

Capitation Rate for the period October 1, 2008 to September 30, 2009

September 18, 2008

Mr. Michael J. Head
State of Michigan
Department of Community Health
400 S. Pine Street
P.O. Box 30479
Lansing, MI 48909-7979

**RE: DOCUMENTATION OF MANAGED SPECIALTY SERVICES AND SUPPORTS
WAIVER CAPITATION RATES – FISCAL YEAR 2009**

Dear Mr. Head:

Milliman, Inc. (Milliman) was retained by the State of Michigan, Department of Community Health (MDCH) to develop capitation rates for the Managed Specialty Services and Supports Waiver. The capitation rates were developed for SFY 2009, October 1, 2008 through September 30, 2009. This letter documents the calculation rate methodology and provides the required certification regarding actuarial soundness.

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 MDCHs capitation rates, assumptions, and trends.

The actuarial certification contained within the enclosure was developed with regard to the mental health, substance abuse, and waiver (c) capitation rates for the Managed Specialty Services and Supports Waiver PIHPs that operate in the State of Michigan. The information may not be appropriate for any other purpose. It is the responsibility of any individual PIHP to establish required revenue levels appropriate for their risk, management and contractual obligations.

SUMMARY OF RESULTS

Enclosure 1 provides a summary of the capitation rates and the rate adjustment factors. The capitation rates were developed on a per member per month basis and vary by benefit type and program code. The state fiscal year 2009 rates were established by applying medical trend and other adjustment factors to the state fiscal year 2008 rates. The mental health capitation rates have been split between state plan services and 1915 (b) (3) services. The waiver (c) capitation rates are paid on a per waiver (c) eligible basis.

The benefit types include mental health, substance abuse, and waiver (c) services. The program code categories include the TANF populations and the Aged, Blind, and Disabled (DAB) populations. Rate adjustment factors have been developed to reflect age, gender, and geographic region for each benefit category and program code.

Table 1 illustrates a comparison of the projected state and federal expenditures under the current capitation rates paid during fiscal year 2008 and the proposed capitation rates for fiscal year 2009. A comparison of both the low and high rates is provided, based on estimated fiscal year 2009 enrollment.

Table 2 provides the estimated federal expenditures under the current fiscal year 2008 capitation rates and the proposed capitation rates for fiscal year 2009. The federal expenditures for both fiscal years 2008 and 2009 are based on a Federal Medical Assistance Percentage (FMAP) of 60.27%.

Tables 1 and 2 provide the percentage increase in annual expenditures in fiscal year 2009 relative to fiscal year 2008. While the same trend rates are applied to both the current low and high capitation rate ranges, rounding of the base capitation rates may cause the annual expenditure percentage increase between the low and high rate ranges to be unequal (e.g., TANF Substance Abuse).

Table 1

STATE OF MICHIGAN
DEPARTMENT OF COMMUNITY HEALTH
Comparison of Projection of Capitation Rate Expenditures
State and Federal Expenditures
(Values in \$ Millions)

Low Rate Range

Rate Category	FY 2008 Rates	FY 2009 Rates	Increase / Decrease	% Increase
<i>TANF</i>				
Mental Health	\$125.8	\$133.5	\$7.7	6.1%
Substance Abuse	15.3	15.6	0.3	1.6%
<i>DAB</i>				
Mental Health	\$1,191.5	\$1,229.8	\$38.3	3.2%
Substance Abuse	21.6	22.1	0.5	2.5%
Waiver (c)	\$415.1	\$423.0	\$7.9	1.9%
Total	\$1,769.3	\$1,824.0	\$54.7	3.1%

Note: Values have been rounded

High Rate Range

Rate Category	FY 2008 Rates	FY 2009 Rates	Increase / Decrease	% Increase
<i>TANF</i>				
Mental Health	\$128.8	\$136.7	\$7.9	6.1%
Substance Abuse	15.6	15.7	0.1	0.8%
<i>DAB</i>				
Mental Health	\$1,220.6	\$1,259.7	\$39.1	3.2%
Substance Abuse	22.1	22.6	0.5	2.4%
Waiver (c)	\$425.2	\$433.2	\$8.0	1.9%
Total	\$1,812.3	\$1,867.9	\$55.6	3.1%

Note: Values have been rounded.

