HMO ACTUARIAL RATE CERTIFICATION

(FY2010 Appropriation Bill - Public Act 131 of 2009)

Upon Receipt of Certification

Section 1764: The department shall annually certify rates paid to Medicaid health plans as being actuarially sound in accordance with federal requirements and shall provide a copy of the rate certification and approval immediately to the house and senate appropriations subcommittees on community health and the house and senate fiscal agencies.

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December 7, 2009

Mr. Richard Miles
State of Michigan, Medical Services Administration
Department of Community Health
400 S. Pine Street
P.O. Box 30479
Lansing, MI 48909-7979

RE: CAPITATION RATE DEVELOPMENT – FY 2010 - UPDATED

Dear Dick:

Milliman, Inc. (Milliman) has been retained by the State of Michigan, Department of Community Health (MDCH) to develop capitation rates for the risk based managed care health plans for state fiscal year (SFY) 2010. The SFY 2010 capitation rates were developed by updating the SFY 2009 capitation rates with trend, and additional policy and program changes. The SFY 2010 capitation rates were developed to coincide with the CHAMPS rating system template. This letter provides documentation to address the items outlined in the Centers for Medicare and Medicaid Services Rate Setting checklist for regional offices, as well as to provide the required actuarial certification of the capitation rates. This letter fully replaces our previous letter dated August 28, 2009.

LIMITATIONS

The information contained in this letter, including the enclosures, has been prepared for the State of Michigan, Department of Community Health and their consultants and advisors. It is our understanding that the information contained in this letter may be utilized in a public document. To the extent that the information contained in this letter is provided to third parties, the letter should be distributed in its entirety. Any user of the data must possess a certain level of expertise in actuarial science and healthcare modeling so as not to misinterpret the data presented.

Milliman makes no representations or warranties regarding the contents of this letter to third parties. Likewise, third parties are instructed that they are to place no reliance upon this letter prepared for MDCH by Milliman that would result in the creation of any duty or liability under any theory of law by Milliman or its employees to third parties. Other parties receiving this letter must rely upon their own experts in drawing conclusions about the MDCH capitation rates, assumptions, and trends.

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The information contained in this letter was prepared as documentation of the actuarially sound capitation rates for Medicaid managed care organization health plans in the State of Michigan. The information may not be appropriate for any other purpose.

EXECUTIVE SUMMARY

The current capitation rates contracted between MDCH and the managed care health plans were effective for a twelve month period from October 1, 2008 through September 30, 2009. The current capitation rates were certified as actuarially sound in a documentation letter dated August 14, 2008. The SFY 2010 capitation rates were developed by trending the current capitation rates from the mid-point of the twelve month period to the mid-point of SFY 2010. In addition to the trend rate, Milliman adjusted the capitation rates for the following policy and program changes:

- Apply Executive Order rate reduction for certain services;
- Adjust for the increase in hospital reimbursement levels;
- Adjust for the inclusion of Graduate Medical Education payments;
- Adjust for the increase of the Specialty Network Access Fee;
- Third Party liability adjustment;
- Increase in the Child and Adolescent Health Center rate;
- Application of the Use tax of 5.98% for SFY 2010;
- Total administration loads of 11.3% for the monthly capitation and 2.9% for the maternity case rate, excluding Use tax;
- Adjust for Michigan Business Tax;
- Incentive arrangements;
- Information Technology bonus; and,
- CDPS Risk Score Methodology Change.

The SFY 2010 capitation rates were developed to conform to the CHAMPS rating system template. This template includes rates for base claims cost, hospital reimbursement adjustment, Graduate Medical Education, and Specialty Network Access Fee payments for all populations. Enclosure 1 details the rates for each of these rating components for the different populations. The template also includes factors for geographic region, age/gender, MCO risk adjustment, and the Michigan Business tax. Family Planning and Dental add-on components are also included on the template and illustrated in Enclosure 1.

Enclosure 2 contains an actuarial certification regarding the actuarial soundness of the capitation rates. The remainder of this letter provides the documentation of the development of the capitation rates. This letter should be provided in its entirety to CMS for their approval of the capitation rates.

