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November 14, 2007

Mr. R. Jason Wiley
Managed Care Rate Setter
Minnesota Department of Human Services
540 Cedar Street
St. Paul, MN 55101-2208

Re: Risk Adjusted Rate Rebasing

Dear Jason:

Thank you for asking Milliman to assist the Minnesota Department of Human Services (DHS) in adjusting base rates for changes in risk adjustment methodology from 2007 to 2008. This letter discusses my recommended adjustment factors for PMAP Families & Children & Pregnant Women, PGAMC, MNCare MA, and MNCare Non-MA.

The adjustment factors in this letter reflect two changes in risk adjustment methodology. First, I understand that starting in 2008 risk scores will be calculated using version 6.06 of the Adjusted Clinical Groups (ACGs), rather than version 4.1. DHS has developed new risk weights based on the new version, and a change in base rates is needed in order for these new weights to be revenue neutral.

The second change addressed in this letter only applies to PMAP and MSHO. Starting in 2008, I understand that non-Medicare eligible seniors will no longer be subject to risk adjustment (dual eligible seniors are not currently subject to risk adjustment). You have asked me to make a further adjustment to the PMAP risk adjustment base rate so that the removal of these seniors from the risk adjusted pool will also be revenue neutral.

My recommended adjustment factors appear in Table 1 below. Current risk adjusted base rates should be multiplied by the corresponding factors as shown in Table 2 as part of the adjustment process for 2008. Please note that these factors only address the two changes listed above, and do not include adjustments for benefit changes, changes in statewide demographic or area mixes, or any other changes between 2007 and 2008.

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.

**Table 1: Recommended Adjustment Factors for Risk Adjusted Base Rates**

Program	Seniors Carve-out	v4.1 to v6.06 Adj.	Total
PMAP F&C&PW		0.9655	1.2277
PGAMC/GA	N/A		1.5588
MNCare	N/A		1.0224

Table 2: Application of Factors to 2007 Base Rates

Program/ Eligibility Group	2007 Base Rate	Adj. 2007 Base Rate
PMAP F&C&PW	\$241.87	\$286.70
PGAMC/GA	\$451.91	\$704.45
MNCare MA (K,L)	\$213.01	\$217.79
MNCare Parents <175% FPG (F,J M2,M4)	\$303.69	\$310.51
MNCare LH (F,J A2,A4 and B M1,M3)*	\$288.35	\$294.82

Note: Previous base rate for MNCare LH obtained by blending rates using enrollment from first half of 2007.

The purpose of this analysis is to assist the Minnesota Department of Human Services (DHS) with setting risk adjusted base rates for contracting MCOs. The results may not be appropriate for other purposes.

The results contained in this letter are intended only for use by DHS. 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 report 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 the estimates in my analysis 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.

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

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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.

Data Reliance & Discussion

For this analysis, I relied on the following data and information:

1. DHS's past rate calculation spreadsheets.
2. First quarter and second quarter 2007 enrollment reports provided by DHS.
3. Average risk scores used for payments in the first, second, and third quarters of 2007 provided by DHS.
4. Average risk scores under version 4.1 and version 6.06 of the ACGs for payment period third quarter 2007 provided by DHS.
5. Miscellaneous comments and information provided by DHS and the MCOs.

Methodology

PMAP Seniors Carve-out

To address this change, I started by estimating the total change in revenue that would result from ceasing to risk adjust the non-dual seniors. In doing so, I used the average PMAP risk score of 1.3870 used for third quarter 2007 payments and the new demographic and area rate cell relativities that will be in effect starting in 2008. I did not apply adjustments for benefit changes or trend and surplus, which would impact risk adjusted and non-risk adjusted rates equally.

Using the membership distribution from the first half of 2007 as a proxy for the 2008 enrollment distribution, I calculated an overall increase in payments of \$4.4 million on a quarterly basis when non-dual seniors were not risk adjusted.

I next determined the change to the PMAP base rate needed to reduce the risk adjusted revenue for non-seniors by this amount. The total average quarterly non-senior PMAP enrollment for the first half of 2007 was 778,730. Dividing the \$4.4 million by this figure resulted in a desired per member per month (PMPM) change of \$5.71 in risk adjusted revenue.

To find the change in base rate that corresponds to this change in revenue, I divided by the average third quarter 2007 risk score of 1.3697 for PMAP non-seniors and multiplied by two (since only 50% of the risk adjusted revenue flows into the final payments to the plans). This

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results in a reduction of \$8.34 ($= \$5.71 / 1.3697 * 2$) to the current base rate of \$241.87. The estimated adjustment factor in Table 1 is the ratio $0.9655 = (\$241.87 - \$8.34) / \$241.87$.