Table 2

**STATE OF MICHIGAN
 DEPARTMENT OF COMMUNITY HEALTH
 Comparison of Projection of Capitation Rate Expenditures
 Federal Expenditures
 (Values in \$ Millions)**

Low Rate Range

Rate Category	FY 2008 Rates	FY 2009 Rates	Increase / Decrease	% Increase
<i>TANF</i>				
Mental Health	\$ 75.8	\$ 80.4	\$ 4.6	6.1%
Substance Abuse	\$ 9.2	\$ 9.4	\$ 0.2	1.6%
<i>DAB</i>				
Mental Health	\$ 718.1	\$ 741.2	\$ 23.1	3.2%
Substance Abuse	\$ 13.0	\$ 13.3	\$ 0.3	2.5%
Waiver (c)	\$ 250.2	\$ 254.9	\$ 4.7	1.9%
Total	\$ 1,066.3	\$ 1,099.2	\$ 32.9	3.1%

Note: Values have been rounded

High Rate Range

Rate Category	FY 2008 Rates	FY 2009 Rates	Increase / Decrease	% Increase
<i>TANF</i>				
Mental Health	\$ 77.6	\$ 82.4	\$ 4.8	6.1%
Substance Abuse	\$ 9.4	\$ 9.5	\$ 0.1	0.8%
<i>DAB</i>				
Mental Health	\$ 735.7	\$ 759.2	\$ 23.5	3.2%
Substance Abuse	\$ 13.3	\$ 13.6	\$ 0.3	2.4%
Waiver (c)	\$ 256.2	\$ 261.1	\$ 4.9	1.9%
Total	\$ 1,092.2	\$ 1,125.8	\$ 33.6	3.1%

Enclosure 3 contains the actuarial certification regarding the capitation rates illustrated in Enclosures 1 and 2. The actuarial certification indicates that the rates developed are considered to be actuarially sound as defined in Federal Regulation 438.6(c). It is the PIHP's responsibility to establish actuarially sound capitation rate levels that are appropriate to their risk, management and contractual obligations.

CAPITATION RATE CALCULATIONS

The capitation rates shown in Enclosures 1 and 2 were developed from applying health care trend to the fiscal year 2008 capitation rates, net of administration load and the QAAP assessment. After applying health care trend, the final rates were developed by making an adjustment for the fiscal year 2009 direct care workers wage increase, administration load, and QAAP assessment. The capitation rates were calculated on a per member per month basis.

The following discusses the development of the capitation rates.

a) Direct Care Wage Increase

State legislation during calendar year 2008 approved a 1% wage increase for direct care workers that provide services under the Specialty Services and Supports Waiver program effective February 1, 2009. To account for the wage increase, the budget for Medicaid Mental Health Services was increased by \$5.44 million (State and Federal) for state fiscal year 2009. As such, Milliman made an adjustment to the capitation rates to reflect the wage increase.

To distribute the wage increase, Milliman requested from MDCH a listing of applicable procedure codes that would be impacted by the reimbursement rate adjustment. Table 3 provides a listing of services received from MDCH by procedure code. Additionally, Table 3 illustrates the type of service and the billing increment associated with the code.

Table 3

STATE OF MICHIGAN
DEPARTMENT OF COMMUNITY HEALTH
Procedure Code Listing for Direct Care Worker Rate Increase

Procedure Code	Type of Service	Billing Increment
H0043	Community Living Support	Per diem
H2014	Skill Building	15 minutes
H2015	Community Living Support	15 minutes
H2016	Community Living Support	Per diem
T1020	Personal Care	Day
T2036	Community Living Support	Encounter / Trip
T2037	Community Living Support	Encounter / Trip

The procedures were further stratified by state plan service, 1915(b) (3) service, and (c) waiver service. Milliman utilized the fiscal year 2007 MUNC reports to estimate the capitation rate adjustment. The experience reported in the MUNC summaries was split between the TANF and DAB populations based on submitted encounter units. The \$5.44 million budget increase was distributed into the rates based on total estimated fiscal year 2007 expenditures between the TANF and DAB populations, and further stratified between state plan, (b)(3), and waiver (c) services. Table 4 illustrates the adjustments made to the fiscal year 2009 rates to reflect the direct care wage increase.

