



Chase Center/Circle  
111 Monument Circle  
Suite 601  
Indianapolis, IN 46204-5128  
USA

Tel +1 317 639 1000  
Fax +1 317 639 1001

milliman.com

## **FINAL and CONFIDENTIAL**

June 13, 2008

Mr. Jon Barley, Ph.D., Bureau Chief  
Bureau of Managed Health Care  
Ohio Department of Job and Family Services  
Lazarus Building  
50 West Town St., Suite 400  
Columbus, OH 43215

**RE: CAPITATION RATE CERTIFICATION – AGED, BLIND, OR DISABLED (ABD) –  
JULY 1, 2008 TO DECEMBER 31, 2008 REVISED**

Dear Jon:

Milliman, Inc. (Milliman) was retained by the State of Ohio, Department of Job and Family Services (ODJFS) to develop the calendar year (CY) 2008 actuarially sound capitation rates for the Aged, Blind, or Disabled (ABD) Risk Based Managed Care (RBMC) program. This letter provides the revised capitation rates to be effective from July 1, 2008 to December 31, 2008. The revisions are a result of specific policy changes effective subsequent to the development of the CY 2008 capitation rates.

This letter completely replaces the correspondence sent by Milliman dated June 5, 2008. The changes impact the Northeast Central region capitation rates and expenditures only. The changes for the Northeast Central region reflect the alternative coverage period of May 1, 2008 to December 31, 2008 in the base rates as opposed to January 1, 2008 to December 31, 2008.

### **LIMITATIONS**

The information contained in this letter, including the enclosures, has been prepared for the State of Ohio, Department of Job and Family Services 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.

T:\2008\ODJ\ODJ19\Certification ABD Final - Jul to Dec 2008 Revised.doc

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 ODJFS 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 capitation rates, assumptions, and trends.



Mr. Jon Barley, Ph.D.  
June 13, 2008  
Page 2

## **FINAL and CONFIDENTIAL**

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 ODJFS 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 capitation rates, assumptions, and trends.

The information contained in this letter was prepared as documentation of the actuarially sound capitation rates for Medicaid managed care organization health plans in the State of Ohio. The information may not be appropriate for any other purpose.

### **EXECUTIVE SUMMARY**

The calendar year (CY) 2008 capitation rates for the Aged, Blind, or Disabled (ABD) Risk Based Managed Care (RBMC) program were revised for the period of July 1, 2008 to December 31, 2008. The revisions are a result of specific policy changes effective subsequent to the development of the CY 2008 capitation rates. The base data and actuarial assumptions underlying the CY 2008 capitation rates remain unchanged from the December 4, 2007 rate certification and data book.

The Northeast Central region began managed care enrollment in May 2008 and, as such contain different assumptions for program adjustments and rate effective dates. Throughout this letter, the current period is defined as January to June 2008. For the Northeast Central region, the current period is May to June 2008.

Table 1 summarizes the current (January to June 2008) and the revised (July to December 2008) capitation rate expenditures as well as the percentage changes by region on a composite all rate group basis.

**FINAL and CONFIDENTIAL**

**Table 1**

**STATE OF OHIO  
 DEPARTMENT OF JOB AND FAMILY SERVICES  
 AGED, BLIND, OR DISABLED  
 Capitation Comparison – Aggregate Expenditures  
 (\$ millions)**

<b>Region</b>	<b>Jan – Jun 2008</b>	<b>Jul – Dec 2008</b>	<b>Expenditure Change</b>	<b>Percentage Change</b>
Central	\$ 158.0	\$ 163.6	\$ 5.6	3.6%
East Central	\$ 82.1	\$ 84.9	\$ 2.8	3.4%
Northeast	\$ 159.4	\$ 164.8	\$ 5.4	3.4%
Northeast Central	\$ 47.8	\$ 49.2	\$ 1.4	2.9%
Northwest	\$ 76.9	\$ 79.4	\$ 2.5	3.3%
Southeast	\$ 75.7	\$ 78.4	\$ 2.7	3.6%
Southwest	\$ 98.7	\$ 101.9	\$ 3.2	3.3%
West Central	\$ 70.5	\$ 73.0	\$ 2.5	3.5%
<b>Statewide Composite</b>	<b>\$ 768.9</b>	<b>\$ 795.1</b>	<b>\$ 26.2</b>	<b>3.4%</b>

Note: Values have been rounded.

