

2004 through March 2005 for pharmacy services. Some plans raised a concern that the available data, which covers less than a full 12 month period, reflects a time period in which their average costs were typically lower for the OHP Standard population than the remainder of the year.

Given that the OHP Standard population has undergone significant changes in its composition, size, and benefits over the past couple of years, analysis of recent OHP Standard experience to determine whether consistent seasonal cost patterns exist is not possible. Therefore, we analyzed OHP Standard experience back to July 1999 as well as the experience of two proxy populations -- TANF Adults and ABAD without Medicare -- to determine whether a seasonality adjustment may be warranted. By broad category of service, we analyzed costs, represented by average billed charges per member per month (PMPM), for the calendar months used in developing the rebased capitation rates and compared it to the costs for the remainder of the 12 month period (i.e., for non-pharmacy services, we compared the PMPM for the August-December period to the January-July period). We found that after trend was considered, there was little, if any, consistency in the relationship between costs for the rebasing months compared to the remainder of the 12 month period. Therefore, we do not believe that a seasonality adjustment is warranted.

Exhibits 2a-2g (OHP Standard) and 3a-3g (TANF and ABAD) provide visual displays of the billed charge PMPM by month, as well as the average billed charge PMPM for the various time periods. Note that some discontinuities exist when encounter data underlying different biennial per capita cost periods are used due to changes in data quality and content.

Reevaluation of OHP Standard Costs

Due to the continuing changes in the OHP Standard population and the limited data period available for rebasing the OHP Standard capitation rates for January 2006, DHS has agreed to perform an additional rebasing exercise for the January 2007 capitation rates.

Adjustment to Administration Allowance in Dual Eligible Rates

Due to the January 1, 2006 implementation of Medicare coverage of nearly all prescription drugs for Dual Eligibles, the continued application of an 8% administration allowance (13.34% when adjusted for OHP-specific administrative requirements) in the development of the Dual Eligible capitation rates would result in a significant reduction in funding for FCHP administrative services. Health plans noted that they did not expect their administrative costs to decrease at the same level as the decrease in health care costs. To address this concern, we developed modified administration allowances to apply in the development of FCHP and PCO capitation rates for the Dual Eligible rate categories. The administration allowances for CDOs, MHOs, and DCOs are unaffected since their capitation rates do not include Medicare Prescription Drug coverage.

To develop the modified administration allowances, we used the following process:

1. We calculated the capitation rates as if the Medicare drug coverage had not been enacted. (Column A of the attached exhibit.)
2. We determined the PMPM value of the administration allowance at 8% based on the capitation rates from Step 1. (Columns B through F.)
3. We adjusted the administration allowance calculated in Step 2 by a PMPM amount equal to 2% of the value of the prescription drugs carved out of the capitation rate as a result of the new Medicare coverage and changes in OMAP coverage. This amount is based on analyses performed in other states when prescription drugs were carved out of capitation contracts. (Column G.)
4. We calculated revised administration allowances based on the results of Step 3 and the projected service costs, net of the prescription drug carve out. (Columns H through K.)

The calculation of the revised administration allowances are shown in Exhibits 4a and 4b for FCHPs and PCOs, respectively. Exhibits 5a and 5b show the impact on the statewide capitation rates for FCHPs and PCOs, respectively. Overall FCHP rates increase by an average of 0.7% as a result of this adjustment. The comparable adjustment for PCOs is 0.9%.

Revision of Estimated Costs for ENCC Services

The amounts included in the capitation rates for Exceptional Needs Care Coordination (ENCC) were developed by OMAP staff several years ago. Current costs for these services are not well understood since utilization information is not captured within the MMIS and other sources are not well developed. DHS is committed to investigating methods for revising the estimated cost for ENCC services in conjunction with the development of the 2007-2009 per capita costs. No adjustment to the ENCC cost estimates is anticipated for the 2005-2007 biennium.

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Please let me know if you have questions regarding this memo or the attached capitation rates. I can be reached at 415-498-5636 or peter.b.davidson@us.pwc.com.

OREGON HEALTH PLAN: MEDICAID DEMONSTRATION

EXHIBIT 1

OHP Standard Capitation Rate Development - January 2006 Effective Date

IBNR Adjustment

Incurred period : 8/1/2004 ~ 12/31/2004

I. Total Billed Amount (With CHECK_DT THRU 8/19/2005)

Category of Service	OHPAC	OHPFAM	Grand Total
Inpatient	\$16,382,985	\$1,743,282	\$18,126,267
Outpatient	\$15,813,609	\$3,065,276	\$18,878,884
Physician and Other	\$23,238,508	\$4,165,845	\$27,404,353
Dental	\$592,132	\$205,038	\$797,170
Mental Health	\$4,111,734	\$375,064	\$4,486,798
Grand Total	\$60,138,968	\$9,554,504	\$69,693,472

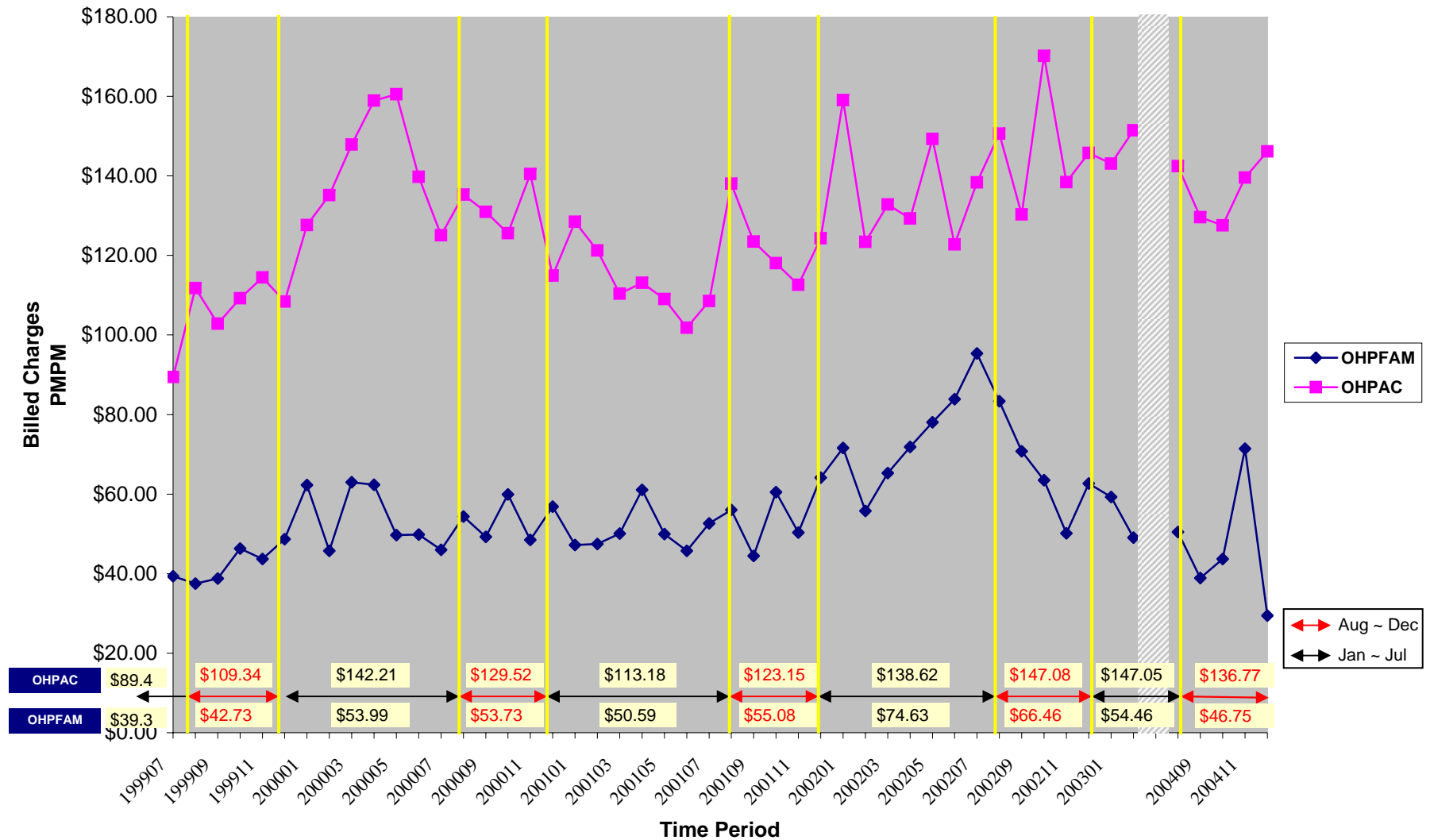
II. Total Billed Amount (With CHECK_DT 8/26/2005-10/14/1005)

