

# HMO ACTUARIAL RATE CERTIFICATION

(FY2012 Appropriation Bill - Public Act 63 of 2011)

## 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.

*Michigan Department  
of Community Health*



**Rick Snyder, Governor**

**Olga Dazzo, Director**

January 12, 2012

Stephen Fitton, Director  
Medical Services Administration  
Michigan Department of Community Health  
400 South Pine  
Lansing, MI 48913

Dear Mr. Fitton:

This letter is in response to the Michigan Medical Services Administration request for the Centers for Medicare & Medicaid Services' (CMS) review and approval of managed care contracts and capitation rates for the Comprehensive Health Care Program (CHCP). This program operates under 1915(b) authority.

Michigan Medicaid contracts with the following approved managed care organizations for services to Medicaid recipients in the Comprehensive Health Care Program. The contracts are effective from October 1, 2011 to September 30, 2012 and the capitation rates for duals are effective November 1, 2011 to September 30, 2012 and the capitation rates for the remaining population are effective from October 1, 2011 to September 30, 2012.

BlueCaid of Michigan  
CareSource Michigan  
Health Plan of Michigan, Inc.  
HealthPlus Partners, Inc.  
McLaren Health Plan  
Midwest Health Plan, Inc.  
Molina Healthcare of Michigan, Inc.  
OmniCare Health Plan, Inc.

Physicians Health Plan of Mid-Michigan  
FamilyCare  
Priority Health Government Programs, Inc.  
ProCare Health Plan, Inc.  
Total Health Care, Inc.  
United Healthcare Great Lakes Health Plan  
Upper Peninsula Health Plan, Inc.

State laws which govern the process of extending expedited appeals continue to conflict with the requirements within Federal regulation at §42 CFR Part 438.210(d)(2) and §42 CFR Part 438.404(c)(6). The State has agreed to continue submitting quarterly appeals monitoring reports to the CMS regional office, organized by health plan, which will include detail regarding the number of requested expedited appeals, the number of expedited appeals which have moved to the standard appeal timeframe as well as monitoring reports for all standard appeals, organized by health plan, which detail the type of appeals and the length of time each appeal takes to reach a decision.

The State remains out of compliance with the provisions of 42 CFR 438.10 (f). However, CMS will provide technical assistance to the State regarding ways to come into compliance with this requirement.

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Mr. Fitton

In addition, the CMS has completed its review of the capitation rates and finds that the documents comply with the Federal contracting requirements, including the capitation rate-setting requirements, found at §42 CFR Part 438. If you have any questions or comments related to this approval, please contact Cathy Song at (312) 353-5184 or [Catherine.Song1@cms.hhs.gov](mailto:Catherine.Song1@cms.hhs.gov).

Sincerely,

A handwritten signature in black ink that reads "Verlon Johnson". The signature is written in a cursive style with a long, sweeping underline.

Verlon Johnson  
Associate Regional Administrator  
Division of Medicaid and Children's Health Operations

cc: Jacqueline Coleman, MDCH  
Kathy Stiffler, MDCH



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October 24, 2011

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

**RE: MEDICARE-MEDICAID DUAL ELIGIBLES – FISCAL YEAR 2012 RATE  
CERTIFICATION**

Dear Brian:

Milliman, Inc. (Milliman) has been retained by the State of Michigan, Department of Community Health (MDCH) to develop capitation rates for the Medicare-Medicaid Dual (Dual) population for fiscal year (FY) 2012, with an effective date of November 1, 2011. The FY 2012 capitation rates were developed using FY 2010 fee-for-service experience with trend, and additional policy and program changes. This letter provides the required actuarial certification of the capitation rates for fiscal year 2012.

**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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Mr. Brian Keisling  
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The information contained in this letter was prepared as documentation of the actuarially sound capitation rates for the Medicare-Medicaid Dual eligible population in the State of Michigan. The information may not be appropriate for any other purpose.