In aggregate, the July to December 2008 capitation rates will result in a 3.4% increase relative to the current January to June 2008 capitation rates. The composite rate increase reflects assumed health plan enrollment consistent with the previously projected CY 2008 estimates. Additionally, the expenditure estimates assume equal distribution of member months throughout CY 2008.

Enclosure 1 provides the current and proposed capitation rates for each geographic region as well as on a statewide composite basis.

Enclosure 2 contains the actuarial certification regarding the actuarial soundness of the capitation rates.

**DETAILS OF PROGRAM CHANGES**

The capitation rates for the ABD program were revised for the period of July 1, 2008 to December 31, 2008. The revisions are a result of specific program changes effective subsequent to the development of the CY 2008 capitation rates. Table 2 summarizes the changes that were reflected in the capitation rate change to be effective July 1, 2008.



**FINAL and CONFIDENTIAL**

**Table 2**

**STATE OF OHIO  
 DEPARTMENT OF JOB AND FAMILY SERVICES  
 AGED, BLIND, OR DISABLED  
 Prospective Program Adjustments**

<b>Program Adjustment</b>	<b>Effective Date</b>	<b>Service Category(s)</b>	<b>Adjustment Factor (Except NEC)</b>	<b>Adjustment Factor (NEC Only)</b>	<b>Estimated Aggregate Impact</b>
Inpatient Capital Component	1/1/2008	Inpatient (excl. Nursing Facility)	0.88%	0.59%	\$2.3 M/ 0.3%
Community Providers Fee Schedule Increase	7/1/2008	Community Based Provider Categories	2.24%	2.24%	\$5.4 M/ 0.7%
Dental Benefit Restoration	7/1/2008	Dental	32.51%	32.51%	\$2.3 M/ 0.3%
Improved TPL Management Revision	1/1/2008	All Service Categories	0.84%	0.46%	\$6.2 M/ .8%
Prior Authorization of Atypical Anti-Psychotic Medication	1/1/2008	Pharmacy	0.60%	0.28%	\$1.5 M/ 0.2%
Franchise Fee Increase	7/1/2008	All Service Categories	1.06%	1.06%	\$8.5 M/ 1.1%
Franchise Fee – Timing Adjustment	7/1/2008	All Service Categories	0.00%	0.00%	\$0.0 M/ 0.0%

Note: Estimated aggregate impact includes administrative cost and franchise fee components (values have been rounded).

***Inpatient Capital Component***

The capital component of the CY 2008 DRG hospital payment rates was increased on January 1, 2008. The changes are being reflected in the managed care capitation rates as it is recognized that the majority of contracts held by the health plans reflect a percentage of the base FFS reimbursement prior to annual capital settlements with providers. As such, Milliman reviewed the impact of the capital changes using a distribution of admissions and paid claims by provider appropriate for the ABD managed care enrolled population.

The increase was not included in the capitation rates effective January 1, 2008 due to the timing of this change. Milliman has included this adjustment into the capitation rates to be effective from July 1, 2008 to December 31, 2008. The adjustment reflects a retro-active payment for January to June 2008 as well as a prospective adjustment for July to December 2008.



## FINAL and CONFIDENTIAL

Milliman obtained the hospital capital rates for CY 2007 and CY 2008 by provider as well as the distribution of paid claims and admissions by provider for SFY 2006. The adjustment factor was calculated using the following Methodology:

$$\text{Adjustment Factor} = [\text{Admissions}^{\text{SFY2006}} \times (\text{Capital}^{\text{CY2008}} - \text{Capital}^{\text{CY2007}})] / \text{Total Paid}^{\text{SFY2006}}$$

### *Community Provider Fee Schedule Update*

The fee schedule used to reimburse FFS community providers was updated by ODJFS effective July 1, 2008. The changes are being reflected in the managed care capitation rates as it is recognized that the majority of contracts held by the health plans reflect a percentage of the FFS reimbursement. As such, Milliman reviewed the impact of the fee changes using a distribution of services and paid claims appropriate for the ABD managed care enrolled population.

Milliman obtained the fee schedule by procedure code and modifier code for the current fees (prior to July 1, 2008) and the revised fees (post July 1, 2008) as well as the distribution of paid claims and utilization counts for SFY 2006. The adjustment factor was calculated using the following Methodology:

$$\text{Adjustment Factor} = [\text{Total Paid}^{\text{SFY2006}} \times (\text{Fee}^{\text{Post 7/1/08}} / \text{Fee}^{\text{Prior to 7/1/08}})] / \text{Total Paid}^{\text{SFY2006}} - 1$$

Table 3 summarizes the impact of the community provider fee schedule update by category of service.

