



Minnesota Department of **Human Services**

March 1, 2013

Dear Chairs and Leads:

Please see the attached summary report on the Department of Human Services' actuarial analysis of managed care rate-setting practices for fiscal years 2003-2011. This report was prepared by the Department's contracted vendor, the Segal Company, and the final report will be completed sometime in late March. Although the Department would not ordinarily release a summary report of this nature prior to the release of the final report, in the interest of transparency the Department believes there is value in this release.

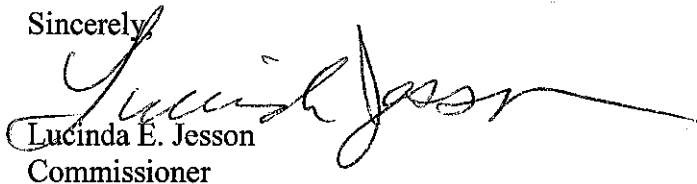
The report indicates the managed care rates set over this time period were actuarially sound. However, the report raises serious questions about the failure of the previous administration to take action to address high health plan profit margins. The preliminary findings indicate that clear signs were continually missed and that year after year the rate-setting process was generating profit margins higher than targeted levels.

These high profit margins were the reason Governor Dayton and I, upon taking office, took immediate action to change the way the Department contracts for health care for low-income Minnesotans, particularly in managed care. In early 2011, we instituted a new competitive bidding process for managed care contracts that re-set rates and negotiated a voluntary 1% cap on 2011 managed care profits in publicly-funded health care programs, the last contracts not negotiated by the current administration. In the 2012-2013 biennial budget, bipartisan legislative reforms capped the growth in managed care contracts, and in 2013, the Department was able to negotiate contracts significantly below these caps. These reforms, along with others, have saved taxpayers over a billion dollars compared to pre-reform projections.

The Department intends to share the final report with all interested stakeholders, including the legislative auditor and our partners in the federal government.

Please do not hesitate to contact me or my office with any questions.

Sincerely,


Lucinda E. Jesson
Commissioner

Enclosure