

# Rudd and Wisdom, Inc.

## CONSULTING ACTUARIES

Mitchell L. Bilbe, F.S.A.  
Evan L. Dial, F.S.A.  
Philip S. Dial, F.S.A.  
Charles V. Faerber, F.S.A., A.C.A.S.  
Mark R. Fenlaw, F.S.A.  
Carl L. Frammolino, F.S.A.  
Christopher S. Johnson, F.S.A.  
Robert M. May, F.S.A.

9500 Arboretum Blvd., Suite 200  
Austin, Texas 78759  
Post Office Box 204209  
Austin, Texas 78720-4209  
Phone: (512) 346-1590  
Fax: (512) 345-7437  
E-mail: rw@ruddwisdom.com

J. Christopher McCaul, F.S.A.  
Edward A. Mire, F.S.A.  
Rebecca B. Morris, A.S.A.  
Michael J. Muth, F.S.A.  
Ronald W. Tobleman, F.S.A.  
David G. Wilkes, F.S.A.  
Valerie M. Zinzer, F.S.A.

July 15, 2008

Dr. David Palmer  
Chief Actuary  
Health and Human Services Commission  
1100 W. 49th Street  
Austin, Texas 78756

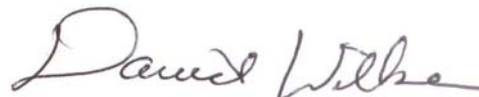
Re: FY2009 STAR Health Premium Rates

Dear Dr. Palmer:

Attached is a description of the rate setting methodology used to derive the FY2009 premium rate for the STAR Health program for Foster Care clients. The new managed care program was implemented April 1, 2008 and serves Foster Care clients in Texas. The attached document also contains an actuarial certification stating that the premium rates are actuarially sound and satisfy all CMS requirements.

Please let me know if you have any questions or need additional information.

Sincerely,



David G. Wilkes, F.S.A.

DGW:nlg

Enclosure

O:\users\nancy\tdhs\tdh08\ratingreport-STARHealth.doc

**STATE OF TEXAS  
MEDICAID MANAGED CARE  
STAR HEALTH PROGRAM RATE SETTING  
STATE FISCAL YEAR 2009**

Prepared for:  
Texas Health and Human Services Commission

Prepared by:  
David G. Wilkes, F.S.A., M.A.A.A  
Rudd and Wisdom, Inc.

July 15, 2008

## TABLE OF CONTENTS

I.	Introduction.....	1
II.	Overview of Rate Setting Methodology .....	2
III.	Adjustment Factors .....	4
IV.	Administrative Fees and Risk Margin .....	6
V.	Summary .....	7
VI.	Actuarial Certification .....	8
VII.	Attachments .....	9

## I. Introduction

Rudd and Wisdom, Inc. has been retained by the Texas Health and Human Services Commission (HHSC) to develop fiscal year 2009 (FY2009, September 2008 through August 2009) premium rates for the STAR Health program. STAR Health is the new managed health care program for Foster Care clients in Texas that was implemented April 1, 2008. This report presents the rating methodology and assumptions used in developing the FY2009 premium rates.

Rudd and Wisdom has provided actuarial services to the Texas Medicaid program for well over 20 years. We have participated in the state's managed care rating process since its inception in 1993. We have worked closely with HHSC staff in developing these STAR Health premium rates.

Rudd and Wisdom has relied on the following data sources as provided by HHSC and Bankers Reserve Life Insurance Company of Wisconsin, the underwriting carrier for the STAR Health program (the carrier):

- Monthly Foster Care enrollment for the period September 2002 through August 2007 with a projection through August 2009. These enrollment figures were provided by HHSC System Forecasting staff.
- Detailed claim-level reports for Foster Care clients covering the period September 2002 through August 2007. This information was used to prepare claims lag reports (monthly paid claims by month of service) by type of service (inpatient, outpatient, etc.).
- Information regarding recent changes in covered services under Texas Medicaid.
- Information provided by HHSC regarding the expected impact of FY2008 and FY2009 Medicaid provider reimbursement rate changes.
- Information provided by HHSC regarding the administrative costs for Foster Care clients under the fee-for-service (FFS) plan.
- Information provided by the carrier regarding the cost of new services to be provided under STAR Health.
- Information provided by HHSC regarding preliminary FY2009 Medicaid diagnosis-related group (DRG) standard dollar amounts and relative weights.