Category of Service	OHPAC	OHPFAM	Grand Total
Inpatient	\$438,377	\$16,146	\$454,523
Outpatient	\$24,106	\$3,217	\$27,323
Physician and Other	\$115,592	\$17,774	\$133,366
Dental	\$145	\$0	\$145
Mental Health	\$28,715	\$6,655	\$35,370
Grand Total	\$606,935	\$43,793	\$650,727

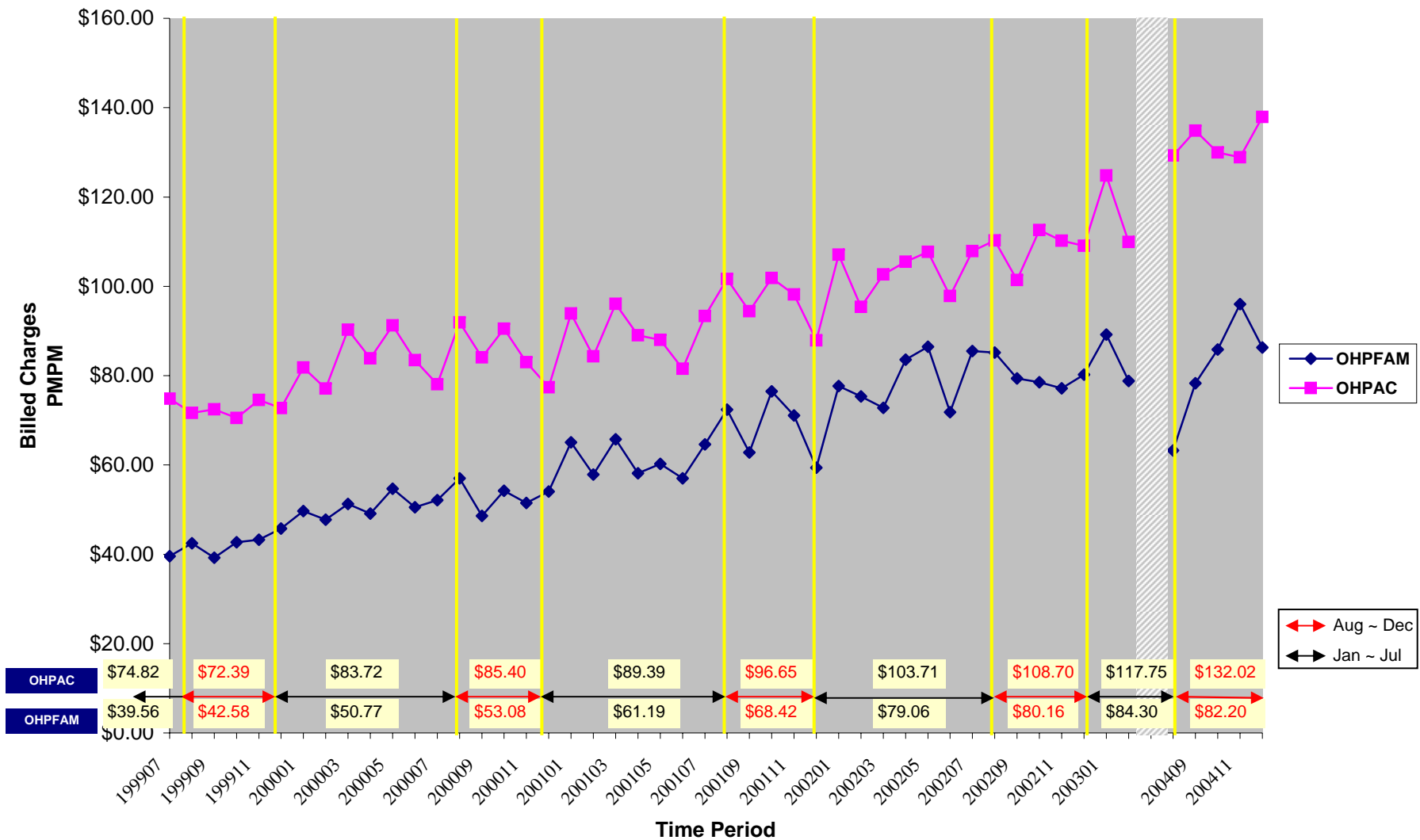
III. IBNR Adjustment

Category of Service	OHPAC	OHPFAM	Grand Total
Inpatient	1.027	1.009	1.025
Outpatient	1.002	1.001	1.001
Physician and Other	1.005	1.004	1.005
Dental	1.000	1.000	1.000
Mental Health	1.007	1.018	1.008
Grand Total	1.010	1.005	1.009

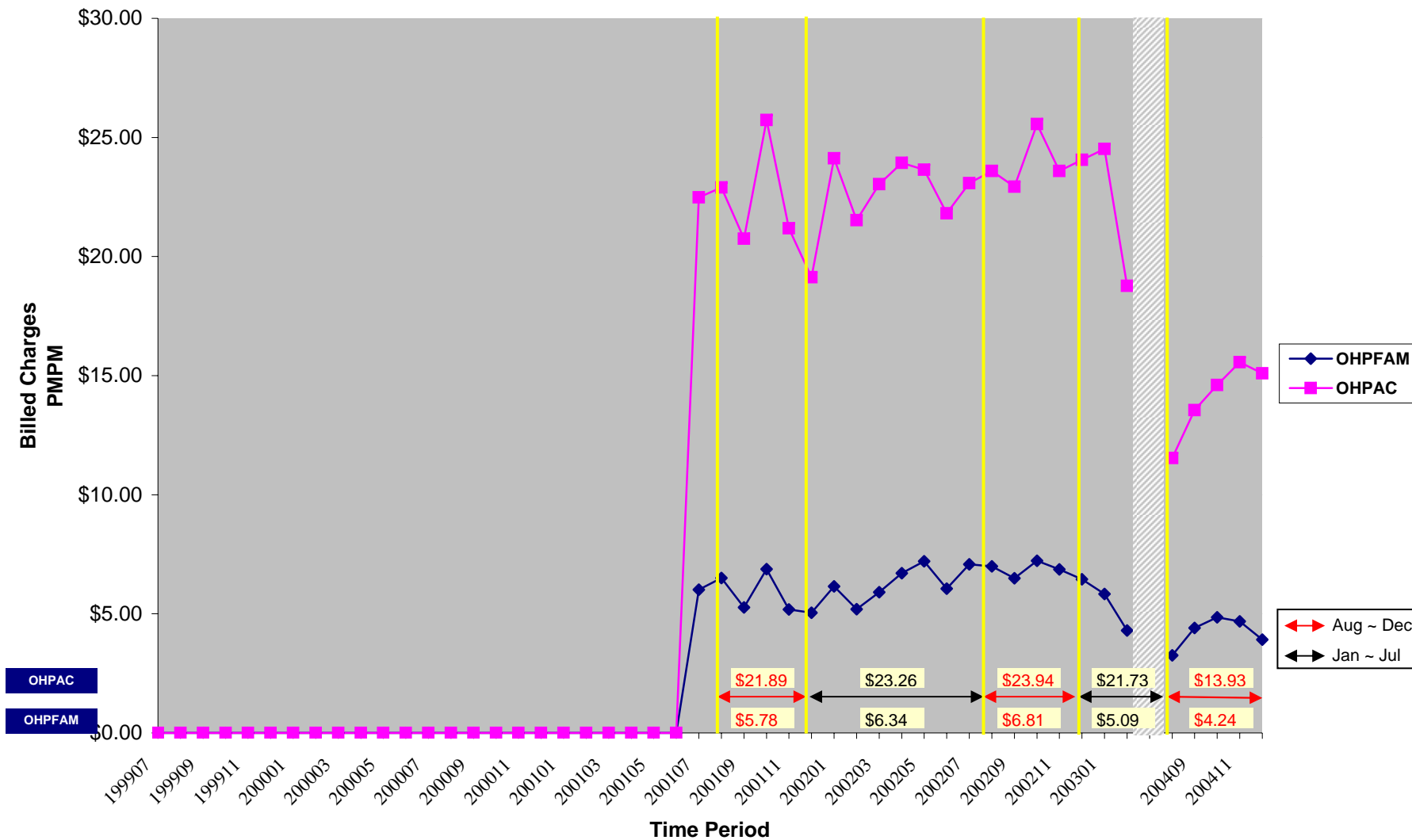
Inpatient Billed Charges PMPM Changes for OHPAC and OHPFAM



