

**DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF DIRECTOR**

ACTION REFERRAL

TO <i>Wells</i>	DATE <i>1-16-07</i>
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DIRECTOR'S USE ONLY	ACTION REQUESTED
1. LOG NUMBER <i>000457</i>	<input type="checkbox"/> Prepare reply for the Director's signature DATE DUE _____
2. DATE SIGNED BY DIRECTOR <i>cc: Mr Ferr, Bowling, Singleton</i>	<input type="checkbox"/> Prepare reply for appropriate signature DATE DUE _____
	<input type="checkbox"/> FOIA DATE DUE _____
	<input checked="" type="checkbox"/> Necessary Action

APPROVALS (Only when prepared for director's signature)	APPROVE	* DISAPPROVE (Note reason for disapproval and return to preparer.)	COMMENT
1.			
2.			
3.			
4.			

Department of Health & Human Services
Centers for Medicare & Medicaid Services
61 Forsyth Street, SW, Suite 41720
Atlanta, Georgia 30303-8909



January 10, 2007

Josy Wells
"Free Action"
cc: Kenyon
Bowling
Swing

RECEIVED

JAN 16 2007

Mr. Robert M. Kerr, Director
South Carolina Department of Health & Human Services
P. O. Box 8206
Columbia, South Carolina 29202-8206

Department of Health & Human Services
OFFICE OF THE DIRECTOR

Dear Mr. Kerr:

Your letter of December 20, 2006 requested our approval for changes in South Carolina's risk adjustment methodology and whether we would approve a retroactive settlement for the calendar year 2006 managed care organization (MCO) contract, specifically for Select Health, based on the revised risk adjustment methodology.

CMS encourages States' use of risk adjustment methodologies that increase the predictability and accuracy of rates in MCO contracts and is supportive of South Carolina's efforts in this area. As the State continues to gain experience with risk adjustment, it is likely that South Carolina will want to modify its methodology in various ways, including changes in the phase-in of the risk adjustment credibility factor.

However, such changes must be approved and applied prospectively. Risk adjustment methodologies, payments, and settlements for calendar year 2006 must be governed by the provisions contained in the approved calendar year 2006 contracts.

Thus, we are open to reviewing and approving the changes you have proposed from the contracts beginning January 1, 2007 (assuming that South Carolina provides necessary documentation and certification), but these changes cannot be applied to a retroactive settlement for calendar year 2006.

If you have any questions concerning this issue, feel free to call Elaine Elmore of my staff, at (404) 562-7408.

Sincerely,

RLM
Renard L. Murray, D.M.
Associate Regional Administrator
Division of Medicaid & Children's Health