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December 16, 2009

Ms. Karen Peed
Minnesota Department of Human Services
540 Cedar Street
St. Paul, MN 55101-2208

Re: PINs Capitation Rates Effective January 2010

Dear Karen:

Thank you for asking Milliman to assist the Minnesota Department of Human Services (DHS) with the development of capitation rates. The capitation rates in this letter are for a subpopulation of disabled children under age 18 using Preferred Integrated Networks (PINs). Capitation payment rates in 2010 are derived by applying adjustment factors to the rates in effect as of the fourth quarter of 2009. Adjustments are made for (1) cost and utilization trend, (2) payment levels for Targeted Case Management (TCM), and (3) benefit changes.

The purpose of this analysis is to assist the Minnesota Department of Human Services with setting payment rates for contracting health plans for this program. The results may not be appropriate for other purposes.

The results contained in this letter are intended only for use by DHS and CMS, the federal agency that must approve the capitation rates herein. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work. This letter should be reviewed only in its entirety. It assumes the reader is familiar with Minnesota's Medicaid programs and managed care rating principles.

The results in this letter are technical in nature and are dependent upon specific assumptions and methods. No party should rely upon these results without a thorough understanding of those assumptions and methods. Such an understanding may require consultation with qualified professionals.

Differences between estimates and actual amounts depend on the extent to which future experience conforms to the assumptions made for this analysis. It is almost certain that actual experience will not conform exactly to the assumptions used in this analysis. Actual amounts will differ from projected amounts to the extent that actual experience is different than expected. Accordingly, DHS should continue to carefully monitor actual experience and make adjustments as necessary.

This material assumes that the reader is familiar with MN Medicaid programs, their eligibility rules, rating approaches and other factors. The material was prepared solely to provide assistance to DHS to set capitation rates. It may not be appropriate for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work. This material should only be reviewed in its entirety.

In performing this analysis, I have relied on data and other information provided to me by DHS. I have not audited or verified this data and other information. If the underlying data or information is inaccurate or incomplete, the results of my analysis may likewise be inaccurate or incomplete.

I have performed a limited review of the data used directly in my analysis for reasonableness and consistency, and have not found material defects in the data. 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 this assignment.

Results Summary

Exhibit A of this letter contains the PMPM capitation rates for the PINs program effective for calendar year 2010. Starting with the rates effective during fourth quarter 2009, I applied a trend factor based on an annual trend rate of 6.15% to the portion of the rate for all services other than TCM. For TCM, I used information provided by DHS regarding FFS payment levels to develop payment rates.

The rates provided in Exhibit A are for Dakota County. If the program expands to other counties in 2010, I understand DHS intends to develop rates specific to those counties.

Methodology and Assumptions

For all services other than TCM, the 2010 rate is calculated by applying a trend factor and an adjustment for benefit changes. I applied these adjustments to the fourth quarter 2009 “Base Rates less TCM Add-On” (see Table 1). I entered these figures on Exhibit A column (h). These figures include the component of the rate (before withhold and after MERC carve-out) corresponding to all services other than TCM. Note that the 2010 rates in Table 1 may not equal the product of the 2009 rates and adjustments due to rounding.

Table 1: Development of 2010 “Base Rate Less TCM Add-On”

Age Group	2009Q4 Base Rate Less TCM Add-On	Trend Factor	Adjustment for Benefit Changes	2010 Base Rate Less TCM Add-On
1-5	\$3,737.75	1.0406	1.0088	\$3,923.73
6-12	\$2,194.43	1.0406	1.0099	\$2,306.10
13-17	\$1,793.69	1.0406	1.0106	\$1,886.27

The trend factor shown in Table 1 (1.0406) is based on an annual trend rate of 6.15%, the same rate used in my analysis regarding capitation rate adjustments for PMAP Families & Children and Pregnant Women. This trend factor is based on 8 months of trend from the midpoint of the 2009 rate effective period (September - December 2009) to the midpoint of calendar year 2010. (Note that rateable reductions corresponding to legislative changes and unallotments were applied for

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fourth quarter 2009 to rates that were originally intended to be effective September – December 2009.)

