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Actuary

November 24, 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 MSHO, MSC+, and CBP EW Add-on for CY 2009

Dear Pam:

This letter describes the development of the Elderly Waiver (EW) Add-on rates for the Minnesota Senior Health Options (MSHO), Minnesota Senior Care Plus (MSC+), and County Based Purchasing (CBP) programs for the calendar year (CY) 2009 contract period.

Overall, the CY 2009 EW Add-On rates provide an aggregate increase of approximately 7.1% from the CY 2008 EW Add-On rates, with increases of 9.8% to each Hennepin/Metro EW rate cell and 5.4% to each non-Metro EW rate cell.

The 5.4% non-Metro increase is due to trend from 2008 to 2009 and the annualization of the 2008 cost of living adjustments (COLAs). The additional Hennepin/Metro increase is due to the expansion of MSC+ to the Metro counties. The expansion will move approximately 1,900 current MSC members who are receiving EW services via fee-for-service (FFS) to MSC+. These new MSC+ members have higher historical average costs than the current EW population in managed care in the Metro area. The estimated aggregate rate increase of 7.1% is based on the EW membership distribution as of August 2008.

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 programs. 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.

2009 EW Base Rate Development

Calendar Year 2005 Minnesota Senior Care Experience

The EW Add-on rates for CY 2009 are based on CY 2005 EW experience. We used the experience of EW clients enrolled in the Minnesota Senior Care (MSC) program for their State Plan services in the rate development. Table 1 contains a comparison of the MSC per member per month (PMPM) EW costs from CY 2005 by geographical region.

Table 1	
MSHO / MSC+ / CBP Rate Development	
Elderly Waiver Services	
Calendar Year 2005 MSC Experience PMPM	
Region	PMPM
Hennepin / Metro	\$1,041.16
Non-Metro	\$956.03
Statewide	\$984.72

Trends and Other Cost Adjustments

An annual trend of 5.5% (which includes a 4.3% trend from 2008 to 2009) was used to project the MSC CY 2005 EW experience to the CY 2009 rating period. This annual statewide trend for EW monthly costs per recipient was developed from information provided by the Reports and Forecast Division of DHS.

In addition, projected 2009 costs for EW services were increased to reflect 2.0% COLAs effective January 1, 2008 and July 1, 2008.

Please note, an adjustment was made to the EW program such that the limit on EW home modifications was increased to \$10,000 effective January 1, 2008. This increase is expected to increase EW costs; however, based on discussions with DHS, we are estimating the increase would be trivial (less than a 0.2% increase). In addition, DHS expects the home modification limit increase will result in a small reduction in nursing facility (NF) admissions, offsetting any increase in EW costs. Since the effect of this change is trivial for both the EW and NF rate setting, and since the adjustments would offset each other, no adjustment was made in either the EW or NF rate setting for 2009.

Integration of Elderly Waiver with Other Home Health Programs

The overlap of home health services covered under EW and those covered under Minnesota’s State Plan is expected to result in a substitution of services that will cause projected EW costs to be less than that observed under FFS. Since 2004, managed care EW costs have been 11% to 13% lower than FFS EW costs, with these percentages projected to increase in the future. In addition, State data indicates significant differences between metro and rural areas in utilization patterns for State Plan home health costs (largely personal care assistance) and assisted living costs covered under EW. To partially reflect these relationships, we multiplied the 2009 EW Non-Metro rates by 0.96 and the 2009 EW Hennepin/Metro rates by 0.94.

Difference in Membership Characteristic in Metro versus Non-Metro Areas

Historically, characteristics of the Metro membership have been such that managed care EW utilization has been lower than the FFS base for these counties, resulting in a multiplicative adjustment of 0.85 to the rates in previous years. However, average FFS costs for the approximately 1,900 MSC members transitioning to MSC+ in January 2009 are estimated to be 24.3% higher than current EW managed care members in the Metro area and the transitioning members will account for approximately 26.6% of the EW managed care members in the Metro area. Therefore, 2009 Metro multiplicative adjustment changed from 0.85 to 0.9049 ($0.9049 = 0.85 \times (1 + (24.3\% \times 26.6\%))$) to reflect this transition.

Legislated Premium Tax

The MSHO and MSC+ 2009 EW rates have been increased to include the legislated premium tax of 1%. The CBP 2009 EW rates do not include the premium tax adjustment

Calendar Year 2009 Base Rates

Table 2 contains the resulting MSHO/MS C+ EW base rates by region for CY 2009.

Table 2	
MSHO / MSC +	
Elderly Waiver PMPM Base Rates for Calendar Year 2009	
Region	Base Rate
Hennepin / Metro	\$1,153.66
Non-Metro	1,195.57

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Table 3 contains the resulting CBP EW base rates by region for CY 2009.

Table 3	
County Based Purchasing	
Elderly Waiver PMPM Base Rates for Calendar Year 2009	
Region	Base Rate
Hennepin / Metro	\$1,142.12
Non-Metro	1,183.61

Age / Gender Factors

We developed the age / gender factors to be applied to the CY 2009 EW base rates. The factors are based on the age / gender relationships underlying the MSC CY 2005 EW cost experience PMPM used to develop the CY 2009 base rates. The age/gender factors are unchanged from the CY 2008 EW rates.

Medicare / Non-Medicare Factors

Less than 4% of total statewide EW membership is not dually covered by Medicare. This membership base is not credible to produce separate rates for non-dual eligibles, therefore, EW rates are the same regardless of Medicare status.

Final 2009 EW Rates

The overall EW add-on rate equals the appropriate base rate times the appropriate age/gender factor. The overall EW add-on rates for MSHO/MS C+ are found in Exhibit 1A. The overall EW add-on rates for CBP are found in Exhibit 1B.

Caveats and Limitations

This letter was prepared specifically for DHS and the development of CY 2009 EW Add-on rates for MSHO, MSC+, and CBP and may not be appropriate for other purposes. This report is for internal use only and should only be viewed in its entirety. The letter assumes the reader is familiar with the MSHO, MSC+, and CBP 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 FFS experience and data from the Reports and Forecasting Division of DHS. 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.

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 are subject to the terms of the contract amendment dated June 24, 2008 and effective July 1, 2008.

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

A solid black rectangular redaction box covering several lines of text.

Exhibit 1A

**Minnesota Senior Health Options and Minnesota Senior Care Plus Programs
Elderly Waiver Add-On Rates (PMPM)**

January 2009 to December 2009 Contract Period

Area	Males			Females		
	65-74	75-84	85+	65-74	75-84	85+
Hennepin/Metro	\$966.51	\$1,050.04	\$1,079.27	\$1,033.49	\$1,085.00	\$1,591.17
Non Metro	1,253.35	1,100.24	1,290.82	963.98	1,134.66	1,404.83

Exhibit 1B

**County Based Purchasing Program
Elderly Waiver Add-On Rates (PMPM)**

January 2009 to December 2009 Contract Period

Area	Males			Females		
	65-74	75-84	85+	65-74	75-84	85+
Non Metro	\$1,240.82	\$1,089.24	\$1,277.91	\$954.34	\$1,123.31	\$1,390.78