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August 1, 2012

Mr. Kevin Rupe
Oklahoma Health Care Authority
Managed Care Division
4545 North Lincoln Boulevard
Oklahoma City, OK 73105

Re: State Fiscal Year 2013 Medicaid Non-Emergency Transportation Rates

Dear Kevin:

This letter documents the calculation of actuarially sound capitation rates for Oklahoma's Medicaid Non-Emergency Transportation (NET) program for the state fiscal year (SFY) 2013 contract period (July 1, 2012 – June 30, 2013). Our actuarial certification is also attached.

BACKGROUND

OHCA contracts with LogistiCare to provide NET services for the SoonerRide and SoonerPlan programs. OHCA retained Milliman to develop actuarially sound NET capitation rate ranges for the SFY 2013 contract period.

RESULTS

Table 1 shows the actuarially sound capitation rate ranges for the Temporary Assistance to Needy Families (TANF), Aged, Blind and Disabled (ABD), and SoonerPlan aid categories. The composite TANF / ABD capitation rates are based on the calendar year (CY) 2012 YTD (through February) distribution of member months. Please note, the composite rate will change if there is a change in the distribution of eligibles by aid category.

Table 1
Oklahoma Non-Emergency Transportation Program
July 2012 – June 2013 Capitation Rates Per Member Per Month (PMPM)

Aid Category	2012 YTD Member Months (%)	Lower Bound	Upper Bound
SoonerRide			
TANF	77.5%	$ 0.44	$ 0.50
ABD	22.5%	14.24	16.06
Composite TANF / ABD	**100.0%**	**$ 3.55**	**$ 4.00**
SoonerPlan			
Total	N/A	**$ 0.03**	**$ 0.10**

SoonerRide and SoonerPlan NET Capitation Rates

Exhibits 1 and 2 show the calculation of the actuarially sound capitation rate ranges for the TANF and ABD populations, respectively. Exhibit 3 contains the capitation rate ranges for the SoonerPlan population. Table 2 compares the SFY 2013 capitation rates to the SFY 2012 capitation rates:

Table 2
Oklahoma SoonerRide and SoonerPlan Non-Emergency Transportation Program
SFY 2013 Capitation Rate Changes

Category	SFY 2013	SFY 2012	Rate Change
TANF			
Lower Bound	$ 0.44	$ 0.54	-18.5%
Upper Bound	0.50	0.63	-20.6%
ABD			
Lower Bound	$ 14.24	$14.27	-0.2%
Upper Bound	16.06	16.64	-3.5%
SoonerPlan			
Lower Bound	$ 0.03	$0.03	0.0%
Upper Bound	0.10	0.11	-9.1%

The SFY 2013 rates for the TANF population are about 19.5% lower than the SFY 2012 rates, mostly due to a decrease in LogistiCare's encounter data cost PMPM (from $0.41 in CY 2010 to $0.37 in CY 2011) and stable fuel cost projections between CY 2011 and SFY 2013.

The SFY 2013 rates for the ABD population are about 1.8% lower than SFY 2012. The rate decrease for this population is less significant since the base encounter costs did not decrease as they did for the TANF population.

The SFY 2013 capitation rate range for the SoonerPlan population is $0.03 to $0.10 (very similar to the SFY 2012 range of $0.03 to $0.11).

Note: Since NET benefits were new to SoonerPlan eligibles in SFY 2012, we did not have a full year of historical encounter data for this population from which to develop capitation rates. Consistent with the SFY 2012 NET rate development, the SoonerPlan NET capitation rates in this letter are based on the TANF NET capitation rates, adjusted to reflect the services provided and members covered by the SoonerPlan program. While we believe these adjustments provide a reasonable expectation of the SoonerPlan NET costs, we recommend that OHCA closely monitor actual costs and update the capitation rates midyear if the actual costs are significantly different from these estimates.