The adjustments for benefit changes shown in Table 1 include adjustments for (1) changes in dental benefits, (2) coverage for Gardasil for males, (3) health care home coverage, and (4) hospital rateable reductions. These benefit changes are described in detail in my December 10 letter regarding benefit changes.

For the changes in dental benefits and coverage of Gardasil for males, the adjustments are based on the projected benefit cost PMPM for PMAP enrollees up to age 20. For the health care home benefit, the adjustment is based on DHS projections regarding the PINs enrollment distribution by number of chronic conditions, as shown in Table 2. Accounting for the enrollment distribution, average payments PMPM total \$20.08. Assuming an average of 1.5 months of payments per enrollee (the same assumption used for the other programs), projected payments PMPM total \$2.51.

Table 2: PINs Projected Enrollment Distribution and Average Payments PMPM

Number of Chronic Conditions	Enrollment Distribution	Projected Average Payments PMPM
0	13%	\$0.00
1	26%	\$5.24
2	23%	\$14.90
3	18%	\$25.78
4+	20%	\$53.25

The adjustment for hospital rateable reductions takes into account the reductions in effect in 2010 and the projected percentage of claim cost associated with inpatient services (other than mental health).

To develop the rate for TCM services (“TCM Component” on Exhibit A column f), I started with the fiscal year 2010 FFS rate of \$744 PMPM, provided by DHS. I applied an eligibility adjustment of 0.9 and a utilization adjustment of 0.9. These adjustments reflect DHS expectations regarding eligibility for and utilization of TCM services for the PINs population in 2010. I applied 6 months of trend at an annual rate of 5.2% to arrive at a TCM base rate of \$618.11 PMPM. Noting that the “TCM Component” in column (f) of Exhibit A is after MERC, I multiplied this \$618.11 by 0.98 to arrive at the \$605.75 shown in Exhibit A.

To calculate the Medical Education Carve Out (Exhibit A column d), I added the figures in columns (f) and (h), divided by 0.98 and multiplied by the 2% MERC carve-out for Dakota county. The “Adjusted Base Rate” in column (c) is then calculated as the sum of columns (f), (h), and (d). Now, column (b), Rateable Reductions, is equal to the value of the inpatient hospital rateable reductions to

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be applied in 2010, after backing out the 2009 rateable reductions. Finally, column (a) is calculated as the sum of columns (b) and (c), and all other columns are calculated as shown in Exhibit A.

I used a withhold of 9.5%, consistent with the withhold for PMAP Families & Children and Pregnant Women rates.



Karen, you can reach me at [REDACTED] or at [REDACTED].

Sincerely,

A handwritten signature in blue ink that reads 'Leigh M. Wachenheim'.

Leigh Wachenheim, FSA, MAAA
Principal & Consulting Actuary

LMW/ral

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**Exhibit A: PINs PMPM Plan Payment Calculation for
Rates Effective Calendar Year 2010
Dakota County**

Area and Age Group	Base Rate (a)	Rateable Reductions (b)	Adjusted Base Rate (c)=(a)-(b)	Medical Education Carve Out (d)	2010 Rates Excl. Med. Educ. and RR (e)=(c)-(d)	TCM Component (f)	TCM Withhold (g)=(f)*.095	Base Rate less TCM Add-On (h)=(e)-(f)	Base Rate Withhold (i)=(h)*.095	Withhold (j)=(g)+(i)	2010 Rates Excl. Withhold (k)=(h)-(j)+(d)	2010 Rates less MERC less Withhold (l)=(k)-(d)	CY 2010 Plan Pmt with TCM (m)=(l)+(f)
Dakota County													
1-5	\$4,627.89	\$5.98	\$4,621.92	\$92.44	\$4,529.48	\$605.75	\$57.55	\$3,923.73	\$372.75	\$430.30	\$3,585.87	\$3,493.43	\$4,099.18
6-12	\$2,975.11	\$3.84	\$2,971.27	\$59.43	\$2,911.84	\$605.75	\$57.55	\$2,306.10	\$219.08	\$276.63	\$2,088.90	\$2,029.47	\$2,635.22
13-17	\$2,546.16	\$3.29	\$2,542.87	\$50.86	\$2,492.02	\$605.75	\$57.55	\$1,886.27	\$179.20	\$236.74	\$1,700.38	\$1,649.53	\$2,255.27

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