

AMENDMENT TO CONTRACT

BETWEEN

ADMINISTRACIÓN DE SEGUROS DE SALUD DE PUERTO RICO (ASES)

and

HUMANA HEALTH PLANS OF PUERTO RICO, INC.

for

**PROVISION OF PHYSICAL HEALTH SERVICES UNDER THE MI SALUD
PROGRAM**

Contract No.: 2011-000041 D

Service Regions: Southwest, Southeast, and East

Account No. 5000



THIS AMENDMENT TO THE CONTRACT NO. 2011-000041, with an effective date of October 1, 2011 through October 31, 2011 (the "Effective Date"), is made and entered into by and between the Puerto Rico Health Insurance Administration (known in Spanish as Administración de Seguros de Salud de Puerto Rico, hereinafter referred to as ASES or "the Administration"), a public corporation in the Government of Puerto Rico, and Humana Health Plans of Puerto Rico, Inc. ("Humana," or "the Contractor"), an insurance company duly organized and authorized to do business under the laws of the Government of Puerto Rico, with employer identification number 660-40-6896.

WHEREAS, the Contractor and ASES are parties to a contract for the provision of Physical Health Services in the Service Regions indicated below dated October 1, 2010, which was subsequently amended on June 13, 2011 (as amended, the "Contract");

WHEREAS, Section 20.3 of the Contract requires that The Per Member Per Month payment rate be negotiated every Fiscal Year during the Term of the Contract (namely from July 1, 2011 to June 30, 2012 and from July 1, 2012 to June 30, 2013) no later than ninety (90) Calendar Days prior to the end of each Fiscal Year.

WHEREAS, the Parties have agreed to incorporate the Per Member Per Month applicable to Fiscal Year 2011 – 2012 under the Contract, as indicated below;

NOW, THEREFORE AND IN CONSIDERATION of the mutual promises, covenants and agreements contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, ASES and the Contractor (each individually a "Party" and collectively the "Parties") hereby agree as follows:

FIRST: The Parties incorporate to Attachment 11 of the Contract the Actuarial Certification for the premium rates contracted for the period of October 1, 2011 to October 31, 2011. The Per Member Per Month payment rate to be paid during that period in each Service Region is as follows:



East: **one hundred and forty eight dollars with seventy nine cents (\$148.79);**

Southeast: **one hundred and thirty dollars with thirty one cents (\$130.31);**

Southwest: **one hundred and eleven dollars with eighty one cents (\$111.81);**

SECOND: The effective date of this Per Member Per Month shall begin at 12:01 a.m., Puerto Rico Time, on October 1, 2011 and shall continue until October 31, 2011.


THIRD: The other terms and conditions of the Contract (MI Salud Restated Contract No. 2011- 000041A) shall remain in full force and effect.



SIGNATURE PAGE

IN WITNESS WHEREOF, the parties state and affirm that they are duly authorized to bind the respected entities designated below as of the day and year indicated.

ADMINISTRACIÓN DE SEGUROS DE SALUD DE PUERTO RICO (ASES)



Frank Díaz Ginés, MHS, Executive Director

10/31/2011
Date

HUMANA HEALTH PLANS OF PUERTO RICO, INC.



David Krebs, President

10/31/2011
Date





650 California Street, 17th Floor
San Francisco, California 94108-2702
USA

Tel +1 415 403 1333
Fax +1 415 403 1334

milliman.com

Actuarial Certification for Administración de Seguros de Salud

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

October 1, 2011 through October 31, 2011

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 October 1, 2011 through October 31, 2011. 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 June 2011, paid through September 2011
- Data concerning capitations, administrative costs, and other program costs for the period January 2009 through June 2011.

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.



Susan E. Pantely

Susan E. Pantely, FSA, MAAA

October 27, 2011

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. The Virtual region does not have credible experience and rates were set based on the expected costs of this population. This actuarial certification covers Humana's regions. Projected expenditures under the contracts are approximately \$69,642,000.

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 June 2011. 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 June 2011.
- 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 October 1, 2011 to October 31, 2011 (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 (October 2010 through June 2011) were developed. The base period for fee-for-service medical claims in the East region was December 2010 through June 2011 as services were shifted from fee-for-service to a capitated basis. Therefore, the Base Period reflects services that are both eligible State Plan services and provided to members eligible for Mi Salud. (Checklist AA2.0)



Actuarial Certification -
Administración de Seguros de Salud
M. Salud: East, Southeast, and Southwest Regions

We had historical claims paid through September 2011. 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, 2011 – June 30, 2012) using assumed trend rates. A seasonality factor was applied to adjust for higher than average claims in October. 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. We increased the final PMPM premium by 2.5% 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 and professional judgment regarding future cost increases.