### **EXECUTIVE SUMMARY**

The Dual eligible population (i.e., eligible for both Medicare and Medicaid services) currently receive services on a fee-for-service basis. Effective November 1, 2011, MDCH will begin enrolling Aged and Blind & Disabled Medicare-Medicaid Dual eligibles into the managed care program on a voluntary basis. We have summarized the experience for these members using FY 2010 FFS claims experience as base data period. The FY 2012 capitation rates were developed by trending the FFS experience to the mid-point of the eleven month rating period ending September 30, 2012. In addition to the trend rate, Milliman adjusted the capitation rates by adding an amount for Non-Emergency transportation services and applying a 5% managed care savings to all service lines. A low and high rate range has been created for the capitation rates by using two separate sets of trend assumptions.

In addition to the base claims cost, the capitation rates include a \$15 administration load and appropriate taxes for the FY 2012 rate period. The following outlines the methodology used to determine the use tax and claims tax add-on rates:

1. **Use Tax.** The 'Use Tax' add-on payments reflect a 5.98% use tax assessment during fiscal year 2012. The use tax assessment will be determined as a percentage of the capitation payments.
2. **Claims Tax.** The 'Claims Tax' add-on payments reflect a 1% claims tax assessment during fiscal year 2012. The claims tax assessment is not applied to the administrative load component of the capitation rates. The claims tax assessment will be determined as a percentage of the claim cost component of the capitation rate.
3. **Claims Tax and Use Tax.** A third set of add-on payments was calculated based on both the use and claims taxes being in effect. It is assumed that the use tax will be applied to the portion of the capitation rates allocated for the claims tax. Therefore, add-on payments for this scenario will exceed the sum of the add-on payments if either the use tax or claims tax was separately applied.

Fiscal year 2012 rate projections shown in Table 1 reflect solely the 5.98% use tax being effective for 2 months, both the 5.98% use tax and 1% claims tax effective for 3 months, and the 1% claims tax effective for 6 months. Dual eligible capitation rates will further be adjusted for each plan by the plan's Disabled CDPS risk score.

Table 1 illustrates the estimated impact of the capitation rates for the eleven-month rating period beginning November 1, 2011 for the low and high rate range.

**Table 1****State of Michigan  
Department of Community Health  
Medicare-Medicaid Dual Eligibles**

<b>Rate</b>	<b>Projected Monthly Enrollment</b>	<b>Capitation Rate</b>	<b>Estimated Expenditures</b>
Low Rate Range	5,000	\$63.68	\$3,502,400
High Rate Range	5,000	\$66.14	\$3,637,700

*Note: Capitation rate reflects an average of 2 months of use tax only, 3 months of use tax and claims tax, and 6 months of claims tax only.*

Enclosure 1 illustrates the development of the rate to be paid for the dual eligibles. Enclosure 2 contains an actuarial certification regarding the actuarial soundness of the capitation rates. This letter should be provided in its entirety to CMS for their approval of the capitation rates.

**DATA RELIANCE**

In developing the Dual capitation rates for fiscal year 2012, we relied on FFS claims data, monthly dual eligibles enrollment, and other information provided by MDCH. 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 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.



Mr. Brian Keisling  
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Guidelines issued by the American Academy of Actuaries require actuaries to include their professional qualifications in all actuarial communications. I am a member of the American Academy of Actuaries and I meet the qualification standards for performing the analyses in this report.

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

Sincerely,

A handwritten signature in cursive script that reads "Robert M. Damler". The signature is written over a faint, rectangular stamp that contains the words "ELECTRONIC" and "SIGNATURE".

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

RMD/lrb  
Enclosure



## ENCLOSURE 1

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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.





**ENCLOSURE 2**

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**STATE OF MICHIGAN  
DEPARTMENT OF COMMUNITY HEALTH  
Capitation Rates Effective November 1, 2011 through September 30, 2012**

**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 the remainder of state fiscal year 2012, beginning November 1, 2011. The capitation rates developed for state fiscal year 2012 were developed using historical fee-for-service experience adjusted for trend, managed care savings, 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 November 1, 2011, through September 30, 2012.

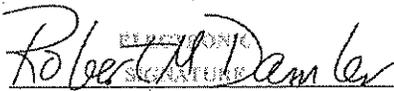
The capitation rates provided with this certification are considered actuarially sound, under the following definition:

- 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 county health plan's situation and experience.



