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December 16, 2004

Mr. R. Jason Wiley  
Managed Care Rate Setter  
Minnesota Department of Human Services  
444 Lafayette Road  
St. Paul, MN 55155-3853

**Re: Trend & Surplus Adjustments for 2005 Payment Rates**

Dear Jason:

This letter contains my analysis of trend and rate adjustments for the payment rates for the Prepaid Medical Assistance Program (PMAP), Prepaid General Assistance Medical Care (PGAMC), and MinnesotaCare (MNCare) programs for the period January 2005 through December 2005. 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 the federal agency that must approve the capitation rates used for the PMAP and 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 report are technical in nature and are dependent upon specific assumptions and methods. No party should rely 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.

The trends and rate adjustments we have developed are based on the historical financial results for the public program business for the health plans that participate in the PMAP, PGAMC, and MNCare programs. The recommended trends and rate adjustments are intended to provide rate levels that result in a modest net income for the health plans in aggregate.

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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, we have relied on data and other information provided to us by DHS and the plans with which it contracts. We have not audited or verified this data and other information. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete.

For this analysis, the following was the data and information which was used and on which we relied:

- Enrollment reports from DHS which provide enrollment by rate cell for each health plan and average payment rates by rate cell for 2003;
- Copies of the Minnesota State Supplement Report #1, Statement of Revenue, Expenses and Net Income for each health plan for 2000-2003, as submitted to the State of Minnesota;
- Restated net hospital and medical expenses, provided by the health plans, based on more recent experience, along with an actuarial certification from each plan;
- Splits provided by each health plan of PMAP revenue, claims, and expenses between (1) Families and Children and Pregnant Women and (2) Aged enrollees.
- Amounts spent on non-covered services from each of the health plans;
- Trend data from the Milliman *Health Cost Guidelines*;
- Information concerning Minnesota's fee-for-service Medicaid fee schedule from 2004 and 2005;
- Centers for Medicare and Medicaid Services payment rate increases for home health and outpatient services;
- Reports titled "Copy for Distribution 9-16-2004.xls", "FFS Newborns in SFY 2004 report.xls", and "Infants by month and age as of May 2004 run Sep 04.xls" as provided by DHS;
- A summary of risk factors from DHS by population each year since inception; and
- Miscellaneous data and information provided by DHS and the health plans.

We have performed a limited review of the data used directly in our 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 our assignment.

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The following provides an overview of the rate development, a summary of the rate adjustments, and describes the analysis that was performed.

### **Overview of Rate Development**

The rate levels have been set to target a modest contribution to surplus for the health plans in aggregate. The structure, assumptions, and data used in the development of the rates are summarized below:

- I. The base utilization and cost data used to determine the rate levels is actual claim experience through calendar year 2003 for the PMAP, PGAMC, and MNCare populations enrolled in managed care programs in Minnesota. (The data used here and in item 6 below is based on the annual financial filings that the health plans are required to provide to the State of Minnesota. For each health plan, we also requested restated incurred claims based on actual claim runout and a certification by a qualified actuary that the restatement reflects a best estimate. In addition, we asked the health plans to provide a split of incurred claims for the PMAP program between enrollees covered under the (1) Families and Children and Pregnant Women rate cells and the (2) Aged rate cells.
- II. Health status risk adjustment is used to adjust the payment rates. Risk assessment is performed using diagnosis codes and the Johns Hopkins Adjusted Clinical Groups (ACG) risk adjuster. In 2005, we understand that 50% of the rate will be based on health status risk adjustment and 50% will be based on a traditional demographic rate structure.
- III. Demographic rates vary by eligibility category, age and gender, and geographic location. For PMAP, the current eligibility categories include families and children, pregnant women, aged institutionalized, and aged non-institutionalized. For MNCare, the current eligibility categories include children, pregnant women, adults with kids with incomes over 175% of FPG, adults with kids with incomes below 175% of FPG, and adults without kids with incomes below 175% of FPG.
- IV. The current rate relationships by demographic rate cell were developed in 2002. They are based on actual claim experience from 2000 and 2001 for the PMAP, PGAMC, and MNCare populations enrolled in managed care programs in Minnesota.
- V. Adjustments are made for trends in utilization and cost per service, on a combined basis. The trends are based on historical claim trends from 2000 to 2003 for public program populations enrolled in managed care programs in Minnesota and on expected trends in provider payment rates for Minnesota's fee-for-service program. Adjustments were considered to the historical trends to reflect factors that might have a different impact on future claim trends. In particular, we considered the general direction of medical cost trends and historical versus future changes in benefits, Minnesota's fee-for-service fee schedules, and eligibility requirements.

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- VI. The load for administrative expenses is 6.9%, based on actual health plan experience for 2003 for these programs.
- VII. The modest load for a contribution to surplus for PMAP and MNCare is 0.50%. (This load assumes that 100% of the withhold is returned.)

### **Summary of Rate Adjustments**

Exhibit A-1 provides a summary of the trend and rate adjustments for use in developing the 2005 payment rates. As shown in Exhibit A-1, three sets of adjustments were developed:

- Recommended trend for current to 2005;
- Trend rebase for the period January 2003 through September 2003 to the period October 2003 through December 2004.
- Rate adjustment to hit surplus target.

Sections I, II, and III of Exhibit A-1 summarize the trend rates. The trends vary by population. Further, the recommended trend and the trend rebase vary by rate basis (i.e. demographic rates versus risk adjusted rates). These trends are intended to be applied to the current 2004 payment rates in order to develop payment rates for calendar year 2005. Each of these trends is described further below.

#### *Recommended Trend from 2004 to 2005 (Exhibit A-1, Section I)*

For the demographic rates, the recommended effective annualized trend for 2004 to 2005 is: (1) 7.53% for the PMAP Families and Children and Pregnant Women rate cells, (2) 7.18% for the PMAP Aged rate cells, (3) 7.42% for PGAMC, and (4) 6.77% for MNCare. For the risk adjusted rates, the recommended effective annualized trend for 2004 to 2005 is: (1) 5.67% for PMAP, (2) 4.41% for PGAMC, (3) and 4.28% for MNCare.

We calculated a single set of adjustment factors for PMAP risk adjusted rates, instead of calculating separate factors for the Aged and non-Aged. This is because DHS intends to continue using the current methodology to determine risk adjusted payment rates. The current methodology consists of a single base rate and risk score across rate cells, including the aged and non-aged. The risk score varies by plan, but the base rate does not.

These trends are based on the actual claim trends from 2000 to 2003 for four of the five largest public program health plans (Blue Plus, Medica, MHP, and UCare) and expected trends in Minnesota's fee-for-service MA fee schedule. HealthPartners data was not included due to concerns regarding the impact of changes in the financial allocation methodology used by HealthPartners during that period.

We used the following four step process to calculate trend rates:

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- Step I: We began by calculating trend rates based only on historic health plan data. The annualized trend rates are (1) 10.44% for the PMAP Families and Children and Pregnant Women rate cells, (2) 8.28% for the PMAP Aged rate cells, (3) 10.13% for PGAMC, and (4) 9.47% for MNCare. For the risk adjusted rates, the trend rates are: (1) 7.58% for PMAP, (2) 6.27% for PGAMC, (3) and 6.28% for MNCare. These trend rates are shown in Exhibit A-1, Box 1, columns (a) and (c). For the reason explained below, we are assuming that trend rates the trend rates used to project costs into the first quarter of 2005 will be based on health plan data alone.

These trends are based on a weighted average of health plan trends over the last 3 years. The weights are 17%, 33%, and 50% for the trend periods 2000-2001, 2001-2002, and 2002-2003, respectively. The trends reflect a 50/50 weighting of the trend for that population and the overall trend for all populations. This gives partial credibility to each population's past trend, but also reflects that the trend for a given population is likely to regress back toward the overall average.

The trends for the risk adjusted payment rates are lower than the trends for the demographic rates. This reflects that past trends in claim levels include the impact of changes in health status. However, the risk adjusted payment rates explicitly adjust for changes in health status. Accordingly, this adjustment is appropriate so that the rates do not double count the impact of changes in health status.

These trends exclude the impact of historic changes in benefits, eligibility classification, and changes in MA fee-for-service fee schedules. The trends include the impact of utilization, mix/intensity, and any health plan fee changes other than MA fee-for-service fee changes. More detail regarding the development of these trend rates is contained later in this letter.

These trends include adjustments for a lower trend on administrative expense levels, in comparison with the trend for medical claim levels. We have used a trend of 2% for administrative expenses, which was chosen based on a review of historic trends in administrative costs as reported in the health plan's financial statements for this line of business.