Table 4

STATE OF MICHIGAN
DEPARTMENT OF COMMUNITY HEALTH
Capitation Rate Adjustment
Per Member Per Month Adjustments

Capitation Rate Category	PMPM Adjustment
Aged, Blind, and Disabled	
Mental Health – State Plan Service	\$0.23
Mental Health – 1915(b)(3) Service	\$0.50
Developmentally Disabled 1915(c) Waiver	\$21.12

b) Age / Gender / Geographic Region – State Plan and (b) (3) Services

The age / gender factors and geographic region adjustments for each PIHP's state plan and (b) (3) capitation rates were developed during the fiscal year 2008 rate setting process. Separate factors were developed for mental health and substance abuse services as well as the TANF and DAB populations. Enclosure 1 illustrates the age / gender factors and geographic region factors, which are unchanged from the fiscal year 2008 factors.

c) Developmentally Disabled 1915(c) Waiver Factors

For the FY2008 rates, Milliman developed waiver (c) population parameters based on a linear regression model. Milliman used selected profile elements as independent variables in a linear regression model to isolate the elements correlated with the cost contained in the encounter data utilization. The population parameters for the FY 2009 rates have been updated in proportion with the underlying base rate increase. Enclosure 2 provides the population parameters and values estimated to calculate the waiver (c) capitation rate range for each PIHP during FY2009.

The capitation rate for each waiver (c) eligible is calculated by the following equation:

Waiver (c) Capitation Rate =

(Base Rate + Age Parameter + Residential Status Parameter) × (PIHP Parameter)

d) Annual Trend Rate

The fiscal year 2008 capitation rates, excluding the administration load and QAAP assessment, were trended forward to fiscal year 2009 using the following trend rates. The trend rates shown in the following table do not include any of the adjustments that have been previously applied. The trend rates were developed from observed trend rates in the base encounter data during state fiscal years 2005 through 2007 and Medicaid experience in other states.

Table 5

**STATE OF MICHIGAN
 DEPARTMENT OF COMMUNITY HEALTH
 Estimated Annual Trend Rates**

Capitation Category	Trend Rate
Mental Health	
TANF	6.25%
DAB	3.00%
Substance Abuse	
TANF	1.50%
DAB	2.50%
Waiver (c) Enrollees	1.50%

e) PIHP Administration Load

The global per member per month expenditures adjusted for managed care and trend were increased to reflect an 8% administration load for non-waiver (c) and 3% administration load for waiver (c) services. In addition to the administration load, the capitation rates were increased to reflect a 5.5% QAAP assessment during the state fiscal year 2009 rate period. The QAAP assessment is applicable for the mental health, substance abuse, and waiver (c) capitation rate. The QAAP 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 QAAP assessment.



If you have any questions regarding the enclosed information, please contact me at (317) 524-3512.

Sincerely,


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

RMD/lrb
 Enclosures

ENCLOSURE 1

State of Michigan
 Department of Community Health
 Base Rate Development
 High Rate Range

SFY2009 Rates - High Rate Range

<u>Service and Population</u>	<u>State Plan</u>	<u>1915(b)(3)</u>
TANF Mental Health	\$10.05	\$1.56
DAB Mental Health	\$138.55	\$117.92
1915(c) Waiver		
TANF Substance Abuse	\$0.91	\$0.41
DAB Substance Abuse	\$3.30	\$1.32

SFY 2009 Age / Gender Factors

<u>Service and Populat</u>	<u>0 - 17</u>	<u>18 - 25</u>	<u>26 - 39</u>	<u>40 - 49</u>	<u>50 - 64</u>	<u>65+</u>
Mental Health - TANF						
Male	1.0322	1.1058	1.2308	1.4352	0.9976	0.0011
Female	0.7172	0.9930	1.4869	2.1682	2.0001	0.0011
Mental Health - DAB						
Male	0.4612	1.0440	2.0615	2.0956	1.5912	0.4480
Female	0.3208	0.7947	1.5486	1.5495	1.0973	0.2467
Substance Abuse - TANF						
Male	0.3421	2.0595	3.7791	4.7942	5.0710	0.0064
Female	0.1742	1.7588	3.4471	5.4737	5.0160	0.0064
Substance Abuse - DAB						
Male	0.3534	1.1537	1.3869	2.3987	2.2103	0.1691
Female	0.1808	0.8368	1.6105	2.1509	1.0049	0.0223

