>2</sup> Severity of caseload adjustment developed for the Medicare Cost Report data for each hospital in each year.