- Step II: Then, we used trend relationships from the Milliman *Health Cost Guidelines* to allocate the overall demographic and risk adjusted trend rates from Step I into a utilization trend and a charge level trend. These trend rates are summarized for each population in Table 1, below.

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**Table 1: Trend Rates**

Program	Demographic Trends			Risk Adjusted Trends		
	Utilization Trend	Charge Trend	Total Trend	Utilization Trend	Charge Trend	Total Trend
PMAP Total	2.32%	7.34%	9.84%	1.27%	6.23%	7.58%
PMAP <65	2.17%	8.09%	10.44%	NA	NA	NA
PMAP 65+	2.70%	5.43%	8.28%	NA	NA	NA
MNCare	1.72%	7.62%	9.47%	0.23%	6.04%	6.28%
PGAMC	2.06%	7.91%	10.13%	0.25%	6.00%	6.27%

- Step III: We then decreased the charge level trends to bring them closer to the expected 2004 to 2005 increase in Minnesota’s fee-for-service MA fee schedule. This blending of health plan and FFS trends in reimbursement rates is a change to our analysis this year. In recent years, we used health plan data alone. This change is intended to maintain a reasonable relationship between trends in the fee-for-service MA and managed care programs.

Because this change in methodology was not made until this fall, we are using health plan trends alone to project costs into the first quarter of 2005 and the blended trends to project costs for 2<sup>nd</sup> – 4<sup>th</sup> quarter of 2005. This timing adjustment is intended to allow the health plans some time to renegotiate their reimbursement rates with providers to reflect the resulting lower projected cost levels.

We estimated the trend in Minnesota’s fee-for-service Medicaid fee schedule from 2004 to 2005, using fee-for-service trend estimates provided by DHS. The trend rates we used, and their relative weight by population, are shown in Table 2, below. The claim weights were derived using data provided by the health plans for the regional rate study, which is described in another letter.

The data provided by the plans included claims by service category for the PMAP and PGAMC programs. For the purpose of this analysis, we assumed that the distribution of claim costs for the MNCare program would be the same as those for the PMAP F/C and PW program.

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**Table 2: FFS Trend Rates**

Service Category	FFS Trend	Population Claim Weights				
		PMAP	PMAP <65	PMAP 65+	MNCare	PGAMC
Inpatient	0.0%	25.67%	32.56%	7.94%	32.56%	33.56%
Outpatient	3.3%	15.36%	18.35%	7.64%	18.35%	19.75%
Physician	0.0%	27.18%	31.72%	15.48%	31.72%	24.37%
Rx	4.5%	21.88%	12.22%	46.76%	12.22%	18.50%
Other	2.3%	9.91%	5.15%	22.18%	5.15%	3.82%
<b>Total Trend</b>	<b>NA</b>	<b>1.72%</b>	<b>1.27%</b>	<b>2.87%</b>	<b>1.27%</b>	<b>1.57%</b>

- Step IV: We then recalculated trends on a per member per month basis, using (1) the utilization trends from Step II and (2) a 50%/50% weighting of the charge level trends from Step II and the fee-for-service trends from Step III. The revised charge level trends are shown in Table 3, below.

**Table 3: 50/50 Charge Trends**

Program	Demo Trend	Risk Adj Trend
PMAP Total	4.53%	3.98%
PMAP <65	4.68%	NA
PMAP 65+	4.15%	NA
MNCare	4.44%	3.65%
PGAMC	4.74%	3.79%

The resulting annualized trend rates are (1) 6.96% for the PMAP Families and Children and Pregnant Women rate cells, (2) 6.96% for the PMAP Aged rate cells, (3) 6.89% for PGAMC, and (4) 6.24% for MNCare. For the risk adjusted rates, the trend rates are: (1) 5.30% for PMAP, (2) 4.05% for PGAMC, (3) and 3.78% for MNCare. These trend rates are shown in Exhibit A-1, Box 1, columns (b) and (d).

*Trend Rebase for Jan. '03 – Sept. '03 to Oct. '03 – Dec. '04 (Exhibit A-1, Section II)*

Section II of Exhibit A-1 shows the calculation of the trend rebase. The trend rebase is the difference between the recommended health plan trend and the trend used by DHS last year. The purpose of this trend is to account for the difference between the trends we calculated last year and what we might have calculated had we had the additional information available to us now. We are using only the health plan trends for this calculation, and not the fee-for-service blended trends, because trends last year were calculated using health plan data alone.

For the demographic rates, the trend rebase is (1) 0.36% for the PMAP Families and Children and Pregnant Women rate cells, (2) -1.61% for the PMAP Aged rate cells, (3) -

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0.20% for PGAMC, and (4) -0.83 % for MNCare. For the risk adjusted rates, the trend rebase rates are (1) 4.97% for PMAP, (2) 3.15% for PGAMC, and (3) 3.31% for MNCare.

*Rate Adjustment Needed to hit Preliminary Surplus Target (Exhibit A-1, Section III)*

The rate adjustment needed to hit the target contribution to surplus for demographic rates is - 0.97 for the PMAP Families and Children and Pregnant Women rate cells, 0.87% for the PMAP Aged rate cells, and -4.50 for MNCare. The adjustment for the risk adjusted rates is - 1.20% for PMAP and -7.47% for MNCare. This is the rate adjustment that would be needed for the health plans to achieve the surplus target for the 2005 rating period, assuming that actual experience develops in accordance with the other assumptions in the rate development.

This adjustment is based on 2003 statutory financial results with restated incurred claims for the five largest health plans, including HealthPartners. The allocation issues in prior years surrounding HealthPartners historic results did not involve 2003 results, so their experience is being included in this analysis.

The analysis assumes that 100% of the withhold (5% of revenue) will be returned. DHS has made other historical adjustments to the rates to reflect the possibility that 100% of the withhold may not be returned. In particular, current rate levels include a 0.25% margin to recognize that the entire withhold may not be returned. I understand that DHS chose this adjustment based on a review of 2001 performance by the plans, applying the criteria that will be used to determine what portion of the withhold is returned. Based on this analysis, DHS believes that 95% of the 5% withhold will be returned in aggregate.

DHS has set a surplus contribution target for PMAP and MNCare at 0.50% of revenue for both demographic and risk adjusted rates, excluding investment income.

Section III of Exhibit A-1 shows the calculation of the rate adjustment needed to hit the surplus target. Column A is the 2003 net income as a percent of revenue before net investment income for the five largest health plans. The revenue, general administrative & claim adjustment expenses, and other expenses used to calculate net income were taken from the 2003 financial statements of these plans. The hospital/medical expenses used in the calculation were based on restated claim experience provided by the health plans. The plans also provided a split of their PMAP experience between the Aged and other rate groups.

Column B shows an adjusted net income which reverses the impact of a benefit change which occurred in October 2003, which was not matched by a revenue change. In particular, the net income as a percentage of revenue for the MNCare and PMAP Families and Children and Pregnant Women and MNCare populations was adjusted to reflect that the plans will resume responsibility for newborn costs in 2005. In October 2003, the state began paying newborn costs during the first weeks of life on a fee-for-service basis instead of the plans paying for them. No reductions were made to capitation rates. This resulted in a net gain to

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the plans. We estimate that the change reduced 2003 claim costs for the PMAP Families with Children and Pregnant Women population by 2.33% and for the MNCare population by 0.45%. Additional detail is provided later in this letter.

Column C shows the adjusted net income from Column B, again adjusted to current (2004) rate levels. Column D shows surplus target. Column E shows the rate adjustment needed to hit the surplus target.

### **Analysis**

The analysis is shown in Exhibits A through H. These include:

- Exhibits A-1 and A-2: Provide a summary of the results and analysis.
- Exhibit B: Summarizes the development of the health plan claim trends based on historical financial results.
- Exhibit C: Summarizes the trends and rate adjustments used by DHS to develop current (2004) rate levels from prior rate levels.
- Exhibits D-1 through D-4: Show the calculation of the factors used to adjust for benefit, eligibility definition, and COLA changes.
- Exhibit E: Shows the calculation of the change in health status.
- Exhibit F: Shows the calculation of the impact of the administrative cost trend on total health plan trend.
- Exhibit G: Shows the calculation of the average increase in payment rates and the change in demographic mix for PMAP and PGAMC.
- Exhibit H: Shows the calculation of the average increase in payment rates and the change in demographic mix for MNCare.

Each of these exhibits is described further below.

#### *Exhibit A-1*

This exhibit was described above.

#### *Exhibit A-2*

This exhibit converts the annualized rates shown in Exhibit A-1 into factors that can be applied to current rates. Column 1 shows the factors needed to rebase current rates and are consistent with the annualized rates shown in Section II of Exhibit A-1.

