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December 16, 2009

Capitated Contracts Ratesetting  
Actuarial Certification

I, Leigh M. Wachenheim, am associated with the firm of Milliman, Inc. 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 2010 capitation rates for the Prepaid Medical Assistance Program (PMAP), the Minnesota Senior Care Plus (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 reviewed the actuarial assumptions and actuarial methods used to develop payment rates for these programs. The methodology, data, and assumptions used to update the rates from fourth quarter 2009 rate levels are described in the following letters to DHS, attached to this certification.

- (1) 2010 PMAP & MNCare Rates 1210.pdf (December 10, 2009) – this letter contains my analysis of cost trends, health plan financial results, and the impact of risk adjustment for non-seniors.
- (2) 2010 Seniors Rates 1210.pdf (December 10, 2009) – this letter contains my analysis of cost trends and health plan financial results for seniors.
- (3) 2010 Benefit Changes 1210.pdf (December 10, 2009) - this letter contains my analysis of the impact on costs of benefit changes that are being made for the 2010 contract year.
- (4) PMAP Rate Cell Analysis 063009.pdf (June 30, 2009) - this letter contains my analysis of relative costs by rate cell for PMAP.
- (5) MNCare Rate Cell Analysis 1210.pdf (December 10, 2009) - this letter contains my analysis of relative costs by rate cell for MNCare.
- (6) Seniors Rate Cell Analysis 1216.pdf (December 16, 2009) - this letter contains my analysis of relative costs by rate cell for seniors.

I understand that DHS is including a summary of the 2010 payment rates with this certification.

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 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.

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.

In my opinion and subject to the qualifications above, the payment rates identified above, inclusive of the MERC, 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).

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.

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.

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. This Opinion assumes the reader is familiar with the Minnesota Medicaid program, Minnesota's home and community based waivers, Medicaid eligibility rules, and actuarial rating techniques. 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

December 16, 2009