METHODOLOGY AND ASSUMPTIONS

We used the following methodology and assumptions to develop the actuarially sound capitation rate ranges in Exhibits 1 through 3:

1. Base period NET costs per member per month (PMPM) are based on CY 2011 encounter data provided by LogistiCare for the following types of NET trips:

- Ambulatory sedan / van
- Gas reimbursement
- Public transportation / bus and taxi
- Stretcher trip
- Wheelchair van

We validated the encounter data by comparing it to LogistiCare's 2011 financial statements and data used in the prior rate setting calculation. In our initial comparison, the encounter data claims for January and February 2011 were significantly lower than the amounts in the financial statements. Through discussion with OHCA, we determined that it was not feasible for LogistiCare to resubmit the encounter data for these months given that over a year had passed since they were initially submitted. Therefore, we adjusted the encounter data payments for these months to be more consistent with the financial statement amounts.

Additionally, since the encounter data included two months of payment run-out, we did not make any adjustment for incurred but not reported claims to the 2011 data.

2. We projected the CY 2011 base cost PMPM to the SFY 2013 contract period using the following assumptions to develop the high and low endpoints of the actuarially sound capitation rate ranges:

   - Unit cost trend of between 1.5% and 1.7% per year:

     - We assumed fuel costs account for between 20% and 27% of the total unit cost for NET services. The US Department of Energy projects gasoline and diesel fuel will decrease about 0.3% from CY 2011 to SFY 2013. Table 3 shows a summary of the Department of Energy projections as of June 14, 2012 (annual projections are based on the average of the monthly projections within CY 2011 and SFY 2013):

Table 3
U.S. Department of Energy Fuel Price Projections (Per Gallon)
Source: http://www.eia.doe.gov/steo

Fuel Type	CY 2011	SFY 2013
Gasoline	$ 3.58	$ 3.55
Diesel	$ 3.85	$ 3.86
Average	**$ 3.72**	**$ 3.71**

CY 2011 to SFY 2013 Trend Factor = $3.71 / $3.72 = 0.997

     - We assumed the remaining non-fuel percentage of the total unit cost for NET services will increase at a rate similar to the General CPI without food and energy (an annual increase of 2.1%). The CY 2011 to SFY 2013 trend factor is 1.032.

- The development of the blended unit cost trend assumptions is shown below:
  - Lower bound trend assumption = 27% * 0.997 + 73% * 1.032 = 1.023
    - Annual trend rate = 1.5%
  - Upper bound trend assumption = 20% * 0.997 + 80% * 1.032 = 1.025
    - Annual trend rate = 1.7%

> Utilization trend of between 1% and 3% per year. The average annual utilization trend based on the number of trips was about 2.01% from 2007 to 2011.

> In our SFY 2012 rate development, we included an additional utilization adjustment that accounted for the impact on non-emergency transportation utilization due to projected increases in fuel costs. Since fuel costs are now projected to be flat, we removed this factor for the SFY 2013 rate development.

> Managed care savings assumptions of between 2% and -2%

> Administration / profit allowance of between 15% to 19% of revenue

- A broker administrative allowance of between 12% and 15% of revenue
- Profit allowance of between 3% and 4% of revenue

3. As of July 1, 2011, the SoonerPlan population was eligible to receive non-emergency transportation benefits associated with family planning services only. As noted above, we did not have a full year of encounter data from which to calculate NET capitation rates. Therefore, we applied the same methodology as SFY 2012 to develop the SFY 2013 SoonerPlan capitation rates:

> We started with the TANF NET capitation rates

> We estimate that between 1% and 3% of total non-emergency transportation services are related to Family Planning benefits. Therefore, we applied a cost adjustment of 1% to 3% to adjust the TANF NET capitation rates to reflect Family Planning services only.

> Based on May 2012 information from the OHCA website, adults represent about 15.5% of total TANF members. Since the SoonerPlan program covers adults only, we made an adjustment of 6.47 (1 / 15.5%) to remove children from the membership base.

> The SoonerPlan capitation rates are calculated by multiplying the TANF capitation rates by these two adjustments. The final SoonerPlan capitation rates range from $0.03 to $0.10.

CAVEATS AND LIMITATIONS ON USE

This letter is intended for the internal use of OHCA and it should not be distributed, in whole or in part, to any external party without the prior written permission of Milliman. We do not intend this information to benefit any third party even if we permit the distribution of our work product to such third party. We understand OHCA will distribute this letter to CMS and the NET contractor once it is issued in its final form.

This letter provides rates for the Medicaid NET program. This information may not be appropriate, and should not be used, for other purposes.