**FINAL and CONFIDENTIAL**

**Table 3**

**STATE OF OHIO  
 DEPARTMENT OF JOB AND FAMILY SERVICES  
 AGED, BLIND, OR DISABLED  
 Community Provider Fee Adjustments**

<b>Service Category</b>	<b>Impact of Fee Changes</b>
<b><i>Outpatient</i></b>	
Surgery/ASC	0.4%
<b><i>Professional</i></b>	
Surgery	(4.6%)
Anesthesia	0.0%
Obstetrics	5.2%
Office Visits/Consults	13.1%
Inpatient Visits	4.7%
Emergency Room	7.3%
Immunizations & Injection	0.0%
Physical Medicine	3.9%
Miscellaneous Services	2.4%
<b>Rad/Path/Lab</b>	
Radiology	(0.5%)
Path/Lab	0.3%
<b>Other Benefits</b>	
Mental Health / Substance Abuse	3.4%
Dental	3.6%
Vision - Optometric	6.4%
Home Health	3.0%
Non-Emergent Transportation	2.4%
Ambulance	2.6%
Supplies & DME	0.0%
Miscellaneous Services	1.7%

Note: Values have been rounded.

***Dental Benefit Restoration***

Dental benefits will be restored to the ABD adult population effective July 1, 2008. This impact was calculated and included in previous drafts of the CY 2008 capitation rates. However, the benefit restoration was delayed and, as such, was not included in the final capitation rates effective January 1, 2008.

## **FINAL and CONFIDENTIAL**

The adjustment factors summarized in Table 2 for the dental benefit restoration are consistent with the previously provided amounts, with one exception. The impact of pent-up demand previously included was increased from 2% to 4%. This reflects that the total of the pent-up demand is still assumed to occur; however, it will occur over only half of the calendar year.

### ***Improved TPL Management***

The capitation rates effective January 1, 2008 included a reduction due to the anticipated improvements in the TPL data and information that would allow for increased TPL collections and cost avoidance by the health plans. The planned improvements have been delayed until October 1, 2008. As such, Milliman has included an adjustment in the capitation rates effective for July to December 2008. The adjustment reflects a retro-active payment for January to June 2008 as well as a prospective adjustment for July to September 2008 to remove the value of the TPL improvements from the first nine months of calendar year 2008. The adjustment will be applied to the payments for July to December 2008.

The adjustment factor was calculated by modifying the reduction from the current rates and retro-actively restoring the previously reduced amount  $[(1+.28\%) / (1-.55\%)]$ . The Northeast Central region adjustment factor differs due to the timing of regional managed care enrollment.

### ***Prior Authorization of Atypical Anti-Psychotic Medication***

The capitation rates effective January 1, 2008 included an implicit reduction due to the anticipated enhanced prior authorization capabilities of atypical anti-psychotic medications for the ABD population. The planned changes were subsequently modified and the implementation of the revised policy has been delayed. As such, Milliman has included an adjustment in the capitation rates effective for July to December 2008. The adjustment reflects a retro-active payment for January to June 2008 as well as a prospective adjustment for July to December 2008 to remove a portion of the previous adjustments included in the capitation rates for CY 2008.

The adjustment removes the entire impact of the January to June 2008 prior authorization implicit savings and removes 25% of the savings estimate for July to December. The entire year savings was estimated to be approximately \$2 million (claim cost prior to admin and franchise fee). As such, the adjustment factor retro-actively increases the January to June 2008 capitation rates by \$1 million and prospectively increases the July to December 2008 capitation rates by \$0.25 million (claim cost prior to admin and franchise fee).



## FINAL and CONFIDENTIAL

### *Franchise Fee Increase*

The franchise fee amount was increased from 4.5% to 5.5% of the capitation rate effective July 1, 2008. This adjustment was applied by removing the current franchise fee percent and applying the revised franchise fee percent for all regions.

### *Franchise Fee – Timing Adjustment*

The revision of the franchise fee amount creates an exposure issue for the health plans as the timing and methodology of the capitation payments differs from the collection of the fees by the State. Franchise fee payments included in the capitation rates are paid based on the incurred dates of service. Collections of the franchise fee by the State are based on the date of payment of the capitation rate. As such, to the extent there is a lag in payment of the capitation rate, there is an inherent mis-alignment of payment and collection of the franchise fee. This issue only arises when a change in the franchise fee percent occurs.

