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December 19, 2010

Capitated Contracts Ratesetting
Actuarial Certification
Prepaid Medical Assistance Program and Minnesota Care Program

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 2011 capitation rates for the Prepaid Medical Assistance Program (PMAP) and the Minnesota Care (MNCare) program. (This certification does not cover rates for MNCare rate cells for which the state does not receive federal matching funds.)

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 2010 rate levels are described in my letter “2011 Trend & Surplus, Benefit Changes 1217.pdf” (December 17, 2010) which is attached to and part of this certification. I understand that DHS is including a summary of the 2011 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.

I understand the capitation rates also include certain amounts that are to be passed through by the plans to specific providers.

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. The letter 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 and amounts designated for pass-through to specific providers, 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.

Leigh M. Wachenheim
Member, American Academy of Actuaries

December 19, 2010