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.

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

October 24, 2011  
\_\_\_\_\_  
Date



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September 19, 2011

Mr. Brian Keisling  
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 CERTIFICATION – FY 2012**

Dear Brian:

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) 2012. The SFY 2012 capitation rates were developed by updating the SFY 2011 capitation rates with trend, additional policy and program changes, and emerging experience.

The Michigan legislature recently passed a bill requiring a 1% statewide medical claims tax on all health insurers and self-funded plans in the state. Currently, the managed care health plans must pay a 5.98% use tax, which is incorporated into the development of the capitation rates. Due to the implementation of the claims tax as well as the termination date of the use tax, we have calculated the capitation rate impact of each tax separately from the medical cost and administrative component of the capitation rates. The following tax scenarios are provided under this certification letter:

- 1% Claims Tax;
- 5.98% Use Tax; and,
- 1% Claims Tax and 5.98% Use Tax.

We are certifying that capitation rates are actuarially sound for fiscal year 2012 assuming that the actual rates paid will fall within the actuarially sound rate range created by the tax methodology that is effective in the applicable service month. For example, if the 5.98% use tax is effective for a given month, we are only certifying that rates will be actuarially sound if the rates paid are within the actuarially sound rate range developed from the base rate range created incorporating the 5.98% use tax supplemental payments.

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Mr. Brian Keisling  
September 19, 2011  
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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.

### **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.

### **EXECUTIVE SUMMARY**

The current capitation rates contracted between MDCH and the managed care health plans were effective for a six month period from April 1, 2011 through September 30, 2011. The current capitation rates were certified as actuarially sound in a documentation letter dated March 3, 2011. The SFY 2012 capitation rates were developed by trending the base claims costs from April 1, 2011 for 12 months to the mid-point of SFY 2012. In addition to the trend rate, Milliman adjusted the capitation rates for the following policy and program changes, and emerging experience:

- Enrollment growth;
- Adjusted the total administration load;
- Adjusted the less than 1 year old rate cells to align with experience;
- Adjusted TANF/Program L rate cells for women of child-bearing age to align with experience;
- Adjusted the 26-44 year old Males, 45 years and older Male and Female rate cells to align with experience;
- Adjust for provider reimbursement changes;
- Adjust for the inclusion of Graduate Medical Education payments;
- Adjust for Michigan Business tax; and,

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- Application of other taxes.

Enclosure 1 illustrates the rates being certified as actuarially sound for SFY 2012. 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.

**CAPITATION RATE DEVELOPMENT**

The initial capitation rate development was based on health plan encounter claim experience from October 2007 through September 2009, the *Milliman Medicaid Cost Guidelines (Guidelines)*, and other Milliman proprietary data. For the SFY 2012 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.

**Trend to mid-point of SFY 2012.** For the base capitation rates, Milliman trended the underlying claim costs for the SFY 2011 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, as well as the Maternity Case Rate.

**Table 1**

**STATE OF MICHIGAN  
 DEPARTMENT OF COMMUNITY HEALTH  
 Summary of Annual Trend Rates**

Category of Service	Category of Assistance			
	TANF / Program L		Disabled	
	Low Trend	High Trend	Low Trend	High Trend
Hospital Inpatient	0.00%	2.00%	0.50%	2.50%
Hospital Outpatient	1.00%	3.00%	2.50%	4.50%
Pharmacy	2.50%	5.00%	3.00%	6.00%
Other Ancillary	1.00%	3.00%	2.00%	5.00%
Physician	1.00%	3.00%	2.00%	5.00%
<b>Composite Trend</b>	<b>1.01%</b>	<b>3.08%</b>	<b>1.77%</b>	<b>4.27%</b>

Category of Service	Maternity Trend Rates	
	Low Trend	High Trend
Hospital Inpatient	0.00%	1.00%
Hospital Outpatient	0.50%	1.50%
Physician	0.50%	1.50%
Composite Trend	0.16%	1.16%

**Enrollment growth.** The managed care population has seen significant enrollment growth over the past 24 months. Based on recent experience, Milliman developed the following annual enrollment trends for the managed care population:

**Table 2**

**STATE OF MICHIGAN  
 DEPARTMENT OF COMMUNITY HEALTH  
 Enrollment Trends**

Population	Annual Growth
TANF / Program L Less than 20 Year Old	3.0%
TANF / Program L Greater than 20 Year Old	12.0%
Blind and Disabled	7.0%

Milliman applied these to the February 2011 managed care enrollment for 14 months of trend to project enrollment as of April 2012.