Milliman makes no representations or warranties regarding the contents of this letter to third parties. Likewise, third parties are instructed that they are to place no reliance upon this letter prepared for MDCH by Milliman that would result in the creation of any duty or liability under any theory of law by Milliman or its employees to third parties. Other parties receiving this letter must rely upon their own experts in drawing conclusions about the MDCH's capitation rates, assumptions, and trends.

CAPITATION RATE DEVELOPMENT

The initial capitation rate development was based on fee-for-service (FFS) and health plan encounter claim experience from October 2004 through September 2006, the ***Milliman Medicaid Cost Guidelines*** (***Guidelines***), and other Milliman proprietary data. The SFY 2009 capitation rate certification utilized health plan financial experience in the development of the capitation rates. For the SFY 2010 capitation rates, Milliman has trended the current capitation rates, with additional adjustments for policy and program changes. The remainder of this section discusses each of the adjustments in further detail.

Executive Order. Effective October 1, 2009 an Executive Order was issued that reduced the reimbursement of certain services by up to 8%. The SFY 2010 capitation rates were developed using claim costs after the application of the rate reduction.

Trend 12 months to mid-point of SFY 2010. For the base capitation rates, Milliman trended the underlying claim costs for the SFY 2009 capitation rates, which were developed in the prior rate setting process. The underlying claim costs reflect all adjustment factors used in establishing the capitation rates. Milliman developed trend rates by category of service and calculated a composite trend rate. The composite trend rate was applied to all rate cells. Milliman developed a low trend rate and a high trend rate. The trend rates were developed based on a review of data used in the MDCH budget process, data used in the capitation rate setting process and health plan financial information. Table 1 illustrates the annual trend rates by category of service and on a composite basis for the TANF/ Program L and Blind/Disabled populations, separately.

Table 1

State of Michigan
Department of Community Health
Summary of Annual Trend Rates

	Low Trend Rate		High Trend Rate	
Category of Service	TANF / Prgoram L	Blind / Disabled	TANF / Program L	Blind / Disabled
Hospital Inpatient	1.50%	2.50%	4.50%	5.50%
Hospital Outpatient	3.00%	3.00%	6.00%	6.50%
Pharmacy	6.00%	7.50%	10.00%	11.50%
Other Ancillary	2.50%	3.00%	6.00%	6.50%
Physician	2.50%	3.00%	6.00%	6.50%
Composites				
Region Group 1	3.0%	4.0%	6.3%	7.4%
Region Group 2	3.1%	4.2%	6.5%	7.8%

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	Maternity Trend Rates	
Category of Service	Low Trend	High Trend
Hospital Inpatient	0.75%	2.25%
Hospital Outpatient	1.50%	3.00%
Physician	1.25%	3.00%
Composite Trend	0.93%	2.51%

Note: 1. The composite trend rates vary by region groups due to the distribution of claim cost differences by category of service.

Adjust for increase in hospital reimbursement levels. MDCH has implemented an increase in hospital reimbursement rates for hospital inpatient and hospital outpatient services. Milliman has allocated the increases to the individual rate cells based on the proportion of estimated medical costs for hospital inpatient and hospital outpatient services. This adjustment will move the level of reimbursement paid to the hospitals by Medicaid health plans closer to the fee-for-service reimbursement.

Adjust for inclusion in Graduate Medical Education payments. Graduate medical education (GME) payments were included as a separate add-on adjustment to the base capitation rates. The add-on adjustment reflected the aggregate GME expenditures for the risk-based managed care population. The add-on adjustment was distributed by rate cell based on estimated inpatient hospital expenditures and projected SFY 2010 enrollment.

Adjust for Specialty Network Access Fee payments. Milliman has included an additional $94.6 million ($102.6 million with Use Tax) in the capitation rates to reflect increased reimbursement to specialty physicians. An additional $6.87 PMPM has been included in the TANF / Program L rate cells to reflect these payments. An additional $14.67 PMPM has been added to the Blind / Disabled capitation rates. An adjustment was not made to the maternity delivery payment rate.