The actual cost of NET services will likely differ from the estimates in this letter based on how these services are actually delivered by the broker. In preparing this information, we relied on information provided by OHCA. We accepted this information without audit, but reviewed the information for general reasonableness. Our recommendations may not be appropriate if this information is not accurate.

I am a member of the American Academy of Actuaries and I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

The terms of Milliman's contract with OHCA effective June 23, 2009 apply to this letter and its use.

❖ ❖ ❖ ❖ ❖

Please call me at (262) 796-3482 if you have any questions.

Sincerely,

Shelly Brandel

Shelly S. Brandel, FSA, MAAA
Consulting Actuary

SSB/zk

Attachments

cc: John Meerschaert

Exhibits

Exhibit 1

State of Oklahoma Medicaid
Non-Emergency Transportation Rate Development
SFY2013

TANF

	Ambulatory Trip	Gas Reimbursement	Public Transportation	Stretcher Trip	Wheelchair Van	Total
Baseline Cost PMPM:						
CY 2011 Billed Charges - Encounter Data	$ 1,652,456	$ 303,243	$ 20,469	$ 1,315	$ 77,985	$ 2,055,468
CY 2011 Member Months Reported						5,557,673
PMPM Service Cost	$ 0.30	$ 0.05	$ 0.00	$ 0.00	$ 0.01	$ 0.37
Projection to SFY 2013:						
Unit Cost Trend (CY 2011 to July 2012 - June 2013)						
Low (1.5% annual rate)						1.023
High (1.7% annual rate)						1.025
Utilization Trend (CY 2011 to July 2012 - June 2013)						
Low (1% annual rate)						1.015
High (3% annual rate)						1.045
Managed Care Savings						
Low (-2% savings)						0.980
High (2% savings)						1.020
Administration / Profit Allowance						
Low (15% of capitation rate)						1.176
High (19% of capitation rate)						1.235
SFY 2013 Capitation Rate Ranges:						
Low						**$ 0.44**
High						**$ 0.50**

Exhibit 2

State of Oklahoma Medicaid
Non-Emergency Transportation Rate Development
SFY2013

ABD

	Ambulatory Trip	Gas Reimbursement	Public Transportation	Stretcher Trip	Wheelchair Van	Total
Baseline Cost PMPM:						
CY 2011 Billed Charges - Encounter Data	$ 13,175,984	$ 1,140,204	$ 824,452	$ 22,181	$ 4,763,685	$ 19,926,505
CY 2011 Member Months Reported						1,674,337
PMPM Service Cost	$ 7.87	$ 0.68	$ 0.49	$ 0.01	$ 2.85	$ 11.90
Projection to SFY 2013:						
Unit Cost Trend (CY 2011 to July 2012 - June 2013)						
Low (1.5% annual rate)						1.023
High (1.7% annual rate)						1.025
Utilization Trend (CY 2011 to July 2012 - June 2013)						
Low (1% annual rate)						1.015
High (3% annual rate)						1.045
Managed Care Savings						
Low (-2% savings)						0.980
High (2% savings)						1.020
Administration / Profit Allowance						
Low (15% of capitation rate)						1.176
High (19% of capitation rate)						1.235
SFY 2013 Capitation Rate Ranges:						
Low						**$ 14.24**
High						**$ 16.06**

Exhibit 3

State of Oklahoma Medicaid
Non-Emergency Transportation Rate Development
SFY 2013

SoonerPlan

SFY 2013 TANF NET Capitation Rates (Exhibit 1):		
Low	$	0.44
High	$	0.50
Adjustment to Cover Family Planning Services Only		
Low		0.01
High		0.03
Adjustment to Reflect Coverage for Adults Only [1]		
Low		6.471
High		6.471
SFY 2013 Capitation Rate Ranges:		
Low	**$**	**0.03**
High	**$**	**0.10**

[1] *Adults represent 15.5% of total SoonerCare children / parents enrollment as of May 2012. Source: SoonerCare Adult Fast Facts - May 2012, OHCA website. Adjustment = 1 / 15.5%.*

Appendix A
Oklahoma Health Care Authority
Actuarial Certification
Medicaid Non-Emergency Transportation Program
July 1, 2012 – June 30, 2013 Capitation Rates