Column 2 shows the adjustment factor to trend current rates from the midpoint of the current rating period (May 15, 2004) to the midpoint of the new rating period (July 1, 2005). The factors shown in Column 2 were derived using the annualized rates shown in Section I of Exhibit A-1. We calculated final trend factors, assuming that payment levels in the first quarter of 2005 will be consistent with the trend rates shown in columns (a) and (c) of Exhibit A-1, Section I, but that payment rates in the 2<sup>nd</sup> – 4<sup>th</sup> quarters of 2005 will be reflective of the trend rates shown in columns (b) and (d) of that exhibit. For example, for demographic rates,

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we are assuming that first quarter costs for PMAP F/C and PW will be  $(1.1044)^{(9/12)}$  higher than average costs in October '03 through December '04 costs. (The midpoint of first quarter is mid-February, which is 9 months after mid-May, the midpoint of the prior rate effective period.) We are assuming that 2<sup>nd</sup> through 4<sup>th</sup> quarter costs will be  $1.0696^{(15/12)}$  higher than average October '03 through December '04 costs.

The rebasing factor reflects a 10.5 month trend period and the trend factor a 13.5 month trend period.

Column 3 is the adjustment factor for the surplus target. It is calculated as 1 plus the adjustment from column (e) of Exhibit A-1, Section III.

#### *Exhibit B*

This exhibit shows the calculation of health plan trend net of benefit, eligibility definition, and COLA changes. Section I of the exhibit shows the trends in gross claim costs and calculates an average trend across all programs using claim dollars as weights.

The gross claim cost trend is the trend before excluding the impact of benefit, eligibility definition, and COLA changes. For each program (PMAP, PGAMC, and MNCare), we calculated the loss ratio for each year (2000-2003) and health plan based on premium from the Minnesota State Supplement Report #1, Statement of Revenue, Expenses and Net Income, additional information provided by the plans splitting PMAP experience between (1) the Families and Children and Pregnant Women rate classes and (2) the Aged rate classes, and the restated medical and hospital expense provided by each plan.

The loss ratio was calculated as the total medical & hospital expense divided by the premium revenue. We made adjustments to premiums and claims before calculating the loss ratio. First, we adjusted premium to recognize the impact of withholds. We understand that all of the health plans ultimately received a full return of their 2003 withholds. Therefore, we made an upward adjustment to plan revenue to reflect that the plans accrued less than 100% of the 2003 withhold in their financial statements. Second, we also increased Medica's revenue in the loss ratio calculation to reflect the impact of their 2003 "premium holiday." We understand that Medica was paid only half their normal monthly capitation payment in December for the PMAP, PGAMC, and MNCare programs. We added the other half back into revenue.

Then, we reduced claims in the loss ratio calculation to reflect the value of non-state plan services, as required by CMS' rules. We increased the claims to recognize the impact of the newborn coverage enrollment practices mentioned earlier in this letter.

Also, prior to October 2003, most newborns were retroactively enrolled in the mother's plan, so that participating insurers received capitation payments and were responsible for costs from birth. During the period October 2003 through September 2004, the state instead covered newborns on a fee-for-service basis until the mother (or other responsible party)

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enrolled the infant into the mother's plan. Effective October 2004, newborns are again being retroactively enrolled into the mother's plan.

Therefore, we made an adjustment to recognize our estimate that PMAP < 65 average per enrollee claim levels in 2003 were 2.33% lower than they would have been had no change been made regarding the enrollment of newborns. Likewise, we estimate that MNCare claim levels in 2003 were 0.45% lower than they would have been otherwise.

The following data was used to develop these claim cost reduction factors:

- An exhibit provided by DHS showing the migration pattern of newborns born after September 2003 from FFS into managed care plans. The exhibit showed the migration pattern of newborn member months from FFS Medicaid to managed care plans. The exhibit also showed FFS incurred claims. Based on this data, we estimated that the percentage of newborns migrating to managed care plans is 0% in the month of birth, 17% in the next month, and 56% in the third month of life.
- We performed additional analysis on our internal data to establish the relative level of claim costs in each month of life to age one. The relative costs, with 1.000 being the cost in the first month are shown in Table 1, below. So, for example, we are estimating that the average cost per enrollee in the second calendar month of life is 18.7% of the average cost per enrollee in the month of birth. The migration data provided by the state (described above) also contained FFS cost data for each month of life, which we reviewed for general consistency with the internal data we used.

**Table 1: Relative Costs by Month of Life**

<b>Calendar Month of Life</b>	<b>Per Enrollee Cost Relative to Month 1</b>
1 (Month of Birth)	1.000
2	0.187
3	0.151
4	0.090
5	0.090
6	0.056
7	0.055
8	0.049
9	0.038
10	0.057
11	0.085
12	0.043

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There were some fluctuations from month to month in the data. Since infants use healthcare services on a scheduled basis during the first year of life, we thought the variations may not be entirely random. Therefore, we left them in for the purposes of this analysis. Smoothing would not have affected our results materially.

- o DHS provided a snapshot of enrollment by month of age within the first year of life, as of May 1, 2004. This included children covered under both FFS and managed care. Analysis of this data indicated that the distribution of children by month of age was relatively uniform within the 0-1 rate cells.

Because DHS plans to cover Aged PMAP enrollees under a new waiver in 2005, we performed separate calculations for the PMAP Families and Children and Pregnant Women rate cells and the PMAP Aged rate cells. The average loss ratios by program and year are summarized in Table 4, below.

**Table 4: Loss Ratios by Year and Program**

Program	Year			
	2000	2001	2002	2003
PMAP F/C and PW	71.9%	80.1%	79.6%	84.6%
PMAP Aged	110.7%	105.5%	102.7%	93.6%
PGAMC	107.4%	120.9%	114.6%	104.2%
MNCare	89.5%	85.7%	84.4%	86.9%

We then calculated the average increase in the payment rates for each year for each program, relative to the prior year. The impact of demographic shifts is netted out of the average increase in payment rates. We adjusted this increase to reflect changes in the percentage of revenue represented by MERC payments, since these payments are not made directly to the health plans. The adjustment for 2000-01 is the 2001 direct pay MERC, as a percent of total 2001 revenue, less the 2000 direct pay MERC, as a percent of total 2000 revenue. The adjustments for 2001-02 and 2002-03 were calculated in a similar fashion.

The average increases in revenue we calculated for each program are summarized in Table 5, below.

**Table 5: Average Increase in Payment Rates**

Program	Years		
	2000-2001	2001-2002	2002-2003
PMAP F/C and PW	1.6%	12.0%	4.7%
PMAP Aged	1.6%	12.0%	18.9%
GAMC	5.9%	23.1%	18.3%
MNCare	13.8%	14.6%	5.4%

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The gross claim cost trend is calculated based on the change in loss ratio and the rate increase. For example, the trend for PMAP Aged for 2000 to 2001 for all health plans is -3.2%. This is calculated as the (the ratio of the loss ratio for 2001 over 2000) times (1 plus the % rate increase) less 1 [ i.e. { ( 105.5% / 110.7% ) \* ( 1 + 1.6% ) - 1 }. ]

Section II in the exhibit shows the calculation of the net trend. Section II.A. shows the factors used to adjust for the impact of benefit, eligibility, and COLA changes. The development of these factors is shown in Exhibits D-1, D-2, D-3, and D-4. The net trends are calculated as {(one plus the gross trend) divided by the adjustment factor} less one.

Section III in the exhibit shows the calculation of the trend for the risk adjusted rates. The trend for the risk adjusted rates is equal to the trend for the demographic rates adjusted for changes in the health status of each population. (The development of the adjustment for changes in health status is shown in Exhibit E.)

Section IV in the exhibit summarizes the trend rates. The preliminary trend is a 50/50 weighting of the population specific trend and overall trend using a three year weighted average. We then make adjustments for recent or expected changes in trend rates and for a lower trend on administrative expenses.

Our trend recommendations for the PMAP F/C and PW, MNCare, and PGAMC populations include a reduction of 1.0% points to reflect our general expectation that trends during 2005 will be lower than trends during our experience period 2000-2003. We base this expectation on data from our Milliman *Health Cost Index*<sup>®</sup>, a proprietary econometric model that we frequently use to predict the general direction and magnitude of changes in trends. Because the model predicts increases in trends in prescription drug costs, which make up a significant portion of Medicaid claim expenses for the elderly, we are recommending no downward adjustment for the PMAP Aged population.

Detail regarding the development of the adjustment for lower trend on administration is shown in Exhibit F.

