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Eric P. Goetsch, FSA
Actuary

October 9, 2008

Ms. Pam Parker
Manager, Special Needs Purchasing
Minnesota Department of Human Services
540 Cedar Street
Elmer L. Anderson Human Services Building
St. Paul, MN 55155-3854

Re: Rate Development for the Minnesota Senior Health Options and Minnesota Senior Care Plus 180-Day Nursing Facility Add-on for the Calendar Year 2009 Contract Period

Dear Pam:

This letter describes the development of the 180-day Nursing Facility (NF) Add-on rates for the Minnesota Senior Health Options (MSHO) and Minnesota Senior Care Plus (MSC+) programs for the calendar year (CY) 2009 contract period for all plans participating in these programs.

The 2009 180-day NF Add-On per member per month (PMPM) rates for MSHO and MSC+ reflect an estimated aggregate decrease of approximately 5.5% from the 2008 NF Add-On PMPM rates, with an aggregate decrease of 15.4% to the Hennepin/Metro NF PMPM rates and an aggregate increase of 2.4% to the non-Metro NF PMPM rates. The estimated PMPM rate changes are calculated using August 2008 MSHO, MSC+, and MSC membership distributions by rate cell. MSC membership is included since these members are being transitioned into MSC+ as of January 1, 2009. Table 1 contains the NF rate changes from CY 2008 to CY 2009 by rate cell.

The aggregate decrease relates to reductions in the tail rate due to further expansions of the population covered by the 180 day rate and to the continuing decline of NF utilization, particularly in the Hennepin/Metro area.

This material assumes that the reader is familiar with Minnesota's Medicaid long term care and acute care programs, their benefits, eligibility, administration and other factors. The material was prepared solely to provide assistance to the Minnesota Department of Human Services in setting rates for the MSHO, MSC+, and CBP program. 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 MSHO and MSC+ Rate Development 180-Day Nursing Facility Add-On Rate Changes From 2008 to 2009 by Rate Cell						
Region	Males			Females		
	65-74	75-84	85+	65-74	75-84	85+
Hennepin / Metro	-21.6%	-18.6%	-2.9%	-27.3%	-16.4%	-2.2%
Non-Metro	-8.4%	-4.9%	13.4%	-15.1%	-2.4%	14.3%

The 180-day NF Add-on rates are calculated using the following components:

- ◆ Monthly frequency of nursing facility admissions,
- ◆ Average length of stay, and
- ◆ Average charge per day.

The 180-day NF Add-on rates reflect actual enrollment through August 2008 and projected enrollment provided by Minnesota Department of Human Services (DHS) staff thereafter. The components of the rate calculation are contained in Exhibit 1.

The data source for the calculation is CY 2005 experience, including living arrangement data compiled by the DHS staff.

Frequency

The frequency of NF admissions in Exhibit 1 is expressed as the expected admissions per eligible, per month and is based on the experience of the Minnesota Senior Care (MSC) program in CY 2005. Table 2 contains the annual MSC frequency of admission in 2004 and 2005. The decrease from 2004 to 2005 is consistent with recent trends in frequency of NF admissions.

Table 2	
MSC Population	
Annual Frequency of Nursing Facility Admissions by Calendar Year	
2004	9.4%
2005	8.6%

The frequencies of admission were determined based on changes in living arrangement status (from a community living arrangement status to a NF living arrangement status) for each MSC enrollee. Admissions were counted only for those who were enrolled in MSC (i.e., not in FFS and not enrolled in MSHO or MSC+) when admitted.

The projected frequency is based on statewide living arrangement data. An adjustment is made later in the rate setting process to account for the difference in the frequency between Hennepin/Metro and the Non-Metro Counties and between age/gender combinations.

In addition, we compared nursing facility days per member per month (which combines admission frequency and average-length-of stay data) for the MSHO and MSC populations and the MSHO days were much lower. We partially accounted for this difference in expected frequency by reducing the starting MSC frequency of admission by 10%, resulting in a starting frequency of 7.7% ($8.6\% \times 0.90 = 7.7\%$).