Milliman reviewed the lag time of capitation incurred periods to capitation payment periods to estimate the impact of this change. For the ABD population, the capitation payments primarily occur on or before the service month eliminating the impact of this change. As such, Milliman did not include an adjustment to the ABD capitation rates for July to December 2008.



If you have any questions regarding the enclosed information, please do not hesitate to contact me at (317) 524-3512.

Sincerely,

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

RMD/lrb  
Enclosures



**FINAL and CONFIDENTIAL**

**ENCLOSURE 1**

T:\2008\ODJ\ODJ19\Certification ABD Final - Jul to Dec 2008 Revised.doc

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 ODJFS 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 capitation rates, assumptions, and trends.

**FINAL AND CONFIDENTIAL**

**State of Ohio  
Department of Job and Family Services  
Capitation Rate Comparison - ABD**

<b>Region</b>	<b>Projected</b>	<b>Jan-Jun 2008 Rate</b>	<b>Jan-Jun 2008 Expenditures</b>	<b>Jul-Dec 2008 Rate</b>	<b>Jul-Dec 2008 Expenditures</b>	<b>% Change</b>	<b>\$ Change</b>
	<b>Jul - Dec 2008 Member Months</b>						
Central	142,085	\$ 1,111.88	\$ 157,980,914	\$ 1,151.44	\$ 163,601,777	3.6%	\$ 5,620,863
East Central	74,523	\$ 1,101.73	\$ 82,103,674	\$ 1,139.44	\$ 84,913,917	3.4%	\$ 2,810,243
Northeast	143,552	\$ 1,110.06	\$ 159,350,778	\$ 1,147.92	\$ 164,785,638	3.4%	\$ 5,434,860
Northeast Central	42,655	\$ 1,120.68	\$ 47,802,045	\$ 1,153.70	\$ 49,210,497	2.9%	\$ 1,408,452
Northwest	68,704	\$ 1,118.62	\$ 76,853,109	\$ 1,155.66	\$ 79,397,887	3.3%	\$ 2,544,778
Southeast	76,368	\$ 991.15	\$ 75,691,648	\$ 1,026.34	\$ 78,379,020	3.6%	\$ 2,687,372
Southwest	87,195	\$ 1,131.41	\$ 98,653,295	\$ 1,168.41	\$ 101,879,510	3.3%	\$ 3,226,215
West Central	61,630	\$ 1,144.06	\$ 70,508,418	\$ 1,183.88	\$ 72,962,524	3.5%	\$ 2,454,107
Statewide	696,709	\$ 1,103.68	\$ 768,943,880	\$ 1,141.27	\$ 795,130,770	3.4%	\$ 26,186,889

\*Note: The Jan-Jun 2008 Rate for NEC reflects May and June 2008 only due to implementation timing of managed care.



**FINAL and CONFIDENTIAL**

**ENCLOSURE 2**

T:\2008\ODJ\ODJ19\Certification ABD Final - Jul to Dec 2008 Revised.doc

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 ODJFS 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 capitation rates, assumptions, and trends.



**FINAL and CONFIDENTIAL**

**STATE OF OHIO  
DEPARTMENT OF JOB AND FAMILY SERVICES  
Aged, Blind, or Disabled  
Capitation Rates July 1, 2008 to December 31, 2008**

**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 Ohio, Department of Job and Family Services to perform an actuarial review and certification regarding the development of the capitation rates to be effective from July 1, 2008 to December 31, 2008. The capitation rates were developed for the Aged, Blind, or Disabled managed care eligible populations. 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 have complied with the elements of the rate setting checklist CMS developed for its Regional Offices regarding 42 CFR 438.6(c) for capitated Medicaid managed care plans.

The capitation rates provided with this certification are effective for a six month rating period beginning July 1, 2008 through December 31, 2008. The capitation rates associated with this certification were previously certified by Milliman and approved by CMS for the period of January 1, 2008 through December 31, 2008. This certification reflects modifications to the rates for policy and program changes. At the end of the six month period, the capitation rates will be updated for calendar year 2009. The update may be based on fee-for-service experience, managed care utilization and trend experience, policy and procedure changes, and other changes in the health care market. A separate certification will be provided with the updated rates.

The capitation rates provided with this certification are considered actuarially sound, defined as:

- 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).



**FINAL and CONFIDENTIAL**

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.

The signature of Robert M. Damler is written in black ink. The words "ELECTRONIC" and "SIGNATURE" are printed in a light blue font over the signature.

---

Robert M. Damler, FSA  
Member, American Academy of Actuaries

June 13, 2008

Date