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Eric P. Goetsch, FSA  
Associate Actuary

December 15, 2008

**Capitated Contracts Ratesetting  
Actuarial Certification  
Minnesota Senior Health Options / Minnesota Senior Care Plus**

I, Eric P. Goetsch, 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 Nursing Facility add-on and Elderly Waiver add-on capitation rates for the contract period of January 1, 2009 through December 31, 2009 for the Minnesota Senior Health Options (MSHO) and Minnesota Senior Care Plus (MSC+) programs. This certification does not cover the basic care capitation rates for the MSHO/MSC+ programs or the Medicare Advantage capitation rates from CMS, which is a component of the overall capitation rate paid through the MSHO program. The basic care capitation rates are addressed in a separate certification. The health plans participating in MSHO/MSC+ should consider all sources of capitation when evaluating the program.

I reviewed the actuarial assumptions and actuarial methods used to develop payment rates for the contract period of January 1, 2009 through December 31, 2009 for MSHO/MSC+. The payment rates, methodology, data, and assumptions used to update the rates are documented in our letters to DHS of October 9, 2008 and November 24, 2008, which are attached to this certification.

In making my opinion, I relied on the accuracy of the data and information provided by DHS. I performed no independent verification as to the accuracy or completeness of this data and information. I did review the data for reasonableness and consistency with data provided in prior years. A reliance letter signed by DHS is attached and forms part of this opinion. 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, 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).

I certify the payment rates to be appropriate in that: (1) they reflect historical fee-for-service costs 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, MSHO/MSC+, 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 black ink that reads "Eric Goetsch".

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Eric P. Goetsch  
Member, American Academy of Actuaries

Date: December 15, 2008



Minnesota Department of **Human Services**

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December 15, 2008

Mr. Eric Goetsch, F.S.A.  
Milliman, Inc.  
15800 Bluemound Road, Suite 400  
Brookfield, WI 53005-6069

**RE: Data Reliance for 2009 Minnesota Senior Health Options and Minnesota Senior Care Plus Capitation Rates**

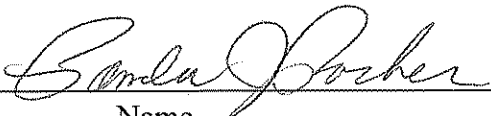
Dear Eric:

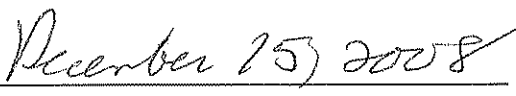
I, Pam Parker, Manager of Special Needs Purchasing, hereby affirm that the listings and summaries prepared and submitted to Milliman, Inc. were prepared under my direction, and to the best of my knowledge and belief are accurate and complete. These listings and summaries include:

1. Data files containing information on elderly Medicaid status, Medicare status, Medicaid managed care status, Elderly Waiver status, demographic indicators, and living arrangement status from calendar year 2005.
2. Data files containing fee-for-service nursing facility claims showing average charge per day experience, including institutional spenddown amounts, from calendar years 2004 and 2005.
3. Data files containing fee-for-service Elderly Waiver experience (number of member months and total dollars) data from calendar year 2005.
4. Data files containing actual monthly MSHO and MSC+ enrollment by enrollment category through August 2008 and projected MSHO and MSC+ enrollment by enrollment category through December 2009.
5. Annual trend and other adjustments were supplied by the Forecast and Projections division of DHS to project the fee-for-service data to be used in the calculation of capitation rates for subsequent years.
6. Required percentage adjustments for legislated premium tax.

Eric Goetsch  
Page 2  
December 15, 2008

I further affirm that the number of eligibles, claims incurral dates, paid claim data, paid claim amounts, summaries, and related data submitted to Milliman, Inc. are, to the best of my knowledge and belief, accurately stated.

  
Name

  
Date



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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.

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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.