Third-Party Liability Adjustment. Milliman applied a 0.975 factor, consistent with the prior rate setting process, to reflect third-party liability recoveries expected in the managed care health plans.

Increase to Child and Adolescent Health Center. Based on rates provided by MDCH, Milliman has increased the 5-14 year old PMPM rate to $3.35 and the 15-20 year old rate to $2.56. These rates apply to both genders in all regions.

Application of 5.98% Use tax for SFY 2010. Milliman has applied a Use tax of 5.98% to all services including add-on adjustments.

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Administration Load. Milliman utilized total administration loads of 11.3% for the monthly capitation and 2.9% for the maternity case rate, excluding the Use tax. The administration loads have been reflected in the capitation rate prior to the inclusion of the hospital reimbursement adjustment, the Specialty Network Access Fee, and the GME adjustment. The administration loads were applied as a divisor to the base claim cost amounts.

Adjust for Michigan Business Tax. Beginning in October 2008, a state business tax was applied to the capitation rates for the for-profit managed care health plans. An adjustment factor of 1.007 is included for these health plans. The values in Table 2 and Table 3 of this letter reflect this adjustment.

Incentive Arrangements. MDCH is maintaining a withhold amount of 0.19% for the SFY 2010 capitation rates. The capitation rates shown in this letter do not reflect the withhold provision. Withhold payments will be available to both private and public contractors, and will not be conditioned upon intergovernmental transfer agreements. Withhold payments will be reviewed on an annual basis, and will not be renewed automatically. The incentive payments from the withhold are actuarially sound and will not exceed 5% of the capitation rates paid.

Information Technology bonus. MDCH is creating a bonus pool of $2.5 million to be distributed to the health plans for meeting certain IT requirements specified by MDCH. This bonus is considered to be actuarially sound and will not exceed 5% of capitation payments for each complying health plan.

Change to CDPS risk score methodology. MDCH currently uses CDPS risk scores to produce risk adjustment factors for each health plan and region combination for the Blind and Disabled population. The current methodology does not take into account pharmacy risk scores. Effective October 1, 2009, MDCH will be changing the CDPS risk score methodology to a combined CDPS and MedRx risk score tool with a Mental Health carve-out. MDCH will be using the standard weights produced by CDPS in developing the risk adjustment factors. Corridors currently exist to reduce the effect on health plans that vary by more than 10% from the average risk score. These corridors will be eliminated in the development of the risk adjustment factors for the SFY 2010 capitation rates. However, a 3.0% threshold adjustment is being applied to limit the variance any specific health plan can vary from the previous year. The 3.0% movement limit is applied on a region by region basis to the normalized risk score.

CAPITATION RATE IMPACT

Table 2 illustrates the estimated impact of the capitation rate update in relation to the capitation rates effective July 1, 2009. The values shown in Table 2 reflect projected April 2010 enrollment by rate cell. Table 2 illustrates the fiscal impact.

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Table 2

State of Michigan
Department of Community Health
Annual Impact of Capitation Rate Increase
State and Federal Expenditures
{Dollars shown in Millions}

Low Trend Rates

Population	April 2010 Enrollment	Current Rates	Low Rate Range	% Increase
TANF / Program L	957,759	$1,920.2	$1,932.1	0.6%
Blind and Disabled	143,282	1,472.3	1,484.1	0.8%
Maternity	4,011	297.9	302.8	1.7%
Total	1,101,041	$3,690.4	$3,719.0	0.8%

High Trend Rates

Population	April 2010 Enrollment	Current Rates	High Rate Range	% Increase
TANF / Program L	957,759	$1,920.2	$1,979.5	3.1%
Blind and Disabled	143,282	1,472.3	1,522.0	3.4%
Maternity	4,011	297.9	305.9	2.7%
Total	1,101,041	$3,690.4	$3,807.4	3.2%

Note: 1. Values have been rounded.
2. SFY 2010 Expenditures reflect the appropriation of the Michigan Business Tax.