Additionally, an adjustment in the MDCH data warehouse has shifted a large number of Special Needs and Support children out of the managed care population. Over recent months, this shift has removed approximately 20,000 children in the under 20 year old rate cells. This change was not reflected in the February 2011 base enrollment. Milliman has made an adjustment to the less than 20 year old rate cells to reflect the removal of these members.

**Adjusted administration load.** The SFY 2011 capitation rates included administrative cost allowance of 8.9% for non-maternity rates and 2.1% for the delivery case rate. These percentages included certain amounts for administration, profit and contingency, and contribution to surplus. Based on recent enrollment growth and health plan financial experience, Milliman has reduced the total administration load to the percentages detailed in Table 3. The administration loads were applied as a divisor to the base claim cost amounts.

**Table 3**

**STATE OF MICHIGAN**  
**DEPARTMENT OF COMMUNITY HEALTH**  
**Administrative Cost Allowance**

**Percent of Capitation**

<b>Item</b>	<b>TANF</b>	<b>Disabled</b>	<b>Maternity Case Rate</b>
Administration	7.0%	7.0%	1.0%
Profit/Contingency/Surplus Contribution	1.3%	1.3%	0.9%
<b>Total</b>	<b>8.3%</b>	<b>8.3%</b>	<b>1.9%</b>

**Adjust newborn rate cell.** The SFY 2011 capitation rate development included a 22.8% completion adjustment for the TANF/Program L Less than 1 year old rate cell. This completion adjustment was included based on discussions with MDCH and the health plans regarding the reduced claims cost values based on the SFY 2008 and 2009 encounter data experience for these rate cells. Following a review of the SFY 2010 encounter experience, Milliman has applied an 18.6% reduction which offsets the completion factor to normalize to a 1.000, to the newborns rate cell to better align with emerging experience and remove the completion adjustment.

**Adjust women of child-bearing age rate cells.** The SFY 2011 capitation rates included an adjustment for the shift of pregnant women from the fee-for-service (FFS) population to managed care. The costs realized in the encounter data indicated a need for a slightly higher adjustment to account for the morbidity differences in enrolling these members. Milliman has applied adjustments of 1.050 to the 15-20 year old and 21-25 year old female rate cells as well as a 1.025 to the 26-44 year old female rate cell to better align with emerging experience.

**Adjust 26-44 Males and 45 and Older rate cells.** Based on a review of the FY 2010 encounter data experience, Milliman determined that the TANF/Program L 26-44 year old Males, 45 and older Males and 45 and older Females rate cells were established at higher rates than what the historical experience would indicate. Milliman has applied adjustments of 0.950 to the 45 and older male and female rate cells as well as a 0.925 adjustment to the 26-44 year old male rate cell to better align with emerging experience.

**Adjust for provider reimbursement changes.** MDCH has implemented changes to hospital and physician reimbursement arrangements for FY 2012. Milliman has made changes to the rates to reflect these updates.

**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 2012 enrollment.

**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 in Enclosure 1 for these health plans. The Michigan Business Tax will be eliminated after December 31, 2011.

**Application of tax for SFY 2012.** In addition to the administration load, the capitation rates for all services were increased under three scenarios to reflect the following combination of taxes:

1. **Use Tax.** The 'Use Tax' add-on payments reflect a 5.98% use tax assessment during fiscal year 2012. The use tax assessment will be determined as a percentage of the capitation payments. Additionally, the administration load was calculated as a percentage of the capitation payments, excluding the use tax assessment.
2. **Claims Tax.** The 'Claims Tax' add-on payments reflect a 1% claims tax assessment during fiscal year 2012. The claims tax assessment is not applied to the administrative load component of the capitation rates. The claims tax assessment will be determined as a percentage of the claim cost component of the capitation rate.
3. **Claims Tax and Use Tax.** A third set of add-on payments was calculated based on both the use and claims taxes being in effect. It is assumed that the use tax will be applied to the portion of the capitation rates allocated for the claims tax. Therefore, add-on payments for this scenario will exceed the sum of the add-on payments if either the use tax or claims tax was separately applied.

