

November 30, 2006

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

Re: 2007 Benefit Changes – Adjustment Factors

Dear Jason:

This letter discusses our estimates of the impact of certain benefit changes in Minnesota's public program on the MCOs' cost levels in 2007. The letter provides background on these changes and describes the data and methods we used to calculate adjustment factors for each.

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 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 report 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.

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In performing this analysis, we have relied on data and other information provided to us by DHS. 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.

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.

Removal of 50% Copay for Restorative Dental Services

Effective July 1, 2007, copays (50%) for restorative dental services will be eliminated for certain MinnesotaCare enrollees, including parents under 175% of federal poverty guidelines (FPG) and non-parents under 75% of FPG. We calculated a rate adjustment to reflect the additional cost for providing this coverage.

We used fiscal year 2003 Minnesota Medicaid fee-for-service dental claim data for the non-disabled adult PMAP population as our data source. This is a subset of the dataset we used to develop rates for the Oral Health Pilot earlier this year. Due to the \$500 limit on adult restorative services that was effective October 2003 through December 2005, claim data more recent than FY 2003 may be incomplete (omitting services above the limit) and may reflect reduced utilization.

We made an adjustment to the allowed amounts in the claim data to reflect the reduction of the add-on amount for critical access providers from 40% to 20%. We made a similar adjustment for all Winona County dental providers.

We calculated allowed dental costs on a per member per month basis with and without the 50% copay on restorative services. We found that the 50% copay was worth \$2.69 to \$3.95 per member per month. (The value varied somewhat by age and gender). We also assumed that utilization of non-restorative services would increase by 15%. This is because we expect enrollees will be more likely to visit a dentist for restorative services due to the elimination of the copay and will receive non-restorative services at the same time. This added \$0.23 to \$0.35 to our estimate, depending on the rate cell.

We trended these costs forward to October 2005 and took the ratio of the trended and adjusted cost to the average 2005 capitation rate, adjusted for an administrative cost margin of 8.5%, for each affected rate cell. Table 1 shows the benefit adjustment factors associated with elimination of the copay. These factors are intended to be applied to the CY2007 rates, but reflect that removal of the copay is effective July 1, 2007.

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Table 1: Dental Copay Adjustment Factors

MNCare Rate Cell	<i>(F, J) Eligibility Type M2, M4</i>	<i>(B) Eligibility Type M1</i>
F 21-49	1.0060	1.0054
F 50-64	1.0064	1.0057
F 65+	1.0044	1.0039
M 21-49	1.0068	1.0063
M 50-64	1.0069	1.0062
M 65+	1.0047	1.0042

Infant Circumcision

Effective August 1, 2005, newborn circumcision was not covered except where necessary for medical or well-established religious reasons. Last year, the 2006 rates were adjusted under the assumption that 90% of circumcision procedures would be eliminated as a result of the new law. Federal mandate now prohibits the carve out for religious reasons. For administrative reasons, DHS has determined that beginning in 2007, circumcisions for newborns will be covered on a fee-for-service basis only. We calculated an adjustment factor to remove the cost of the remaining 10% of circumcision procedures from the rates.

To calculate this adjustment factor, we estimated the average per member per month cost reduction attributed to the elimination of these services, using the same assumptions as last year. Namely, we assumed that 75% of male infants are circumcised, that the average charge for these services is \$91, and we assumed a uniform distribution of members by month of age within the 0-1 rate cell categories. By using the same assumptions, and combining the 2006 and 2007 rate adjustments, the aggregate adjustment is equal to the single-year adjustment we would have calculated had we assumed 0% coverage for 2006.

Table 2 shows the adjustment factors that I am recommending be applied to the 2007 rates to reflect this benefit change.

Table 2: Infant Circumcision Benefit Adjustment Factors

Program	Affected Rate Cells	Adjustment Factor
PMAP < 65	Males, Ages 0-1	0.9989
MNCare/MA	Males, Ages 0-1	0.9984

Rate Increase for Critical Access Mental Health Providers Providing Certain Services

Effective July 1, 2007, "critical-access" mental health providers providing CTSS group skills training, psychotherapy, medication management, evaluation and management, diagnostic assessment, explanation of findings, psychological testing, neuropsychological services, direction of behavioral aides, and inpatient consultation will receive a rate increase. We expect the MCOs to make a corresponding increase in their fee schedules and to experience the associated utilization increase.

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Based on the fiscal note analysis prepared by DHS and revised September 20, 2006, we have calculated rate adjustment factors associated with the payment increase. These adjustment factors reflect the assumptions given in the fiscal note, namely that utilization will increase at the rate of 10% per year due to the rate increase, that the rate increase will be 23.7%, and that claims paid to Essential Community Providers who are not associated with community mental health centers (CMHCs) amount to 20% of claims paid to providers who are associated with CMHCs.

To calculate the benefit adjustment factors, we used 2005 restated incurred claims PMPM and annual trend rates ranging from 6% to 8.5%, depending on the program. We applied age/gender factors of 0.8770 and 0.9805 to the restated incurred claims PMPM for PMAP <65 and MNCare, respectively, to account for the exclusion of the ages 0-1 and 1-2 rate cells.

Table 3 shows the adjustment factors that I am recommending be applied to the 2007 rates to reflect this rate increase.

Table 3: Adjustment Factors for Critical Access MH Providers Rate Increase

Program	Affected Rate Cells	Adjustment Factor
PMAP <65	All except ages 0-1, 1-2	1.0006
PMAP Aged	All	1.0004
PGAMC	All	1.0008
MNCare	All except ages 0-1, 1-2	1.0013

Administration Cost of Gardasil Vaccine

The new vaccine, Gardasil, will be covered as a part of the Vaccines for Children program. We understand that the cost of administering the vaccine will be covered by the MCOs for females age 9-26. We calculated adjustment factors to reflect the additional cost for providing this benefit. We assumed an administration cost of \$25.50 (\$8.50 per dose) per vaccination, the current MNVFC payment rate. We understand that MNVFC will pay for the serum, so that the MCOs are only responsible for the cost of administration.

