



Minnesota Department of **Human Services**

April 23, 2012

Ms. Cindy Mann, Director
Centers for Medicaid and CHIP Services
Centers for Medicare & Medicaid Services
7500 Security Boulevard, Mail Stop S2-26-12
Baltimore, Maryland 21244-1850

Dear Ms. Mann:

Thank you for your letter of March 21, 2012 in which you ask for follow-up information regarding UCare's donation of \$30 million to the State's general fund.

In my letter of February 17, I described the \$30 million donation as "bona fide" within the meaning of §1903(w) of the Social Security Act and the implementing regulation at 42 C.F.R. §433.54. In your letter, CMS posed questions about this characterization. CMS expressed concern that the transaction involves a health plan whose premium revenue derives entirely from Medicare and Medicaid business and requested further information about the health plan's own treatment of the transaction.

Since we last discussed this issue, we have learned that UCare is treating the \$30 million payment to the State as an "administrative expense" related to its Medicaid contracts. We have also learned that the UCare and other Medicaid managed care plans will be returning approximately \$73 million to the state (and federal government), pursuant to a 2011 contract requirement capping their operating margin at one percent. This amount was based on financial reports for calendar year 2011 submitted April 2, 2012.

UCare Minnesota's excess over the cap is approximately \$8 million. When the donation was received in November 2011, the Department was unaware if any health plan would earn a "profit" on their 2011 Medicaid contracts. On April 2, 2012, all health plans submitted their financial reports to the Department of Health for calendar year 2011. It has become apparent that UCare's treatment of the \$30 million donation as an administrative expense affects the amount UCare would return to Medicaid under the one percent cap in the 2011 contract. Minnesota continues to believe it was a bona fide donation. Because of the interaction with the plan's operating margin, however, Minnesota will agree to treat the \$30 million as a return of a Medicaid payment because of the interaction with the one percent cap. For that reason, we intend to credit the federal share of the \$30 million on the CMS-64 report for the quarter ending on March 31.

Sincerely,

David Godfrey
Medicaid Director