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December 6, 2010

Mr. R. Jason Wiley  
Minnesota Department of Human Services  
540 Cedar Street  
St. Paul, MN 55101-2208

**Re: 2011 PINs Rates**

Dear Jason:

This letter contains my analysis of rate adjustments for the basic care payment rates for disabled children for the Preferred Integrated Networks (PINs) program for calendar year 2011. Capitation payment rates in 2011 are derived by applying adjustment factors to the rates in effect during the period September - December 2010. Adjustments are made for cost and utilization trend, benefit changes, ratable reductions, and surplus target.

The purpose of this analysis is to assist the Minnesota Department of Human Services (DHS) with setting payment rates for contracting health plans for this program. The results may not be appropriate for other purposes. The results contained in this letter are intended only for use by DHS and the Centers for Medicare and Medicaid Services (CMS), the federal agency that must approve the capitation rates used for the PINs program. This analysis should be considered preliminary until the resulting capitation rates are approved by DHS and CMS.

Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work. This letter should be reviewed only in its entirety. It assumes the reader is familiar with Minnesota's Medicaid programs and managed care rating principles. The results in this letter are technical in nature and are dependent upon specific assumptions and methods. No party should rely upon specific assumptions and methods nor upon these results without a thorough understanding of those assumptions and methods. Such an understanding may require consultation with qualified professionals.

Differences between estimates and actual amounts depend on the extent to which future experience conforms to the assumptions made for this analysis. It is almost certain that actual experience will not conform exactly to the assumptions used in this analysis. Actual amounts will differ from projected amounts to the extent that actual experience is different than expected. Accordingly, DHS should continue to carefully monitor actual experience and make adjustments as necessary.

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In performing this analysis, I have relied on data and other information provided to me by DHS. I have not audited or verified this data and other information. If the underlying data or information is inaccurate or incomplete, the results of my analysis may likewise be inaccurate or incomplete.

For this analysis, I used the fiscal notes provided by DHS regarding rate changes and miscellaneous data and information provided by DHS.

I have performed a limited review of the data used directly in my analysis for reasonableness and consistency and have not found material defects in the data. If there are material defects in the data, it is possible that they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable or for relationships that are materially inconsistent. Such a review was beyond the scope of this assignment.

Guidelines issued by the American Academy of Actuaries require actuaries to include their professional qualifications in all actuarial communications. I am a member of the American Academy of Actuaries, and I meet the qualification standards for performing the analyses in this report.

The following provides a summary of the rate adjustments and describes the analysis that was performed.

### **Summary of Rate Adjustments**

Exhibit A, attached to this letter, shows the per member per month capitation rates for the PINs program for calendar year 2011. These rates are for Dakota County. If the program expands into other counties, I understand DHS intends to develop rates specific to those counties.

### **Rate Development**

The 2011 rate for services other than Targeted Case Management (TCM) is calculated by applying a trend factor, an adjustment for benefit changes, ratable reductions, and a surplus adjustment. I applied these adjustments to the September-December 2010 "Base Rates less TCM Add-On" (see Table 1). I entered these figures on Exhibit A column (h). These figures include the component of the rate (before withhold and after MERC carve-out) corresponding to all services other than TCM. Note that the 2011 rates in Table 1 may not equal the product of the 2010 rates and adjustments due to rounding.

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**Table 1: Development of 2011 “Base Rate Less TCM Add-On”**

Age Group	Dec 2010 Base Rate Less TCM Add-On	Trend Factor	Adjustment for Benefit Changes/RR	Surplus Adjustment	2011 Base Rate Less TCM Add-On
1-5	\$3,813.29	1.0524	0.9952	1.0069	\$4,021.38
6-12	\$2,241.17	1.0524	0.9954	1.0069	\$2,363.98
13-17	\$1,833.16	1.0524	0.9955	1.0069	\$1,933.83

The trend factor shown in Table 1 (1.0524) is based on an annual trend rate of 5.24%, the same rate used in my analysis regarding capitation rate adjustments for PMAP Families & Children and Pregnant Women. This trend factor is based on 12 months of trend from the midpoint of calendar year 2010 to the midpoint of calendar year 2011. (Note that rate adjustments were applied to September - December rates that were originally intended to be effective for calendar year 2010.)

The adjustments for benefit changes shown in Table 1 also include ratable reductions, as well as adjustments for several items described in the section below. These benefit changes are described in further detail in my November 4 letter regarding benefit changes. The surplus adjustment reflects a target surplus of 1.18%, the same as for PMAP Families & Children and Pregnant Women (Dec 2010 rates were developed with a target surplus of 0.5%).

For TCM services (“TCM Component” on Exhibit A column f), I used the September-December 2010 rate of \$589.34 with the surplus adjustment described above. I applied a 0% trend adjustment (i.e. no adjustment), consistent with the SNBC PINs program and based on PINs-specific data provided by DHS.

