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Actuarial Certification for Administración de Seguros de Salud

Premium Rates for Mi Salud Program: East, Southeast, and Southwest Regions

July 1, 2013 through September 30, 2013

I, Susan E. Pantely, Principal and Consulting Actuary, am an employee of Milliman, Inc. Consultants and Actuaries. I am a Member of the American Academy of Actuaries, and meet its Qualification Standards for issuing Actuarial Statements of Opinion for Medicaid premium rate development. I have been retained by Administración de Seguros de Salud (ASES) to develop the premium rates for the Mi Salud program for the period July 1, 2013 through September 30, 2013. This memorandum has been prepared in conformity with all applicable Actuarial Standards of Practice, including ASOP no. 8.

In developing the premium rates, I relied on data provided by ASES and the managed care organization under the Government Health Insurance program (GHIP) regarding:

- Claims incurred January 2010 through June 2013
- Data concerning capitations, administrative costs, and other program costs for the period January 2010 through December 2012.

The conclusions reached as a result of my review are contingent on the accuracy of the data provided. The data was used without independent audit, having been evaluated for reasonableness and consistency by comparing to financial statements and other control totals reported by the managed care organizations. To the extent that the underlying data and information is inaccurate, the premium rates certified here may also be inaccurate.

The premium rates were developed based on GHIP claims, utilization and membership data, and include allowance only for benefits covered under the Mi Salud program. Adjustments were made to account for such factors as medical trend, incomplete data, and program changes. Separate rates were not developed by other categories including age, gender, or eligibility category, consistent with past practice. Demographic profiles for regions studied previously did not vary materially, and the adjustments would be modest relative to the capitation rate developed. Use of the single rate approach is considered actuarially sound.



In my opinion, the capitation rates are actuarially sound, as defined in 42 CFR § 438.6(c), were developed in accordance with generally accepted actuarial principles and practices, and are appropriate for the populations to be covered and the services to be furnished under the contract.

The premium rates established are developed in Attachment 1.

This certification is intended for ASES and CMS 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 certification, so as to properly interpret the projection results.

It should be emphasized that premium rates are a projection of future costs based on a set of assumptions. These assumptions may not be appropriate for all organizations. Each organization should consider a number of factors, including but not limited to, provider contracts, medical management, and administrative requirements. Actual experience will differ from projected amounts to the extent that the actual experience deviates from the projected experience.

This opinion has been prepared specifically for the Mi Salud program rates and may not be appropriate for other purposes.

A handwritten signature in black ink that reads "Susan E. Pantely".

Susan E. Pantely, FSA, MAAA

August 12, 2013

415-394-3756

Overview of the Rate Setting Methodology

There are eight distinct regions for the capitation rates: East, Southeast, West, North, San Juan, Metro North, Northeast, and Southwest plus the Virtual region. These regions have distinct utilization and cost patterns and the capitated rates reflect these regional variations. Medical services within a region are provided by one MCO and one MBHO. As the regions reflect large stable populations, the capitation rate development does not explicitly consider age, gender or eligibility category. This actuarial certification covers Humana's regions: East, Southeast, and Southwest. Projected expenditures under the contracts are approximately \$226,432,000, based on May 2013 members by region.

Milliman has relied on the following data sources as provided by Administración de Seguros de Salud (ASES):

- Detailed claim-level covering claims incurred during the period January 2010 through June 2013. This information was used to prepare claims lag reports (monthly paid claims by month of service) and to generate actuarial cost models by type of service (inpatient, outpatient, etc.).
- Monthly enrollment for the period January 2010 through June 2013.
- Information from the carrier regarding net capitated payment rates.
- Financial Reports as reported by the carrier.
- Incurred claims as reported by the carrier.

Although the above data was reviewed for reasonableness, Milliman did not audit the data. After accumulating all of the information to be used in the rate setting process, a comparison of the various sources of claims data was performed to check for consistency. We compared (i) the claim lag reports provided by the HMOs, (ii) the claim amounts reported by ASES and (iii) the claim amounts in the financial statements. There was satisfactory consistency between the three claims data sources.

The actuarial model used to derive the July 1, 2013 to September 30, 2013 (Contract Period) health premium rate relies primarily on health plan experience. The historical claims experience by region for the Mi Salud program was analyzed and actuarial cost models for the Base Period were developed. The Base Period for all services is July 2012 through June 2013. Therefore, the Base Period reflects services that are both eligible State Plan services and provided to members eligible for Mi Salud. (Checklist AA2.0)

We had historical claims paid through June 2013. For claims incurred in the Base Period, we expect the medical claims data is incomplete. We reviewed the historical claims lag triangles by region. We adjusted the base period PMPM to account for claims incurred but not paid. The completion factors can be found in Attachment 1. (Checklist AA3.14)

These estimates were then projected forward to the Projection Period (July 1, 2013 – September 30, 2013) using assumed trend rates. Changes to the plan were considered and other plan expenditures such as capitated amounts and administrative expenses were added to the claims component in order to project the total Contract Period costs under the plan. The services used in the analysis include the following:

- Medical
- Prescription Drug
- Dental Services

The analysis of Base Period claims experience attempted to identify and adjust for any distortions in the data. Significant variations in experience, including the impact from unusually large individual claims, were investigated. No adjustments for large claims were deemed necessary. However, the period September 2012 through December 2012 had an unusually high incidence of influenza. The base period was adjusted by removing \$0.62 PMPM from each region. This reflects the influenza paid claims in excess of the influenza paid claims in a typical year. (Checklist AA5.0)

Member Months

Members move in and out of the program. Partial members are paid a pro rata portion of the premium. Therefore, the member months as of the first day of the month need to be increased for the partial member months. We increased the member months in our PMPM development by 2.0% based on the assumption that partial month members are covered for one-half month. (Checklist AA3.4)

Trend Factors

The rating methodology uses trend factors to adjust the Base Period claims cost to the Projection period. The cost trend factors used in this analysis are a combination of utilization and inflation components. We developed the projected cost trend rate assumptions based on an analysis of recent experience, expected provider fee increases and professional judgment regarding future cost increases.



