

June 16, 2011

Attention: Jason Wiley  
Managed Care and Payment Policy Division  
Minnesota Department of Human Services  
444 Lafayette Road North  
St. Paul, MN 55155

Dear Mr. Wiley:

Metropolitan Health Plan (MHP) is pleased to submit the cost bid as the second part of its proposal to provide health care services to Medical Assistance (MA) and MinnesotaCare recipients in Anoka, Carver, Hennepin and Scott counties. MHP submitted its Technical Proposal May 13, 2011. MHP's overall proposal reflects MHP's unwavering commitment to provide a health plan that serves the needs of a safety-net population.

MHP's cost bid for Anoka, Carver, Hennepin, and Scott counties is extremely competitive and will provide an opportunity to maintain and grow its service model in each of these counties. MHP's cost bid leverages its existing infrastructure by adding growth in membership on a largely variable cost basis. This growth will further MHP's ability to reduce its overall administrative expense ratio and enhance its standing as a low-cost, high-quality Minnesota health plan.

As an experienced health plan, MHP is well positioned to support the State in accomplishing its objectives of greater accountability of managed care plan spending while improving system efficiencies and outcomes. MHP is uniquely able to leverage the strengths of Hennepin County's infrastructure and health care system.

MHP has a central role in the development of an Accountable Care Organization (ACO) in the Hennepin County health care system. The Hennepin County ACO is developing a risk sharing methodology that includes shared savings with the State of Minnesota. Initial analyses of the ACO care delivery model and budgets indicate that savings for the State under this arrangement could be in the range of 2% to 7% in addition to the cost bid proposal.

page 2

MHP asserts that the remainder of this letter is submitted in confidence and contains trade secrets and confidential information. See the Trade Secret/Confidential Data Notice (from RFP Appendix D) directly following this letter.

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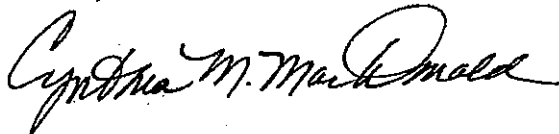
page 6

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If you have any questions or need additional information about Metropolitan Health Plan, feel free to contact me at [REDACTED] or email me at [REDACTED]

MHP fundamentally believes that it has a unique role to play in the public health care system in Minnesota. MHP is a cost-effective and high-quality health plan. We strongly value the opportunity to continue serving Medical Assistance and MinnesotaCare recipients in Anoka, Carver, Hennepin and Scott counties. We look forward to continuing our important work together.

Sincerely,



Cynthia M. MacDonald  
Chief Executive Officer

**health. care. respect.**

## Appendix D -- Trade Secret/Confidential Data Notice

Responder/Company Name: Cynthia M. MacDonald, Metropolitan Health Plan

is the position of the above-named Responder that certain data contained in the following page(s) of the attached proposal have been submitted in confidence and contain trade secrets and/or privileged or confidential information (list pages -- If no protected information has been submitted, state "NONE"):

Pages 2-7

The justification for the Trade Secret/Confidential data designation is (be specific, do not make general statements of confidentiality. Include reference to specific facts, licenses, trademarks, etc., and any relevant statutes or other law, such as how the data meets the requirements of Minn. Stat. §13.37, subd. 1(b). Add additional pages if necessary):

A portion of the data provided to the Minnesota Department of Human Services for the specific purpose of responding to the cost bid component of the Metro County Request for Proposals (RFP) is hereby requested by MHP to be designated as trade secret and confidential. Such designation is justified due to the following:

MHP requests that protection be provided to the underlying methodology of the cost bid proposal identified and included specifically in the cover letter accompanying the cost bid proposal. The methodology relates to business processes and assumptions uniquely developed by MHP for purposes of developing MHP's competitive cost bid analysis. MHP has kept its proprietary methodology secret in other contracting processes and such methodology has specific economic value to MHP and in the marketplace.

