

SUPPLEMENT 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.: 1011-000041E

Service Regions: Southwest, Southeast, and East

Account: 5000



THIS AMENDMENT TO THE CONTRACT NO. 2011-000041, with an effective date of November 1, 2011 (the “Effective Date”), is made **and** entered into by and between the Puerto Rico Health Insurance Administration (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, September 27, 2011, October 6, 2011 and October 31, 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 to the Contract the **Per Member Per Month** (“PMPM”) rates applicable to the period from November 1, 2011 through June 30, 2012, as indicated below;

NOW, THEREFORE, FOR 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 Section 21.1.6 of the Contract the Actuarial Certification for the premium rates contracted for the period of November 1, 2011 to June 30, 2012. The Per Member Per Month payment rates to be paid during such period will be as follows:



(1) From November 1, 2011 to December 31, 2011;

East: \$140.31 *pmpm*

Southeast: \$123.05 *pmpm*

Southwest: \$107.67 *pmpm*

(2) From January 1, 2012 to June 30, 2012:

East: \$140.31 *pmpm*

Southeast: \$123.29 *pmpm*

Southwest: \$107.91 *pmpm*

SECOND: The effective date of this Amendment shall begin at 12:01 a.m., Puerto Rico Time, on November 1st, 2011 and shall continue until June 30, 2012.

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

(Signatures on following page)



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.

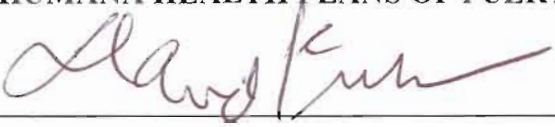
ADMINISTRACIÓN DE SEGUROS DE SALUD DE PUERTO RICO (ASES)



Frank R. Diaz Ginés, Executive Director

01/20/2012
Date

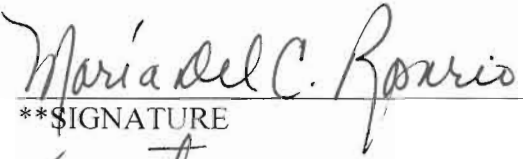
HUMANA HEALTH PLANS OF PUERTO RICO, INC.




David Krebs, President

01/20/2012
Date

*TITLE AFFIX CORPORATE SEAL HERE
(Corporations without a seal, attach a Certificate of Corporate Resolution)

ATTEST: 

**SIGNATURE


TITLE

* Must be President, Vice President, CEO or other authorized officer
**Must be Corporate Secretary





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Actuarial Certification for Administración de Seguros de Salud

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

November 1, 2011 through June 30, 2012

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 November 1, 2011 through June 30, 2012. 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:

- ξ Claims incurred January 2009 through June 2011, paid through August 2011
- ξ 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

December 30, 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. This actuarial certification covers Humana's regions: East, Southeast, and Southwest. Projected expenditures under the contracts are approximately \$535,439,000.

Milliman has relied on the following data sources as provided by Administración de Seguros de Salud (ASES):

- ξ Detailed claim-level covering claims incurred during the period January 2009 through August 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.).
- ξ Monthly enrollment for the period January 2009 through August 2011.
- ξ Information from the carrier regarding net capitated payment rates.
- ξ Financial Reports as reported by the HMO, as reported by the carriers.
- ξ 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 November 1, 2011 to June 30, 2012 (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 (November 2010 through June 2011) were developed. 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 August 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 (November 1, 2011 – June 30, 2012) 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 2.5% 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, expected provider fee increases and professional judgment regarding future cost increases.

Annual medical utilization trends were set at 3.00%, 2.94%, and 4.30% for the East, Southeast, and Southwest regions, respectively. Annual utilization trends for prescription drugs and dental were set at 2.50% (East, Southeast) and 3.50% (Southwest) reflective of recent experience. Annual medical average charge trends were set at 2.46%, 1.98%, and 1.99% for the East, Southeast, and Southwest regions,





respectively. Annual average charge trends for all regions were set at 5.0% and 2.0% for prescription drug, and dental, respectively. The capitation rate is expected to increase 2.0% in all regions. (AA3.11)

An additional \$0.24 PMPM is added to the Southwest and Southeast regions for the period January 1, 2012 – June 30, 2012 for the increased per diems at St. Luke's Hospital.