Table 3 illustrates the estimated impact of the capitation rate update based on federal dollars. The values shown in Table 3 represent the federal portion of the values displayed in Table 2. These amounts were calculated by multiplying the total expenditures by the appropriate Federal Medical Assistance Percentage of 63.19% for FY 2010.

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Table 3

State of Michigan
Department of Community Health
Annual Impact of Capitation Rate Increase
Federal Expenditures Only
{Dollars shown in Millions}

Low Trend Rates

Population	April 2010 Enrollment	Current Rates	Low Rate Range	% Increase
TANF / Program L	957,759	$1,213.4	$1,220.9	0.6%
Blind and Disabled	143,282	930.4	937.8	0.8%
Maternity	4,011	188.2	191.4	1.7%
Total	1,101,041	$2,332.0	$2,350.1	0.8%

High Trend Rates

Population	April 2010 Enrollment	Current Rates	High Rate Range	% Increase
TANF / Program L	957,759	$1,213.4	$1,250.9	3.1%
Blind and Disabled	143,282	930.4	961.7	3.4%
Maternity	4,011	188.2	193.3	2.7%
Total	1,101,041	$2,332.0	$2,405.9	3.2%

Note: 1. Values have been rounded.
2. SFY 2010 Expenditures reflect the appropriation of the Michigan Business Tax.

MDCH has chosen to pay rates at the midpoint of the low and high rate ranges for SFY 2010. The midpoint of the ranges would produce expenditures of $3,763.2 million of State and Federal dollars ($2,378.0 million Federal only). Given the current rate total of $3,690.4 million of State and Federal dollars ($2,332.0 million Federal only), the midpoint of the ranges would be an increase of $72.8 million State and Federal dollars ($46.0 million Federal only), or 2.0%.

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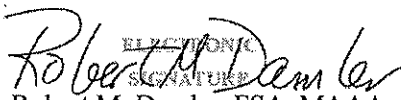
If you have any questions regarding the enclosed information, please do not hesitate to contact me at (317) 524-3512.

Sincerely,



Robert M. Damler, FSA, MAAA
Principal and Consulting Actuary

RMD/lrb
Enclosures

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Milliman

ENCLOSURE 1

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Milliman

STATE OF MICHIGAN
DEPARTMENT OF COMMUNITY HEALTH

Actuarially Sound Capitation Rate Development

Rates for TANF / Program L Population

	FY 2010
Rate Component	Midpoint
Base Rate	$128.14
HRA	28.77
GME	3.67
SNAF	6.87

Rates for Aged, Blind and Disabled – Non-Dual

	FY 2010
Rate Component	Midpoint
Base Rate	$663.19
HRA	166.74
GME	25.03
SNAF	13.75

Rates for Maternity Case Rate

	FY 2010
Rate Component	Midpoint
Base Rate	$4,057.70
HRA	1,795.41
GME	440.36

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Milliman

Area Factor Relativities for TANF / Program L Population

Region	Area Factor
1	0.9960
2	1.0290
3	0.9980
4	0.9860
5	0.9670
6	0.9980
7	1.0090
8	1.0450
9	0.9980
10	1.0220

Region Adjustments for Aged, Blind and Disabled – Non-Dual

Rate Cell	Regions 1, 9, and 10	Regions 2-8
Blind & Disabled	1.0670	0.9633
Aged	1.0687	0.9649

Area Factor Relativities for Maternity Case rate

Region	Area Factor
1	1.0886
2	0.9638
3	0.9578
4	0.9112
5	0.9914
6	1.0045
7	0.9525
8	0.9218
9	1.0619
10	1.0845

