



8500 Normandale Lake Blvd.
Suite 1850
Minneapolis, MN 55437
Tel +1 952 897.5300
Fax +1 952 897.5301
www.milliman.com

December 19, 2010

Capitated Contracts Ratesetting
Actuarial Certification
PINs 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 a subpopulation of disabled children under age 18 using Preferred Integrated Networks (PINs), referred to as the PINs program.

I reviewed the actuarial assumptions and actuarial methods used to develop payment rates for this program. The payment rates, methodology, data, and assumptions used to update the rates from December 2010 rate levels are documented in my letter "2011 PINs Rates 1206.pdf" (December 6, 2010) which is attached to and part of 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 within the years for the experience period. 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 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 my opinion, the payment rates identified above, inclusive of the MERC, 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, PINs, 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 blue ink that reads "Leigh M. Wachenheim".

Leigh M. Wachenheim
Member, American Academy of Actuaries

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