Please note, an adjustment was made to the Elderly Waiver (EW) program such that the limit on EW home modifications was increased to \$10,000 effective January 1, 2008. This increase is expected to reduce NF admissions, however, based on discussion with DHS, we are estimating the reduction of admissions as a percentage of total admissions would be trivial and therefore we did not adjust our frequency assumptions specifically for this EW benefit change. In addition, DHS estimates that any reductions in NF costs as a result of this EW benefit modification will be offset by the increase in EW costs, which DHS also estimated was trivial as a percent of total EW costs.

Average Length-of-Stay

The MSHO and MSC+ NF benefit includes, as a maximum, only the first 180 days per stay. The benefit excludes days that would occur beyond 180 days and days outside of the contract period. All skilled NF days that qualify for Medicare payment count toward the benefit and therefore are included in the 180-day length-of-stay.

The average length-of-stay (ALOS) in Exhibit 1 is calculated over a 180-day benefit period and is based on CY 2004 MSC NF experience. It was necessary to use admissions from 2004 to allow sufficient time to measure the entire length of stay of 180 days. The ALOS was determined based on changes in living arrangement status (from a NF living arrangement status to either a community living arrangement status or until date of death) for each MSHO enrollee

Table 3 contains the ALOS for 2004 NF admissions. The Medicare covered ALOS in Table 3 is the average number of days that are fully covered by Medicare.

Table 3 MSC Population Average Length of Stay Over 180 Day Benefit Period			
Year of Admission	Medicare Covered ALOS ⁽¹⁾	Medicare Coinsurance and Non-Medicare Covered ALOS	Total ALOS
2004	10.3	89.1	99.4
<i>⁽¹⁾ The Medicare covered ALOS is based on 1998 and 1999 FFS data as these were the last years of FFS data for which the Medicare covered days could be separated from total days. Since the structure of the Medicare nursing facility benefit has not changed over time, the estimated ALOS for the first 20 days of fully-covered has not been modified.</i>			

The ALOS within the contract year depends on the pattern of enrollment by month. The CY 2009 ALOS of 76.8 days (from Exhibit 1) within the CY 2009 contract period is based on the most recent enrollment projections.

The projected ALOS is based on statewide living arrangement data. An adjustment is made later in the rate setting process to account for the difference in the ALOS between Hennepin/Metro and the Non-Metro Counties.

Trend for Frequency and Average Length-of-Stay

We examined historical trends in the frequency of admissions and ALOS based on the CY 2003 through CY 2005 NF data provided. The combination of frequency and ALOS, the expected days per enrollee, showed a decreasing trend from CY 2003 through CY 2005. Similar trends from the Reports and Forecast Division also project a decrease in future years. Given these two sources, we continued to assume that the number of days per enrollee would decrease by 1.5% per year. This results in an overall trend factor of 0.941 for the four-year period between the center of experience period (7/1/05) to the center of the contract period (7/1/09) ($0.985^4 = 0.941$).

We applied the full amount of the overall trend factor to the admission frequency for simplicity. The end result would have been the same if we had made adjustments to both the admission frequency and average length-of-stay if the data was available to determine the appropriate split. This results in a final frequency assumption of $7.7\% \times 0.941 = 7.3\%$.

Charge Per Day

The average charge per day was developed from the CY 2005 MSC NF claims data. The CY 2005 MSC NF average charge per day of \$144.21 reflects MA reimbursed amounts and institutional spend-down amounts. The average charge per Medicaid payment day excludes days that were covered exclusively by Medicare. However, coinsurance days paid by Medicaid are included.

Table 4 contains the calendar year trend assumptions for the average charge per day.