Version 4.1 to Version 6.06 Adjustment

DHS provided me with average risk scores for payment period third quarter 2007 under both version 4.1 and version 6.06 of the ACGs. The version 4.1 scores were provided for all members and for non-seniors by the following program/eligibility types: MA, GAMC, MNCare MA, and MNCare Non-MA.

The version 6.06 scores were provided for the following program/eligibility types: MA, GAMC, MNCare ULH, and MNCare LH. I understand that the version 6.06 scores you provided do not include any seniors for any of the programs, except for a small number of member months for seniors who turned 65 during the assessment period. For the programs other than PMAP, you have indicated that this was an oversight, as the few seniors in those programs will continue to be risk adjusted in 2008. I therefore adjusted the 6.06 risk scores as described below to take this into account. I was unable to adjust the scores for the impact of the small number of senior member months associated with those that turned 65 during the assessment period; however, due to the small amount of exposure involved, I do not believe this had a material impact on the results.

I also understand that the encounter data used to produce these risk scores differed slightly from the data used for actual third quarter 2007 payments. You have indicated that the recent run includes additional encounters for the assessment period (10/01/2005 through 9/30/2006), resulting in very slightly higher risk scores across all programs. As the analysis only depends on the relative size of the version 6.06 scores compared to the version 4.1 scores and the changes in the average version 4.1 scores were very small, this change does not materially impact the results.

I understand that you will be changing the grouping of MNCare members for risk adjustment purposes in 2008. Before, there were two risk score groupings (MA and Non-MA) and four base rates.

For 2008, you have indicated that there will be two risk score groupings: Limited Hospital (LH) and Unlimited Hospital (ULH). MNCare ULH will be made up of children and pregnant women (MNCare MA) and parents less than 175% of FPL (F,J M2,M4). Parents greater than 175% FPL (F,J A2,A4) and all other adults will make up the MNCare LH group. I also understand that you intend to have three base rates for MNCare in 2008: one for pregnant women and children, one for parents less than 175% FPG, and one for MNCare LH as defined above.

Based on discussions with DHS, I understand that eligibility group A4 (parents between 175% and 200% FPL) may be moved from the LH group to the ULH group if a pending amendment to DHS's federal waiver is passed. If this were to occur, it would require a further adjustment to base rates. I would be happy to assist you with this in the event that it becomes necessary.

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I calculated current MinnesotaCare base rates for the LH block by taking a weighted average of the current 2007 base rates of \$303.69 for F,J A2,A4 (parents > 175% FPL), \$310.21 for non-parents (B M1), and \$267.47 for non-parents in the limited benefit set (B M3). I used enrollment from the first half of 2007 as weights. Please note that I am assuming you will perform a separate benefit adjustment to account for the discontinuation of the limited benefit set.

Given that the grouping of MinnesotaCare risk scores differed between the version 4.1 and version 6.06 reports, I was unable to compare the LH and ULH blocks separately. I understand that more detailed reports are not available. In light of this, I have calculated an overall adjustment factor for MinnesotaCare, which should be applied to each of the base rates.

As mentioned above, I adjusted the version 6.06 risk scores you provided for PGAMC and MNCare to include seniors. I did this by multiplying each program's average version 6.06 score by an adjustment factor equal to the average version 4.1 score for the program including seniors divided by the average version 4.1 score for the program excluding seniors. In each case, the impact of this adjustment was extremely minor.

I then calculated the adjustment factors in Table 1 by dividing the average version 4.1 risk score by the average adjusted version 6.06 risk score for each program, except that for PMAP I used the average risk scores for non-seniors in both cases. More detail is provided in Table 3 below.

Table 3: Calculation of Version 4.1 to Version 6.06 Adjustments

Block	Average Risk Scores*		Adj. Factor
	ACG v4.1	ACG v6.06	
PMAP F&C&PW	1.3745	1.1196	1.2277
PGAMC/GA	1.8333	1.1761	1.5588
MNCare	1.1748	1.1490	1.0224

*Average risk scores for payment period 3Q 2007, based on concurrent run of versions 4.1 and 6.06. PMAP scores do not include seniors.

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Mr. R. Jason Wiley

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November 14, 2007



Jason, please contact me if you have any questions about this letter. You can reach me at [REDACTED] or at [REDACTED].

Sincerely,

Leigh M. Wachenheim, FSA, MAAA
Principal & Consulting Actuary

LMW/hkl

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