Although the above data was reviewed for reasonableness, Rudd and Wisdom did not audit the data.

## II. Overview of the Rate Setting Methodology

As STAR Health is a new program, historical Fee-for-Service (FFS) plan experience was used in setting the FY2009 premium rates. The premium rates were set at 100% of the projected cost assuming continuation of the FFS plan. The rates also include amounts to recognize the addition of new services to be provided under the STAR Health program.

The new program will cover the entire state of Texas. The services used in the analysis include the following:

- Inpatient Hospital
- Outpatient Hospital
- Physician Services
- Other Professional Services
- Lab, X-ray and Radiology Services
- Medical Supplies
- Behavioral Health Services
- EPSDT Medical Services
- Family Planning and Genetics Services
- Comprehensive Care Program Services
- Vision Services
- Hearing Services
- Home Health Services
- Emergency Room Services
- Ambulance Services
- Dental and Orthodontia Services

Under the STAR Health program, prescription drugs are not the financial responsibility of the carrier and were excluded from the rating analysis. Prescription drug services are provided to Foster Care clients but the financial responsibility remains with the state.

The actuarial model used to derive the FY2009 STAR Health premium rates relies primarily on FFS experience on Foster Care clients. The historical FFS claims experience was analyzed and estimates for the base period (FY2007) were developed. These estimates were then projected forward to the rating period (FY2009) using assumed trend rates. Adjustments to the claim costs were made to reflect benefit and provider reimbursement changes. These adjustment factors are discussed in more detail in Section III.

The analysis of base period claims experience attempted to identify and adjust for any distortions in the data. Significant variations in experience, including the impact from unusually large individual claims, were investigated and adjustments were made if deemed appropriate. An administrative expense provision and risk margin were added to the claims component in order to project total cost.

Attachment 1 to this report provides a description of the calculation of the FY2009 STAR Health premium rates. Attachment 2 contains a summary of recent Foster Care incurred claims experience under the FFS plan. Attachment 3 shows the derivation of the Delayed Enrollment (DE) factor. The DE factor adjusts the premium rate to account for the fact that the carrier will not receive a premium for a new client during the first month of program eligibility unless the client enrolls on the first of the month. Attachment 4 details the calculation of the rate adjustment factor for provider rate increases. Attachment 5 presents information on the rating adjustment for DRG rebasing. More information regarding these adjustment factors is contained in Section 3 of this report.

### III. Adjustment Factors

This section contains a description of the adjustment factors used in the STAR Health rate setting process.

#### Trend Factors

The rating methodology uses assumed trend factors to adjust the base period claims cost to the projection period. The cost trend factors used in this analysis are a combination of utilization and inflation components. The projected trend rate assumptions were developed by the actuary based on an analysis of recent experience for Foster Care clients and the actuary's professional judgment regarding future cost increases.

The actual claims cost trend for Foster Care clients has been close to zero for the past two years (as shown on Attachment 2). It is our opinion that it would be inappropriate to assume a continuation of such a low trend rate. In projecting the claims cost from the base period to the rating period, we have assumed a 5% annual trend which is consistent with long-term Medicaid trends.

#### Delayed Enrollment Factor

Under the new STAR Health program, the insurance carrier will not receive a premium for a client during their first month of program eligibility unless the client enrolls on the first day of the month. This approach has been selected by HHSC in order to avoid paying premiums to multiple vendors for a single client in a single month. Attachment 3 shows the derivation of the Delayed Enrollment factor.