Table 4	
Average Nursing Facility Charge Per Day	
Annualized Trend Assumptions	
Calendar Year	Trend ¹
2006	2.6%
2007	3.8%
2008	3.8%
2009	3.4%

¹ *Per the Reports and Forecast Division, the annual trends include cost of living adjustments (COLAs) implemented in 2007 and 2008.*

These trends are based on information on the average NF charge per day from DHS' Reports and Forecasts Division.

The projected average charge per Medicaid payment day for January 2009 through December 2009 is \$164.84. This is calculated as follows:

	\$144.21	Average MSC charge per Medicaid payment day for CY 2005
x	1.026	2.6% annual increase trended from a midpoint of 7/1/05 to 7/1/06
x	1.038	3.8% annual increase trended from a midpoint of 7/1/06 to 7/1/07
x	1.038	3.8% annual increase trended from a midpoint of 7/1/07 to 7/1/08
x	1.034	3.4% annual increase trended from a midpoint of 7/1/08 to 7/1/09
=	\$164.84	Projected CY 2009 average charge per day

The projected average charge per day is based on statewide experience. An adjustment is made later in the rate setting process to account for the difference in the average charge per day between Hennepin/Metro and the Non-Metro Counties.

This material assumes that the reader is familiar with Minnesota's Medicaid long term care and acute care programs, their benefits, eligibility, administration and other factors. The material was prepared solely to provide assistance to the Minnesota Department of Human Services in setting rates for the MSHO, MSC+, and CBP program. 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.

180-Day Nursing Facility Add-on Rate Calculation (Exhibits 2A and 2B)

The 180-day NF Add-on rate is calculated by the following formula:

$$\begin{aligned} \text{Monthly Rate} &= \text{Adjusted Monthly Frequency of Nursing Facility Admissions} \\ &\times \text{Average Length of Stay within the contract period} \\ &\times \text{Average Charge per Day} \end{aligned}$$

The calculation of the initial rate as well as subsequent adjustments is outlined in Exhibit 2A for MSHO/MS C+ and Exhibit 2B for CBP.

Section A of Exhibits 2A and 2B shows the calculation of the initial rate of \$66.72 PMPM for CY 2009. The CY 2009 NF ALOS of 66.5 days in Section A is the CY 2009 ALOS of 76.8 days from Exhibit 1 reduced for the 10.3 Medicare covered days from Table 3. The 2008 initial rate was \$65.34 PMPM.

Section B of Exhibits 2A and 2B contains the calculation of the tail rate. The tail rate is equal to the expected nursing facility costs for days in CY 2009 from admissions occurring in CY 2008, divided by projected community eligible months in CY 2009. The tail rate for CY 2009 is \$18.59 PMPM. The 2008 tail rate was \$23.61. The decrease in the tail rate from 2008 to 2009 is due to the increased MSHO and MS C+ enrollment in 2009.

Section C of Exhibit 2 contains the calculation of the value of the enrollment adjustment based on updated enrollment. There is an enrollment adjustment of \$0.22 for CY 2009. The positive enrollment adjustment accounts for plans being underpaid in CY 2008 due to the CY 2008 rates being based on projected CY 2008 enrollment. Actual 2008 enrollment indicates the CY 2008 rates should have been set slightly higher.

Section D of Exhibit 2A contains an initial MSHO/MS C+ base rate for CY 2009 of \$85.54 PMPM. The initial base rate has been decreased by 1.7% for the elimination of enrollment fees. In addition, the initial base rate has been increased for the legislated premium tax of 1%. The final MSHO/MS C+ base rate for CY 2009 is \$84.93 PMPM. The 2008 final base rate was \$89.64 for MSHO/MS C+.

Rates for County Based Purchasing (CBP) entities are excluded from the 1% premium tax. Section D of Exhibit 2B contains an initial CBP base rate for CY 2009 of \$85.54 PMPM. The initial base rate has been decreased by 1.7% for the elimination of enrollment fees. The final CBP base rate for CY 2009 is \$84.08 PMPM. The 2008 final base rate was \$88.75 PMPM for CBP.

