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December 10, 2009

Ms. Karen Peed
Minnesota Department of Human Services
540 Cedar Street
St. Paul, MN 55101-2208

Re: 2010 Benefit and Reimbursement Changes

Dear Karen:

Capitation payment rates in 2010 are derived by applying adjustment factors to the rates in effect as of the fourth quarter of 2009. Adjustments are made for (1) cost and utilization trend and contribution to surplus, (2) changes in rate cell relativities, and (3) benefit changes. This letter discusses my estimates of the impact of certain benefit and reimbursement changes in Minnesota's public programs on the MCOs' cost levels in 2010. The letter provides background on these changes and describes the data and methods I used to calculate adjustment factors for each. The other adjustments listed above are discussed in other letters.

The purpose of this analysis is to assist the Minnesota Department of Human Services (DHS) with setting payment rates for contracting health plans for these programs. The results may not be appropriate for other purposes. The results contained in this letter are intended only for use by DHS and CMS, the federal agency that must approve the capitation rates used for the PMAP, Minnesota Senior Care Plus (MSC), Minnesota Senior Health Options (MSHO) and MinnesotaCare (MNCare) programs. 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 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.

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.

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.

Dental Services

Effective January 1, 2010, dental coverage changes will be enacted for all programs.

For non-pregnant adults, I understand the coverage changes as follows, as described in the DHS July 17 memo to the MCOs:

> Eliminates coverage for fixed bridges. Limits coverage to: (1) comprehensive exams, limited to once every five years;(2) periodic exams, once per year;(3) limited exams; (4) bitewing x-rays, once per year;(5) periapical x-rays;(6) panoramic x-rays, once every five years and only if certain conditions are met. Allows panoramic x-rays to be provided once every two years to certain patients who cannot cooperate for intra-oral film;(7) prophylaxis, once per year;(8) application of fluoride varnish, once per year;(9) posterior fillings at the amalgam rate;(10) anterior fillings;(11) endodontics, limited to root canals on the anterior and premolars only;(12) removable prostheses, each dental arch limited to one every six years;(13) oral surgery, limited to extractions, biopsies, and incision and drainage of abscesses; (14) palliative treatment and sedative fillings for relief of pain; and(15) full mouth debridement, once every five years. Provides that MA also covers the following services for adults, if provided in an outpatient hospital setting or freestanding ambulatory surgical center as part of outpatient dental surgery:(1) periodontics, limited to periodontal scaling and root planing once every two years;(2) general anesthesia; and (3) full mouth survey once every five years.

For children, I understand the coverage changes as follows:

> States that MA covers dental services for children that are medically necessary, and that the following guidelines apply: (1) posterior fillings are paid at the amalgam rate;(2) application of

sealants once every five years per permanent molar; and (3) application of fluoride varnish is limited to once every six months.

The State's fiscal note estimated the impact of these changes on managed care payments. Based on discussions with DHS, I understand the fiscal note was developed using encounter data and assigned payment rates according to the FFS fee schedule. The rate adjustment factors corresponding to the fiscal note estimates are shown in Table 1.

Table 1: Adjustment Factors for Dental Changes

Program	Affected Rate Cells	Adjustment Factor
PMAP	Ages 2-20	0.9961
	Ages 21-64	0.9802
Seniors	All	0.9956
MNCare	Ages 2-20	0.9960
	Parents Ages 21+	0.9977
	Adults Other than Rate Cell G	0.9941
	Rate Cell G Adults	0.9957

The DHS fiscal note estimates a 0.77% revenue reduction for PMAP Families and Children rate cells. Approximately 85% of this reduction is associated with the benefit change for ages 21 and over, with the remaining 15% corresponding to ages 2-20 (I assumed no impact on ages 0-2). I understand the benefit change does not affect pregnant women. I used demographic rate cell relativities and 2008 calendar year membership to estimate the appropriate adjustment factor to apply to each of these groups.

Similarly, the DHS fiscal note estimates a 0.28% reduction for MNCare Parents and Children. I used a process similar to that described above for PMAP to estimate the appropriate adjustment factor to apply to each group.

