

We note that this combination of circumstances is unusual, and can identify virtually no similar circumstances where the carve-out or addition of a particular service under the capitation arrangement would be material in terms of overall compensation to plans and would suggest the need to adjust the administrative cost allowance percentage.

Adjustment to Administration Allowance in Dual Eligible Rates

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 1a and 1b for FCHPs and PCOs, respectively. Exhibits 2a and 2b show the impact on the statewide capitation rates for FCHPs and PCOs, respectively. Overall per capita payments to FCHPs across all eligibility categories increase by an average of 0.7% as a result of this adjustment. The comparable adjustment for PCOs is 0.9%.

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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 415-498-5365 or Sandra.S.Hunt@us.pwc.com.

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

Exhibit 1a

	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% Add-on	Net of Part D Carveout	Part D Carveout	Total	Cap Rates before Part D Carveout, w/ 8% admin & 5.8% Add-on	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% Add-on	PMPM Increase in Cap Rates	Admin % using Fixed Admin PMPM less Plan Admin on Carved Out Drugs	Total Admin % including 5.8% Add-on
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 1b

	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% Add-on	Net of Part D Carveout	Part D Carveout	Total	Cap Rates before Part D Carveout, w/ 8% admin & 5.8% Add-on	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% Add-on	PMPM Increase in Cap Rates	Admin % using Fixed Admin PMPM less Plan Admin on Carved Out Drugs	Total Admin % including 5.8% Add-on
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%