If such information was disclosed, it would severely undermine and/or harm MHP's position as a competitive bidder to this RFP. In addition, it could impact business strategy related to MHP's work, including but not limited to specific county strategy and to its role in the Hennepin County Accountable Care Organization (ACO).

This request is reasonable in part because the scope is limited to protecting work product.

The Responder acknowledges that, in accordance with Minn. Stat. §§ 13.591 and 16C.06, Subd. 3, upon completion of contract negotiations, all materials submitted in response to this RFP will become the property of the STATE and will become public record, with the exception of any portion(s) of an RFP or supporting data that are determined to be nonpublic "trade secret information."

The Responder asserts that it has clearly marked every page of trade secret or confidential materials in the attached proposal at the time the Proposal was submitted with the words "**TRADE SECRET**" or "**CONFIDENTIAL**" in capitalized, underlined and bolded type that is at least 20 pt. Responder acknowledges that the State is not liable for the use or disclosure of trade secret data or confidential data that Responder has failed to clearly mark as such.

Responder agrees to defend any action seeking release of the materials it believes to be trade secret or confidential, and indemnify and hold harmless the STATE, its agents and employees, from any judgments awarded against the STATE in favor of the party requesting the materials, and any and all reasonable costs connected with that defense. This indemnification survives the STATE's award of a contract and remains as long as the trade secret and/or confidential materials are in the possession of the STATE.

Responder acknowledges that the STATE is required to keep all the basic documents related to its contracts, including selected responses to RFPs, for a minimum of six years after the end of the contract. Non-selected RFP Proposals will be kept by the STATE for a minimum of one year after the award of a contract, and may be kept for much longer. Responder acknowledges that prices submitted by the Responder will not be considered trade secret materials.

The Responder acknowledges that the STATE reserves the right to reject Responder's claim of trade secret/confidential data if the STATE determines that the Responder has not met the legal burden of establishing that the information constitutes a trade secret or is confidential. The Responder also acknowledges that if certain information is found to constitute a trade secret or is confidential, the remainder of the Proposal will become public; only the protected information will be removed and remain nonpublic.

  
Signature

Chief Executive Officer  
Title

6/16/2011  
Date

\* Whether or not protected information is provided, the Responder must sign and date this form and submit it with the "Required Statements".



Attachment I

History of Key Expense Ratios  
for Metropolitan Health Plan

Calendar Year	MA Parents, Children, and Pregnant Women			MinnesotaCare Parents, Children, Pregnant Women and Adults without Children		
	(1) Medical Loss Ratio	(2) Administrative Expense Ratio	(3) Contribution to Reserves	(4) Medical Loss Ratio	(5) Administrative Expense Ratio	(6) Contribution to Reserves
2006	86.9%	21.6%	-7.7%	77.4%	19.0%	4.4%
2007	79.4%	21.8%	-0.5%	88.7%	23.1%	-11.1%
2008	73.9%	22.3%	4.4%	99.8%	28.5%	-27.7%
2009	76.5%	20.6%	3.1%	91.4%	24.7%	-15.9%
2010	77.1%	17.6%	2.1%	87.6%	20.8%	-8.2%

\* For each year provide the ratio of medical costs to revenue, administrative expense ratio, and contribution to reserves for the enrollees in each of the Minnesota public health programs identified. This should be calculated on a cash basis, and match the information provided on the Minnesota Supplement Report #1, "Statement of Revenue, Expenses, and Net Income" for each year.

Administrative Expense Components (all percentages)  
(for informational purposes only)