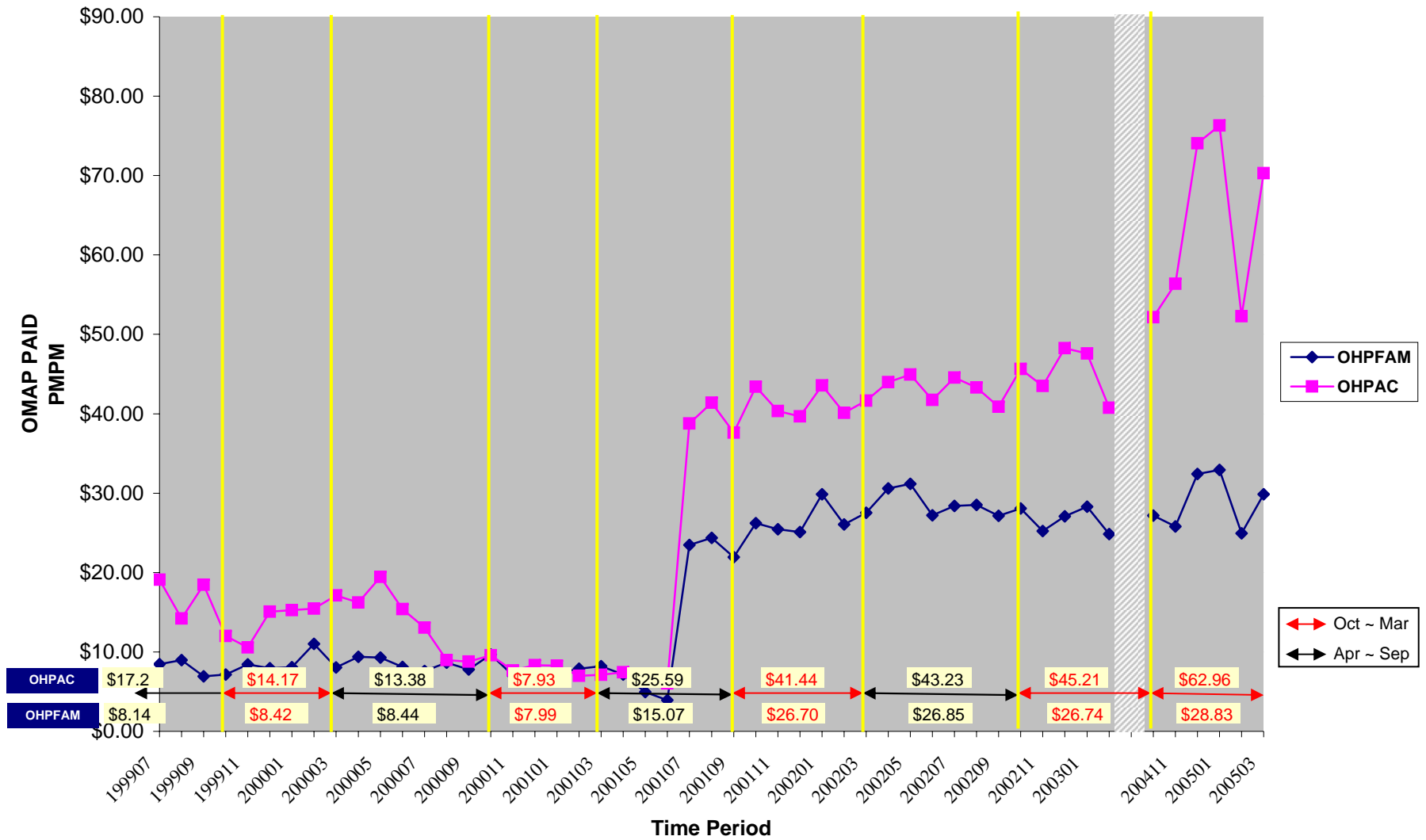
Outpatient Billed Charges PMPM Changes for OHPAC and OHFAM



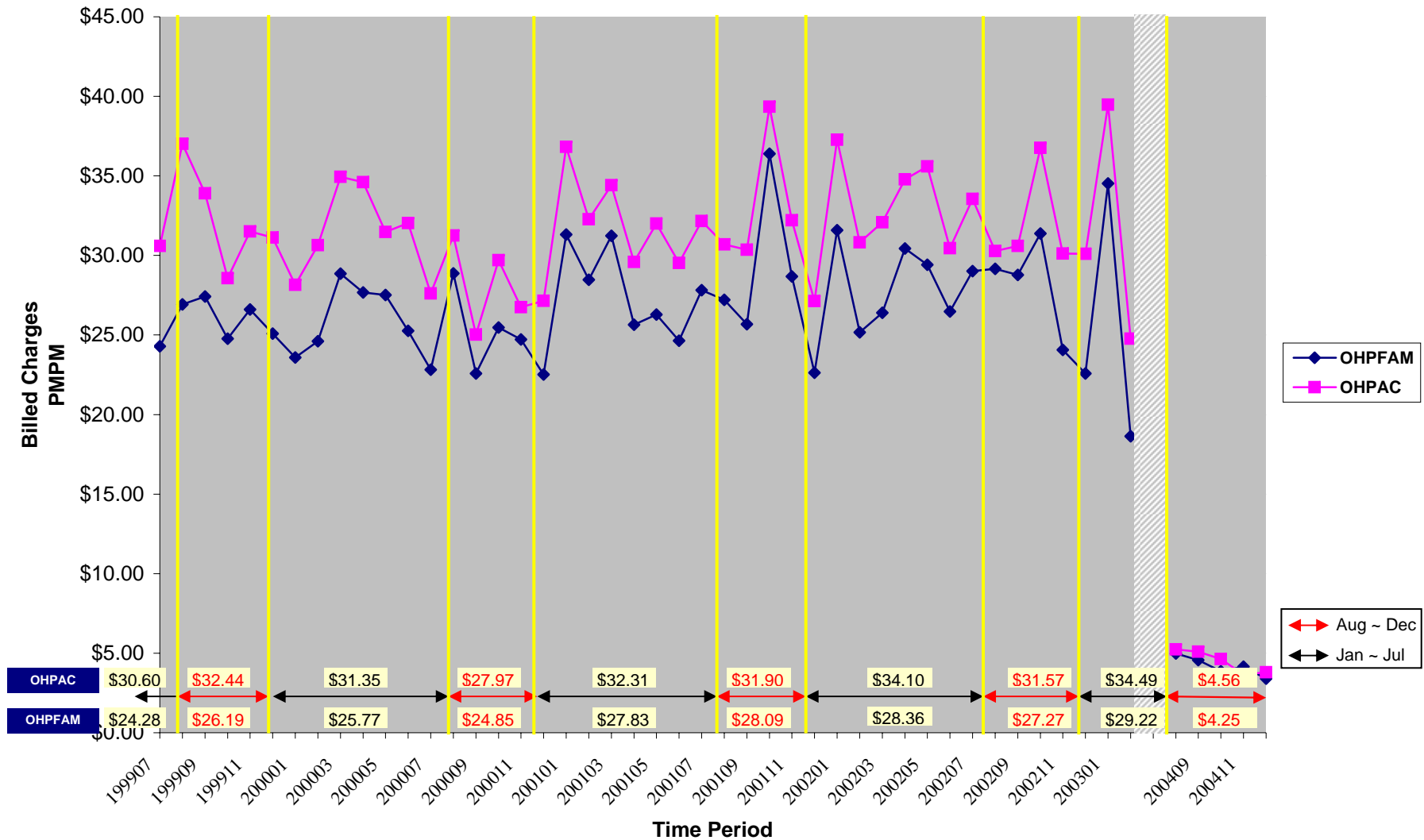
Chemical Dependency Billed Charges PMPM Changes for OHPAC and OHFAM