Annual utilization trends were set at 2% for pharmacy and 0% for dental. The recent medical utilization trends vary significantly by region. Therefore, we assumed different utilization trend by region. Annual utilization trends for medical were set at 7%, 10%, and 14% in the East, Southeast, and Southwest, respectively. Annual average charge trends were set at 0%, 7%, and 0%, for medical, pharmacy, and dental, respectively. The capitation rate in the East is expected to increase \$0.04 PMPM. The capitation rate in the Southeast was adjusted to reflect expected recoveries. (AA3.11)

Mi Salud Changes

There were no programmatic changes from the Base Period to the Projection Period.

Administrative Fees and Risk Margin

The rating methodology includes an explicit provision for administrative services. The amount allocated for administrative expenses is 5.5% of premium plus 2.0% for risk margin.

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Certified Rates

Attachment 1 to this report provides a buildup of the calculation of the certified Physical Health Rates by Region for the period July 1, 2013 – September 30, 2013. These rates are only appropriate for the period July 1, 2013 to September 30, 2013.

Attachment 1

Development of Actuarially Certified Rates

Physical Health

DEVELOPMENT OF PREMIUM RATES FOR JULY 1, 2013 THROUGH SEPTEMBER 30, 2013					
		<u>Midpoint</u>			
Base Period = July 1, 2012 - June 30, 2013		1/1/2013			
Projection Period = July 1, 2013 - September 30, 2013		8/15/2013			
		<u>East</u>	<u>SouthEast</u>	<u>Southwest</u>	
				<u>Total</u>	
(1) Base Period FFS non-Rx Paid PMPM*		\$66.21	\$66.18	\$68.48	\$66.82
(2) Completion Factor		0.886	0.884	0.878	0.883
(3) Completed Base Period FFS non-Rx PMPM (1) / (2)		\$74.73	\$74.90	\$78.03	\$75.69
(4) Annual Utilization Trend		7.0%	10.0%	14.0%	9.9%
(5) Annual Average Charge Trend		0.0%	0.0%	0.0%	0.0%
(6) Projected FFS non-Rx (3) x [(1+ (4))^(7.5/12)] x [(1+ (5))^(7.5/12)]		\$77.96	\$79.50	\$84.69	\$80.27
(7) Base Period FFS Rx PMPM		\$21.98	\$18.54	\$19.40	\$20.18
(8) Completion Factor		1.000	1.000	1.000	1.000
(9) Completed Base Period FFS non-Rx PMPM (7) / (8)		\$21.98	\$18.54	\$19.40	\$20.18
(10) Annual Utilization Trend		2.0%	2.0%	3.0%	2.3%
(11) Annual Average Charge Trend		7.0%	7.0%	7.0%	7.0%
(12) Seasonality Adjustment		1.000	1.000	1.000	1.000
(13) Projected FFS Rx (9) x [(1+ (10))^(7.5/12)] x [(1+ (11))^(7.5/12)] x (12)		\$23.21	\$19.58	\$20.62	\$21.35
(14) Base Period FFS Dental Paid PMPM		\$4.34	\$3.76	\$3.59	\$3.95
(15) Completion Factor		1.000	1.000	1.000	1.000
(16) Completed Base Period FFS non-Rx PMPM (14) / (15)		\$4.34	\$3.76	\$3.59	\$3.95
(17) Annual Utilization Trend		0.0%	0.0%	0.0%	0.0%
(18) Annual Average Charge Trend		0.0%	0.0%	0.0%	0.0%
(19) Seasonality		0.0%	0.0%	0.0%	0.0%
(20) Projected FFS Dental (16) x [(1+ (17))^(7.5/12)] x [(1+ (18))^(7.5/12)] x (19)		\$4.34	\$3.76	\$3.59	\$3.95
(21) Base Period PCP Capitation PMPM		\$30.97	\$22.45	\$12.78	\$23.29
(22) Increase		0.04	(1.52)	-	-\$0.47
(23) Projected PCP Capitation PMPM		\$31.01	\$20.93	\$12.78	\$22.83
(24) Projected Medical Cost PMPM [(6) + (13) + (20) + (23)]		\$136.52	\$123.77	\$121.68	\$128.41
(25) Partial Member Month Adjustment		1.020	1.020	1.020	1.020
(26) PMPM [(24) x (25)]		\$139.25	\$126.25	\$124.11	\$130.98
(27) Administrative Expenses (5.5% of Premium)		\$8.28	\$7.51	\$7.38	\$7.79
(28) Risk Charge (2.0% of Premium)		\$3.01	\$2.73	\$2.68	\$2.83
(29) Premium Rate PMPM		\$150.54	\$136.49	\$134.18	\$141.60