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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, 2012 through June 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, 2012 through June 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 managed care organizations under the Government Health Insurance program (GHIP) regarding:

- Claims incurred January 2009 through May 2012
- Data concerning capitations, administrative costs, and other program costs for the period January 2009 through April 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.



I hereby certify that, to the best of my knowledge and judgment, the methodologies used to develop the per member per month (PMPM) premium rates for the Mi Salud program are appropriate and developed in accordance with generally accepted actuarial principles and practices and should produce rates that are not excessive, inadequate, or unfairly discriminatory in relation to benefits. The capitation rate is appropriate for the populations to be covered and the services furnished under the contract. The premium rates are actuarially sound and comply with 42 CFR 438.6 (c). 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

July 31, 2012

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 \$841,776,000, based on April 2012 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 2009 through May 2012. 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 2009 through April 2012.
- Information from the carrier regarding net capitated payment rates.
- Financial Reports as reported by the HMO, as reported by the carriers.
- Incurred claims as reported by the carriers.

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, 2012 to June 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 dental is July 2011 through April 2012. The Base Period for capitated costs is May 2011 through April 2012. The Base Period for medical is November 2011 through March 2012 and the Base Period for pharmacy is November 2011 through April 2012. The later medical and pharmacy Base Periods were chosen due to the benefit design changes implemented in November 2011. 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 May 2012. 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, 2012 – June 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. (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%, 1%, 0%, for medical, pharmacy, and dental, respectively. Annual average charge trends were set at 2%, 4%, and 0%, for medical, pharmacy, and dental, respectively. The dental pmpm was increased 1% for seasonality given the Base Period was less than twelve months. The 1% seasonality adjustment for dental was derived as shown in Table 1 below. The capitation rates are expected to increase 15.9%, 7.8%, and 5.2% in the East, Southeast, and Southwest regions, respectively. The higher increase in capitation is due to shifting certain services from a fee for service basis to a capitated basis. (AA3.11)

TABLE 1 – Dental Seasonality Adjustment

Dental		(BP)	(FY)	
		Bsae Period	Fiscal Year	(FY) / (BP)
East	FY10	\$4.29	\$4.38	1.022
East	FY11	\$4.33	\$4.41	1.018
	FY10/11 Average			1.020
Southeast	FY10	\$3.85	\$3.87	1.005
Southeast	FY11	\$3.89	\$3.92	1.008
	FY10/11 Average			1.007
Use average of East and Southeast				1%

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, 2012 – June 30, 2013. These rates are only appropriate for the period July 1, 2012 to June 30, 2013.

Attachment 1

Development of Actuarially Certified Rates

Physical Health

DEVELOPMENT OF PREMIUM RATES FOR JULY 1, 2012 THROUGH JUNE 30, 2013				
		<u>Midpoint</u>		
Medical Base Period = November 1, 2011 - March 31, 2012		1/15/2012		
Pharmacy Base Period = November 1, 2011 - April 30, 2012		2/1/2012		
Dental Base Period = July 1, 2011 - April 30, 2012		12/1/2011		
Capitation Base Period = May 1, 2011 - April 30, 2012				
Projection Period = July 1, 2012 - June 30, 2013		1/1/2013		
		<u>East</u>	<u>SouthEast</u>	<u>Southwest</u>
		<u>Total</u>		
(1) Base Period FFS non-Rx Paid PMPM*	\$65.81	\$63.00	\$63.38	\$64.24
(2) Completion Factor	0.902	0.888	0.888	0.893
(3) Completed Base Period FFS non-Rx PMPM (1) / (2)	\$72.98	\$70.97	\$71.40	\$71.90
(4) Annual Utilization Trend	2.0%	2.0%	2.0%	2.0%
(5) Annual Average Charge Trend	2.0%	2.0%	2.0%	2.0%
(6) Projected FFS non-Rx (3) x [(1+ (4))^(11.5/12)] x [(1+ (5))^(11.5/12)]	\$75.81	\$73.71	\$74.16	\$74.68
(7) Base Period FFS Rx PMPM	\$20.69	\$17.47	\$17.94	\$18.90
(8) Completion Factor	1.000	1.000	1.000	1.000
(9) Completed Base Period FFS non-Rx PMPM (7) / (8)	\$20.69	\$17.47	\$17.94	\$18.90
(10) Annual Utilization Trend	1.0%	1.0%	1.0%	1.0%
(11) Annual Average Charge Trend	4.0%	4.0%	4.0%	4.0%
(12) Projected FFS Rx (9) x [(1+ (10))^(11/12)] x [(1+ (11))^(11/12)]	\$21.64	\$18.27	\$18.76	\$19.77
(13) Base Period FFS Dental Paid PMPM	\$4.28	\$3.86	\$3.71	\$3.99
(14) Completion Factor	0.995	0.998	0.996	0.996
(15) Completed Base Period FFS non-Rx PMPM (13) / (14)	\$4.30	\$3.87	\$3.72	\$4.00
(16) Annual Utilization Trend	0.0%	0.0%	0.0%	0.0%
(17) Annual Average Charge Trend	0.0%	0.0%	0.0%	0.0%
(18) Seasonality	1.0%	1.0%	1.0%	1.0%
(19) Projected FFS Dental (15) x [(1+ (16))^(13/12)] x [(1+ (17))^(13/12)] x (18)	\$4.34	\$3.91	\$3.76	\$4.04
(20) Base Period PCP Capitation PMPM	\$25.29	\$18.62	\$11.67	\$19.41
(21) Increase	15.9%	7.8%	5.2%	11.6%
(22) Projected PCP Capitation PMPM	\$29.31	\$20.08	\$12.28	\$21.67
(23) Projected Medical Cost PMPM [(6) + (12) + (19) + (22)]	\$131.10	\$115.97	\$108.97	\$120.16
(24) Partial Member Month Adjustment	1.020	1.020	1.020	1.020
(25) PMPM [(23) x (24)]	\$133.72	\$118.29	\$111.15	\$122.57
(26) Administrative Expenses (5.5% of Premium)	\$7.95	\$7.03	\$6.61	\$7.29
(27) Risk Charge (2.0% of Premium)	\$2.89	\$2.56	\$2.40	\$2.65
(28) Premium Rate PMPM	\$144.56	\$127.88	\$120.16	\$132.51