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August 18, 2011

Capitated Contracts Ratesetting Addendum to Actuarial Certification Dated December 19, 2010

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 provide an addendum to my actuarial certification dated December 19, 2010 of the actuarial soundness of the 2011 capitation rates for a subpopulation of disabled children under age 18 using Preferred Integrated Networks (PINs), referred to as the PINs program.

The purpose of this addendum is to certify the continued actuarial soundness of the average monthly rates paid during calendar year 2011, inclusive of a recent rate adjustment made to reflect changes in Minnesota Statutes. This addendum is not intended to certify to the actuarial soundness of the adjusted rates for the period September 2011 through December 2011 on a standalone basis. The assumptions and methods used to develop the rate impact of the changes in Minnesota Statutes is discussed in my letter Kids PINs Sept 2011 Rate Adjustment 081811.pdf which is attached to and part of 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 have 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.

In my opinion and subject to the qualifications above, the average monthly payment rates in calendar year 2011, inclusive of the statutory revisions and inclusive of the MERC, but exclusive of changes due to PPACA, 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.

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. 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.



Leigh M. Wachenheim
Member, American Academy of Actuaries

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