The DHS fiscal note identified separate rate reductions for seniors, MNCare Adults without Children (excluding rate cell G), and MNCare rate cell G. The corresponding factors are shown in Table 1. The fiscal note also identifies a reduction for Non-Citizen MA. Based on discussions with DHS I understand this reduction is not material to the rates.

Modification to Personal Care Assistant (PCA) Services

Changes to PCA coverage policy will affect rates in 2010 for seniors. A person must be dependent in one activity of daily living or have a Level I Behavior to be eligible for PCA services. DHS estimated the value of these changes in PCA coverage policy to be 3.95% of PCA services.

In addition, a 275-hour monthly limit on PCA services by a single provider was enacted in October 2009. This limit is scheduled to continue through 2010. DHS estimated the value of the 275-hour limit to be 1.9%.

Adding the 3.95% (for ADL changes) to the 1.9% (for the 275-hour PCA limit) and dividing by the 1.9% for the 275-hour limit gives a relative value of the 2010 adjustments of 3.08, compared to the October 2009 adjustment. For non-institutionalized seniors, the October rate amendment included a downward rate adjustment of 0.66% to reflect the 275-hour limit. Multiplying the 0.66% by the 3.08 gives a downward rate adjustment of 2.03%. Now, dividing 1-.0203 by 1-.0066 gives an adjustment factor of 0.9862, which is shown in Table 2 for non-institutionalized seniors. Note that no adjustment is required for institutionalized seniors, since they do not use these services.

Table 2: Adjustment Factors for PCA Changes

Program	Affected Rate Cells	Adjustment Factor
Seniors	Non-Institutionalized	0.9862

Rateable Reductions

DHS is applying "rateable reductions" to reduce payments to the MCOs effective January 1, 2009. The amount of the reductions is scheduled to change at certain intervals through July 1, 2010. These reductions correspond to reductions in the Medicaid fee-for-service fee schedule. My rate analysis, including my letters on trend and surplus analysis, assumes that the MCOs will be able to decrease their payments to providers by the amount of the rateable reductions to make up for the reduction in capitation rates.

Chiropractic Services

Effective July 1, 2010, coverage for chiropractic services will be expanded for MNCare enrollees. Initial or progress exams will be covered once per year. Based on information in the DHS fiscal note, I developed benefit adjustment factors to reflect the additional cost to the MCOs of providing this benefit.

The fiscal note estimates that 13.4% of MNCare families with children enrollees use chiropractic services in a given year. Likewise, an estimated 13.9% of MNCare adults without children enrollees use these services. An estimated 50% of these chiropractic service recipients will receive an initial exam and 50% will receive a progress exam each year. The assumed cost for these exams is $29 and $20, respectively, based on fee-for-service fee schedules. This corresponds to a benefit cost per member per month of $0.27 for parents and $0.28 for adults without children. I divided each

figure by two (to reflect the July 1 effective date) and by the average 2008 claim cost for each population to arrive at the factors shown in Table 3.

Table 3: Adjustment Factors for Chiropractic Services

Program	Affected Rate Cells	Adjustment Factor
MNCare	(K,L) and (F,J)	1.0005
	B and G	1.0003

Post-Partum Depression Screen

Coverage will be added for a post-partum depression screen at a child developmental visit. DHS estimates 500 screens will be covered at $23 each. I allocated the projected $11,500 total cost between the PMAP and MNCare Ages 0-1 rate cells according to enrollment. The corresponding average benefit cost assumed for CY10 is $0.04 PMPM. When compared with age/gender adjusted projected CY10 claim costs, the projected benefit cost is not significant to four decimal places.

Gardasil for Males

Coverage will be added for Gardasil for males ages 9-26. DHS estimates that the total calendar year 2010 cost for covering Gardasil for males aged will be $153,000. I allocated this $153,000 among rate cells according to enrollment. To estimate the enrollment distribution by age within a rate cell, I used the 2005 female enrollment distribution by age, the same distribution used when Gardasil for females was introduced. The projected calendar year 2010 average cost PMPM among eligible enrollees is $0.28. Accounting for the age distribution within rate cells, the projected calendar year 2010 average cost PMPM varies from $0.03 to $0.28, depending on the rate cell. I divided by age/gender adjusted projected calendar year 2010 claim costs to arrive at the factors shown in Table 4.