#### *Exhibit C*

This exhibit summarizes the trend and surplus adjustment factors that were used by DHS to calculate current (Oct 03 – Dec 04) rate levels from previous (Jan 03 – Sept 03) rate levels.

#### *Exhibits D-1, D-2, D-3. and D-4*

These exhibits show the calculation of the adjustment factors for benefit, eligibility definition, COLA, and MERC changes. For years prior to 2003, these factors are based on estimates developed by DHS of the cost impact of each of these changes on various subpopulations. For 2003, the factors are based on estimates developed by Milliman as part of our 2003-2004 rate analysis work. We also added a line for “infants.” This is an adjustment to reverse the impact of covering newborns on a fee-for-service basis, instead of through the plans.

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This change was effective October 2003. We mentioned this impact earlier and have also written another letter, which addresses it. The exhibit also shows the overall impact for each population for each set of years.

*Exhibit E*

Exhibit E shows the calculation of the change in health status, net of demographic changes. The calculation starts by determining the annualized trend in the risk factors used for determining the risk adjusted payment rates. This trend was calculated by performing exponential regression on historic statewide average risk scores, for each program. We used scores from eleven assessment periods, covering the period April 2000 through September 2003. We did not use risk scores from prior periods due to data concerns. The change in risk factors due to demographic changes is then removed.

*Exhibit F*

Exhibit F shows the calculation of the impact of the administrative cost trend on total trend. This analysis is based on an assumed trend in the administrative cost levels of 2% per year. We chose this figure, in consultation with DHS, based on recent plan trends in administrative cost levels for this block of business.

We performed an analysis of actual trends in per member per month administrative expenses for the five largest plans over the period 2000-2003. We used the administrative expenses and member months as reported by the plans in the Minnesota State Supplement Report #1: Statement of Revenue, Expenses and Net Income. Table 6 below shows recent annual cost trends, based on this experience.

**Table 6: Trends in PMPM Administrative Costs**

Program	Years		
	2000-2001	2001-2002	2002-2003
PMPM	10.9%	-5.9%	-3.4%
PGAMC	-19.8%	-4.0%	0.9%
MNCare	4.1%	-2.6%	-3.5%
Total	6.3%	-4.5%	-2.2%

Although recent trends have been negative, we do not believe it is reasonable to expect this to continue indefinitely. We believe that 2% is a slightly aggressive, yet reasonable assumption.

*Exhibit G*

This exhibit shows the calculation of the increase in payment rate schedule and demographic mix for PMPM and PGAMC for 2002 to 2003. Results for prior years are in prior years' analysis.

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The inputs for Exhibit G include: (1) average payment rate by rate cell from DHS reports, (2) enrollment by rate cell from DHS reports, and (3) cost factors by rate cell and by geographic area based on the rate factors we provided to DHS in the past. (We understand that the demographic and geographic factors we provided are currently being used.) The enrollment in the aged rate cells has been decreased to reflect the removal of MSHO enrollees. The estimated MSHO enrollment for each year was removed pro-rata across the aged rate cells.

For each year, we calculate a base rate which, when applied to the cost factors by rate cell and geographic area, generates the same total revenue as the actual rate schedule. There is a separate base rate for (1) PMAP Families and Children and Pregnant Women (2) PMAP Aged, and (3) PGAMC. The increase in the base rate from one year to the next gives the percentage increase in the rate schedule, using a constant set of cost factors.

We also calculate an average demographic factor for each year based on the mix of enrollment by rate cell and geographic area.

*Exhibit H*

Exhibit H-1 shows the calculation of the average change in demographic mix for 2002 to 2003 for the MNCare populations. (Results for prior years are in prior years' analysis.) To determine the change in demographic mix, we calculated an average payment rate for 2002 and 2003 based on the enrollment mix in each of those years and a constant rate schedule.

Exhibit H-2 shows the calculation of the increase in average payment rates over the five largest plans, assuming a fixed population.



Jason, I am available for questions by phone at (952) 820-2481 and by e-mail at [leigh.wachenheim@milliman.com](mailto:leigh.wachenheim@milliman.com).

Sincerely,

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

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**EXHIBIT A-1: ANNUALIZED RATE ADJUSTMENTS FOR CALCULATING CALENDAR YEAR 2005 RATES  
(With restated medical and hospital expense)**

**I. Recommended Annualized Trend for Current to 2005 Rate Levels:**

Population	(a)	(b)	(c)	(d)
	Demographic Rates: Recommend for Annualized Trend Current to 1st Quarter 2005	Demographic Rates: Recommend for Annualized Trend Current to Final 3 Quarters 2005	Risk Adj Rates: Recommend for Annualized Trend Current to 1st Quarter 2005	Risk Adj Rates: Recommend for Annualized Trend Current to Final 3 Quarters 2005
PMAP Total	9.75%	6.96%	7.58%	5.30%
PMAP Families/Children and PW	10.44%	6.96%	NA	NA
PMAP Aged	8.28%	6.96%	NA	NA
PGAMC	10.13%	6.89%	6.27%	4.05%
MNCare	9.47%	6.24%	6.28%	3.89%
Total	9.77%	6.74%	7.04%	4.73%

Source - Trends: Exhibit B

**II. Trend Rebase for Jan 03 - Sept 03 (1/03-9/03) to Oct 03 - Dec 04 (10/03-12/04)**

Population	(a)	(b)	(c)	(d)	(e)=(1+a)/(1+c) - 1	(f)=(1+b)/(1+d) - 1
	Demographic Rates: Recommend Trend for Current to 2005	Risk Adj Rates: Recommend Trend for Current to 2005	Demographic Rates: DHS Trend for 1/03 - 9/03 to 10/03-12/04	Risk Adj Rates: DHS Trend for 1/03 - 9/03 to 10/03-12/04	Demographic Rates: Trend Rebase	Risk Adj Rates: Trend Rebase
PMAP Total	9.75%	7.58%	10.05%	2.49%	-0.27%	4.97%
PMAP F/C and PW	10.44%	NA	10.05%	2.49%	0.36%	NA
PMAP Aged	8.28%	NA	10.05%	2.49%	-1.61%	NA
PGAMC	10.13%	6.27%	10.36%	3.02%	-0.20%	3.15%
MNCare	9.47%	6.28%	10.39%	2.87%	-0.83%	3.31%
Total	9.77%	7.04%	10.18%	2.67%	-0.38%	4.26%

Source (c) and (d): Exhibit C

**III. Rate Adjustment Needed to hit Preliminary Surplus Target:**

Population	(a)	(b)	(c)	(d)	(e)
	2003 Net Income as a % of Revenue before NII	2003 Net Income Adjusted for Newborn Costs	2003 Net Income @ Current Rate Level	Surplus Target*	Rate Adj to hit Surplus Target
<b>Demographic Rates</b>					
PMAP Total	4.25%	2.77%	1.05%	0.50%	-0.55%
PMAP F/C and PW	5.21%	3.18%	1.47%	0.50%	-0.97%
PMAP Aged	1.38%	1.38%	-0.36%	0.50%	0.87%
MNCare/MA	7.50%	7.11%	4.98%	0.50%	-4.50%
<b>Risk Adjusted Rates</b>					
PMAP Total	4.25%	2.77%	1.70%	0.50%	-1.20%
PMAP F/C and PW	NA	NA	NA	NA	NA
PMAP Aged	NA	NA	NA	NA	NA
MNCare/MA	7.50%	7.11%	7.93%	0.50%	-7.47%
Total	5.32%				

\* This is before any rate adjustments that are not revenue-neutral and assumes 100% of the withhold is returned.

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**EXHIBIT A-2: TREND RATING FACTORS FOR CALCULATING  
Jan 2005 - DEC 2005 RATES**

<b>I. Factors for Demographic Rates</b>			
	(1)	(2)	(3)
			Adjustment for Preliminary Surplus
<u>Population</u>	<u>Rebase</u>	<u>Trend</u>	<u>Target</u>
PMAP F/C and PW	1.0031	1.0851	0.9903
PMAP Aged	0.9859	1.0811	1.0087
PGAMC	0.9982	1.0839	1.0000
MNCare	0.9927	1.0765	0.9550

<b>II. Factors for Risk Adjusted Rates</b>			
	(1)	(2)	(3)
			Adjustment for Preliminary Surplus
<u>Population</u>	<u>Rebase</u>	<u>Trend</u>	<u>Target</u>
PMAP F/C and PW	1.0433	1.0640	0.9880
PMAP Aged	1.0433	1.0640	0.9880
PGAMC	1.0275	1.0498	1.0000
MNCare	1.0289	1.0483	0.9253

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**EXHIBIT B: CALCULATION OF TREND NET OF BENEFIT, ELIG, COLA, & MERC CHANGES**

## I. Calculation of Average Trend across All Populations

## A. Gross Claim Cost Trends - for big five HMOs

<u>Population</u>	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>3 year weighted avg*</u>
PMAP	9.0%	10.3%	10.3%	10.1%
PMAP Families/Children & Preg Women	13.2%	11.3%	11.3%	11.6%
PMAP Aged	-3.2%	9.0%	8.4%	6.7%
GAMC	19.2%	16.8%	7.5%	12.6%
MNCare	9.0%	12.8%	8.6%	10.1%

\*The weights are 17%, 33%, and 50%.