Fiscal year 2012 rate projections shown in Tables 4 and 5 reflect solely the 5.98% use tax being effect for 3 months, both the 5.98% use tax and 1% claims tax effective for 3 months, and the 1% claims tax effective for 6 months.

Enclosure 1 provides the capitation rates by rate cell.

### **CAPITATION RATE IMPACT**

Table 4 illustrates the estimated impact of the capitation rate update in relation to the capitation rates effective April 1, 2011. The values shown in Table 4 reflect projected April 2012 enrollment by rate cell.

**Table 4**

**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 2012 Enrollment	Current Rates	Low Rate Range	% Increase
TANF / Program L	1,116,830	\$2,344.6	\$2,219.4	(5.3%)
Blind and Disabled	169,247	1,754.1	1,723.0	(1.8%)
Maternity	4,238	331.0	323.3	(2.3%)
Total	1,286,077	\$4,429.7	\$4,265.8	(3.7%)

**High Trend Rates**

Population	April 2012 Enrollment	Current Rates	High Rate Range	% Increase
TANF / Program L	1,116,830	\$2,344.6	\$2,253.0	(3.9%)
Blind and Disabled	169,247	1,754.1	1,753.9	0.0%
Maternity	4,238	331.0	325.4	(1.7%)
Total	1,286,077	\$4,429.7	\$4,332.3	(2.2%)

- Note:
1. Values have been rounded.
  2. SFY 2012 Expenditures do not reflect the appropriation of the Michigan Business Tax.
  3. FY 2011 rates include a 5.98% use tax. FY 2012 rates assume a 5.98% use tax for 3 months, both a 5.98% use tax and 1% claims tax for three months, and only a 1% claims tax for 6 months. This is consistent with current understanding of the proposed legislation.
  4. Maternity enrollment reflects Case Rate payments. Enrollment for maternity beneficiaries is included under the TANF or Disabled populations.

Table 5 illustrates the estimated impact of the capitation rate update based on federal dollars. The values shown in Table 5 represent the federal portion of the values displayed in Table 4. These amounts were calculated by multiplying the total expenditures by the appropriate Federal Medical Assistance Percentage of 66.14% for FY 2012.

**Table 5**

**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 2012 Enrollment	Current Rates	Low Rate Range	% Increase
TANF / Program L	1,116,830	\$1,550.7	\$1,467.9	(5.3%)
Blind and Disabled	169,247	1,160.2	1,139.6	(1.8%)
Maternity	4,238	218.9	213.9	(2.3%)
Total	1,286,077	\$2,929.8	\$2,821.4	(3.7%)

**High Trend Rates**

Population	April 2012 Enrollment	Current Rates	High Rate Range	% Increase
TANF / Program L	1,116,830	\$1,550.7	\$1,490.1	(3.9%)
Blind and Disabled	169,247	1,160.2	1,160.0	0.0%
Maternity	4,238	218.9	215.3	(1.7%)
Total	1,286,077	\$2,929.8	\$2,865.4	(2.2%)

- Note:
1. Values have been rounded.
  2. SFY 2012 Expenditures do not reflect the appropriation of the Michigan Business Tax.
  3. FY 2011 rates include a 5.98% use tax. FY 2012 rates assume a 5.98% use tax for 3 months, both a 5.98% use tax and 1% claims tax for three months, and only a 1% claims tax for 6 months. This is consistent with current understanding of the proposed legislation.
  4. Maternity enrollment reflects Case Rate payments. Enrollment for maternity beneficiaries is included under the TANF or Disabled populations.



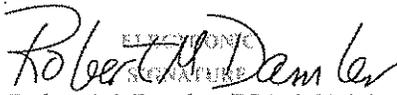
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Guidelines issued by the American Academy of Actuaries require actuaries to include their professional qualifications in all actuarial communications. I am a member of the American Academy of Actuaries, and I meet the qualification standards for performing the analyses in this report.