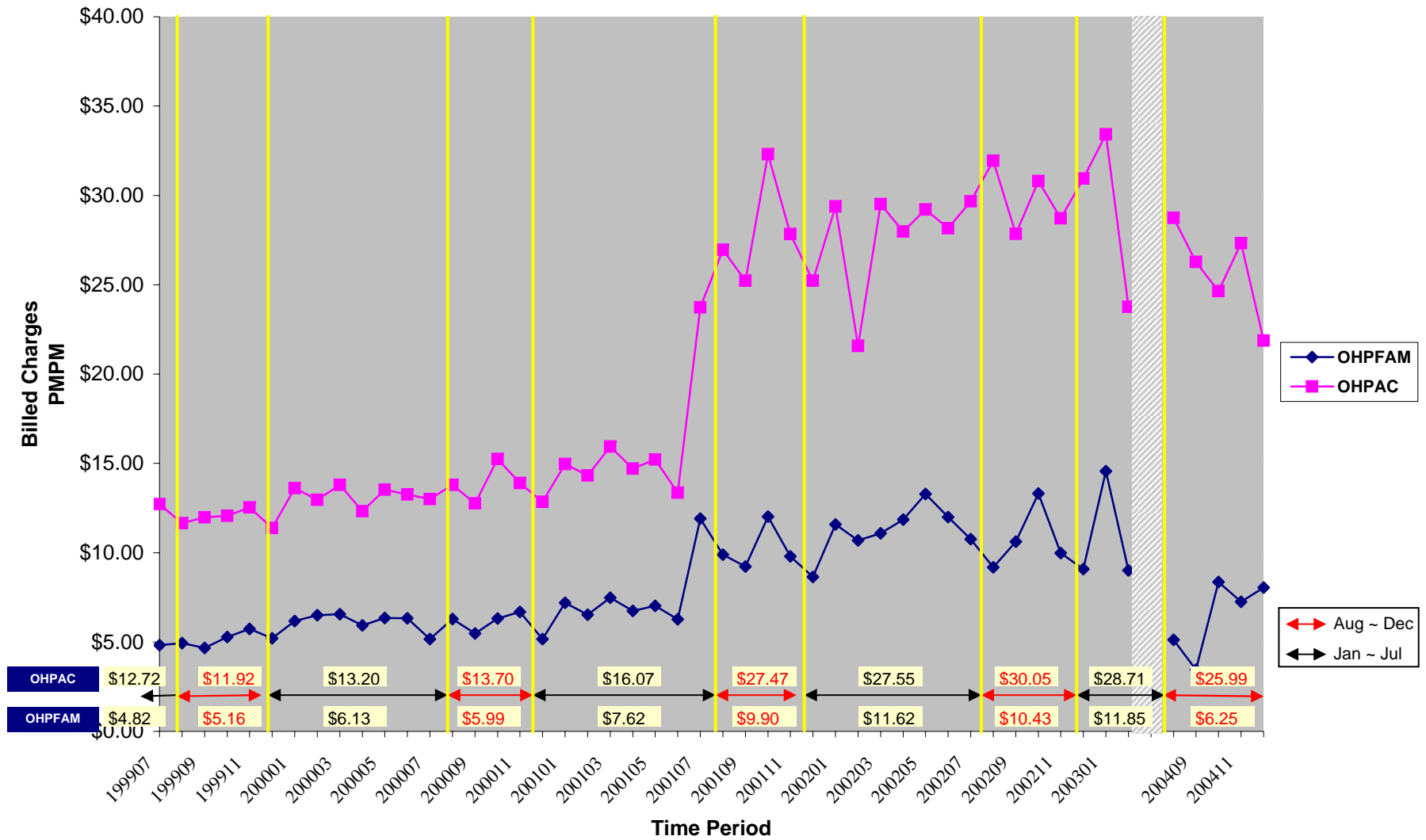
Prescription Drugs - Basic /FP OMAP Paid PMPM Changes for OHPAC and OHPFAM



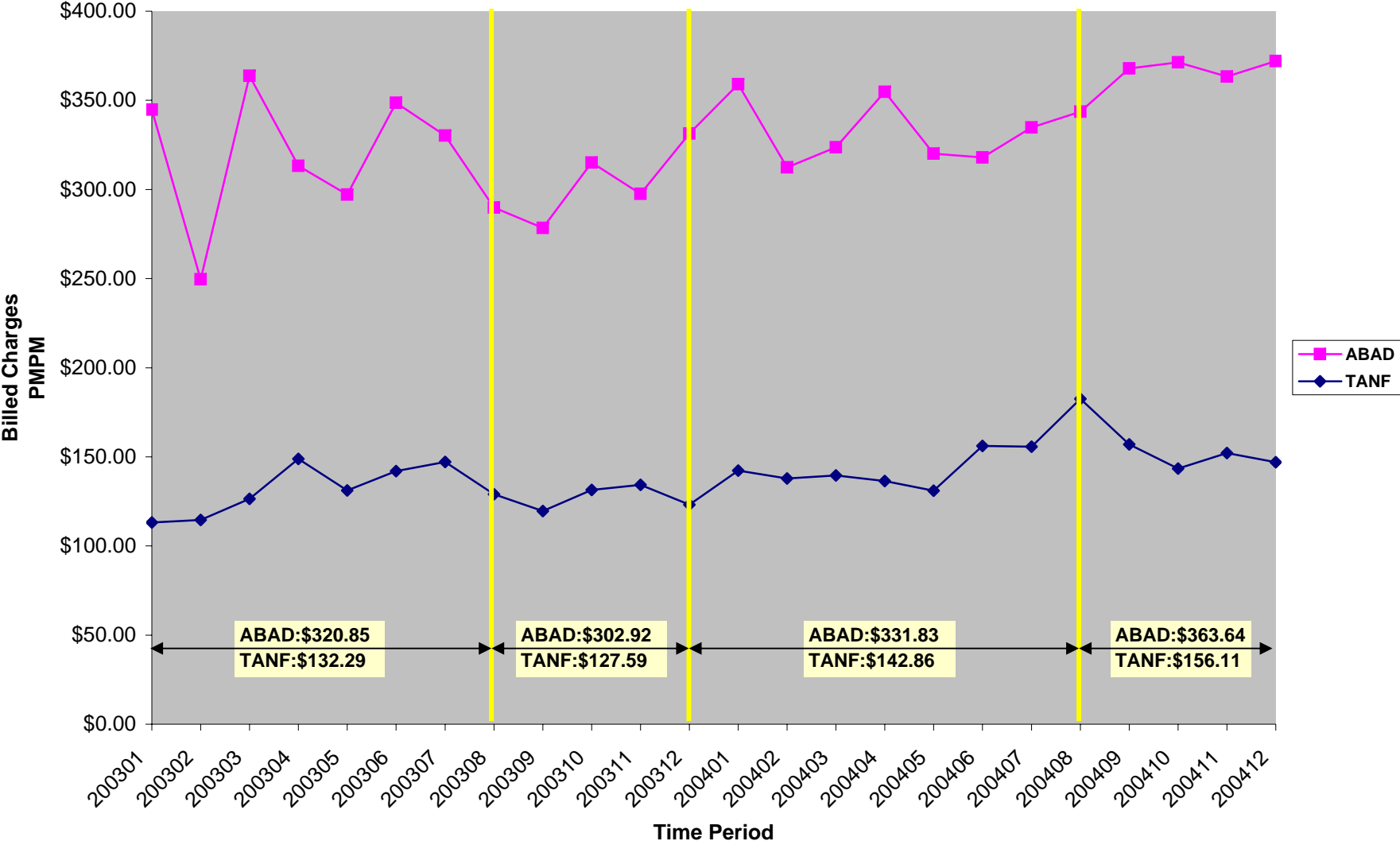
Dental Billed Charges PMPM Changes for OHPAC and OHFAM