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Milliman

Age/Gender Factors for TANF / Program L Population

Rate Cell	Regions 1, 9, and 10	Regions 2-8
Males, Less than 1	4.0449	3.8906
Males, 1-4 years old	0.7150	0.6818
Males, 5-14 years old	0.4539	0.5244
Males, 15-20 years old	0.4919	0.5833
Males, 21-25 years old	0.8187	0.8514
Males, 26-44 years old	1.7979	1.9768
Males, 45 + years old	3.3686	3.5059
Females, Less than 1	3.6909	3.5122
Females, 1-4 years old	0.5759	0.5787
Females, 5-14 years old	0.3965	0.4515
Females, 15-20 years old	0.6690	0.8863
Females, 21-25 years old	1.2203	1.4763
Females, 26-44 years old	1.7937	2.0992
Females, 45 + years old	3.4800	3.7206

Adjustment Factor for Michigan Business Tax

	Factor
Not-for-Profit Plans	1.000
For Profit Plans	1.007

Adjustment Factor for Aged – Non-Dual

	Regions 1, 9, and 10	Regions 2-8
OAA Adjustment	0.758	0.848

Adjustment Factor for Withhold

	Factor
Withhold Adjustment	0.9981

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Family Planning Rates

	FY 2010 Midpoint	
Rate Cell	Regions 1, 9, and 10	Regions 2-8
Females, 15-20 years old	$4.02	$4.78
Females, 21-25 years old	$13.59	$14.60
Females, 26-44 years old	$8.18	$8.74
Blind & Disabled	$1.46	$1.40

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Milliman

ENCLOSURE 2

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Milliman

STATE OF MICHIGAN
DEPARTMENT OF COMMUNITY HEALTH
Capitation Rates Effective October 1, 2009 through September 30, 2010

Actuarial Certification

I, Robert M. Damler, am a Principal and Consulting Actuary with the firm of Milliman, Inc. I am a Fellow of the Society of Actuaries and a Member of the American Academy of Actuaries. I was retained by the State of Michigan, Department of Community Health to perform an actuarial review and certification regarding the development of the capitation rates to be effective for state fiscal year 2010. The capitation rates developed for state fiscal year 2010 were developed as a rate update to the current capitation rates to reflect trend and policy and program changes. I have experience in the examination of financial calculations for Medicaid programs and meet the qualification standards for rendering this opinion.

I reviewed the historical claims experience for reasonableness and consistency. I have developed certain actuarial assumptions and actuarial methodologies regarding the projection of healthcare expenditures into future periods. I have complied with the elements of the rate setting checklist CMS developed for its Regional Offices regarding 42 CFR 438.6(c) for capitated Medicaid managed care plans.

The capitation rates provided with this certification are effective for the one-year rating period beginning October 1, 2009 through September 30, 2010.

The capitation rates provided with this certification are considered actuarially sound, under the following definition:

- the capitation rates have been developed in accordance with generally accepted actuarial principles and practices;
- the capitation rates are appropriate for the populations to be covered, and the services to be furnished under the contract; and,
- the capitation rates meet the requirements of 42 CFR 438.6(c).

This Opinion is intended for the State of Michigan and should not be relied on by other parties. The reader should be advised by actuaries or other professionals competent in the area of actuarial projections of the type in this Opinion, so as to properly interpret the projection results. It should be emphasized that capitation rates are a projection of future costs based on a set of assumptions. Actual costs will be dependent on each contracted health plan's situation and experience.

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This actuarial certification has been based on the actuarial methods, considerations, and analyses promulgated from time to time through the Actuarial Standards of Practice by the Actuarial Standards Board.

Robert M. Damler, FSA
Member, American Academy of Actuaries

December 7, 2009
Date

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Milliman

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March 23, 2010

Mr. Richard Miles
State of Michigan, Medical Services Administration
Department of Community Health
400 S. Pine Street
P.O. Box 30479
Lansing, MI 48909-7979

RE: CAPITATION RATE DEVELOPMENT – APRIL 1, 2010

Dear Dick:

Milliman, Inc. (Milliman) has been retained by the State of Michigan, Department of Community Health (MDCH) to develop adjusted capitation rates, effective April 1, 2010, for the risk based managed care health plans for the six-month time period from April 1, 2010 to September 30, 2010. These updated SFY 2010 capitation rates were developed to coincide with the CHAMPS rating system template. This letter provides documentation for changes made to the rates as of April 1, 2010.