Section E of Exhibits 2A (MSHO/MS C+ non-CBP) and 2B (MSHO/MS C+ CBP) contains aggregate 180-day NF Add-on rates specific to enrollees eligible for both Medicaid and Medicare versus Medicaid-only enrollees. The adjustment to calculate these rates reflects differences in frequency and ALOS for Medicare versus Non-Medicare enrollees based on statewide CY 2005 MSC experience. The aggregate Medicare and Non-Medicare rates equal the overall 180-day NF Add-on rates times the corresponding Medicare and Non-Medicare adjustment.

180-Day Nursing Facility Add-on Rates (Exhibits 3A and 3B)

Exhibits 3A (MSHO/MS C+ non-CBP) and 3B (MSHO/MS C+ CBP) contain the 180-day NF Add-on rates by age, gender and region for enrollees eligible for both Medicaid and Medicare versus Medicaid-only enrollees. The relationships by age, gender and region are based on statewide MSHO and MSC CY 2003 and CY 2005 NF cost experience (i.e., the rate relativities continue to be phased in as part of the rebasing process).

Caveats and Limitations

This report was prepared specifically for DHS and the development of CY 2009 180-day NF Add-on rates for MSHO and MS C+ and may not be appropriate for other purposes. This report is for internal use only and should only be viewed in its entirety. The report assumes the reader is familiar with the MSHO and MS C+ programs, managed care rate setting, long term care services and the Minnesota Medicaid program. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work.

The results presented in this letter are estimates only based on historical living arrangement and NF claim experience. Actual CY 2009 experience will vary from these estimates and will only be known with certainty after sufficient time has passed so that all CY 2009 experience has been completed.



Ms. Pam Parker
October 9, 2008
Page 9

We have relied on data and information supplied to us by DHS. We have not audited or attempted any independent verification of such data. If this data is incomplete or inaccurate, then our conclusions will be incomplete or inaccurate.

This letter and its use is subject to the terms of our Consulting Services Agreement with DHS effective July 1, 2004.

Please call us with any questions regarding this information.

Sincerely,

A handwritten signature in black ink that reads "Eric Goetsch".

Eric P. Goetsch, F.S.A.
Actuary

EPG/jg

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Attachments

Exhibit 1
Minnesota Senior Health Options, Minnesota Senior Care Plus, and County Based Purchasing Programs
180 Day Nursing Facility Add-On Rate Calculation for January 2009 Through December 2009
Projected Enrollment after August 2008

	2007 Contract Period	2008 Contract Period	2009 Contract Period
NF Add-On	\$93.18	\$89.64	\$84.93
Per Diem	\$144.22	\$159.42	\$164.84
Monthly Freq	0.7667%	0.6167%	0.6083%