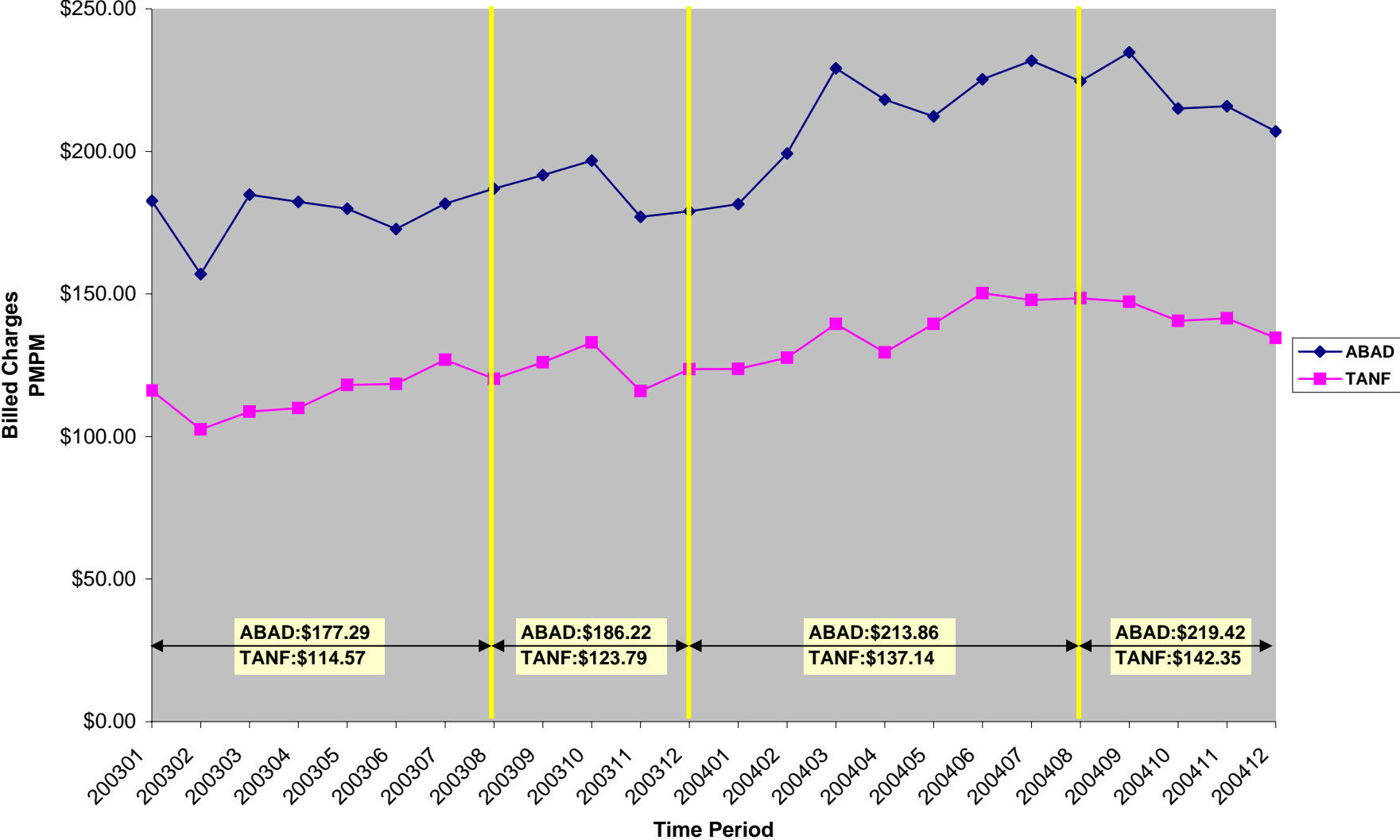
Mental Health Billed Charges PMPM Changes for OHPAC and OHPFAM



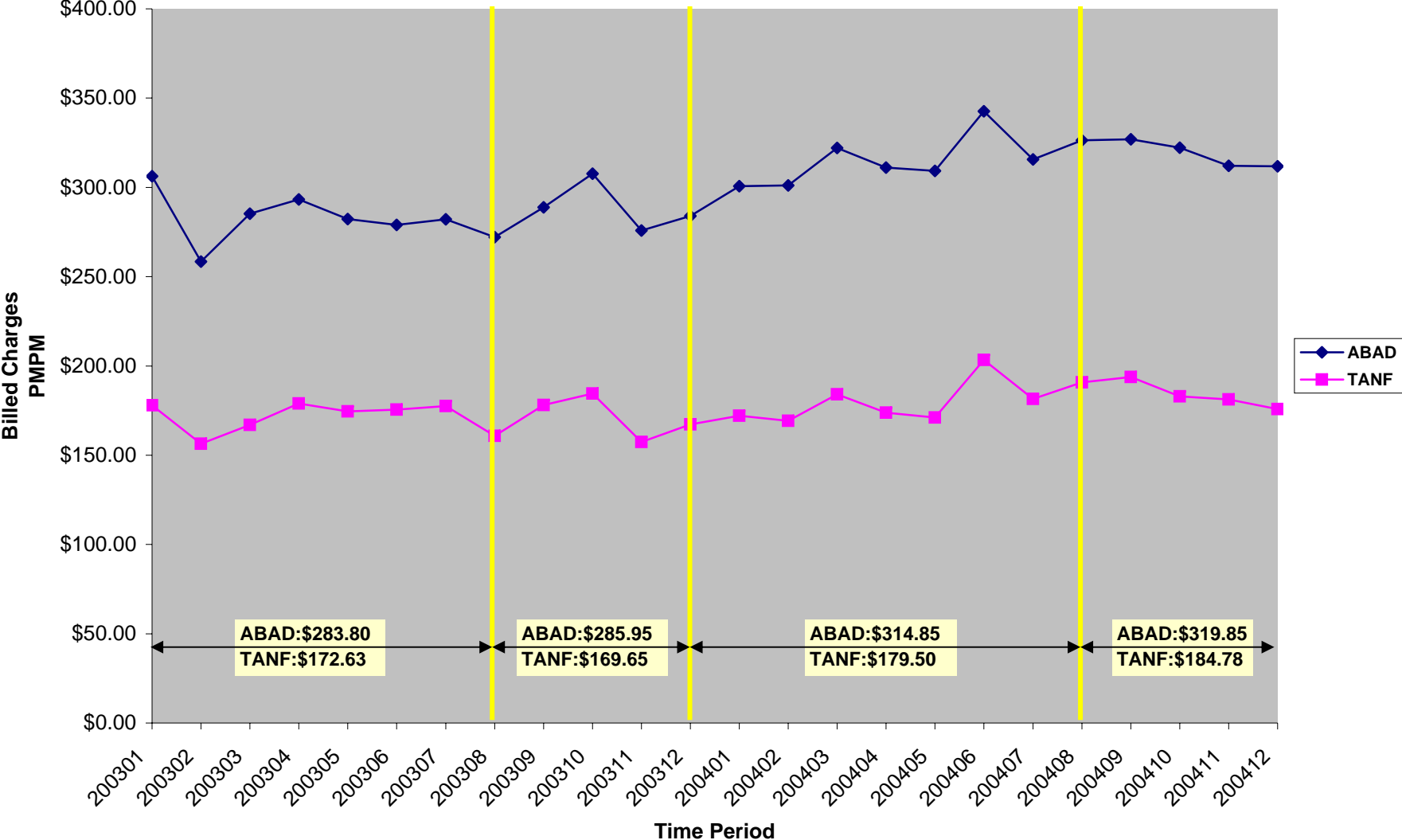
Inpatient Billed Charges PMPM Changes for TANF and ABAD