LIMITATIONS

The information contained in this letter, including the enclosures, has been prepared for the State of Michigan, Department of Community Health and their consultants and advisors. It is our understanding that the information contained in this letter may be utilized in a public document. To the extent that the information contained in this letter is provided to third parties, the letter should be distributed in its entirety. Any user of the data must possess a certain level of expertise in actuarial science and healthcare modeling so as not to misinterpret the data presented.

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The information contained in this letter was prepared as documentation of the actuarially sound capitation rates for Medicaid managed care organization health plans in the State of Michigan. The information may not be appropriate for any other purpose.

Milliman makes no representations or warranties regarding the contents of this letter to third parties. Likewise, third parties are instructed that they are to place no reliance upon this letter prepared for MDCH by Milliman that would result in the creation of any duty or liability under any theory of law by Milliman or its employees to third parties. Other parties receiving this letter must rely upon their own experts in drawing conclusions about the MDCH capitation rates, assumptions, and trends.

EXECUTIVE SUMMARY

The SFY 2010 capitation rates effective October 1, 2009, contracted between MDCH and the managed care health plans were previously certified by Milliman. The following adjustments were made to capitation rates to be effective April 1, 2010:

- Mental Health pharmacy carve-out;
- Addition of Kidney Foundation money; and,
- Re-mix of CDPS risk scores.

The adjusted capitation rates were developed to conform to the CHAMPS rating system template. This template includes rates for base claims cost, hospital reimbursement adjustment, Graduate Medical Education, and Specialty Network Access Fee payments for all populations. Enclosure 1 details the rates for each of these rating components for the different populations. The template also includes factors for geographic region, age/gender, MCO risk adjustment, and the Michigan Business tax. Family Planning and Dental add-on components are also included on the template and illustrated in Enclosure 1.

Enclosure 2 provides the certification of the proposed capitation rate range values with the identified modification.

CAPITATION RATE ADJUSTMENTS

Mental Health Pharmacy Carve-Out. Effective April 1, 2010 the Mental Health Pharmacy costs included in the rates are being removed. Currently, the capitation rates incorporate an adjustment, by rate cell, which represents 40% of certain Mental Health prescription drug estimated costs. Milliman developed a PMPM value to be carved out of the rates based on FY 2009 experience trended to the midpoint of the rating period.

Kidney Foundation Money. For the rating period April 1, 2010 to September 30, 2010, an additional $150,000 of State money has been added to the capitation rates for a special payment to the Kidney Foundation. Based on a Federal Medical Assistance Percentage (FMAP) of 0.7327, the total amount of Federal and State money being added to the rates for this six month time period is $561,000. This amount was added to the administration load across all TANF and Blind & Disabled rate cells at approximately $0.08 PMPM. This funding has been added to the administrative load of the managed care program.

April 1 CDPS Re-mix. Milliman has performed a CDPS re-mix of risk scores based on February 2010 enrollment. The risk scores were calculated based on experience from March 1, 2008 to February 28, 2009.

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CAPITATION RATE IMPACT

Table 1 illustrates the estimated impact of the capitation rate update for the six-month period from April 1, 2010 to September 30, 2010. The values shown in Table 1 reflect projected April 2010 enrollment by rate cell.

Table 1

State of Michigan
Department of Community Health
Impact of Capitation Rate Update
State and Federal Expenditures
{Dollars shown in Millions}

Low Rate Range

Population	April 2010 Enrollment	Current Rates	Low Rate Range	% Increase
TANF / Program L	957,759	$977.9	$945.4	(3.3%)
Blind and Disabled	143,282	751.5	725.4	(3.5%)
Maternity	4,011	152.2	151.4	(0.5%)
Total	1,101,041	$1,881.6	$1,822.2	(3.2%)

High Rate Range

Population	April 2010 Enrollment	Current Rates	High Rate Range	% Increase
TANF / Program L	957,759	$977.9	$969.1	(0.9%)
Blind and Disabled	143,282	751.5	744.3	(1.0%)
Maternity	4,011	152.2	152.9	0.5%
Total	1,101,041	$1,881.6	$1,866.3	(0.8%)

Note: 1. Values have been rounded.
2. SFY 2010 Expenditures reflect the appropriation of the Michigan Business Tax.