Mi Salud Changes

Several programmatic changes became effective October 1, 2010. We chose the base period of November 1, 2010 to June 30, 2011 to reflect the experience of the Mi Salud program after these changes were in effect. The month of October 2010 was not included in the base period as the programmatic changes are assumed to have less impact in the first month of implementation. Additionally, using November through June in both the base and projection periods eliminates the need to adjust for seasonality.

Several additional programmatic changes became effective November 1, 2011. Adjustments were made to the medical PMPM projections for implementation of the Medicare readmission program requirements and for increased copayments for emergency room visits.

Adjustments were made to the prescription drug PMPM projections for additional managed care edits at the point-of-sale, increased copayments, and implementing 90-day prescriptions for chronic conditions.

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 period November 1, 2011 to June 30, 2012.



Attachment 1

Development of Actuarially Certified Rates

Physical Health

	<u>Midpoint</u>			
Base = November 1, 2010 - June 30, 2011	3/1/2011			
Projection Period = November 1, 2011 - June 30, 2012	3/1/2012			
	<u>East</u>	<u>Southeast</u>	<u>Southwest</u>	<u>Total</u>
(1) Base Period FFS non-Rx Paid PMPM*	\$74.36	\$64.86	\$57.60	\$66.68
(2) Completion Factor	0.930	0.930	0.930	0.930
(3) Completed Base Period FFS non-Rx PMPM (1) / (2)	\$79.95	\$69.74	\$61.94	\$71.70
(4) Annual Utilization Trend	3.00%	2.94%	4.30%	3.34%
(5) Annual Average Charge Trend	2.46%	1.98%	1.99%	2.18%
(6) Program Changes	-\$1.04	-\$0.91	-\$0.88	-\$0.95
(7) Projected FFS Medical (3) x [1+ (4)] x [1+ (5)] + (6)	\$83.34	\$72.30	\$65.01	\$74.76
(8) Base Period FFS Rx PMPM	\$18.87	\$17.78	\$15.98	\$17.73
(9) Completion Factor	1.000	1.000	1.000	1.000
(10) Completed Base Period FFS non-Rx PMPM (8) / (9)	\$18.87	\$17.78	\$15.98	\$17.73
(11) Annual Utilization Trend	2.5%	2.5%	3.5%	2.8%
(12) Annual Average Charge Trend	5.0%	5.0%	5.0%	5.0%
(13) Program Changes	-\$1.19	-\$1.12	-\$1.06	-\$1.13
(14) Projected FFS Rx (10) x [1+ (11)] x [1+ (12)] + (13)	\$19.12	\$18.02	\$16.31	\$18.00
(15) Base Period FFS Dental Paid PMPM	\$4.44	\$3.88	\$3.71	\$4.06
(16) Completion Factor	1.000	1.000	1.000	1.000
(17) Completed Base Period FFS non-Rx PMPM (15) / (16)	\$4.44	\$3.88	\$3.71	\$4.06
(18) Annual Utilization Trend	2.5%	2.5%	3.5%	2.8%
(19) Annual Average Charge Trend	2.0%	2.0%	2.0%	2.0%
(20) Projected FFS Dental (17) x [1+ (18)] x [1+ (19)]	\$4.64	\$4.06	\$3.92	\$4.26
(21) Base Period PCP Capitation PMPM	\$22.24	\$19.06	\$14.08	\$18.97
(22) Increase	2.0%	2.0%	2.0%	2.0%
(23) Projected PCP Capitation PMPM (21) x [(1 + (22))]	\$22.68	\$19.44	\$14.36	\$19.35
(24) Projected Medical Cost PMPM [(7) + (14) + (20) + (23)]	\$129.79	\$113.82	\$99.59	\$116.36
(25) Administrative Expenses (5.5% of Premium)	\$7.71	\$6.77	\$5.93	\$6.91
(26) Risk Charge (2% of Premium)	\$2.81	\$2.46	\$2.15	\$2.52
(27) Premium Rate PMPM November 2011 - December 2011	\$140.31	\$123.05	\$107.67	\$125.79
(28) Increase for St Luke's Hospital Effective January 1, 2012	\$0.00	\$0.24	\$0.24	\$0.14
(29) Premium Rate PMPM January 2012 - June 2012	\$140.31	\$123.29	\$107.91	\$125.93

Handwritten signatures and initials in blue and black ink.