Year	Month	Monthly Enrollment	Total NF Add-On Paid to Health Plans	Admissions	NF Days for Admissions in Month by Contract Period *			Health Plan Payments to NF for Admissions in Month by Contract Period		
					2007 Contract Period	2008 Contract Period	2009 Contract Period	2007 Contract Period	2008 Contract Period	2009 Contract Period
2007 Contract Period										
2007	January	22,283	\$2,076,330	170.8	99.3	0.0		\$2,192,844	\$0	
	February	22,595	2,105,402	173.2	99.3	0.0		2,223,547	0	
	March	22,845	2,128,697	175.1	99.3	0.0		2,248,150	0	
	April	22,980	2,141,276	176.2	99.3	0.0		2,261,435	0	
	May	23,101	2,152,551	177.1	99.3	0.0		2,273,342	0	
	June	23,220	2,163,640	178.0	99.3	0.0		2,285,053	0	
	July	23,298	2,170,908	178.6	92.9	6.4		2,129,070	180,900	
	August	23,456	2,185,630	179.8	79.5	19.8		1,794,337	568,084	
	September	23,606	2,199,607	181.0	65.0	34.3		1,426,568	990,914	
	October	23,605	2,199,514	181.0	49.2	50.1		1,015,749	1,444,905	
	November	23,715	2,209,764	181.8	31.5	67.8		557,191	1,963,737	
	December	23,751	2,213,118	182.1	11.4	87.9		27,958	2,552,641	
Total 2007 Contract Period		278,455	\$25,946,437	2,134.8	76.7	22.6		\$20,435,244	\$7,701,182	
2008 Contract Period										
2008	January	26,132	\$2,342,472	161.1	99.4	0.0		\$2,288,960	\$0	
	February	26,240	2,352,154	161.8	99.4	0.0		2,298,420	0	
	March	26,445	2,370,530	163.1	99.4	0.0		2,316,377	0	
	April	26,789	2,401,366	165.2	99.4	0.0		2,346,508	0	
	May	27,090	2,428,348	167.1	99.4	0.0		2,372,874	0	
	June	27,432	2,459,004	169.2	99.4	0.0		2,402,830	0	
	July	27,597	2,473,795	170.2	93.0	6.4		2,244,754	178,395	
	August	27,704	2,483,387	170.8	79.6	19.8		1,886,421	558,603	
	September	27,872	2,498,459	171.9	65.0	34.4		1,499,353	974,060	
	October	28,042	2,513,708	172.9	49.3	50.1		1,074,217	1,429,058	
	November	28,214	2,529,137	174.0	31.6	67.8		590,261	1,945,057	
	December	28,389	2,544,748	175.1	11.4	88.0		30,030	2,540,109	
Total 2008 Contract Period		327,946	\$29,397,108	2,022.3	76.5	22.9		\$21,351,005	\$7,625,282	
2009 Contract Period										
2009	January	33,451	\$2,841,036	206.3			99.4			\$2,988,773
	February	33,582	2,852,086	207.1			99.4			3,000,397
	March	33,712	2,863,180	207.9			99.4			3,012,068
	April	33,843	2,874,318	208.7			99.4			3,023,786
	May	33,975	2,885,501	209.5			99.4			3,035,550
	June	34,107	2,896,729	210.3			99.4			3,047,362
	July	34,240	2,908,001	211.1			93.0			2,840,874
	August	34,373	2,919,318	212.0			79.6			2,387,416
	September	34,507	2,930,681	212.8			65.0			1,893,444
	October	34,641	2,942,089	213.6			49.3			1,353,584
	November	34,776	2,953,543	214.5			31.6			742,108
	December	34,912	2,965,042	215.3			11.4			37,670
Total 2009 Contract Period		410,120	\$34,831,523	2,529.1			76.8			\$27,363,032
Grand Total									\$29,052,187	\$34,988,313

* Days that are 100% covered by Medicare are included.

Exhibit 2A
Minnesota Senior Health Options and Minnesota Senior Care Plus Programs
180 Day Nursing Facility Add-On Rate Calculation
Contract Period January 2009 to December 2009

Rate Component	2008	2009
Section A		
Monthly Claim Frequency	0.006167	0.006083
(x) Medicaid Length of Stay *	66.5	66.5
(x) Charge per Day *	<u>\$159.42</u>	<u>\$164.84</u>
= Initial Rate (1)	\$65.34	\$66.72
Section B		
2009 NF \$ for 2008 Admits		\$7,625,282
(/) 2009 Eligible Months		<u>410,120</u>
= Tail Rate (2)	\$23.61	\$18.59
Section C		
2008 NF Rates to Health Plans		(\$29,397,108)
(+) 2007 Enrollment Adjustment in 2008		\$436,169
(+) 2008 NF \$ for 2007 Admits		\$7,701,182
(+) 2008 NF \$ for 2008 Admits		<u>\$21,351,005</u>
= Enrollment Adjustment Dollars		\$91,247
(/) 2009 Eligible Months		<u>410,120</u>
= Enrollment Adjustment Rate (3)	\$1.33	\$0.22
Section D		
Initial Base Rate = (1)+(2)+(3)	\$90.28	\$85.54
Disenrollment Fee Adjustment	0.9830	0.9830
Legislated Premium Tax Adjustment	<u>1.0101</u>	<u>1.0101</u>
Final Base Rate	\$89.64	\$84.93
Section E		
(x) Medicare Adjustment	1.000	1.000
(x) Non Medicare Adjustment	0.669	0.669
= Aggregate Medicare Rate	\$89.64	\$84.93
= Aggregate Non-Medicare Rate	\$59.97	\$56.82