## B. Average Claims by Population

<u>Population</u>	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>
PMAP	430,609	515,043	618,348
PMAP Families/Children & Preg Women	300,942	365,182	448,775
PMAP Aged	129,668	149,862	169,573
GAMC	63,261	87,863	120,022
MNCare	212,876	264,170	313,454
Total	706,746	867,077	1,051,823

## C. Average Cost Trend across all Populations

	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>3 year weighted avg*</u>
Wtd avg trend using avg claims by pop as weights	9.5%	11.9%	9.6%	10.3%

## II. Calculation of Trend Net of Benefit, Eligibility, and COLA Changes

## A. Increase in Claim Cost due to Benefit, Eligibility, &amp; COLA Changes - based on DHS estimates

<u>Population</u>	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>
PMAP	1.0182	1.0025	0.9793
PMAP Families/Children & Preg Women	1.0134	1.0026	0.9738
PMAP Aged	1.0293	1.0023	0.9938
GAMC	1.0263	1.0052	0.9945
MNCare	1.0015	0.999	0.9864

## B. Trends Excluding Impact of Benefit, Eligibility, &amp; COLA Changes

<u>Population</u>	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>3 year weighted avg*</u>
PMAP	7.1%	10.0%	12.7%	10.8%
PMAP Families/Children & Preg Women	11.7%	11.0%	14.3%	12.8%
PMAP Aged	-5.9%	8.8%	9.1%	6.4%
GAMC	16.1%	16.2%	8.1%	12.1%
MNCare	8.8%	12.9%	10.1%	10.8%
Wtg avg using avg claims by pop as weights	8.0%	11.7%	11.5%	11.0%

\*The weights are 17%, 33%, and 50%.

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**EXHIBIT B: CALCULATION OF TREND NET OF BENEFIT, ELIG, COLA, & MERC CHANGES CONTINUED**

III. Calculation of Trend for Risk Adjusted Rates

<u>Population</u>	(a) Trend for Demographic Rates	(b) Health Status Adjust*	(c) $(1+a)/(1+b)-1$ Trend for Risk Adj Rates
PMAP	10.8%	1.5%	9.2%
PMAP Families/Children & Preg Women	12.8%	NA	NA
PMAP Aged	6.4%	NA	NA
GAMC	12.1%	4.7%	7.1%
MNCare	10.8%	3.5%	7.1%
Wtg avg using avg claims by pop as weights	11.0%	2.5%	8.3%

\* This is the average annual increase in health status, net of the demographic changes.

IV. Calculation of Final Recommended Trend

Recommended Trend: Preliminary trend is a 50/50 weighting of pop specific trend and overall trend using 3 year weighted avg and then adjust for increase in trend levels and lower trend on administrative expense.

<u>Population</u>	(a) Prelim Trend for Demographic Rates	(b) Prelim Trend for Risk Adj Rates	(c) Adjust for Decreasing Trend	(d) Adjust for Lower Trend on Admin	(e) $=(a+c+d)$ Final Recommend Trend for: Demographic Rates	(f) $=(b+c+d)$ Final Recommend Trend for: Risk Adjusted Rates
PMAP	10.91%	8.74%	-0.73%	-0.43%	<b>9.75%</b>	<b>7.58%</b>
PMAP Families/Children & Preg Women	11.87%	NA	-1.00%	-0.43%	<b>10.44%</b>	<b>NA</b>
PMAP Aged	8.71%	NA	0.00%	-0.43%	<b>8.28%</b>	<b>NA</b>
GAMC	11.56%	7.70%	-1.00%	-0.43%	<b>10.13%</b>	<b>6.27%</b>
MNCare	10.90%	7.71%	-1.00%	-0.43%	<b>9.47%</b>	<b>6.28%</b>
Total*	10.98%	8.31%	-0.84%	-0.43%	<b>9.77%</b>	<b>7.04%</b>

\* Total trend is a weighted average of population specific trends using the 2002-03 claims by pop as weights

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**EXHIBIT C. TREND RATES APPLIED TO PRIOR (JAN 2003 - SEPT 2003) RATES TO DERIVE CURRENT (OCT 2003 - DEC 2004) RATES****Demographic Rates**

(a)	(b)	(c)	(d)	(e)	(f)	(g)
				Total of Rate Adjustments	Rebase Adj & Surplus Target Adjustment	Weight*
<u>Population :</u>	<u>Trend</u>	<u>Rebase Adj</u>	<u>Surp Target Adj</u>			
PMAP F/C & PW	10.05%	1.15%	-2.25%	8.81%	-1.13%	42.7%
PMAP Aged	10.05%	1.15%	-2.25%	8.81%	-1.13%	16.1%
GA/GAMC	10.36%	-1.03%	0.00%	9.22%	-1.03%	11.4%
MNCare	10.39%	1.27%	-2.99%	8.45%	-1.76%	29.8%
<b>Total</b>	<b>10.18%</b>	<b>0.94%</b>	<b>-2.21%</b>	<b>8.75%</b>	<b>-1.30%</b>	<b>100.0%</b>

**Risk Adjusted Rates**

				Total of Rate Adjustments	Rebase Adj & Surplus Target Adjustment	Weight*
<u>Population :</u>	<u>Trend</u>	<u>Rebase Adj</u>	<u>Surp Target Adj</u>			
PMAP F/C & PW	2.49%	-2.67%	1.57%	1.32%	-1.14%	42.7%
PMAP Aged	2.49%	-2.67%	1.57%	1.32%	-1.14%	16.1%
GA/GAMC	3.02%	-2.35%	0.00%	0.61%	-2.35%	11.4%
MNCare	2.87%	-0.89%	2.47%	4.47%	1.55%	29.8%
<b>Total</b>	<b>2.67%</b>	<b>-2.10%</b>	<b>1.66%</b>	<b>2.18%</b>	<b>-0.48%</b>	<b>100.0%</b>

\* Weights based on the average claim expenses by population in 2002 and 2003

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**EXHIBIT D-1: MA FAMILIES WITH CHILDREN & PW - CALCULATION OF ADJUSTMENT FACTORS FOR BENEFIT, ELIGIBILITY DEFINITION, COLA, & MERC CHANGES**

Adjustment:	Type of Adjustment	Assumed Effective Date	Rate Impact on MA subpop:'	% of Revenue Affected	% Impact on HMOs	Net Impact	2000-01 Impact	2001-02 Impact	2002-03 Impact	
1)	CY2001 IP Rebase	COLA Fee	1/1/01	1.0267 All except MFIP	50.6%	75.0%	1.0101	1.0101	1.0000	1.0000
2)	Childrens Mental Health	Benefit	1/1/01	1.008 MFIP<16, kids	64.7%	100.0%	1.0052	1.0052	1.0000	1.0000
3)	FFS OP APC	COLA Fee	1/1/01	1.0173 All	100.0%	75.0%	1.0130	1.0130	1.0000	1.0000
4)	Subs Adopt & FC Kids Elig	Eligibility	1/1/01	0.975 Needy Ki Henn	11.3%	100.0%	0.9972	0.9972	1.0000	1.0000
				1.01 Needy Ki Metro	12.3%	100.0%	1.0012	1.0012	1.0000	1.0000
				0.988 Needy Ki Reg	17.1%	100.0%	0.9980	0.9980	1.0000	1.0000
5)	MERC	MERC	10/1/00	0.974 All	100.0%	70.0%	0.9818	0.9864	1.0000	1.0000
6)	Rate Inc: Ambulance	COLA Fee	7/1/01	1.00037 All	100.0%	75.0%	1.0003	1.0001	1.0001	1.0000
7)	MH Rebase	COLA Fee	7/1/01	1.0008 All	100.0%	75.0%	1.0006	1.0003	1.0003	1.0000
8)	Court Ordered Treat	Benefit	7/1/01	1.0056 All	100.0%	100.0%	1.0056	1.0028	1.0028	1.0000
9)	Rate Inc: Spec Trans	COLA Fee	7/1/01	1.0011 All	100.0%	75.0%	1.0008	1.0004	1.0004	1.0000
10)	Chirdren's Prev Dental	Benefit	7/1/01	1.001 Children	64.0%	100.0%	1.0006	1.0003	1.0003	1.0000
11)	Eliminate Hosp Surcharge	COLA Fee	7/1/01	0.9963 All	100.0%	75.0%	0.9972	0.9986	0.9986	1.0000
13)	Dental	Benefit	10/1/03	0.9908 non preg adults	26.47%	100.0%	0.9976	1.0000	1.0000	0.9994
14)	Medical	Benefit	10/1/03	0.9639 non preg adults	26.47%	100.0%	0.9904	1.0000	1.0000	0.9976
15)	Infants	Eligibility	10/1/03	NA * 0-1 year olds	NA	100.0%	NA	1.0000	1.0000	0.9767
<b>Total Impact:</b>		<b>Benefit, Elig, COLA Fee, &amp; MERC Changes</b>						<b>1.0134</b>	<b>1.0026</b>	<b>0.9738</b>