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August 1, 2012

Appendix A
Oklahoma Health Care Authority
Actuarial Certification
Medicaid Non-Emergency Transportation Program
July 1, 2012 – June 30, 2013 Capitation Rates

I, Shelly S. Brandel, am associated with the firm of Milliman, Inc. and am a member of the American Academy of Actuaries and meet its Qualification Standards for Statements of Actuarial Opinion. I have been retained by the Oklahoma Health Care Authority (OHCA) to perform an actuarial certification of the Medicaid Non-Emergency Transportation program capitation rates for July 1, 2012 - June 30, 2013 for filing with the Centers for Medicare and Medicaid Services (CMS). I reviewed the development of the capitation rates and am familiar with the Code of Federal Regulations, 42 CFR 438.6(c) and the CMS "Appendix A, PAHP, PIHP, and MCO Contracts Financial Review Documentation for At-risk Capitated Contracts Ratesetting."

I examined the actuarial assumptions and actuarial methods used to develop the capitation rates for July 1, 2012 - June 30, 2013. To the best of my information, knowledge, and belief, for the period from July 1, 2012 - June 30, 2013, the capitation rates offered by OHCA are in compliance with 42 CFR 438.6(c). The attached actuarial letter describes the capitation rate methodology.

In my opinion, the capitation rates are actuarially sound, have been 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.

In making my opinion, I relied upon the accuracy of the underlying records and data prepared by OHCA. A copy of the reliance letter received from OHCA is attached and constitutes part of this opinion. I did not audit the data and calculations, but did review them for reasonableness and consistency and did not find material defects. In other respects, my examination included such review of the underlying assumptions and methods used and such tests of the calculations as I considered necessary.

The capitation rates may not be appropriate for a specific organization. Any organization will need to review the rates in relation to the benefits provided. The organization should compare the rates with its own experience, expenses, capital and surplus, and profit requirements prior to agreeing to contract with OHCA. The organization may require rates above, equal to, or below the actuarially sound capitation rates.

Actuarial methods, considerations, and analyses used in forming my opinion conform to the appropriate Standards of Practice as promulgated from time-to-time by the Actuarial Standards Board, whose standards form the basis of this Statement of Opinion.

It should be emphasized that capitation rates are a projection of future costs based on a set of assumptions. Actual costs will be dependent on each contracted organization's situation and experience.

This Opinion assumes the reader is familiar with the Oklahoma Medicaid program, Medicaid eligibility rules, and actuarial rating techniques. The Opinion is intended for the State of Oklahoma and Centers for Medicare and Medicaid Services 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 rate projections of the type in this Opinion, so as to properly interpret the projection results.

Shelly Brandel

Shelly S. Brandel
Member, American Academy of Actuaries

August 1, 2012

Reliance Letter

MIKE FOGARTY
CHIEF EXECUTIVE OFFICER

MARY FALLIN
GOVERNOR

STATE OF OKLAHOMA
OKLAHOMA HEALTH CARE AUTHORITY

July 31, 2012

Mr. John D. Meerschaert, FSA, MAAA
Milliman, Inc.
15800 Bluemound Road, Suite 100
Brookfield, WI 53005

Re: Actuarial Certification of July 1, 2012 – June 30, 2013 Oklahoma Medicaid SoonerRide and SoonerPlan Non-Emergency Transportation Capitation Rates

Dear John:

I, Kevin Rupe, Director of Member Services for the Oklahoma Health Care Authority (OHCA), hereby affirm that the data prepared and submitted to Milliman, Inc. (Milliman) for the purpose of certifying the July 1, 2012 – June 30, 2013 SoonerRide and SoonerPlan Non-Emergency Transportation (NET) capitation rates were prepared under my direction, and to the best of my knowledge and belief are accurate and complete. This data includes:

1. Encounter data for services provided by LogistiCare between January 1, 2009 and December 31, 2011

2. Eligibility data for January 1, 2009 through February 28, 2012

3. Other supporting documentation, including:

   a. LogistiCare financial data used to validate encounter data
   b. A statement that OHCA does not anticipate any program changes to the SoonerRide program for SFY 2013
   c. LogistiCare non emergency trip utilization data
   d. Other computer files
   e. Conversations concerning supplied data

Kevin Rupe
(Name)

Director of Member Services - OHCA
(Title)

7-31-12
(Date)