

November 10, 2009

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Ms. Margaret Liston
Chief, Financial Management Section
California Department of Health Care Services
Medi-Cal Managed Care Division
1501 Capital Avenue, PO Box 997413
MS 4400
Sacramento, CA 95899-7413

Amendment to Original Certification Dated July 23, 2009

Subject: Amendment to Two-Plan Model Contract Year 2010 Rate Range Development and Certification

Dear Ms. Liston:

The California Department of Health Care Services (DHCS) contracted with Mercer Government Human Services Consulting (Mercer), part of Mercer Health & Benefits LLC, to develop actuarially sound capitation rate ranges for use during the contract year 2010 Two-Plan contract period. The 2010 Two-Plan contract period began October 1, 2009, and will end September 30, 2010. The original certification contained a section on page seven related to program changes. CMS has requested an update to the certification letter for clarification on the application of program changes. The purpose of this amendment to the original certification is to fulfill that request.

The program change section of the original certification detailed the program changes that had been incorporated during the development of the rates. The program changes were reflective of the known rating impacts as of March 2009. This timeframe is listed within the provider payment reduction description; however, it was not listed out specifically for all of the program changes.

The reason the program changes are only reflective of events through March 2009 is because of the timeline required to fully complete rates, including contract execution, prior to the effective date of the rates. The timeline required to meet this deadline created the need to have program changes completed early in the rating cycle, and actually prior to potential program changes that developed during the not yet completed legislative cycle.

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DHCS has established a policy that prioritizes the completion of rates prior to the effective dates with an understanding that potential program changes, not yet enacted within the current timeline of rate completion, may still need to be addressed. Part of this policy is to acknowledge and review the potential impact of new program changes not reflected in the current rates. If a program change is considered to have a rating impact, DHCS will plan to address that change during the next rating cycle with a population-adjusted impact (member growth or decline will be part of the calculation for the future adjustment) being included in the future rates.

Current examples of program changes enacted after March 2009 include the optional benefit carveout that became effective July 1, 2009, and also the rollback of the SB 94 legislation (Family Planning payment levels). The impact of these legislative changes not currently reflected in the rates will be reviewed as part of the next cycle of program changes for the future year. Both of these changes are anticipated to have minimal impact.

If you have any questions on any of the above, please feel free to contact Mike Nordstrom at +1 602 522 6510, Jim Meulemans at +1 602 522 8597 or Branch McNeal at +1 602 522 6599.

Sincerely,

Michael E. Nordstrom, ASA, MAAA

James J. Meulemans, ASA, MAAA

MEN/JJM/lgm

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