for Metropolitan Health Plan

Administrative Cost Category	Calendar Year				
	2006	2007	2008	2009	2010
Billing and enrollment	3.4%	4.1%	3.8%	3.4%	3.4%
Claim processing	27.7%	29.0%	27.5%	20.2%	20.2%
Fraud detection and prevention	1.0%	1.1%	1.0%	1.4%	1.2%
Customer service	8.4%	8.1%	7.3%	8.6%	9.7%
Product management and marketing	9.1%	5.4%	5.8%	4.4%	4.2%
Underwriting	0.0%	0.0%	0.0%	0.0%	0.0%
Regulatory and government compliance	13.0%	10.3%	9.3%	8.4%	9.2%
Lobbying	0.0%	0.0%	0.0%	0.0%	0.0%
Provider relations contracting	6.2%	6.6%	4.7%	5.9%	6.1%
Quality assurance and utilization management	14.6%	17.2%	19.3%	17.7%	16.4%
Wellness and health education	1.4%	1.6%	1.3%	1.0%	0.9%
Research and product development	0.8%	0.3%	0.1%	0.4%	0.2%
Charitable contributions	0.6%	0.8%	0.8%	0.6%	0.5%
Premium taxes and surtax	2.3%	2.0%	1.6%	7.6%	9.2%
General Administration	11.5%	13.5%	17.5%	20.4%	18.8%
Total	100%	100%	100%	100%	100%

Families and Children, and Adults without Children  
 used Rates for 2012

County	County												
	Dakota			Hennepin			Ramsey			Washington			
	Reserve Rate	2010 Enrollment	Medical Rate	Admin. Rate	Reserve Rate	2010 Enrollment	Medical Rate	Admin. Rate	Reserve Rate	2010 Enrollment	Medical Rate	Admin. Rate	Reserve Rate
0.87	9,528	800.95	123.22	9.34	37,300	800.95	123.22	9.34	20,943	3,528			
5.73	6,052	247.62	38.10	2.89	27,819	247.62	38.10	2.89	16,623	2,348			
0.09	48,863	158.88	24.44	1.85	241,866	158.88	24.44	1.85	149,701	21,132			
7.87	9,195	281.30	43.28	3.28	58,061	281.30	43.28	3.28	41,359	4,874			
9.40	33,685	462.93	71.22	5.40	156,185	462.93	71.22	5.40	103,023	18,148			
0.71	1,200	798.39	122.83	9.31	8,748	798.39	122.83	9.31	5,060	688			
6.93	9,686	896.38	137.90	10.45	38,372	896.38	137.90	10.45	22,042	3,675			
6.68	6,791	262.67	40.41	3.06	27,346	262.67	40.41	3.06	17,257	2,409			
1.10	51,621	174.79	26.89	2.04	241,512	174.79	26.89	2.04	153,772	21,357			
3.30	8,466	209.46	32.22	2.44	50,887	209.46	32.22	2.44	36,795	4,340			
9.33	9,668	304.31	46.82	3.55	42,394	304.31	46.82	3.55	35,250	5,195			
7.98	912	598.00	92.00	6.97	5,408	598.00	92.00	6.97	3,890	471			
2.71	8,250	1,459.66	224.56	17.01	33,499	1,459.66	224.56	17.01	16,289	3,251			
5.63	7,572	1,054.62	65.63	11.32	49,185	1,054.62	65.63	11.32	20,911	3,991			
7.24	5,248	1,241.21	77.24	13.32	27,631	1,241.21	77.24	13.32	12,115	2,390			
5.35	9,621	889.35	55.35	9.54	90,389	889.35	55.35	9.54	30,619	5,448			
0.22	3,838	1,289.01	80.22	13.83	32,890	1,289.01	80.22	13.83	12,982	1,714			
6.89	230,176	461.09	54.57	5.21	1,169,493	461.09	54.57	5.21	698,630	104,959			

