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May 8, 2012

Mr. Mark Hudson
Director of Purchasing and Service Delivery
Minnesota Department of Human Services
540 Cedar Street
St. Paul, MN 55101-2208

Re: Coding Improvement Adjustment – PMAP and MNCare

Dear Mark:

This letter provides information to assist DHS respond to questions regarding the adjustment of -0.78% applied to the risk adjusted base rate for coding improvement trend. This letter is not intended for other purposes. This letter is a follow up to our 2012 capitation rate reports for PMAP and MNCare dated September 27, 2011 and is subject to all of the limitations, conditions, and caveats therein.

This adjustment is intended to reduce the base rate to reflect the expectation that risk scores will continue to increase due to changes in coding practices not associated with corresponding changes in morbidity.

The attached exhibit details the data and methods used to calculate the adjustment. We started by calculating the trend in risk scores for the PMAP and MNCare families and children programs from 2008 to 2009 and 2009 to 2010. We eliminated one plan from the calculation that had significant changes during this period. We then adjusted the trend rate by backing out the trend in age/gender/area mix as reflected in changes in demographic rate factors. The adjusted trend is thought to reflect (1) changes in morbidity beyond that reflected in changes in mix and (2) changes in coding practice unrelated to changes in morbidity.

The average adjusted trend over the three year period was 2.51% per year. We assumed half of that, or 1.26% per year, is due to coding improvement not associated with morbidity changes. We understand the base rate was derived using 4th quarter 2011 risk scores. Therefore, we applied the 1.26% for 7.5 months which is the length of time from the midpoint of the base period (November 15, 2011) to the midpoint of the rate effective period (July 1, 2012). The resulting value of 0.78% is used to reduce the base rate, which is why it is applied as a negative adjustment.

This material assumes that the reader is familiar with MN Medicaid programs, their eligibility rules, rating approaches and other factors. The material was prepared solely to provide assistance to DHS to set capitation rates. It may not be appropriate for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work. This material should only be reviewed in its entirety and in conjunction with our September 27, 2011 reports.



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In performing this analysis, I have relied on data and other information provided to me by DHS and the plans with which it contracts. I have not audited or verified this data and other information. If the underlying data or information is inaccurate or incomplete, the results of this 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.

Mark, 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,

A handwritten signature in blue ink that reads "Leigh M. Wachenheim".

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

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I. Calculate Raw Trend in Risk Scores
A. Enter Risk Score for Jan - Dec Assessment Period

<u>Population</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
FC & PW, NMC Aged	1.1950	1.2110	1.2216
MNCare Group 1 (MA xor ULH)	1.3672	1.4371	1.4837

B. Calculate Trend

<u>Population</u>	<u>2008-09</u>	<u>2009-10</u>
FC & PW, NMC Aged	1.34%	0.88%
MNCare Group 1	5.11%	3.24%
Weighted Average*	2.05%	1.30%

II. Adjust Trend for Changes in Age/Gender and Area Mix
A. Enter Trends in Age/Gender and Area Mix

<u>Population</u>	<u>2008-09</u>	<u>2009-10</u>
FC & PW	-1.69%	-1.38%
MNCare Group 1	3.11%	1.59%
Weighted Average*	-0.78%	-0.84%

B. Calculated Adjusted Trend ("Trend in Health Status")

<u>Population</u>	<u>2008-09</u>	<u>2009-10</u>
FC & PW, NMC Aged	3.08%	2.29%
MNCare Group 1	1.94%	1.62%
Weighted Average*	2.86%	2.17%
Annualized from 2008 to 2010		2.51%
Use 1/2 Impact		1.26%
Applied for 7.5 months		0.78%

**Weighted on member months*

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