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December 5, 2008

Capitated Contracts Ratesetting Actuarial Certification

I, Leigh M. Wachenheim, am associated with the firm of Milliman, Inc., Consultants & Actuaries. I am a member of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

I have been retained by the Minnesota Department of Human Services (DHS) to perform an actuarial certification of the capitation rates for the period January through December 2009 for the Prepaid Medical Assistance Program (PMAP), the Minnesota Senior Care (MSC) program, the Minnesota Senior Health Options (MSHO) program, and the Minnesota Care (MNCare) program. (This certification does not cover the nursing facility or elderly waiver rates for the MSC or MSHO programs. Those rates are addressed in a separate certification.)

I have reviewed the actuarial assumptions and actuarial methods used to develop these payment rates. The methodology, data, and assumptions used to update the rates from calendar year 2008 rate levels are described in the following letters to DHS, attached to this certification.

- (1) Trend and Surplus 2009 1205.PDF (December 5, 2008) – this letter contains my analysis of cost trends, health plan financial results, and the impact of risk adjustment for non-seniors.
- (2) Seniors T & S 2009 1205.PDF (December 5, 2008) – this letter contains my analysis of cost trends and health plan financial results for seniors.
- (3) 2009 Benefit Changes 1205.PDF (December 5, 2008) - this letter contains my analysis of the impact on costs of benefit changes that are being made for the 2009 contract year.

I understand that DHS is including a summary of the 2009 payment rates with this certification. I relied on DHS for the calculation of the payment rates, using the factors and methods described in the letters mentioned above.

I understand that the capitation rates provided by DHS include a provision for Medical Education and Research Costs (MERC). The purpose of the MERC fund is to subsidize the training costs incurred by hospitals and clinics. In 1998, the Minnesota Legislature authorized removal of the 'medical education component' of Prepaid Medical Assistance Program (PMAP) capitation rates and a transfer of these funds to the Minnesota Department of Health (MDH) for distribution through the MERC Trust Fund, which was established by the state in 1996. CMS granted DHS a waiver allowing the removal in August 2000, and a rate carve-out commenced in October of that year.

I understand that the MERC carve out is not paid to the plans but is paid into the MERC trust fund and distributed to approved programs. The plans then have no responsibility to subsidize these programs through their net capitation revenue.

In making my opinion, I have relied on the accuracy of the data and information provided by DHS and the health plans with which they contract. Each of the letters referenced above includes a description of the data and information on which I relied. I performed no independent verification as to the accuracy or completeness of this data and information. In other respects, my examination included such review of the underlying assumptions and methods used and such tests of the calculations as I considered necessary.

In my opinion and subject to the qualifications referred to above, the payment rates identified above are actuarially sound in that they:

1. Have been developed in accordance with generally accepted actuarial principles and practices and Actuarial Standards of Practice,
2. Are appropriate for the populations to be covered and the services furnished, and
3. Meet the actuarial requirements of the regulation in 42 CFR 438.6(c)(3).

Accordingly, I certify the payment rates to be appropriate in that: (1) they have been set to target a reasonable profit/risk margin for the health plans in aggregate and (2) the assumptions and data used in the development of the rates are reasonable and appropriate.

I have not reviewed the compliance of the rates with respect to requirements related to disproportionate hospital utilization adjustments or related items. I am relying on DHS's interpretation of the requirements and determination of compliance with respect to these items. Actuarial methods, considerations, and analyses used in forming my opinion conform to the relevant Standards of Practice as promulgated from time to time by the Actuarial Standards Board, whose standards form the basis of this Statement of Opinion.



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It should be emphasized that capitation rates are a projection of future costs based on a set of assumptions. Actual costs might differ from these projections and will be dependent on each contracted health plan's situation and experience.

This certification is intended solely for the use of DHS and the federal agencies to which this certification must be submitted. This certification should not be relied upon by other parties. The reader should be advised by actuaries or other professionals competent in the area of actuarial rate projections of the type in this Opinion, so as to properly interpret the results.

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

Leigh M. Wachenheim
Member, American Academy of Actuaries

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