* The ALOS and charge per day exclude days that are 100% covered by Medicare.

Exhibit 2B
County Based Purchasing Program
180 Day Nursing Facility Add-On Rate Calculation
Contract Period January 2009 to December 2009

Rate Component	2008	2009
Section A		
Monthly Claim Frequency	0.006167	0.006083
(x) Medicaid Length of Stay *	66.5	66.5
(x) Charge per Day *	<u>\$159.42</u>	<u>\$164.84</u>
= Initial Rate (1)	\$65.34	\$66.72
Section B		
2009 NF \$ for 2008 Admits		\$7,625,282
(/) 2009 Eligible Months		<u>410,120</u>
= Tail Rate (2)	\$23.61	\$18.59
Section C		
2008 NF Rates to Health Plans		(\$29,397,108)
(+) 2007 Enrollment Adjustment in 2008		\$436,169
(+) 2008 NF \$ for 2007 Admits		\$7,701,182
(+) 2008 NF \$ for 2008 Admits		<u>\$21,351,005</u>
= Enrollment Adjustment Dollars		\$91,247
(/) 2009 Eligible Months		<u>410,120</u>
= Enrollment Adjustment Rate (3)	\$1.33	\$0.22
Section D		
Initial Base Rate = (1)+(2)+(3)	\$90.28	\$85.54
Disenrollment Fee Adjustment	<u>0.9830</u>	<u>0.9830</u>
Final Base Rate	\$88.75	\$84.08
Section E		
(x) Medicare Adjustment	1.000	1.000
(x) Non Medicare Adjustment	0.669	0.669
= Aggregate Medicare Rate	\$88.75	\$84.08
= Aggregate Non-Medicare Rate	\$59.37	\$56.25

* The ALOS and charge per day exclude days that are 100% covered by Medicare.

Exhibit 3A

**Minnesota Senior Health Options and Minnesota Senior Care Plus Programs
Nursing Facility Add-On Rates (PMPM)
180 Day Benefit Period**

January 2009 to December 2009 Contract Period

Medicare Population

Area	Males			Females		
	65-74	75-84	85+	65-74	75-84	85+
Hennepin/Metro	\$42.54	\$98.45	\$162.84	\$32.64	\$96.25	\$153.03
Non Metro	48.43	112.07	185.36	37.15	109.56	174.19

Non-Medicare Population

Area	Males			Females		
	65-74	75-84	85+	65-74	75-84	85+
Hennepin/Metro	\$28.46	\$65.87	\$108.94	\$21.84	\$64.39	\$102.37
Non Metro	32.40	74.98	124.01	24.86	73.30	116.54

Exhibit 3B

**County Based Purchasing Program
Nursing Facility Add-On Rates (PMPM)
180 Day Benefit Period**

January 2009 to December 2009 Contract Period

Medicare Population

Area	Males			Females		
	65-74	75-84	85+	65-74	75-84	85+
Non Metro	\$47.94	\$110.95	\$183.51	\$36.78	\$108.47	\$172.45

Non-Medicare Population

Area	Males			Females		
	65-74	75-84	85+	65-74	75-84	85+
Non Metro	\$32.07	\$74.23	\$122.77	\$24.61	\$72.57	\$115.37