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October 12, 2005

Mr. R. Jason Wiley
Managed Care Rate Setter
Minnesota Department of Human Services
444 Lafayette Road
St. Paul, MN 55155-3853

Re: 2006 GAMC Enrollment Migration to MNCare Analysis

Dear Jason:

This letter discusses my preliminary analysis of the anticipated 2006 GAMC enrollment migration to MNCare and the estimated overall impact on MNCare's claim cost levels and capitation rates. The Minnesota Department of Human Services (DHS) expects this migration to begin in November 2006. This letter describes the data and methods I used to calculate adjustment factors for the migration.

The purpose of this analysis is to assist the Minnesota Department of Human Services (DHS) with setting payment rates for contracting health plans for these programs. The results may not be appropriate for other purposes. The results contained in this letter are intended only for use by DHS. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work. This letter should be reviewed only in its entirety. It assumes the reader is familiar with Minnesota's Medicaid programs and managed care rating principles.

The results in this report are technical in nature and are dependent upon specific assumptions and methods. No party should rely upon these results without a thorough understanding of those assumptions and methods. Such an understanding may require consultation with qualified professionals.

Differences between the estimates in our analysis and actual amounts depend on the extent to which future experience conforms to the assumptions made for this analysis. It is almost certain that actual experience will not conform exactly to the assumptions used in this analysis. Actual amounts will differ from projected amounts to the extent that actual experience is different than expected. Accordingly, DHS should continue to carefully monitor actual experience and make adjustments as necessary.

In performing this analysis, I have relied on data and other information provided to us 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 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 this assignment.

Results

Due to recent legislative changes, DHS expects approximately 80% of current GAMC enrollees to migrate into MNCare, beginning in November 2006. These enrollees are expected to move into the B, M1/M2 MNCare rate cells. You asked us to estimate the differences in expected MNCare claim costs between the two populations, to determine whether a rate adjustment should be made to the affected MNCare rate cells.

Based on our analysis, we expect that average claim cost for migrating PGAMC enrollees will be higher than the average claim cost for current MNCare enrollees in the same rate cells, and that the differences will be significant. Therefore, we expect that DHS may wish to make an upward adjustment to the capitation rates for those MNCare rate cells. DHS intends to increase payment rates on January 1, 2006, even though the shift is not expected to begin until November 2006. Rate adjustment factors are shown in Table 1.

For the past few years, PGAMC has lost money (about 15% in 2004), while MNCare is generally priced to at least break even in total across all MCOs. However, all of the factors shown in Table 1 reflect only the relative expected differences in claim cost between current PGAMC and MNCare enrollees, under the MNCare plan. We have made no adjustment at this point to recognize differences in expected loss ratios between the two plans.

Table 1:
MNCare B, M1/M2 Rate Adjustment Factors

MNCare B, M1/M2 Rate Cell		Rate Inc Factor
Female	21-49	1.010
Female	50-64	1.007
Male	21-49	1.044
Male	50-64	1.029

If the factors shown in Table 1 are applied without adjustment, the plans will effectively receive a rate increase of approximately 15% for each migrated member month due to the

difference in expected loss ratios. The affected MNCare rate cells are not subject to actuarial certification, and it seems reasonable that DHS could make an adjustment to the factors to take into account the different expected loss ratios, if budgeting or other considerations so dictated. For example, DHS might decide to phase-in the impact of this change over a two year period.

Methodologies and Assumptions

We estimated the relative claim cost levels of these two groups using the following five step process:

Step 1: Forecast the number of member months migrating into MNCare, for each month, November and December, 2006.

DHS provided us with a month-by-month projection of the member months that they expect to migrate to MNCare, beginning in November 2006. DHS confirmed that all of the member months will be migrations from GAMC rate cells, not GA rate cells. DHS provided a 2005 GAMC enrollment age and gender distribution, and we assumed that the demographic composition of migrating enrollees will match this distribution. Table 2 shows the estimated number of member months that are expected to migrate each month, by MNCare rate cell.