Table 4: Adjustment Factors for Gardasil for Males

Program	Affected Rate Cells	Adjustment Factor
PMAP	Ages 2-15 Male	1.0001
	Ages 16-20 Male	1.0006
	Ages 21-49 Male	1.0001
MNCare	(L,K) Ages 2-15 Male	1.0002
	(L,K) Ages 16-20 Male	1.0006
	(B) Ages 21-49 Male	1.0002
	(G) Ages 21-49 Male	1.0001
	(F,J) (A) Ages 21-49 Male	1.0001
	(F,J) (M) Ages 21-49 Male	1.0001

Health Care Home

Health Care Home payments will be required for the second half of calendar year 2010. I used information provided by DHS to estimate the cost of these payments. Table 5 shows the projected enrollment distribution by number of chronic conditions (pregnant women are included with "Adults"), as given to me by DHS.

Table 5: Projected Enrollment Distribution

Number of Chronic Conditions	Seniors	PMAP Kids	MA Adults <65	MNCare Kids	Trans'l MNCare Adults	MNCare Other Adults	GAMC
0	19%	88.74%	61%	87.74%	52%	60%	32%
1	28%	9.00%	26%	10.00%	28%	26%	31%
2	24%	2.00%	9%	2.00%	12%	9%	19%
3	15%	0.20%	3%	0.20%	5%	3%	10%
4+	14%	0.06%	1%	0.06%	3%	2%	8%

Table 6 shows projected average Health Care Home payments PMPM (for enrollees projected to receive services) for each group, as provided to me by DHS. Projected average payments for Senior Duals are lower than for other populations due to the presence of the Medicare care coordination function.

Table 6: Projected Average Health Care Home Payments PMPM

Number of Chronic Conditions	Senior Duals	All Other
0	$0.00	$0.00
1	$0.00	$5.24
2	$7.45	$14.90
3	$12.89	$25.78
4+	$26.63	$53.25

I calculated the weighted average projected payment PMPM for each population and divided by projected calendar year 2010 age/gender adjusted claim cost to arrive at the factors shown in Table 7, assuming 1.5 months of payments on average. The 1.5 months of payments was chosen by DHS and reflects that the program is not effective until July 1 and that not all providers will be certified.

This weighted average, assuming 1.5 months of coverage, varies from $0.11 to $2.05 PMPM, depending on the population. Projected payments for MNCare (B) after PGAMC migration are a weighted average of figures for "MNCare Other Adults" and "GAMC", using DHS membership projections. Similarly, projected payments for MNCare (G) after PGAMC migration are a weighted average of figures for "Trans'l MNCare Adults" and "GAMC".

Table 7: Adjustment Factors for Health Care Home

Program	Affected Rate Cells	Adjustment Factor
PMAP	Ages 0-20	1.0002
	Ages 21+	1.0005
	Pregnant Women	1.0002
MNCare	(K,L) (excl. PW)	1.0003
	(K,L) Pregnant Women	1.0002
	(F,J)	1.0007
	(B) Before PGAMC Migration	1.0005
	(B) After PGAMC Migration	1.0005
	(G) Before PGAMC Migration	1.0006
	(G) After PGAMC Migration	1.0007
Seniors	Duals	1.0008
	Non-Duals	1.0005

2009 Benefit Changes

The impact of certain benefit changes that took effect July 1, 2009 was spread over the entire year 2009. Table 8 shows the adjustment factors that were applied for such benefit changes and will be applied again to the 2010 rates to account for the additional half-year of cost for providing the benefits throughout 2010.

Table 8: Adjustment Factors for MH-TCM Services

Program	Affected Rate Cells	Adjustment Factor
PMAP	Ages 2+ Female	1.0062
	Ages 2+ Male	1.0137
	Pregnant Women	1.0005
Seniors	Institutionalized	1.0009
	Non-Institutionalized Female	1.0031
	Non-Institutionalized Male	1.0036
MNCare	Ages 2+, Preg. Women	1.0049
	Adults	1.0038

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Karen, please contact me if you have any questions about this letter. You can reach me at [redacted] or at [redacted].

Sincerely,

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

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