\* Estimated using demographic factors and enrollment

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**EXHIBIT D-2: MA SENIORS - CALCULATION OF ADJUSTMENT FACTORS FOR BENEFIT, ELIGIBILITY DEFINITION, COLA, & MERC CHANGES**

Adjustment:	Type of Adjustment	Assumed Effective Date	Rate Impact on MA subpop:	% of Revenue Affected	% Impact on HMOs	Net Impact	2000-01 Impact	2001-02 Impact	2002-03 Impact	
1)	CY2001 IP Rebase	COLA Fee	1/1/01	1.0267 All	100.0%	75.0%	1.0200	1.0200	1.0000	1.0000
2)	Home Care Rate Inc	COLA Fee	1/1/01	1.02 Non Institutionalized	51.2%	75.0%	1.0077	1.0077	1.0000	1.0000
3)	FFS OP APC	COLA Fee	1/1/01	1.0173 All	100.0%	75.0%	1.0130	1.0130	1.0000	1.0000
4)	MERC	MERC	10/1/00	0.974 All	100.0%	70.0%	0.9818	0.9864	1.0000	1.0000
5)	Rate Inc: Ambulance	COLA Fee	7/1/01	1.00037 All	100.0%	75.0%	1.0003	1.0001	1.0001	1.0000
6)	MH Rebase	COLA Fee	7/1/01	1.0008 All	100.0%	75.0%	1.0006	1.0003	1.0003	1.0000
7)	Court Ordered Treat	Benefit	7/1/01	1.0056 All	100.0%	100.0%	1.0056	1.0028	1.0028	1.0000
8)	Rate Inc: Spec Trans	COLA Fee	7/1/01	1.0011 All	100.0%	75.0%	1.0008	1.0004	1.0004	1.0000
9)	Eliminate Hosp Surcharge	COLA Fee	7/1/01	0.9963 All	100.0%	75.0%	0.9972	0.9986	0.9986	1.0000
12)	Dental	Benefit	10/1/03	0.9908 All	100.0%	100.0%	0.9908	1.0000	1.0000	0.9977
13)	Medical	Benefit	10/1/03	0.9757 Non Institutionalized	64.4%	100.0%	0.9843	1.0000	1.0000	0.9961
Total Impact:		Benefit, Elig, COLA Fee, & MERC Changes					1.0293	1.0023	0.9938	

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**EXHIBIT D-3: GAMC - CALCULATION OF ADJUSTMENT FACTORS FOR BENEFIT, ELIGIBILITY DEFINITION, COLA, & MERC CHANGES**

Adjustment:	Type of Adjustment:	Assumed Effective Date	Rate Impact on GA pop:	% of Revenue Affected	% Impact on HMOs	Net Impact	2000-01 Impact	2001-02 Impact	2002-03 Impact	
1)	CY 2001 IP Rebase	COLA Fee	1/1/01	1.0175 All	100.0%	75.0%	1.0131	1.0131	1.0000	1.0000
2)	FFS OP APC	COLA Fee	1/1/01	1.029 All	100.0%	75.0%	1.0218	1.0218	1.0000	1.0000
3)	MERC	MERC	10/1/00	0.974 All	100.0%	70.0%	0.9818	0.9864	1.0000	1.0000
4)	Rate Inc: Ambulance	COLA Fee	7/1/01	1.0014 All	100.0%	75.0%	1.0011	1.0005	1.0005	1.0005
5)	MH Rebase	COLA Fee	7/1/01	1.0018 All	100.0%	75.0%	1.0014	1.0007	1.0007	1.0007
6)	Court Ordered Treat	Benefit	7/1/01	1.0106 All	100.0%	100.0%	1.0106	1.0053	1.0053	1.0053
7)	Rate Inc: Spec Trans	COLA Fee	7/1/01	1.0002 All	100.0%	75.0%	1.0002	1.0001	1.0001	1.0001
8)	Eliminate Hosp Surcharge	COLA Fee	7/1/01	0.9963 All	100.0%	75.0%	0.9972	0.9986	0.9986	0.9986
10)	Dental	Benefit	10/1/03	0.9985 All	100.0%	100.0%	0.9985	1.0000	1.0000	0.9996
11)	Medical	Benefit	10/1/03	0.9591 All	100.0%	100.0%	0.9591	1.0000	1.0000	0.9898
	<b>Total Impact</b>	<b>Benefit, Elig, COLA Fee, &amp; MERC Changes</b>						<b>1.0263</b>	<b>1.0052</b>	<b>0.9945</b>

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**EXHIBIT D-4: MNCare - CALCULATION OF ADJUSTMENT FACTORS FOR BENEFIT, ELIGIBILITY DEFINITION, AND COLA CHANGES**

Adjustment:	Type of Adjustment	Assumed Effective Date	Rate Impact on MNCare subpop:	% of Revenue Affected	% Impact on HMOs	Net Impact	2000-01 Impact	2001-02 Impact	2002-03 Impact
1) GAMC to MNCare B Elig Shift	Eligibility	1/1/01	0.95 B	24.0%	100.0%	0.9880	0.9880	1.0000	1.0000
2) FFS OP APC	COLA Fee	1/1/01	1.0166 All	100.0%	75.0%	1.0125	1.0125	1.0000	1.0000
3) Eliminate IP Copay for 175-275% FPG	Benefit	1/1/01	1.0304 F,J >175%	7.3%	100.0%	1.0022	1.0022	1.0000	1.0000
4) MH Rebase	COLA Fee	7/1/01	1.0014	100.0%	75.0%	1.0003	1.0001	1.0001	1.0000
5) Eliminate Hosp Surcharge	COLA Fee	7/1/01	0.9963	100.0%	75.0%	0.9972	0.9986	0.9986	1.0000
6) Chirdren's Prev Dental	Benefit	7/1/01	1.0019	29.5%	100.0%	1.0006	1.0003	1.0003	1.0000
7) \$5000 Cap on Phys Exp	Benefit	10/1/03	0.8480 B, M3	25.3%	100.0%	0.9616	1.0000	1.0000	0.9904
8) Dental Cap	Benefit	10/1/03	1.00488 F,J and B,M1	42.3%	100.0%	1.0021	1.0000	1.0000	1.0005
9) Infants	Eligibility	10/1/03	NA * 0-1 year olds	NA	100.0%	NA	1.0000	1.0000	0.9955
<b>Total Impact:</b>	<b>Benefit, Elig, &amp; COLA Fee Changes</b>						<b>1.0015</b>	<b>0.9990</b>	<b>0.9864</b>

\* Estimated using demographic factors and enrollment

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**EXHIBIT E: IMPACT OF CHANGES IN HEALTH STATUS ON TREND**

## I. Calculation of Annual Increase in Statewide Risk Factors:

<u>Population</u>	<u>Annualized Increase in Risk Factor</u>
MA	1.3%
GAMC	2.9%
MNCare/MA	4.6%
MNCare/Non-MA	3.7%

Total\* 2.3%  
 \* Based on claims by population for 2003.

<u>Population</u>	<u>2003 Claims</u>	<u>% of Total</u>
MA	675,464	59.2%
GAMC	134,189	11.8%
MNCare/MA*	99,351	8.7%
MNCare/Non-MA*	231,818	20.3%
Total	1,140,822	100.0%

\* The claims for MNCare are allocated to MA and non-MA using a 30%/70% split based on the premium split for 2003 since claims are not directly available for MA vs. non-MA.