Annual utilization trends were set at 3.0%, 7.0%, and 2.9% for medical, prescription drug, and dental, respectively, reflective of recent experience. Annual average charge trends were set at 1.0%, 3.5%, and 2.0% for medical, prescription drug, and dental, respectively. The capitation was increased based on the expected increase to the capitation rates. We applied a 7.1% seasonality factor for the East region and a

5.8% seasonality factor to the Southwest and Southeast regions to adjust for increased utilization in the month of August. (AA3.11)

Medical Management

Given the short duration (1 month) of the contract period, it is unlikely that significant medical management improvements can be achieved. Therefore, we did not assume any savings due to medical management for Physical Health. (AA3.11)

Mi Salud Changes

There were no programmatic changes. Several programmatic changes became effective October 1, 2011. We chose the base period to reflect the experience of the Mi Salud program after these changes were in effect.

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.

* * *

Certified Rates

Attachment 1 to this report provides a buildup of the calculation of the certified Physical Health Rates by Region. These rates are only appropriate for the October, 2011 to October 31, 2011.



Attachment 1

Development of Actuarially Certified Rates

Physical Health

Base = October 1, 2010 - June 30, 2011
 Projection Period = July 1, 2011 - June 30, 2012

Midpoint
 2/15/2011
 1/1/2012

	East	Southeast	Southwest	Total
(1) Base Period FFS non-Rx Paid PMPM*	\$72.98	\$65.18	\$57.42	\$66.22
(2) Completion Factor	0.946	0.969	0.970	0.959
(3) Completed Base Period FFS non-Rx PMPM (1) / (2)	\$77.11	\$67.29	\$59.19	\$69.05
(4) Annual Utilization Trend	3.0%	3.0%	3.0%	3.0%
(5) Annual Average Charge Trend	1.0%	1.0%	1.0%	1.0%
(6) Projected FFS Rx (3) x [(1+ (4)) ^(10.5/12)] x [(1+ (5)) ^(10.5/12)]	\$79.69	\$69.65	\$61.27	\$71.43
(7) Base Period FFS Rx PMPM	\$18.23	\$17.21	\$15.43	\$17.14
(8) Completion Factor	1.000	1.000	1.000	1.000
(9) Completed Base Period FFS non-Rx PMPM (7) / (8)	\$18.23	\$17.21	\$15.43	\$17.14
(10) Annual Utilization Trend	7.0%	7.0%	7.0%	7.0%
(11) Annual Average Charge Trend	3.5%	3.5%	3.5%	3.5%
(12) Projected FFS Rx (9) x [(1+ (10)) ^(10.5/12)] x [(1+ (11)) ^(10.5/12)]	\$19.93	\$18.82	\$16.87	\$18.74
(13) Base Period FFS Dental Paid PMPM	\$4.31	\$3.79	\$3.64	\$3.96
(14) Completion Factor	1.000	1.000	1.000	1.000
(15) Completed Base Period FFS non-Rx PMPM (13) / (14)	\$4.31	\$3.79	\$3.64	\$3.96
(16) Annual Utilization Trend	2.9%	2.9%	2.9%	2.9%
(17) Annual Average Charge Trend	2.0%	2.0%	2.0%	2.0%
(18) Projected FFS Dental (15) x [(1+ (16)) ^(10.5/12)] x [(1+ (17)) ^(10.5/12)]	\$4.50	\$3.95	\$3.80	\$4.13
(19) Base Period PCP Capitation PMPM	\$22.24	\$19.06	\$14.08	\$18.99
(20) Projected Increase	\$0.37	\$0.86	\$0.39	\$0.53
(21) Projected PCP Capitation PMPM (19) + (20)	\$22.61	\$19.92	\$14.47	\$19.52
(22) Projected Medical Cost PMPM [(6) + (12) + (18) + (21)]	\$126.73	\$112.35	\$96.40	\$113.82
(23) Administrative Expenses (5.5% of Premium)	\$7.45	\$6.61	\$5.67	\$6.70
(24) Risk Charge (2% of Premium)	\$2.71	\$2.40	\$2.06	\$2.43
(25) Premium Rate PMPM	\$135.54	\$120.16	\$103.10	\$121.73
(26) Partial Member Month Adjustment	1.025	1.025	1.025	1.025
(27) Seasonality	1.071	1.058	1.058	1.063
(28) Premium Rate PMPM [(25) x (26) x (27)]	\$148.79	\$130.31	\$111.81	\$132.74

ADG
[Signature]