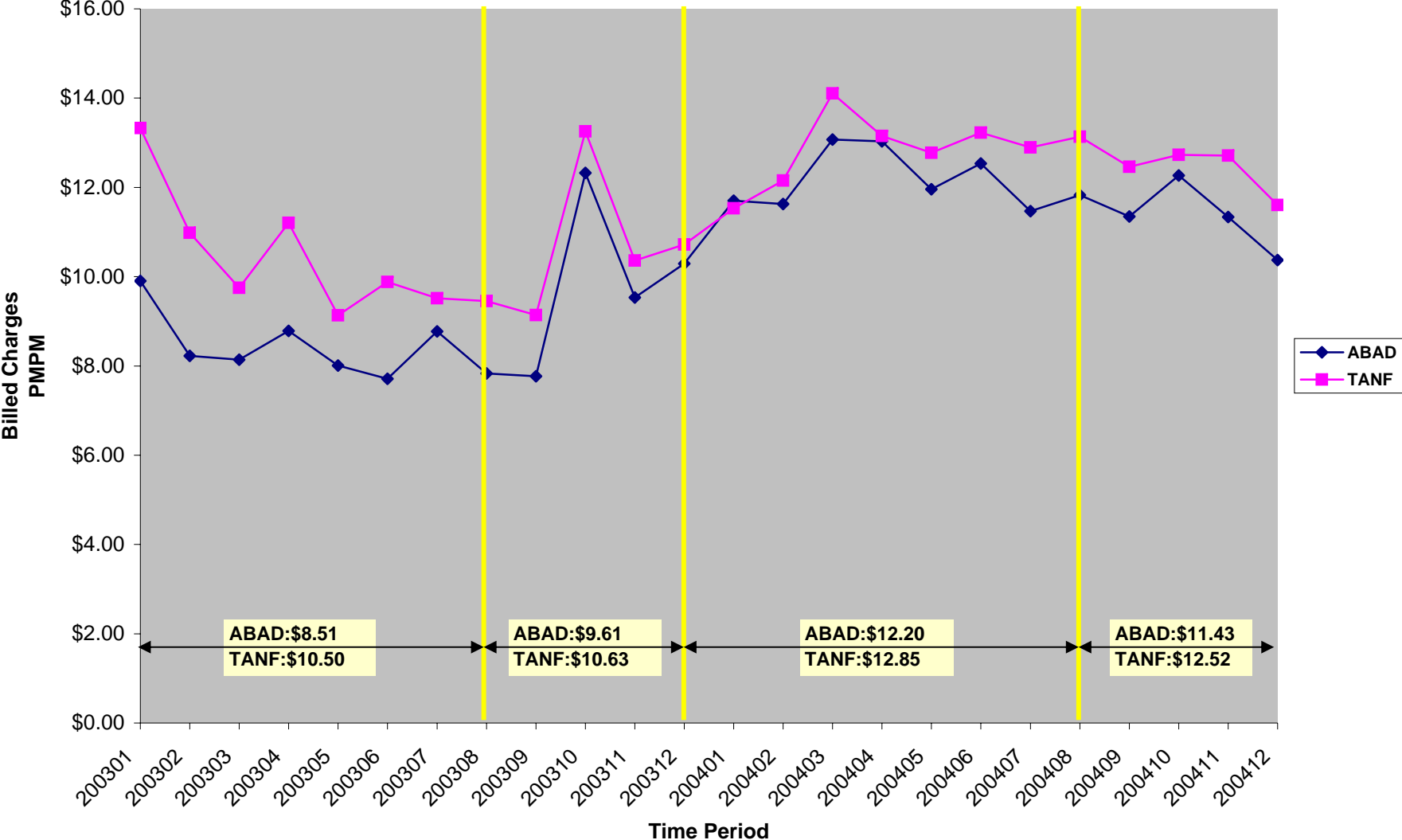
Outpatient Billed Charges PMPM Changes for TANF and ABAD



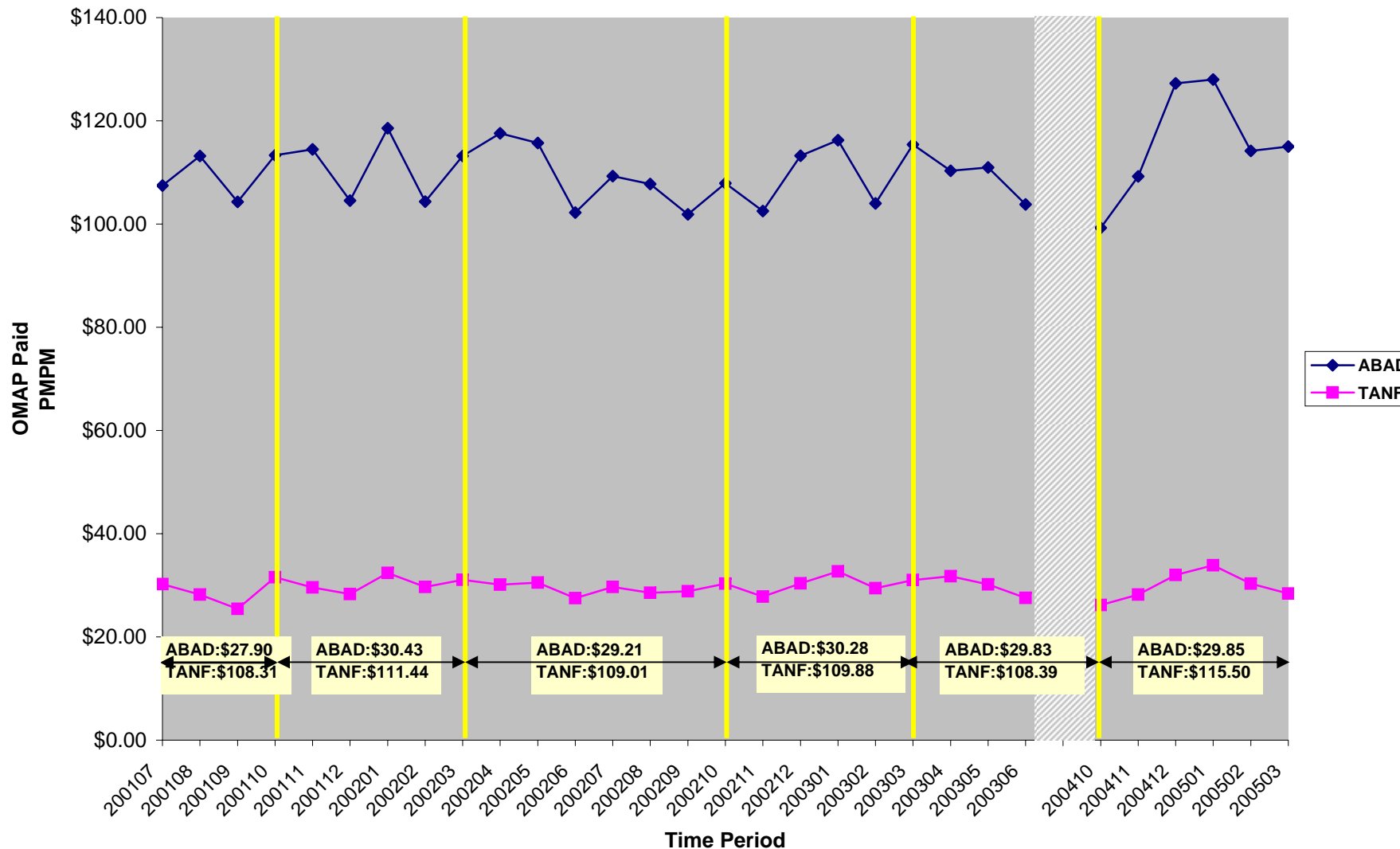
Physician and Others Billed Charges PMPM Changes for TANF and ABAD