Table 2 illustrates the estimated impact of the capitation rate update based on federal dollars. The values shown in Table 2 represent the federal portion of the values displayed in Table 1. These amounts were calculated by multiplying the total expenditures by the appropriate Federal Medical Assistance Percentage of 63.19% for FY 2010.

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Table 2

State of Michigan
Department of Community Health
Impact of Capitation Rate Update
Federal Expenditures Only
{Dollars shown in Millions}

Low Rate Range

Population	April 2010 Enrollment	Current Rates	Low Rate Range	% Increase
TANF / Program L	957,759	$617.9	$597.4	(3.3%)
Blind and Disabled	143,282	474.9	458.4	(3.5%)
Maternity	4,011	96.2	95.7	(0.5%)
Total	1,101,041	$1,189.0	$1,151.4	(3.2%)

High Rate Range

Population	April 2010 Enrollment	Current Rates	High Rate Range	% Increase
TANF / Program L	957,759	$617.9	$612.4	(0.9%)
Blind and Disabled	143,282	474.9	470.3	(1.0%)
Maternity	4,011	96.2	96.6	0.5%
Total	1,101,041	$1,189.0	$1,179.3	(0.8%)

Note: 1. Values have been rounded.
2. SFY 2010 Expenditures reflect the appropriation of the Michigan Business Tax.

MDCH has chosen to pay rates at the midpoint of the low and high rate ranges for SFY 2010, which is represented by the current rates. For the remainder of SFY 2010, Milliman has provided both the low and high rate ranges.

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If you have any questions regarding the enclosed information, please do not hesitate to contact me at (317) 524-3512.

Sincerely,

Robert M. Damler

Robert M. Damler, FSA, MAAA
Principal and Consulting Actuary

RMD/lrb
Enclosures

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ENCLOSURE 1

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STATE OF MICHIGAN
DEPARTMENT OF COMMUNITY HEALTH

Actuarially Sound Capitation Rate Development
April 1, 2010

Rates for TANF / Program L Population

	April 1, 2010		
Rate Component	**Low Trend**	**Midpoint**	**High Trend**
Base Rate	$122.54	$124.56	$126.58
HRA	28.77	28.77	28.77
GME	3.67	3.67	3.67
SNAF	6.87	6.87	6.87

Rates for Aged, Blind and Disabled – Non-Dual

	April 1, 2010		
Rate Component	**Low Trend**	**Midpoint**	**High Trend**
Base Rate	$632.93	$643.87	$654.80
HRA	166.74	166.74	166.74
GME	25.03	25.03	25.03
SNAF	13.75	13.75	13.75

Rates for Maternity Case Rate

	April 1, 2010		
Rate Component	**Low Trend**	**Midpoint**	**High Trend**
Base Rate	$4,026.17	$4,057.70	$4,089.23
HRA	1,795.41	1,795.41	1,795.41
GME	440.36	440.36	440.36

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Area Factor Relativities for TANF / Program L Population

Region	Area Factor
1	0.9960
2	1.0290
3	0.9980
4	0.9860
5	0.9670
6	0.9980
7	1.0090
8	1.0450
9	0.9980
10	1.0220

Region Adjustments for Aged, Blind and Disabled – Non-Dual

Rate Cell	Regions 1, 9, and 10	Regions 2-8
Blind & Disabled	1.0592	0.9463
Aged	1.0609	0.9479

Area Factor Relativities for Maternity Case rate

Region	Area Factor
1	1.0832
2	0.9589
3	0.9530
4	0.9067
5	0.9863
6	0.9993
7	0.9477
8	0.9172
9	1.0567
10	1.0791

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Age/Gender Factors for TANF / Program L Population