State Fiscal Year 2009 Geographic Factors

<u>PIHP ID</u>	<u>PIHP Name</u>	<u>Mental Health</u>		<u>Substance Abuse</u>	
		<u>TANF</u>	<u>DAB</u>	<u>TANF</u>	<u>DAB</u>
174454413	Lakeshore Affiliation	0.6600	1.0211	1.1690	0.8298
174454530	CMH for Central Michigan	1.2725	0.8630	0.7852	0.6349
174454629	Access Alliance	1.5591	0.9943	1.3159	0.6543
174455653	Southeast Partnership	1.0561	1.0811	1.1517	0.7079
174456543	Southwest Alliance	1.0350	1.0233	1.1619	0.9543
174456561	Saginaw	0.5339	0.7951	1.1929	1.1232
174456580	Genesee	0.7295	0.9422	1.6109	1.2051
174456650	CMH Affiliation of Mid-Michigan	1.3178	0.9153	0.8342	0.5398
174456679	Detroit-Wayne	0.7557	0.7737	0.6545	1.3132
174456786	North Care	1.9805	1.3050	1.0725	0.6451
174456848	Lifeways	1.1320	0.8894	1.4672	0.6914
174456875	Macomb	1.0770	1.6707	1.2820	1.4155
174458252	Oakland	1.3910	1.8685	1.1890	1.0688
174458261	Thumb Alliance	1.6740	1.4908	1.2622	0.6454
174458280	CMHSA Network of West Michi	0.7747	0.9995	0.9311	0.9656
174458360	Venture	0.8326	0.7497	1.0266	0.6301
174476116	North Country	0.8272	0.7124	1.0329	0.7152
174540039	Northern Lakes	1.5547	0.9208	1.0220	0.6755

State of Michigan
 Department of Community Health
 Base Rate Development
 Low Rate Range

SFY2009 Rates - Low Rate Range

<u>Service and Population</u>	<u>State Plan</u>	<u>1915(b)(3)</u>
TANF Mental Health	\$9.82	\$1.52
DAB Mental Health 1915(c) Waiver	\$135.24	\$115.14
TANF Substance Abuse	\$0.90	\$0.41
DAB Substance Abuse	\$3.22	\$1.29

SFY 2009 Age / Gender Factors

<u>Service and Populat</u>	<u>0 - 17</u>	<u>18 - 25</u>	<u>26 - 39</u>			
Mental Health - TANF						
Male	1.0322	1.1058	1.2308	1.4352	0.9976	0.0011
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State Fiscal Year 2009 Geographic Factors

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ENCLOSURE 2

State of Michigan
 Department of Community Health
 Base Rate Development

	Low Rate	High Rate
	<u>Range</u>	<u>Range</u>
Base Waiver C Rate:	\$4,410.31	\$4,516.38
Rate Development Base:	\$4,576.69	\$4,686.73
<u>Additive Parameter - Age</u>		
Age 18 and Younger	(\$937.30)	(\$959.83)
<u>Additive Parameter - Residential Status</u>		
Supported Independence Program	\$ 1,280.60	\$ 1,311.40
Private Residence with Spouse or Non-Family	714.23	731.42
Specialized Residential Home	(345.22)	(353.52)
Private Residence with Family or Foster Family Home	(1,413.68)	(1,447.68)
<u>Multiplicative Parameter - PIHP</u>		
Lakeshore Affiliation	1.0973	1.0973
CMH for Central Michigan	0.8188	0.8188
Access Alliance	1.0000	1.0000
Southeast Partnership	0.8764	0.8764
Southwest Alliance	0.8188	0.8188
Saginaw	1.2627	1.2627
Genesee	0.8764	0.8764
CMH Affiliation of Mid-Michigan	1.0973	1.0973
Detroit-Wayne	1.0973	1.0973
North Care	1.2307	1.2307
Lifeways	0.5473	0.5473
Macomb	0.7977	0.7977
Oakland	1.1936	1.1936
Thumb Alliance	1.2627	1.2627
CMHSA Network of West Michigar	0.8764	0.8764
Venture	1.0000	1.0000
North Country	1.1936	1.1936
Northern Lakes	1.0973	1.0973

ENCLOSURE 3

**STATE OF MICHIGAN
DEPARTMENT OF COMMUNITY HEALTH
Capitation Rates Effective October 1, 2008 through September 30, 2009
Managed Specialty Services and Supports Waiver**

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 a one-year period beginning on October 1, 2008. 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 relied upon the State of Michigan for a data extract of the encounter data, eligibility information, and financial reports. I have complied with the elements of the rate setting checklist CMS developed for its Regional Offices regarding 42 CFR 438.6(c) for PIHPs.

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).

The capitation rates are considered to be actuarially sound for the assumptions provided in the documentation letter. It will be the PIHP's responsibility to establish actuarially sound capitation rate levels that are appropriate to their risk, management and contractual obligations.

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 18, 2008

Date