<b>Table 1</b> <b>MSHO and MSC+ Rate Development</b> <b>180-Day Nursing Facility Add-On</b> <b>Rate Changes From 2008 to 2009 by Rate Cell</b>						
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.

<b>Table 2</b>	
<b>MSC Population</b>	
<b>Annual Frequency of Nursing Facility Admissions by Calendar Year</b>	
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.

<b>Table 3</b> <b>MSC Population</b> <b>Average Length of Stay Over 180 Day Benefit Period</b>			
<b>Year of Admission</b>	<b>Medicare Covered ALOS <sup>(1)</sup></b>	<b>Medicare Coinsurance and Non-Medicare Covered ALOS</b>	<b>Total ALOS</b>
2004	10.3	89.1	99.4
<i><sup>(1)</sup> 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.

<b>Table 4</b>	
<b>Average Nursing Facility Charge Per Day</b>	
<b>Annualized Trend Assumptions</b>	
<b>Calendar Year</b>	<b>Trend <sup>1</sup></b>
2006	2.6%
2007	3.8%
2008	3.8%
2009	3.4%
<sup>1</sup> <i>Per the Reports and Forecast Division, the annual trends <u>include</u> cost of living adjustments (COLAs) implemented in 2007 and 2008.</i>	

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.

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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<sup>C+</sup> non-CBP ) and 2B (MSHO/MS<sup>C+</sup> 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<sup>C+</sup> non-CBP ) and 3B (MSHO/MS<sup>C+</sup> 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<sup>C+</sup> 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<sup>C+</sup> 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
<b>2007 Contract Period</b>										
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	
<b>Total 2007 Contract Period</b>		<b>278,455</b>	<b>\$25,946,437</b>	<b>2,134.8</b>	<b>76.7</b>	<b>22.6</b>		<b>\$20,435,244</b>	<b>\$7,701,182</b>	
<b>2008 Contract Period</b>										
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	
<b>Total 2008 Contract Period</b>		<b>327,946</b>	<b>\$29,397,108</b>	<b>2,022.3</b>	<b>76.5</b>	<b>22.9</b>		<b>\$21,351,005</b>	<b>\$7,625,282</b>	
<b>2009 Contract Period</b>										
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
<b>Total 2009 Contract Period</b>		<b>410,120</b>	<b>\$34,831,523</b>	<b>2,529.1</b>			<b>76.8</b>			<b>\$27,363,032</b>
<b>Grand Total</b>									<b>\$29,052,187</b>	<b>\$34,988,313</b>

\* 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
<b>Section A</b>		
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
<b>Section B</b>		
2009 NF \$ for 2008 Admits		\$7,625,282
(/) 2009 Eligible Months		<u>410,120</u>
= Tail Rate (2)	\$23.61	\$18.59
<b>Section C</b>		
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
<b>Section D</b>		
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
<b>Section E</b>		
(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
<b>Section A</b>		
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
<b>Section B</b>		
2009 NF \$ for 2008 Admits		\$7,625,282
(/) 2009 Eligible Months		<u>410,120</u>
= Tail Rate (2)	\$23.61	\$18.59
<b>Section C</b>		
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
<b>Section D</b>		
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
<b>Section E</b>		
(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**

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

**Non-Medicare Population**

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



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Eric P. Goetsch, FSA  
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.

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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.

<b>Table 1</b>	
<b>MSHO / MSC+ / CBP Rate Development</b>	
<b>Elderly Waiver Services</b>	
<b>Calendar Year 2005 MSC Experience PMPM</b>	
<b>Region</b>	<b>PMPM</b>
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.

<b>Table 2</b>	
<b>MSHO / MSC +</b>	
<b>Elderly Waiver PMPM Base Rates for Calendar Year 2009</b>	
<b>Region</b>	<b>Base Rate</b>
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.

<b>Table 3</b>	
<b>County Based Purchasing</b>	
<b>Elderly Waiver PMPM Base Rates for Calendar Year 2009</b>	
<b>Region</b>	<b>Base Rate</b>
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**

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