Rate Cell	Regions 1, 9, and 10	Regions 2-8
Males, Less than 1	4.0854	3.9280
Males, 1-4 years old	0.7212	0.6874
Males, 5-14 years old	0.4333	0.4832
Males, 15-20 years old	0.4831	0.5600
Males, 21-25 years old	0.8171	0.8469
Males, 26-44 years old	1.7870	1.9632
Males, 45 + years old	3.3665	3.4920
Females, Less than 1	3.7273	3.5463
Females, 1-4 years old	0.5811	0.5840
Females, 5-14 years old	0.3903	0.4375
Females, 15-20 years old	0.6656	0.8712
Females, 21-25 years old	1.2190	1.4638
Females, 26-44 years old	1.7727	2.0547
Females, 45 + years old	3.4625	3.6728

Adjustment Factor for Michigan Business Tax

	Factor
Not-for-Profit Plans	1.000
For Profit Plans	1.007

Adjustment Factor for Aged – Non-Dual

	Regions 1, 9, and 10	Regions 2-8
OAA Adjustment	0.758	0.848

Adjustment Factor for Withhold

	Factor
Withhold Adjustment	0.9981

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Family Planning Rates

	Regions 1, 9, and 10		
Rate Cell	Low Trend	Midpoint	High Trend
Females, 15-20 years old	$3.95	$4.02	$4.08
Females, 21-25 years old	$13.36	$13.59	$13.81
Females, 26-44 years old	$8.04	$8.18	$8.32
Blind & Disabled	$1.43	$1.46	$1.48

	Regions 2-8		
Rate Cell	Low Trend	Midpoint	High Trend
Females, 15-20 years old	$4.70	$4.78	$4.86
Females, 21-25 years old	$14.35	$14.60	$14.84
Females, 26-44 years old	$8.59	$8.74	$8.89
Blind & Disabled	$1.37	$1.40	$1.42

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ENCLOSURE 2

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STATE OF MICHIGAN
DEPARTMENT OF COMMUNITY HEALTH
Capitation Rates Effective April 1, 2010 through September 30, 2010

Actuarial Certification

I, Robert M. Damler, am a Principal and Consulting Actuary with the firm of Milliman, Inc. I am a Fellow of the Society of Actuaries and a Member of the American Academy of Actuaries. I was retained by the State of Michigan, Department of Community Health to perform an actuarial review and certification regarding the development of the capitation rates to be effective for April 1, 2010. The capitation rates developed for the six-month rating period from April 1, 2010 to September 30, 2010 were developed as a rate update to the current capitation rates to reflect policy and program changes. I have experience in the examination of financial calculations for Medicaid programs and meet the qualification standards for rendering this opinion.

I reviewed the historical claims experience for reasonableness and consistency. I have developed certain actuarial assumptions and actuarial methodologies regarding the projection of healthcare expenditures into future periods. I have complied with the elements of the rate setting checklist CMS developed for its Regional Offices regarding 42 CFR 438.6(c) for capitated Medicaid managed care plans.

The capitation rates provided with this certification are effective for the six-month rating period beginning April 1, 2010 through September 30, 2010.

The capitation rates provided with this certification are considered actuarially sound, under the following definition:

- the capitation rates have been developed in accordance with generally accepted actuarial principles and practices;
- the capitation rates are appropriate for the populations to be covered, and the services to be furnished under the contract; and,
- the capitation rates meet the requirements of 42 CFR 438.6(c).

This Opinion is intended for the State of Michigan and should not be relied on by other parties. The reader should be advised by actuaries or other professionals competent in the area of actuarial projections of the type in this Opinion, so as to properly interpret the projection results. It should be emphasized that capitation rates are a projection of future costs based on a set of assumptions. Actual costs will be dependent on each contracted health plan's situation and experience.

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This actuarial certification has been based on the actuarial methods, considerations, and analyses promulgated from time to time through the Actuarial Standards of Practice by the Actuarial Standards Board.

Robert M. Damler, FSA
Member, American Academy of Actuaries

March 23, 2010
Date

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