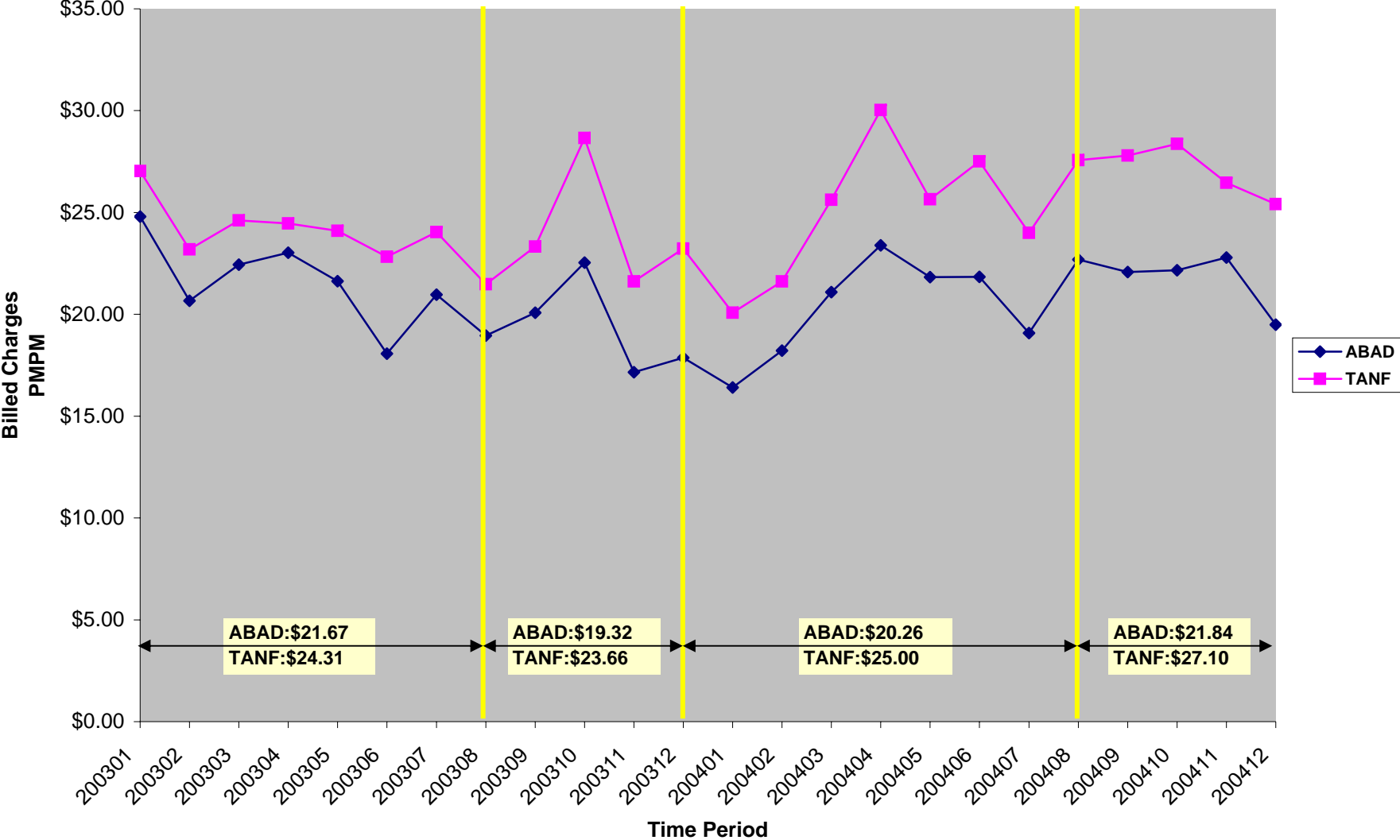
Chemical Dependency Billed Charges PMPM Changes for TANF and ABAD



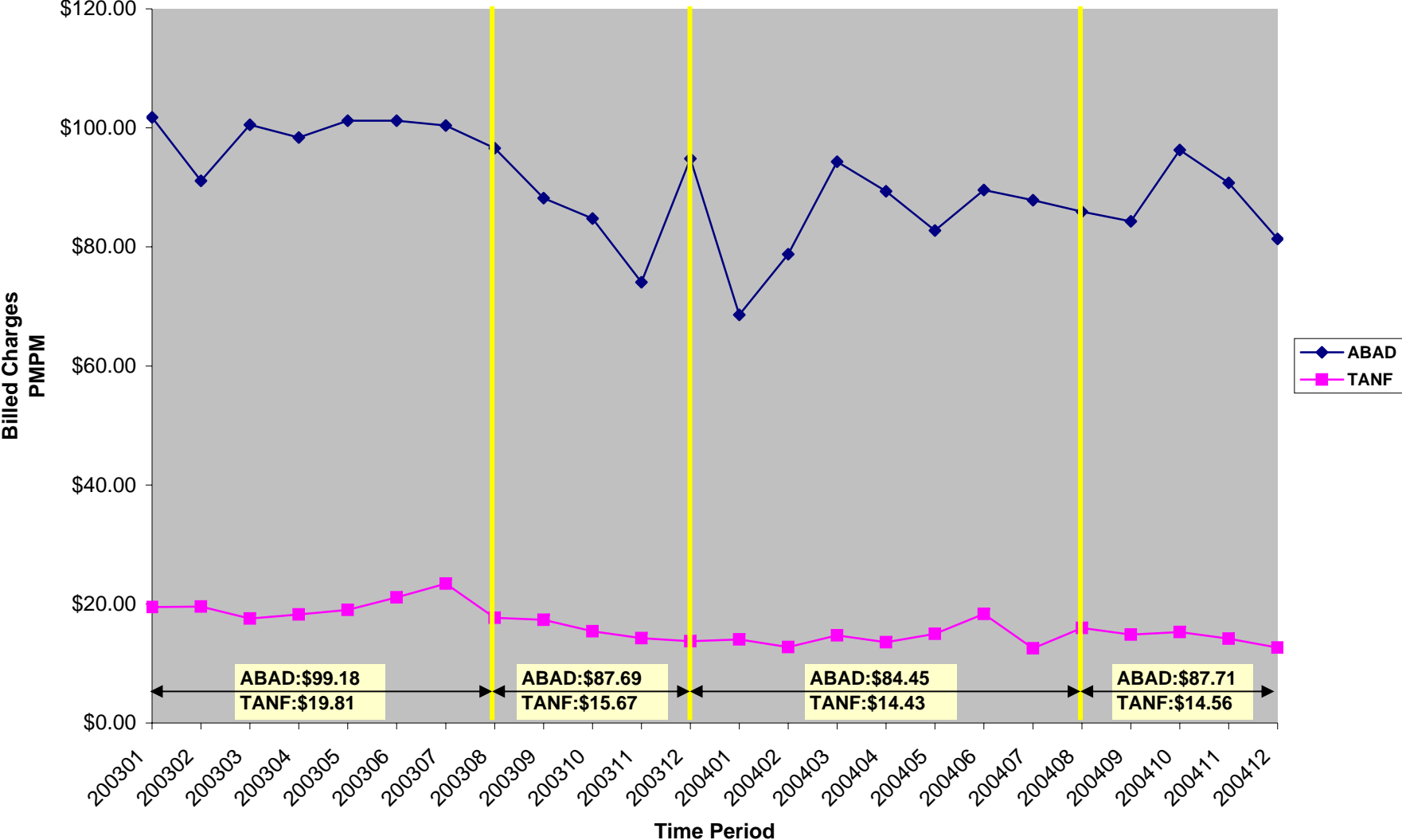
Pharmacy OMAP Paid PMPM Changes for TANF and ABAD



