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June 16, 2009

Christy Vaughn
Basic Health Procurement Manager
Washington State Health Care Authority
P.O. Box 42683
Olympia, WA 98504-2683

Re: 2010 Basic Health Benchmark Rates

Dear Christy:

Milliman has completed the development of proposed Basic Health benchmark rates for calendar year 2010. The attached exhibit summarizes the benchmark rates and the geographic area assignments by county. This letter documents the specific changes and the process used to arrive at these recommended rates.

The information contained in this letter, including the enclosure, has been prepared for the Washington State Health Care Authority. 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 the Health Care Authority 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 Washington capitation rates, assumptions and trends.

Process and Recommendations

This analysis relied upon financial results provided by each of the participating health plans for calendar year 2008, as well as enrollment data provided by the Health Care Authority. Projected 2010 medical loss ratios were computed by plan and by county using the health plan experience and adjusting for the following:

- ◆ An assumed annual claim trend rate of 6.9% per year from 2008 to 2010. Trend rates by major category of service were taken from the Milliman Health Cost Index which analyzes trends in provider reimbursements. These trends were weighted by the distribution of costs for the Basic Health population as follows:

	Distribution	Trend
Hospital Inpatient	27.8%	6.2%
Hospital Outpatient	20.6%	8.7%
Professional	38.8%	6.7%
Prescription Drugs	10.3%	5.3%
Other	2.5%	8.9%
Total	100.0%	6.9%

- ◆ Actual premium changes from 2008 to 2009.
- ◆ The base experience reported by the health plans for calendar year 2008 includes the DME benefit enhancement that was removed for 2009, which was valued at a reduction of 0.4%. Waiving the 9-month diabetes pre-existing condition waiting period was valued at an increase of 0.2%.
- ◆ Removal of the Dual Eligible population (a -5% impact to expected claims). Based on claims data provided by Community Health Plan of Washington and specific identification of dually eligible members scheduled for disenrollment, we computed a cost relativity of those members to the average. The data sampling process identified 2,161 duals in the historical claim data. Removal of this population from the risk pool decreases the average cost of the remaining population by 6.4%. We dampened the reduction to 5.0% recognizing that the sampling process is not comprehensive. The table below provides additional detail.

Impact of Removing Dual Eligibles from the Basic Health Population

Age Bands	May 2009 Enrollment	Dual Disenrollment	Relative Costs of Duals
Child	9,016	2,055	1.20
< 39	41,259	1,774	2.74
40-54	31,495	937	3.32
55-64	16,268	519	2.58
65+	1,547	56	1.87
Total	99,585	5,341	1.92

- ◆ 2.4% cost reduction for the deductible increase from \$150 to \$250.

Using the projected loss ratio information and an assumed target medical loss ratio of 87%, we are recommending the following changes:

1. The area letter assignment is increased for thirteen counties, resulting in a greater rate for these counties:

<u>County</u>	<u>2009 Area</u>	<u>2010 Area</u>
Benton	A	B
Cowlitz	E	F
Franklin	A	B
Grays Harbor	D	E
Island	B	C
King	A	B
Mason	E	F
Skagit	B	C
Snohomish	C	D
Stevens	C	D
Wahkiakum	D	E
Whatcom	B	C
Yakima	B	C

2. The area letter assignment was decreased for five counties, resulting in a lower rate for each of these counties:

<u>County</u>	<u>2008 Area</u>	<u>2009 Area</u>
Clark	D	C
Ferry	B	A
Jefferson	D	C
Skamania	D	C

3. In addition to these letter assignment changes, rate increases varied by geographic letter category:

<u>Area</u>	<u>2009 Rate</u>	<u>2010 Rate</u>	<u>Rate Change</u>
A	\$230.42	\$207.95	-9.8%
B	\$246.56	\$222.52	-9.8%
C	\$261.96	\$238.91	-8.8%
D	\$273.71	\$252.22	-7.9%
E	\$290.82	\$276.28	-5.0%
F		\$293.03	New

4. In composite, the Basic Health benchmark rates are decreased by 5.7% for 2010 compared to 2009 capitation rates. This includes rate changes by geographic area letter, county designation changes, covered population revisions and benefit changes.

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We gave consideration to the increases in member premium requirements across all income levels being proposed for CY 2010. We are aware of several examples of the response of low income populations to premium increases. Some examples do in fact show that healthier members are more likely to drop coverage resulting in an adverse effect on the remaining risk pool. However, in each of these cases, we found that members were going from paying no premium to paying a modest premium, or the members had other lower cost options available. In situations where the members were already paying a premium and no lower cost alternative was available, we have not found evidence of such a deterioration in the risk pool. Therefore, while we do expect a reduction in the number of members participating in Basic Health due to the premium increase, we have not assumed any change in the average health status for the remaining risk pool.