County	Dakota				Hennepin				Ramsey				Washington					
	Admin. Rate	Reserve Rate	2010 Enrollment	Medical Rate	Admin. Rate	Reserve Rate	2010 Enrollment	Medical Rate	Admin. Rate	Reserve Rate	2010 Enrollment	Medical Rate	Admin. Rate	Reserve Rate	2010 Enrollment	Medical Rate	Admin. Rate	Reserve Rate
Ver and Scott																		
1.23	28.08	4.84	388			1,222	443.69	68.26	5.17	819				252				
8.27	8.60	1.48	323			1,161	135.96	20.92	1.58	797				332				
1.25	8.17	1.41	9,724			27,622	129.05	19.85	1.50	16,692				5,604				
9.66	14.29	2.46	3,040			9,877	225.82	34.74	2.63	7,019				2,291				
11.50	24.36	4.20	807			1,364	384.96	59.22	4.49	861				378				
19.28	24.23	4.18	11,794			28,592	382.77	58.89	4.46	17,419				6,222				
13.17	22.60	3.90	5,362			23,065	357.10	54.94	4.16	11,946				2,947				
17.98	31.61	5.45	142			363	499.49	76.84	5.82	217				96				
4.86	32.04	5.52	1,632			5,929	506.25	77.89	5.90	3,141				1,113				
16.11	30.25	5.22	3,671			13,082	477.99	73.54	5.57	6,982				1,840				
19.34	67.79	11.69	533			1,488	1,071.13	164.79	12.48	1,070				390				
13.25	35.05	6.04	510			1,365	553.84	85.21	6.45	1,003				345				
11.69	10.06	1.73	431			1,319	158.99	24.46	1.85	964				233				
16.67	9.13	1.57	9,627			27,308	144.22	22.19	1.88	17,534				5,803				
12.77	12.00	2.07	3,299			9,514	189.55	29.16	2.21	7,501				1,893				
10.58	15.59	2.69	275			563	246.39	37.91	2.67	304				119				
18.45	16.71	2.88	6,358			14,712	263.96	40.61	3.08	9,344				3,513				
12.95	18.85	3.25	6,553			31,019	297.89	45.83	3.47	14,993				3,921				
19.03	26.08	4.50	116			271	412.02	63.39	4.80	184				60				
15.23	32.69	5.64	1,728			5,186	516.45	79.45	6.02	3,028				901				
19.06	27.95	4.82	2,445			9,968	441.56	67.93	5.15	5,176				1,226				
39.10	17.99	3.10	68,758			214,989	299.51	46.08	3.49	126,895				39,479				



**Sent by e-mail**

June 16, 2011

Leigh M. Wachenheim, FSA, MAAA  
Principal & Consulting Actuary  
Milliman USA  
8500 Normandale Lake Boulevard  
Suite 1850  
Minneapolis, MN 55437

Re: 2012 MHP Metro Cost Bid

Dear Leigh:

As you are aware, Cirdan Health Systems and Consulting (Cirdan) has been retained by Metropolitan Health Plan (MHP) to provide assistance in preparing the cost proposal in response to the DHS Metro Cost Bid RFP. This letter provides our opinion regarding the resulting cost proposal, as well as a brief overview of the method used to prepare the cost proposal.

In developing the cost proposal, we relied on information provided by DHS and MHP. This included Bidding Information and Instructions, the Bid Databook, Q&A provided by DHS, bidder conference discussions, information regarding MHP business planning, MHP provider contracts, and other information. DHS PMAP and MNCare rate memoranda from prior years was also used in the development of trend assumptions, changes in benefit levels, and other assumptions.

A significant portion of the experience underlying the cost bid was developed using the "2011 Rate Cell and Area Factor" exhibit provided to the State via e-mail on 4/6/2011. The following key assumptions and methods were employed in developing the experience by rate cell exhibits submitted in April:

- Enrollment was tracked at the rate cell level at the time of service. No estimation method was used to assign members or monthly exposure to rate cells.
- Reserves were estimated based upon claims paid through 2/28/2011 using the developmental/lag method. Margin was excluded from reserve estimates. An allocation method prorating the reserves against incurred claims by rate cell was employed.

- Claims experience was not adjusted to reflect recoveries from reinsurance.
- Pharmacy rebates were excluded.
- Benefits provided to members under the PMAP contract performed by salaried MHP staff (e.g., nurse line, non-Senior case management) were allocated to rate cells by employing pro-rata methods based upon member months.