Dental Billed Charges PMPM Changes for TANF and ABAD



Mental Health Billed Charges PMPM Changes for TANF and ABAD



**Oregon Health Plan
Development of Revised Administration Allowance for Dual Eligibles - FCHP**

Exhibit 4a

Assuming FCHP Admin Costs Equal 2% of Carved Out Drug Costs

	A	B = A * (1-0.08) * (1- 0.058)	C	D = B + C	E = (D / (1-0.08)) / (1-0.058)	F = 0.08 * E * (1 - 0.058)	G = 0.02 * C	H = (B + F - G) / (1 - 0.058)	I = H - A	J = (F - G) / (H * (1 - 0.058))	K = 1 - B / H
	Projected 2006 FCHP Claim costs (w/o Maternity & Mat Mgmt)										
	Draft FCHP Cap Rates, Net of Part D Carveout, w/ 8% Admin, 5.8% MCO Tax	Net of Part D Carveout	Part D Carveout	Total	Cap Rates before Part D Carveout, w/ 8% admin & 5.8% MCO tax	Admin PMPM @ 8% of Cap Rate before Part D Carveout	Assumed FCHP Admin Cost on Carved Out Drugs	Revised Cap Rate using PMPM Admin, Net of Admin Cost on Carved Out Drugs, & 5.8% MCO tax	PMPM Increase in Cap Rates	Admin % using Fixed Admin PMPM less Plan Admin on Carved Out Drugs	Total Admin % including 5.8% MCO Tax
ABAD w/ Med	\$122.41	\$106.09	\$ 227.44	\$333.53	\$384.85	\$29.00	\$4.55	\$138.58	\$16.17	18.7%	23.42%
OAA w/ Med	\$134.61	\$116.66	\$ 194.44	\$311.10	\$358.97	\$27.05	\$3.89	\$148.43	\$13.82	16.6%	21.44%

**Oregon Health Plan
Development of Revised Administration Allowance for Dual Eligibles - PCO**

Exhibit 4b

Assuming FCHP Admin Costs Equal 2% of Carved Out Drug Costs

	A	$B = A * (1-0.08) * (1-0.058)$	C	$D = B + C$	$E = (D / (1-0.08)) / (1-0.058)$	$F = 0.08 * E * (1 - 0.058)$	$G = 0.02 * C$	$H = (B + F - G) / (1 - 0.058)$	$I = H - A$	$J = (F - G) / (H * (1 - 0.058))$	$K = 1 - B / H$
	Projected 2006 FCHP Claim costs (w/o Maternity & Mat Mgmt)										
	Draft FCHP Cap Rates, Net of Part D Carveout, w/ 8% Admin, 5.8% MCO Tax	Net of Part D Carveout	Part D Carveout	Total	Cap Rates before Part D Carveout, w/ 8% admin & 5.8% MCO tax	Admin PMPM @ 8% of Cap Rate before Part D Carveout	Assumed FCHP Admin Cost on Carved Out Drugs	Revised Cap Rate using PMPM Admin, Net of Admin Cost on Carved Out Drugs, & 5.8% MCO tax	PMPM Increase in Cap Rates	Admin % using Fixed Admin PMPM less Plan Admin on Carved Out Drugs	Total Admin % including 5.8% MCO Tax
ABAD w/ Med	\$104.71	\$90.74	\$ 227.44	\$318.19	\$367.15	\$27.67	\$4.55	\$120.87	\$16.17	20.3%	24.92%
OAA w/ Med	\$103.46	\$89.66	\$ 194.44	\$284.10	\$327.82	\$24.70	\$3.89	\$117.28	\$13.82	18.8%	23.51%

Oregon Health Plan Medicaid Demonstration
Statewide Capitation Rates Effective January 1, 2006 - December 31, 2006
Physical Health Capitation Rates
Excluding Maternity Management and Including the value of the Maternity Case Rates

Program	Eligibility Category	With 13.34% Admin	w/ Revised Admin for Duals, 2% Rx Admin offset	% Change
OHP Plus	TANF Adults	\$311.54	\$311.54	0.0%
	PLM Adults	\$896.12	\$896.12	0.0%
	PLM, CHIP, or TANF Children Aged 0-1	\$385.23	\$385.23	0.0%
	PLM, CHIP, or TANF Children Aged 1-5	\$78.11	\$78.11	0.0%
	PLM, CHIP, or TANF Children Aged 6-18	\$71.38	\$71.38	0.0%
	AB/AD with Medicare	\$122.41	\$138.58	13.2%
	AB/AD without Medicare	\$640.42	\$640.42	0.0%
	OAA with Medicare	\$134.61	\$148.43	10.3%
	OAA without Medicare	\$483.51	\$483.51	0.0%
	SCF Children	\$132.05	\$132.05	0.0%
OHP Plus Weighted Average		\$213.82	\$215.46	0.8%
OHP Standard *	OHP Families	\$197.23	\$197.23	0.0%
	OHP Adults and Couples	\$411.24	\$411.24	0.0%
	OHP Standard Weighted Average		\$351.20	\$351.20
Overall Weighted Average - August 2005 population		\$223.72	\$225.24	0.7%

Oregon Health Plan Medicaid Demonstration
Statewide Capitation Rates Effective January 1, 2006 - December 31, 2006
Physical Health Capitation Rates - PCO
Excluding Maternity Management and Including the value of the Maternity Case Rates

Program	Eligibility Category	With 13.34% Admin	w/ Revised Admin for Duals, 2% Rx Admin offset	% Change
OHP Plus	TANF Adults	\$235.66	\$235.66	0.0%
	PLM Adults	\$493.69	\$493.69	0.0%
	PLM, CHIP, or TANF Children Aged 0-1	\$184.24	\$184.24	0.0%
	PLM, CHIP, or TANF Children Aged 1-5	\$68.79	\$68.79	0.0%
	PLM, CHIP, or TANF Children Aged 6-18	\$61.29	\$61.29	0.0%
	AB/AD with Medicare	\$104.71	\$120.87	15.4%
	AB/AD without Medicare	\$468.68	\$468.68	0.0%
	OAA with Medicare	\$103.46	\$117.28	13.4%
	OAA without Medicare	\$349.10	\$349.10	0.0%
	SCF Children	\$111.27	\$111.27	0.0%
OHP Plus Weighted Average		\$154.54	\$156.18	1.1%
OHP Standard *	OHP Families	\$164.97	\$164.97	0.0%
	OHP Adults and Couples	\$304.43	\$304.43	0.0%
	OHP Standard Weighted Average		\$265.31	\$265.31
Overall Weighted Average - August 2005 population		\$162.52	\$164.04	0.9%