We recommend holding the HCTC rate differential fixed at the current level of \$15.38 for CY 2010. The HCTC data provided by the health plans lacks credibility but shows consistent profitability.

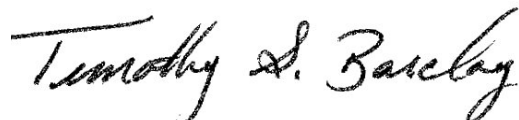
We believe the rates have been established by county in a manner that will encourage existing benchmark plans to remain benchmark plans. However, it should be noted that this analysis does not consider unique network issues that may exist in select areas that could result in disruption to the Basic Health network. Therefore, it continues to be important that we preserve the flexibility in our procurement model to seek benchmark plans in any counties without a benchmark bidder after the initial bid submission.

Historical and projected loss ratios by plan and by county have generally been considered confidential. Therefore, we have not included this level of detail in this letter. However, we can discuss this information should you so desire.

As mentioned above, we have relied extensively on the financial statements provided by the health plans in the rate development process. While we have examined this data for reasonableness, we have not performed any independent audit. Errors in the financial data would distort the results of our analysis and could adversely impact the procurement process.

Please let me know if you have any questions.

Sincerely,



Timothy S. Barclay, FSA, MAAA
Consulting Actuary

/kcp
Attachment

MILLIMAN, INC.

Basic Health CY 2010 Rate Summary

County	CY 2010		CY 2009		Percent Change
	Area	Bmark	Area	Bmark	
Adams	A	\$207.95	A	\$230.42	-9.8%
Asotin	E	\$276.28	E	\$290.82	-5.0%
Benton	B	\$222.52	A	\$230.42	-3.4%
Chelan	B	\$222.52	B	\$246.56	-9.8%
Clallam	E	\$276.28	E	\$290.82	-5.0%
Clark	C	\$238.91	D	\$273.71	-12.7%
Columbia	E	\$276.28	E	\$290.82	-5.0%
Cowlitz	F	\$293.03	E	\$290.82	0.8%
Douglas	B	\$222.52	B	\$246.56	-9.8%
Ferry	A	\$207.95	B	\$246.56	-15.7%
Franklin	B	\$222.52	A	\$230.42	-3.4%
Garfield	E	\$276.28	E	\$290.82	-5.0%
Grant	A	\$207.95	A	\$230.42	-9.8%
Grays Harbor	E	\$276.28	D	\$273.71	0.9%
Island	C	\$238.91	B	\$246.56	-3.1%
Jefferson	C	\$238.91	D	\$273.71	-12.7%
King	B	\$222.52	A	\$230.42	-3.4%
Kitsap	D	\$252.22	D	\$273.71	-7.9%
Kittitas	A	\$207.95	A	\$230.42	-9.8%
Klickitat	E	\$276.28	E	\$290.82	-5.0%
Lewis	E	\$276.28	E	\$290.82	-5.0%
Lincoln	B	\$222.52	B	\$246.56	-9.8%
Mason	F	\$293.03	E	\$290.82	0.8%
Okanogan	B	\$222.52	B	\$246.56	-9.8%
Pacific	E	\$276.28	E	\$290.82	-5.0%
Pend Oreille	B	\$222.52	B	\$246.56	-9.8%
Pierce	D	\$252.22	D	\$273.71	-7.9%
San Juan	A	\$207.95	A	\$230.42	-9.8%
Skagit	C	\$238.91	B	\$246.56	-3.1%
Skamania	C	\$238.91	D	\$273.71	-12.7%
Snohomish	D	\$252.22	C	\$261.96	-3.7%
Spokane	A	\$207.95	A	\$230.42	-9.8%
Stevens	D	\$252.22	C	\$261.96	-3.7%
Thurston	D	\$252.22	D	\$273.71	-7.9%
Wahkiakum	E	\$276.28	D	\$273.71	0.9%
Walla Walla	A	\$207.95	A	\$230.42	-9.8%
Whatcom	C	\$238.91	B	\$246.56	-3.1%
Whitman	B	\$222.52	B	\$246.56	-9.8%
Yakima	C	\$238.91	B	\$246.56	-3.1%
HCTC	All	\$15.38	All	\$15.38	0.0%
Composite (1)		\$235.39		\$249.64	-5.7%

(1) Based on 5/09 membership.