For each rate cell to which the benefit applies, we used actual enrollment data provided by DHS to determine the percentage of enrollees who are eligible for coverage because of age. We assumed vaccination rates of 80% among non-sexually-active and 50% among sexually active enrollees eligible for coverage. This assumption takes into account current national vaccination rates among the Medicaid population (as reported by the National Committee for Quality Assurance) and our expectation that physicians will be aggressive in recommending the vaccine for eligible enrollees.

We defined “sexually active” as “ever had sexual intercourse.” By this definition, all members of the “Parent” rate cells are considered to be sexually active. We used Table 44 of the CDC Morbidity and Mortality Weekly Report, Volume 55, No. SS-5, to estimate the percentage of females who are sexually active for ages 18 and under. These figures are

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based on 2005 data. We assumed that females of age 9 and 10 are not sexually active. For ages over 18, we used a distribution based on the study “Number of women 15-44 years of age who have ever had voluntary intercourse and percent distribution by age of first voluntary partner, according to age at first intercourse and race and Hispanic origin: United States, 1995”, as reported by The Joint Center for Political and Economic Studies. We adjusted the distribution in the study to reflect the (lower) percentage of women over age 18 who were not sexually active in the 2005 study. The data we used is neither specific to the state of Minnesota nor to the Medicaid population. Table 4 shows the percentage of non-sexually active females by age, according to this analysis.

Table 4: % of Females Not Sexually Active by Age

Age	Percentage Not Sexually Active
11	98.2%
12	94.6
13	82.7
14	70.7
15	56.0
16	47.9
17	37.6
18	25.8
19	17.8
20	13.9
21	9.9
22	5.9
23	4.5
24	3.0
25	2.0
26	1.0

Based on these assumptions, we calculated a benefit cost of \$0.14 to \$1.37 PMPM, depending on the rate cell, grossed up to reflect an administrative cost margin of 8.5%. For each rate cell, we then divided by the average 2005 capitation rate and added one. Table 5 shows these benefit adjustment factors.

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Table 5: Adjustment Factors for Administration Cost of Gardasil Vaccine

Program	Affected Rate Cells	Adjustment Factor
PGAMC	Female All Ages	1.0005
MNCare	Female 2-15 (L,K)	1.0067
	Female 16-20 (L,K)	1.0073
	Parent >175% F 21-49 (F,J)	1.0004
	Parent <175% F 21-49 (F,J)	1.0005
	(M1,M2) F 21-49 (B)	1.0017
	(M3) F 21-49 (B)	1.0024
PMap F&C	Female 2-15	1.0039
	Female 16-20	1.0052
	Female 21-49	1.0011

Adult Mental Health Rehabilitation Services

Effective January 1, 2007, Non-Residential Crisis adult rehabilitation services will be covered by the MCOs. Effective July 1, 2007, Adult Rehabilitative Mental Health Services (ARMHS) will also be covered. Based on 2005 and January through June 2006 fee-for-service data provided by DHS for members enrolled in pre-paid plans, we calculated adjustment factors to reflect the additional cost of providing this benefit.

We calculated gender-specific factors for PMap Under 65 and Aged Non-Institutionalized rate cell groups. However, the factors for PMap Aged Non-Institutionalized do not vary significantly by gender, so we have reported a single factor for these rate cells. Due to the low utilization rates, we calculated a single adjustment factor for each of the following rate cell groups: PMap Aged Institutionalized, PGAMC, MNCare pregnant women and children, and MNCare adults.

Based on the data for January through June 2006, we estimate 2005-2006 utilization trend to be 33.8% for ARMHS and Non-Residential Crisis services together. For 2006-2007 we assumed a utilization trend of 10% for ARMHS and Non-Residential Crisis services together. This reflects our expectation that the growth of this program will continue to slow as it matures. (The growth rate from 2004 to 2005 was about 68%, which includes changes in utilization, fee levels, and enrollment.)

Based on input from DHS regarding expansion of Non-Residential Crisis services, we assumed an annual utilization trend of 30% for these services (as a component of the 33.8% and 10% mentioned above). Based on these assumptions and the data provided, we estimate that Crisis services will account for 6.2% of ARMHS and Crisis services at 2007 utilization levels. Since ARMHS services will only be covered from July 1, we calculated the benefit factors using $6.2 + 93.8 / 2 = 53.1\%$ of the 2005 benefit cost (trended to 2007 utilization levels).

The combined Crisis and ARMHS utilization-adjusted 2005 benefit cost varied from \$0.01 to \$1.37 PMPM, depending on the rate cell group, grossed up to reflect an administrative cost

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margin of 8.5%. We then divided by the 2005 average capitation rate and added one to arrive at each benefit adjustment factor, as shown below in Table 6. Note that for MNCare adult rate cells no adjustment is necessary, due to low utilization rates.

Table 6: Adjustment Factors for Adult MH Rehab Services

Program	Affected Rate Cells	Adjustment Factor
PMAP <65	Ages 16+ Female	1.0040
	Ages 16+ Male	1.0016
	Pregnant Women	1.0005
PMAP Aged	Institutionalized	1.0001
	Non-Institutionalized	1.0015
PGAMC	All	1.0002
MNCare	Ages 16-20, Preg. Women	1.0002
	Adults	1.0000



Jason, please contact me if you have any questions about this letter. You can reach me at (952) 820-2481 or at leigh.wachenheim@milliman.com.

Sincerely,

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

LMW/rl

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