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

Sincerely,

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

RMD/lrb  
Enclosures



## ENCLOSURE 1

T:\2011\MMD\MMD93 (3.196)\MDCH Capitation Rate Certification - 9.19.11.docx

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.

Michigan Department of Community Health  
 FY 2012 Capitaion Rates

9/19/2011  
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Population	Low Trend Rates				High Trend Rates			
	Base Rate before Tax	Use Tax Only	Claims Tax Only	Use Tax & Claims Tax	Base Rate before Tax	Use Tax Only	Claims Tax Only	Use Tax & Claims Tax
<b>TANF/L - Statewide</b>								
<b>Males</b>								
Less than 1	\$432.58	\$27.51	\$3.98	\$31.74	\$438.56	\$27.89	\$4.04	\$32.19
1 - 4 Years	103.05	6.55	0.95	7.56	104.58	6.65	0.96	7.67
5 - 14 Years	75.26	4.79	0.69	5.52	76.40	4.86	0.70	5.60
15 - 20 Years	87.83	5.59	0.81	6.45	89.09	5.67	0.82	6.54
21 - 25 Years	134.97	8.58	1.24	9.90	136.90	8.71	1.26	10.05
26 - 44 Years	233.73	14.87	2.15	17.16	237.32	15.09	2.18	17.41
45 + Years	476.49	30.31	4.38	34.97	484.06	30.79	4.45	35.52
<b>Females</b>								
Less than 1	\$405.46	\$25.79	\$3.73	\$29.76	\$411.03	\$26.14	\$3.78	\$30.16
1 - 4 Years	88.25	5.61	0.81	6.47	89.53	5.69	0.82	6.56
5 - 14 Years	69.85	4.44	0.64	5.12	70.89	4.51	0.65	5.20
15 - 20 Years	147.34	9.37	1.36	10.82	149.64	9.52	1.38	10.99
21 - 25 Years	256.42	16.31	2.37	18.83	260.44	16.56	2.40	19.11
26 - 44 Years	319.67	20.33	2.94	23.46	324.69	20.65	2.99	23.83
45 + Years	477.26	30.36	4.38	35.02	484.80	30.83	4.45	35.56
<b>Blind/Disabled</b>								
Region Group 1	\$894.08	\$56.87	\$8.22	\$65.61	\$909.63	\$57.86	\$8.36	\$66.75
Region Group 2	\$747.34	\$47.53	\$6.87	\$54.84	\$761.18	\$48.41	\$7.00	\$55.86
<b>Maternity - Blended</b>								
Region 1	\$6,375.33	\$405.49	\$62.59	\$472.06	\$6,417.83	\$408.20	\$63.01	\$475.22
Region 2	6,227.19	396.07	61.14	461.10	6,268.21	398.68	61.54	464.13
Region 3	6,289.04	400.00	61.74	465.67	6,330.67	402.65	62.15	468.75
Region 4	6,034.27	383.80	59.25	446.82	6,073.36	386.29	59.63	449.71
Region 5	5,906.62	375.68	57.99	437.36	5,944.44	378.09	58.37	440.17
Region 6	6,072.16	386.21	59.62	449.62	6,111.63	388.72	60.00	452.54
Region 7	5,806.31	369.30	57.01	429.94	5,843.13	371.64	57.37	432.66
Region 8	5,319.55	338.34	52.24	393.90	5,351.52	340.38	52.55	396.27
Region 9	5,999.88	381.61	58.91	444.27	6,038.63	384.08	59.29	447.14
Region 10	5,979.25	380.30	58.71	442.74	6,017.79	382.75	59.08	445.59



**ENCLOSURE 2**

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**STATE OF MICHIGAN  
DEPARTMENT OF COMMUNITY HEALTH  
Capitation Rates Effective October 1, 2011 through September 30, 2012**

**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 2012. The capitation rates developed for state fiscal year 2012 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, 2011 through September 30, 2012.

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.



Actuarial Certification  
September 19, 2011  
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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

September 19, 2011  
\_\_\_\_\_  
Date