Table 2:
Expected Migration to MNCare by Rate Cell

Rate Cell		Expected Monthly Number of Members Migrating to MNCare
Female	21-49	887
Female	50-64	282
Male	21-49	1,570
Male	50-64	317

Step 2: Estimate the average 2006 claim cost for GAMC migrators by age and gender.

We started with the overall 2004 average claim cost for the entire GAMC population (GA and GAMC) which was provided in Exhibit B-3 in my Trend & Surplus letter dated September 19, 2005. This is $633.21. We then used the age/gender factors from Exhibit G-3, also from my Trend & Surplus letter, to calculate the rate cell specific average claim costs shown in Table 3a.

Table 3a:
Average Claim Cost by PGA/MC Rate Cell

Rate Cell		2004 Age/Gender Factor*	Average Claim Cost
GA	Female	1.404	$ 921.40
GA	Male	1.365	$ 895.40
GAMC	Female	0.854	$ 560.59
GAMC	Male	0.827	$ 542.84
GAMC	All	0.965	$ 633.21

* see Exhibit G-3 from Milliman Trend & Surplus Letter (Sept 19, 2005)

We then used a similar methodology, using the MNCare age/gender factors from Exhibit G-4 of my Trend & Surplus analysis, to calculate age specific average claim costs by age group. In other words, we are assuming that relative variations in claim cost by age among migrating GAMC enrollees will mirror the variations reflected in the current MNCare rate cells. These results are shown in Table 3b.

Table 3b:
Average GAMC Claim Cost by Age and Gender

Gender	Gender Only GAMC Average Claim Cost (Table 3a)	Age Group	Migrating Member Months	MNCare B, M1/M2 Rate Relativity*	Averge Claim Cost
Female	$ 560.59	21-49	2,661	1.454	$ 492.75
		50-64	845	2.284	$ 774.16
		21-64	3,506	1.654	$ 560.59
Male	$ 542.84	21-49	4,709	1.047	$ 469.74
		50-64	951	2.017	$ 904.63
		21-64	5,660	1.210	$ 542.84

* see Exhibit G-4 from Milliman Trend & Surplus Letter (Sept 19, 2005)

We have assumed that the health status of migrating GAMC member months for each rate cell will be the same as those not migrating.

Step 3: Calculate a benefit adjustment factor to recognize differences between PGAMC and MNCare benefits.

The MNCare B, M1/M2 benefit set is leaner than the GAMC benefit set. In particular, the MNCare plan features a $10,000 annual inpatient hospital benefit maximum (vs. GAMC's unlimited benefit), and the MNCare plan has higher copays for generic drugs ($3 vs. $1).

The MNCare plan also has $3 copays on physical therapy and mental health services, which GAMC does not have. We estimate that these differences will result in a 24.2% reduction in claim costs. Our analysis is described below.

Inpatient Hospitalization Cap

Using claim data provided for our 2003 rate analysis, we projected 2006 GAMC and MNCare claim cost for hospital inpatient services for each plan that contributed data. We used annual trend rates of 9.9% and 3.5%, for GAMC and MNCare, respectively. These trend rates reflect consideration of historic trend experience (discussed in my letter on Trend and Surplus Analysis), an assumed annual trend rate of 8.6% from 2004 to 2006, and the impact of the $10,000 maximum that applies to MNCare.

Earlier in our analysis, we were not certain about the date that migration would commence, so the claim costs throughout this letter are trended to July 1, 2006. However, the impact of changing the trend to date to December 2006 would not have an actuarially significant impact on the factors in Table 1.

We also reduced the GA/MC figure by 16% to recognize that the affected population (GAMC only) is expected to have lower claim costs than the overall GA/MC population. We used the age/gender factors in Table 3a to calculate an appropriate reduction. The trended and adjusted average claim cost for GAMC is $200.52.

We then calculated the ratio of trended MNCare claim cost to trended GAMC claim cost for three of the six participating health plans. We eliminated experience from one plan, because their MNCare experience included all MNCare benefit plans, and was not usable for the B plan only. We also eliminated the high and low values from the remaining five plans, as we felt the result to be less likely due to statistical noise. The ratios for the remaining three plans ranged from 21.2% to 33.9%. We used the straight average of 25.8%. Therefore, we assumed that (100% - 25.8%) = 74.2% of the trended average PGAMC inpatient claim cost will be eliminated.