The cost proposal was completed in accordance with guidance from the "Bidding Information and Instructions," comments from the Q&A document, as well as other correspondence with the State. The primary method of developing the cost proposal consisted of evaluating actual plan experience by rate cell, adjusted to reflect anticipated 2012 provider contracts and other factors. MHP's experience was insufficient to produce a credible rate, therefore it was augmented with data from the databook as well as data from other sources. In particular, due to a lack of credible experience, MNCare rates were largely developed by reviewing All Plan data from the databook and adjusting for morbidity and other differences. Final results by combination of rate cell and county were compared with the data book and 2011 DHS demographic rates to determine the reasonability of the proposed rates and adjustments made where appropriate.

The following provides a brief overview of the methodology employed in developing the Cost Bid component of the RFP:

- Systemic historic utilization trends were based upon a study of MHP experience by product.
- An analysis of MHP's provider contracts and historic experience was performed in order to develop adjustments to cost per service trends. Differing adjustments were developed depending upon the nature of the contract, product, service area, and base period to which they were applied.
- Adjustments to the base experience for benefit changes were based upon analyses provided by Milliman and DHS. These include adoption of the medical home model, PCA services, reduction in inpatient coverage, and other changes outlined in various documents provided by DHS. No new changes in benefits were assumed for 2012.
- Intergovernmental Transfers (IGT) and Enhanced Hospital Payments (EHP) were excluded from the cost proposal consistent with bidding instructions.
- A morbidity adjustment was made to MHP's base experience to reflect differences in illness burdens in each service area.
- Disproportionate Hospital Utilization (DHU) adjustments and related Disproportionate Hospital Payments (DPA) were excluded from the proposed rates in a manner consistent with the approach utilized by DHS to adjust current PMAP payment rates.
- As stated in the instructions, the cost proposal was adjusted to assume that DHS will reduce the rates to account for ratable reductions.
- A surcharge adjustment was not included per the instructions. We assume that DHS will increase the payment rates to reflect surcharges in a manner consistent with the adjustments made in the past.

- Premium taxes were excluded per DHS instructions. We assume that DHS will increase the rates for premiums taxes in a manner consistent with the adjustments made by DHS in the past.
- MA Expansion rate cells were developed by utilizing DHS's recent rate development, substituting those results for the experience in the databook for this population.
- 100% of withhold returns were assumed consistent with DHS's instructions. Incentive payments were assumed to continue to be part of the program and 100% of measures achieved.
- No rebates were assumed to be collected by MHP consistent with bid instructions.
- Investment income and related costs were excluded from the rate development.
- No explicit adjustments were made to reflect durational effects associated with auto assignment or increased marketing efforts.
- No adjustments were made to reflect potential future legislative changes to the programs.

I, John M. Stiglich, am associated with the firm of Cirdan Health Systems, Inc., and am a member of the American Academy of Actuaries. In my opinion, the amounts reported in the aforementioned exhibits:

- Are in accordance with accepted actuarial standards consistently applied and are fairly stated in accordance with sound actuarial principles,
- Are based upon assumptions relevant to contract provisions and appropriate to the purpose for which the experience exhibit was prepared,
- Include a best estimate for all unpaid claims and other actuarial liabilities of the organization under the terms of its contracts and agreements and do not include any provision for margin,
- Are consistent with the organization's current business plan,
- Include appropriate provision for all actuarial items that ought to be established.

In preparing these analyses, I relied upon information provided by MHP and DHS. I did not perform an audit of this information for accuracy and completeness. I did perform tests for reasonableness and consistency.

Actuarial methods, considerations, and analyses used in forming my opinion conform to the relevant Standards of Practice as promulgated by the Actuarial Standards Board, which standards form the basis of this statement of opinion.

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Please call me at [REDACTED] if you have any questions or require any additional information.

Sincerely,



John M. Stiglich, ASA, MAAA  
Cirdan Health Systems and Consulting  
180 East Fifth Street, Suite 200  
St. Paul, MN 55101  
Telephone: [REDACTED]  
Thursday, June 16, 2011

Cc: Andy Brantner – Cirdan  
Cynthia MacDonald, Scott Schufman – MHP

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