



September 19, 2003

Capitated Contracts Ratesetting Actuarial Certification

I, Leigh M. Wachenheim, am associated with the firm of Milliman USA, Inc., Consultants & Actuaries. 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 capitation rates for the period October 2003 through December 2004 for the Prepaid Medical Assistance Program (PMAP) and for the Minnesota Care (MNCare) program. (This certification does not cover the nursing facility add-on rate for the PMAP program. The nursing facility add-on rate is addressed in a separate certification.)

I have reviewed the actuarial assumptions and actuarial methods used to develop these payment rates. The methodology, data, and assumptions used to update the rates from January – September 2003 rate levels are described in the following letters to DHS, attached to this certification, dated September 19, 2003:

- (1) Trend and Surplus Adjustments for 2003-2004 Payment Rates – this letter contains analysis of cost trends, HMO financial results, and the impact of risk adjustment.
- (2) Analysis of Rate Structure and Benefit Changes for 2003-2004 Minnesota Public Assistance Programs - this letter contains analysis of the impact on costs of specified changes in covered benefits and program rating structures that are effective October 1, 2003.
- (3) Olmsted County Analysis – this letter discusses the development of a new rating factor for Olmsted County in Southeastern Minnesota.



(4) Provider Tax Law Change Impact on Capitation Rates for 1/1/2004 – 12/31/2004 – this letter contains an estimate of the impact that a newly applied provider tax will have on plan costs.

I understand that DHS is including a summary of the October 2003 – December 2004 payment rates with this certification. I relied on DHS for the calculation of the payment rates, using the factors and methods described in the letters mentioned above.

In making my opinion, I have relied on the accuracy of the data and information provided by DHS and the HMOs with which they contract. 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.

In my opinion, the payment rates identified above 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 HMOs in aggregate and (2) the assumptions and data used in the development of the rates are reasonable and appropriate.

I have not reviewed the compliance of the rates with respect to requirements related to the treatment of graduate medical education, disproportionate share, and related expenses. I am relying on DHS's interpretation of the requirements and determination of compliance with respect to this item.

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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