To calculate the Medical Education Carve Out (Exhibit A column d), I added the figures in columns (f) and (h), divided by 0.98 and multiplied by the 2% MERC carve-out for Dakota County. The “Adjusted Base Rate” in column (c) is then calculated as the sum of columns (f), (h), and (d). Now, column (b), Ratable Reductions, is equal to the value of the inpatient hospital ratable reductions to be applied in 2011, after backing out the 2010 ratable reductions. This value is somewhat offset by the sunset of a 1.5% ratable reduction enacted in October 2009 for certain “basic care” services. Finally, column (a) is calculated as the sum of columns (b) and (c), and all other columns are calculated as shown in Exhibit A.

I used a withhold of 9.5%, consistent with the withhold for PMAP Families & Children and Pregnant Women rates.

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## Benefit Changes and Ratable Reductions

The adjustment for benefit changes shown in Table 1 includes adjustments for the items described below (including ratable reductions). These benefit changes are described further in my November 4 letter regarding benefit changes.

- Increase in Dental Rates. I assumed the value of this change is \$0.07 PMPM, the same as for all other programs.
- Health Care Home. I assumed the same enrollment distribution as was projected for 2010 rate development (see Table 2, below). The projected average payments are the same as for the PMAP Families and Children program. Assuming 1.5 months of enrollment per eligible enrollee, the projected average payment is \$3.47 PMPM, a \$0.96 increase over the rate included in 2010 rates.
- PCA ADL and Behavior Thresholds. I assumed a 6.9% reduction in PCA cost, the same as for PMAP Families and Children. Based on data for fiscal year 2007, PCA accounts for 27.9% of non-TCM services. Please let us know if you have more recent data available regarding PCA costs. Assuming no change in the 27.9% for 2011, and dividing the reduction in half to account for the July 1 effective date, the rate adjustment for this change is 0.9904.
- Chiropractic Services. I assumed the value of this change is \$0.07 PMPM, the same as for PMAP children ages 0-17.
- Drug Rebates. I developed an adjustment of 1.0049, taking into account the ratio of FY07 drug cost to total non-TCM cost, the PMAP Families and Children ratio of 2009 rebates to 2009 drug cost before rebates, as reported by the MCOs, and the ratio of projected 2011 rebates to 2011 drug cost before rebates for the same population, as reported by the MCOs.
- June Sunset of 1.5% "Basic Care" Ratable Reduction. A 4.5% ratable reduction was applied in October 2009 to certain "Basic Care" services. One third of this reduction is scheduled to sunset on June 30, 2011. Based on my analysis for October 2009 rates, I developed a January rate adjustment of 1.0003, taking into account the mid-year effective date.
- Hospital Ratable Reductions. A 1.9% ratable reduction currently in effect for inpatient services is scheduled to be replaced on January 1, 2011 with a permanent 1.79% ratable reduction. An additional reduction of 1.96% is also effective July 1. The adjustment factor for these reductions is 0.9993.

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**Table 2: Health Care Home Projected Payments PMPM**

<b>Number of Chronic Conditions</b>	<b>Enrollment Distribution</b>	<b>Projected Average Payments PMPM</b>
0	13%	\$0.00
1	26%	\$10.47
2	23%	\$21.00
3	18%	\$42.12
4+	20%	\$63.27



Jason, I am available for questions by phone at [REDACTED] and by e-mail at [REDACTED].

Sincerely,



Leigh M. Wachenheim, FSA, MAAA  
Principal & Consulting Actuary

LMW/ral

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**Exhibit A: PINs PMPM Plan Payment Calculation for  
Rates Effective January - December 2011  
Dakota County**

Area and Age Group	Base Rate (a)	Ratable Reductions (b)	Adjusted Base Rate (c)=(a)-(b)	Medical Education Carve Out (d)	2011 Rates Excl. Med. Educ. and RR (e)=(c)-(d)	TCM Component (f)	TCM Withhold (g)=(f)*.095	Base Rate less TCM Add-On (h)=(e)-(f)	Base Rate Withhold (i)=(h)*.095	Withhold (j)=(g)+(i)	2011 Rates Excl. Withhold (k)=(h)-(j)+(d)	2011 Rates less MERC less Withhold (l)=(k)-(d)	CY 2011 Plan Pmt with TCM (m)=(l)+(f)
Dakota County													
1-5	\$4,710.15	\$1.20	\$4,708.95	\$94.18	\$4,614.77	\$593.39	\$56.37	\$4,021.38	\$382.03	\$438.40	\$3,677.16	\$3,582.98	\$4,176.37
6-12	\$3,018.43	\$0.71	\$3,017.73	\$60.35	\$2,957.37	\$593.39	\$56.37	\$2,363.98	\$224.58	\$280.95	\$2,143.38	\$2,083.03	\$2,676.42
13-17	\$2,579.38	\$0.58	\$2,578.80	\$51.58	\$2,527.22	\$593.39	\$56.37	\$1,933.83	\$183.71	\$240.09	\$1,745.32	\$1,693.74	\$2,287.14

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