We applied the factor of 0.742 to the adjusted and trended GAMC average claim cost of $200.52, resulting in a benefit reduction of $148.71.

Copays

We also estimated the impact of the higher copays described above. Due to the overwhelming influence of the inpatient maximum on the total adjustment and the level of uncertainty involved in that estimation, we performed a simplified analysis of the value of the copays, in that we used plan experience from our 2003 analysis trended to 2006 for this purpose rather than a new analysis. The total impact is summarized in Table 4.

Table 4:
Estimated Value of Benefit Changes

Benefit Change	Est Reduction in Claim Cost PMPM
$10,000 Maximum	$148.71
$3 Generic Copay	$2.20
$3 Physical Therapy Copay	$0.36
$3 Mental Health/Chemical Dependency Copay	$0.68
Total	$151.95

We also trended the average PGAMC 2004 claim cost of $633.21 forward for two years using an 8.6% trend rate, and applied the 16.1% health status adjustment described above to get an overall estimated 2006 claim cost of $626.71. Therefore, the total adjustment factor is 1 – ($151.95/$626.71) = 75.8%. The resulting claim costs are shown in Table 5.

Table 5
Average GAMC Claim Cost by Age and Gender

Gender	Age Range	Claim Cost from Table 3b	Benefit Factor	Adjusted Claim Cost
Female	21-49	$ 492.75	0.758	$ 373.28
	50-64	$ 774.16	0.758	$ 586.45
Male	21-49	$ 469.74	0.758	$ 355.85
	50-64	$ 904.63	0.758	$ 685.29

In this analysis we have implicitly assumed that the benefit changes will reduce the cost of each age/gender group by the same percentage. This assumption should be reviewed for appropriateness when experience becomes available.

Step 4: *Estimate the average 2006 claim cost for MNCare B, M1/M2 enrollees by age and gender.*

We estimated the average claim cost for each affected MNCare rate cell using the same method as explained in Step 2. We used the overall 2004 average claim cost for the entire MNCare population, which was provided in Exhibit B-3 in my Trend & Surplus letter dated September 19, 2005. This is $216.74. We then calculated a claim cost for each rate cell, using age/gender factors from Exhibit G-4 of the same letter. Details are shown in Table 6.

Table 6
Average Claim Cost by MNCare B, M1/M2 Rate Cell

Rate Cell		2004 Age/Gender Factor*	Average Claim Cost
Female	21-49	1.454	$ 305.50
Female	50-64	2.284	$ 479.97
Male	21-49	1.047	$ 220.09
Male	50-64	2.017	$ 423.86
All MNCare		1.031	$ 216.74

* see Exhibit G-4 from Milliman Trend & Surplus Letter (Sept 19, 2005)

Step 5: Calculate blended claim costs and rating factors.

We then calculated blended claim costs and rating factors using the claim costs from Steps 3 and 4 and the membership projections from Step 1. The results are shown in Table 7. The adjustment factors to be applied to the rates are shown in the last column.

Table 7
Calculation of Adjustment Factors
Rates Change on January 1

Rate Cell		Assumed MNCare Member Months	Assumed Migrating GAMC Member Months	Average Claim Cost MNCare	Average Claim Cost GAMC Migrants	Average Claim Cost Combined	Adjustment Factor
Female	21-49	57,978	2,661	$ 305.50	$ 373.28	$ 308.47	1.010
Female	50-64	26,729	845	$ 479.97	$ 586.45	$ 483.23	1.007
Male	21-49	61,051	4,709	$ 220.09	$ 355.85	$ 229.81	1.044
Male	50-64	19,516	951	$ 423.86	$ 685.29	$ 436.01	1.029
Total/Avg		165,274	9,166	$ 316.14	$ 416.37	$ 321.41	1.017

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Jason, 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,

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

LMW/drd