## II. Increase in Demographic Mix:

<u>Population</u>	(a) <u>2000 to 2001</u>	(b) <u>2001 to 2002</u>	(c) <u>2002 to 2003</u>	(d) <u>Geometric Avg Annual Increase in Demo Mix</u>
MA	1.4%	-0.6%	-1.3%	-0.2%
GAMC	-1.1%	-1.8%	-2.2%	-1.7%
MNCare/MA	1.3%	0.4%	0.1%	0.6%
MNCare/Non-MA	0.8%	0.4%	0.0%	0.4%
Total	1.0%	-0.5%	-1.0%	-0.2%

## III. Annual Increase in Health Status net of Demographic Changes:

<u>Population</u>	(a) <u>Annualized Increase in Risk Factor</u>	(b) <u>Average Annual Increase in Demo Mix</u>	(c) <u>=(1+a)/(1+b) - 1 Increase in Health Status net of Demo Change</u>
MA	1.3%	-0.2%	1.5%
GAMC	2.9%	-1.7%	4.7%
MNCare/MA	4.6%	0.6%	3.9%
MNCare/Non-MA	3.7%	0.4%	3.3%
MNCare Subtotal	3.9%	0.5%	3.5%
Total	2.3%	-0.2%	2.5%

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**EXHIBIT F: IMPACT OF ADMINISTRATIVE TREND ON TOTAL TREND**

## I. Trend for Claim Costs:

Net Trend = 10.1%  
 (This is the final recommended trend for demographic rates before adjusting for the lower trend on administrative costs.)  
 (This trend is before adjusting for COLA, Benefit, & Eligibility Changes.)

Trend for COLA, Benefit, & Eligibility Changes = -1.7% (for 2002 - 2003)

Total Trend = 8.3%

## II. Trend in Administrative Cost Levels:

Assumed Trend in Administrative Cost Levels = 2.0%  
 (per DHS)

## III. Calculation of Overall Trend Needed:

	(a)	(b)	(c) = (a x b)
		Trend Factor	Trended Values
Assume a Loss Ratio of =	93.1%	108.3%	100.8%
Assume Retention Level of =	6.9%	102.0%	7.0%
Source: Exhibit I			
Total	100.0%		107.85%
Overall Trend Needed =			7.85%

## IV. Calculation of Impact of Lower Administrative Trend on Total Trend:

Total Trend in Claims Costs = 8.29%  
 less Overall Trend Needed = 7.85%

Decrease in Trend =	0.4%
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**EXHIBIT G: CALCULATION OF INCREASE IN RATE SCHEDULE & DEMOGRAPHIC MIX**

**2003 PMAP/GAMC**

Region:			Hennepin	Big Five	Metro	Big Five	Regional	Big Five	A		
Program	Gender	Age	Adj Avg Payment	Total Enrollment	Revenue	Adj Avg Payment	Total Enrollment	Revenue	Adj Avg Payment	Total Enrollment	Revenue
<b>Families with Children</b>											
	Female	0-1	\$557.27	30,406	\$16,944,354	\$497.76	31,294	\$15,576,799	\$477.12	47,547	\$22,685,693
	Female	1-2	\$258.69	28,570	\$7,390,735	\$236.93	30,118	\$7,135,915	\$219.21	46,022	\$10,088,597
	Female	2-15	\$206.21	183,337	\$37,806,648	\$194.11	208,343	\$40,442,007	\$180.46	266,001	\$48,003,227
	Female	16-20	\$339.41	45,746	\$15,526,835	\$304.25	49,862	\$15,170,658	\$277.33	64,932	\$18,007,373
	Female	21-50	\$381.08	122,943	\$46,851,094	\$348.22	147,571	\$51,386,439	\$327.27	196,189	\$64,206,774
	Female	50+	\$526.02	5,463	\$2,873,637	\$465.49	4,427	\$2,060,725	\$449.08	4,418	\$1,984,055
	Male	0-1	\$606.03	31,083	\$18,837,164	\$538.53	33,797	\$18,200,539	\$516.97	50,077	\$25,888,380
	Male	1-2	\$263.82	29,183	\$7,698,926	\$242.05	32,544	\$7,877,210	\$225.32	47,630	\$10,732,081
	Male	2-15	\$215.70	180,834	\$39,005,622	\$202.12	210,302	\$42,506,917	\$188.61	274,700	\$51,811,722
	Male	16-20	\$258.62	33,900	\$8,767,373	\$237.71	37,445	\$8,901,111	\$220.45	45,542	\$10,039,800
	Male	21-50	\$275.55	27,333	\$7,531,707	\$255.99	35,771	\$9,156,890	\$242.11	59,606	\$14,431,333
	Male	50+	\$465.30	3,090	\$1,437,770	\$409.15	3,191	\$1,305,594	\$393.36	3,686	\$1,449,935
	<b>Program Total</b>			<b>721,888</b>			<b>824,665</b>			<b>1,106,350</b>	
<b>Pregnant Women</b>											
	Female	All Ages	\$848.30	23,832	\$20,216,689	\$740.88	21,087	\$15,623,010	\$730.03	37,991	\$27,734,638
	<b>Program Total</b>			<b>23,832</b>			<b>21,087</b>			<b>37,991</b>	
<b>Aged Institutionalized</b>											
	Female	65-74	\$970.79	3,557	\$3,453,132	\$873.88	2,769	\$2,419,700	\$794.50	5,635	\$4,476,695
	Female	75-84	\$722.96	7,509	\$5,428,731	\$663.35	7,227	\$4,793,744	\$605.74	21,482	\$13,012,343
	Female	85+	\$511.83	13,465	\$6,892,011	\$473.33	13,598	\$6,436,263	\$432.94	49,388	\$21,381,782
	Female	Non-MC	\$944.45	187	\$177,030	\$926.81	84	\$77,570	\$939.75	228	\$214,656
	Male	65-74	\$852.53	2,496	\$2,127,942	\$781.62	1,735	\$1,356,056	\$703.62	4,744	\$3,337,680
	Male	75-84	\$728.50	3,110	\$2,265,501	\$666.71	2,486	\$1,657,144	\$612.44	9,501	\$5,818,843
	Male	85+	\$549.31	2,006	\$1,101,959	\$519.75	2,011	\$1,045,369	\$474.79	11,523	\$5,470,993
	Male	Non-MC	\$1,074.84	135	\$145,246	\$675.10	24	\$15,891	\$904.87	162	\$146,732
	<b>Program Total</b>			<b>32,466</b>			<b>29,932</b>			<b>102,663</b>	
<b>aged Non-Institutionalized</b>											
	Female	65-74	\$775.76	17,562	\$13,623,852	\$699.78	19,534	\$13,669,642	\$636.37	29,959	\$19,065,302
	Female	75+	\$874.13	16,417	\$14,350,813	\$805.81	20,403	\$16,441,225	\$739.40	53,570	\$39,609,678
	Female	Non-MC	\$921.83	5,337	\$4,920,073	\$811.25	2,409	\$1,954,176	\$814.25	1,305	\$1,062,694
	Male	65-74	\$657.82	10,085	\$6,634,277	\$586.92	8,964	\$5,261,207	\$531.53	16,116	\$8,565,952
	Male	75+	\$798.34	5,963	\$4,760,696	\$724.04	5,863	\$4,245,059	\$665.59	14,127	\$9,402,881
	Male	Non-MC	\$912.02	3,403	\$3,103,364	\$799.44	1,574	\$1,258,026	\$784.72	918	\$720,395
	<b>Program Total</b>			<b>58,768</b>			<b>58,747</b>			<b>115,995</b>	
<b>General Assistance</b>											
	Female	All Ages	\$809.68	12,039	\$9,747,719	\$747.54	6,203	\$4,636,976	\$694.40	7,407	\$5,143,426
	Male	All Ages	\$804.30	20,159	\$16,213,789	\$735.37	7,085	\$5,210,112	\$682.20	11,356	\$7,747,100
	<b>Program Total</b>			<b>32,198</b>			<b>13,288</b>			<b>18,763</b>	
<b>GAMC</b>											
	Female	All Ages	\$624.77	29,807	\$18,622,598	\$585.05	20,100	\$11,759,521	\$536.92	39,150	\$21,020,542
	Male	All Ages	\$616.17	47,246	\$29,111,786	\$575.85	27,986	\$16,115,868	\$527.95	53,284	\$28,131,358
	<b>Program Total</b>			<b>77,053</b>			<b>48,086</b>			<b>92,434</b>	
<b>Region Total</b>			<b>\$394.81</b>	<b>946,205</b>	<b>\$373,569,073</b>	<b>\$335.10</b>	<b>995,805</b>	<b>\$333,697,363</b>	<b>\$340.11</b>	<b>1,474,196</b>	<b>\$501,392,660</b>
<b>MA Program Total</b>			<b>\$358.29</b>	<b>836,954</b>	<b>\$299,873,181</b>	<b>\$316.74</b>	<b>934,431</b>	<b>\$295,974,887</b>	<b>\$322.34</b>	<b>1,362,999</b>	<b>\$439,350,234</b>
<b>MA &lt; 65</b>			<b>\$309.62</b>	<b>745,720</b>	<b>\$230,888,556</b>	<b>\$278.27</b>	<b>845,752</b>	<b>\$235,343,814</b>	<b>\$268.33</b>	<b>1,144,341</b>	<b>\$307,063,607</b>
<b>MA &gt; 65</b>			<b>\$756.13</b>	<b>91,234</b>	<b>\$68,984,626</b>	<b>\$683.71</b>	<b>88,679</b>	<b>\$60,631,073</b>	<b>\$604.99</b>	<b>218,658</b>	<b>\$132,286,627</b>
<b>GA/GAMC Program Total</b>			<b>\$674.56</b>	<b>109,251</b>	<b>\$73,695,892</b>	<b>\$614.63</b>	<b>61,374</b>	<b>\$37,722,477</b>	<b>\$557.95</b>	<b>111,197</b>	<b>\$62,042,425</b>
<b>Total - All Regions:</b>											
	MA	< 65	\$330.27	3,134,384	\$1,035,198,302						
		>65	\$282.66	2,735,813	\$773,295,976						
			\$657.10	398,571	\$261,902,326						
	<b>GA/GAMC</b>		<b>\$615.50</b>	<b>281,822</b>	<b>\$173,460,794</b>						

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**EXHIBIT G: CALCULATION OF INCREASE IN RATE SCHEDULE & DEMOGRAPHIC MIX**

Summary: Year

	1998	1999	2000	2001	2002	2003
Base Rate:						
MA	218.52	239.98	265.55	275.14	313.99	338.81
MA <65			281.32	280.61	323.69	338.43
MA >65			222.43	259.85	286.07	339.96
GA/GAMC	287.67	333.99	406.09	438.18	548.76	648.59
Demo Fct.:						
MA	0.9421	0.9668	0.9800	0.9935	0.9877	0.9748
MA <65			0.8303	0.8466	0.8434	0.8352
MA >65			1.9340	1.9300	1.9444	1.9329
GA/GAMC	1.0035	0.9981	0.9986	0.9875	0.9701	0.9490

Trend - Base Rate:	1998-99	1999-00	2000-01	2001-02	2002-03
MA	1.098	1.107	1.036	1.141	1.079
MA <65			0.997	1.154	1.046
MA >65			1.168	1.101	1.188
GA/GAMC	1.161	1.216	1.079	1.252	1.182

Trend - Demo Fct.:	1998-99	1999-00	2000-01	2001-02	2002-03
MA	1.026	1.014	1.014	0.994	0.987
MA <65			1.020	0.996	0.990
MA >65			0.998	1.007	0.994
GA/GAMC	0.995	1.001	0.989	0.982	0.978

Trend - Total Rate Increase:

MA	1.127	1.122	1.050	1.135	1.065
MA <65			1.017	1.149	1.035
MA >65			1.166	1.109	1.181
GA/GAMC	1.155	1.217	1.067	1.230	1.156

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**Exhibit H-1: Calculation of Change in Increase in Demographic Mix**

Program	Gender	Age		2002 Avg Pay	Enrollment	
					2002	2003
<b>Minnesota Care</b>						
Parent <175%	Female	21-49	(F,J)	\$294.06	238,732	226,281
Parent <175%	Female	50-64	(F,J)	\$352.72	20,354	20,750
Parent <175%	Female	65+	(F,J)	\$411.36	77	71
Parent <175%	Male	21-49	(F,J)	\$264.89	142,969	137,590
Parent <175%	Male	50-64	(F,J)	\$352.22	22,935	23,064
Parent <175%	Male	65+	(F,J)	\$496.39	174	195
Parent >175%	Female	21-49	(F,J)	\$277.08	61,653	61,065
Parent >175%	Female	50-64	(F,J)	\$326.91	6,393	6,828
Parent >175%	Female	65+	(F,J)	\$376.63	5	9
Parent >175%	Male	21-49	(F,J)	\$250.77	36,762	37,349
Parent >175%	Male	50-64	(F,J)	\$325.87	7,416	7,713
Parent >175%	Male	65+	(F,J)	\$470.51	20	14
(M1, M2)	Female	21-49	(B)	\$317.72	111,404	21,523
(M1, M2)	Female	50-64	(B)	\$384.65	79,197	6,187
(M1, M2)	Female	65+	(B)	\$432.83	1,819	231
(M1, M2)	Male	21-49	(B)	\$291.48	98,361	21,034
(M1, M2)	Male	50-64	(B)	\$372.16	44,829	4,395
(M1, M2)	Male	65+	(B)	\$434.09	1,191	133
(M3)	Female	21-49	(B)	\$317.72 *	0	101,220
(M3)	Female	50-64	(B)	\$384.65 *	0	73,304
(M3)	Female	65+	(B)	\$432.83 *	0	1,273
(M3)	Male	21-49	(B)	\$291.48 *	0	89,435
(M3)	Male	50-64	(B)	\$372.16 *	0	41,989
(M3)	Male	65+	(B)	\$434.09 *	0	935
(M1, M2)	Female	21-49	(X)	\$274.69	4,470	3,726
(M1, M2)	Female	50-64	(X)	\$323.65	698	562
(M1, M2)	Female	65+	(X)	\$358.18	5	0
(M1, M2)	Male	21-49	(X)	\$247.57	3,680	2,936
(M1, M2)	Male	50-64	(X)	\$321.82	664	501
(M1, M2)	Male	65+	(X)		0	NA
(M3)	Female	21-49	(X)	\$316.28	8,126	6,575
(M3)	Female	50-64	(X)	\$379.97	13,006	9,661
(M3)	Female	65+	(X)	\$428.57	149	57
(M3)	Male	21-49	(X)	\$288.90	6,374	5,014
(M3)	Male	50-64	(X)	\$369.88	7,498	5,338
(M3)	Male	65+	(X)	\$435.68	142	97
<b>Program Total</b>					<b>919,103</b>	<b>917,055</b>
<b>Minnesota Care/MA</b>						
	Female	0-1	(L,K)	\$132.62	13,579	14,672
	Female	1-2	(L,K)	\$133.74	12,872	12,416
	Female	2-15	(L,K)	\$168.31	280,240	264,506
	Female	16-20	(L,K)	\$337.69	106,185	102,044
	Male	0-1	(L,K)	\$135.65	14,352	15,002
	Male	1-2	(L,K)	\$135.40	12,590	13,571
	Male	2-15	(L,K)	\$141.01	294,974	276,898
	Male	16-20	(L,K)	\$567.82	99,114	95,325
	Pregnant Women		(L,K)	\$153.85	15,376	17,831
<b>Program Total</b>					<b>849,282</b>	<b>812,265</b>
<b>Payments</b>						
	MNCare				\$281,616,084	\$281,079,544
	MNCare/MA				\$190,437,751	\$182,373,496
	<b>Total</b>				<b>\$472,053,835</b>	<b>\$463,453,040</b>
<b>Enroll</b>						
	MNCare				919,103	917,055
	MNCare/MA				849,282	812,265
	<b>Total</b>				<b>1,768,385</b>	<b>1,729,320</b>
<b>AvgPayment</b>						
	MNCare				\$306.40	\$306.50
	MNCare/MA				\$224.23	\$224.52
	<b>Total</b>				<b>\$266.94</b>	<b>\$268.00</b>

<b>Avg Increase</b>	
MNCare	0.0%
MNCare/MA	0.1%
<b>Total</b>	<b>0.4%</b>

\* set equal to average pay for M1, M2 cells

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**Exhibit H-2: Calculation of Average Increase in Payment Rates****Minnesota Care**

	< ===== Health Plan ===== >					
	Total	Blue Plus	HealthPartners	Medica	Metropolitan Health Plan	UCare
Average 2002-2003 Enrollment	1,718,718	827,954	203,229	355,651	28,243	303,643
2002 Payments	\$407,006,759	\$194,764,727	\$48,621,578	\$84,832,362	\$6,760,084	\$72,028,008
2003 Payments	\$429,075,517	\$205,563,887	\$51,142,833	\$89,327,097	\$7,103,009	\$75,938,691
2002 avg payment	\$236.81	\$235.24	\$239.25	\$238.53	\$239.35	\$237.21
2003 avg payment	\$249.65	\$248.28	\$251.65	\$251.17	\$251.50	\$250.09
% increase:	5.4%	5.5%	5.2%	5.3%	5.1%	5.4%

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