#### Provider Reimbursement Adjustment

As a component of the Frew lawsuit settlement, the Texas Medicaid program implemented significant changes in provider reimbursement effective September 1, 2007. Professional provider reimbursement increased an average of 26% for children. Because the experience period used in setting the STAR Health rates was prior to these provider rate increases, it was necessary to develop an adjustment factor to bring the historical experience up to the current higher reimbursement levels.

In developing the Frew adjustment factors, we used fiscal year 2006 (FY2006) encounter data for Foster Care clients. To this claims experience we applied the FY2009 Medicaid provider reimbursement schedule. The additional cost due to the increased reimbursement rates was then divided by total FY2006 claims to yield the overall claims adjustment factor.

In addition to those resulting from the Frew settlement, there were several other significant revisions to the Medicaid fee schedule. Reimbursement increases were provided for the following services: ambulance services, State-owned teaching hospitals, physician administered drugs and therapy services (physical, occupational and speech) provided through home health

agencies. The rating adjustments for these provider reimbursement changes were calculated in a manner similar to those for the Frew settlement, described above. The reimbursement change was applied to actual FY2006 encounter data and the resulting impact determined.

The 2.5% reduction in reimbursement rates to professional, outpatient facility and certain other providers implemented in FY2004 was restored. In addition, adjustments were made to recognize the new dental home and dental varnish benefits. Attachment 4 presents the estimated cost impact from all of the above provider reimbursement revisions.

Attachment 5 presents a description of the DRG rebasing adjustment made to the STAR Health rates.



#### IV. Administrative Fees and Risk Margin

The rating methodology includes an explicit provision for administrative expenses. The level of administrative expenses assumed in the rating is based on the level that would have been incurred under the FFS plan. The amount allocated for administrative expenses is \$2.2125 per member per month (pmpm) plus 1.75% of gross premium.

We recognize that the actual administrative expense under managed care will likely be significantly higher than this amount. However, this assumption is consistent with our overall rating methodology which is to set the initial rate based on projected FFS cost. We anticipate that the carrier managing the STAR Health program will experience lower medical costs (relative to FFS) and higher administrative costs.

The premium rate also includes provision for new services provided under STAR Health that were not provided under the FFS plan. These services include the following:

- A dedicated organizational structure for Foster Care clients
- Additional mandatory staffing
- An expanded provider network
- A dedicated member services help line
- A Nurse Line
- Creation of a Foster Care Medical Advisory Committee
- Increased training for staff and providers
- CME credit for physicians
- Creation of a new pre-appeals process
- Coordination with the Department of Family and Protective Services and the court system
- Health Passport (an electronic medical record that is available to multiple parties online)

The provision in the premium rate for these new services is \$26.83 pmpm. The premium rates also include a risk margin equal to 2.0% of gross premium.

## V. Summary

The FY2009 premium rate for the STAR Health program is \$642.69 per member per month. This rate will be effective for the period September 1, 2008 through August 31, 2009. Attachment 1 shows the derivation of the premium rate.

## VI. Actuarial Certification of STAR Health Premium Rate

I, David G. Wilkes, am a principal with the firm of Rudd and Wisdom, Inc., Consulting Actuaries (Rudd and Wisdom). I am a Fellow of the Society of Actuaries and a member of the American Academy of Actuaries. I meet the Academy's qualification standards for rendering this opinion.

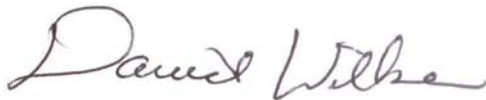
Rudd and Wisdom has been retained by the Texas Health and Human Services Commission (HHSC) to assist in the development of their STAR Health premium rates for the period September 1, 2008 through August 31, 2009 and to provide the actuarial certification required under Centers for Medicare and Medicaid Services (CMS) requirements 42 CFR 438.6(c).

I certify that the STAR Health premium rates developed by HHSC and Rudd and Wisdom satisfy the following:

- (a) The premium rates have been developed in accordance with generally accepted actuarial principals and practices;
- (b) The premium rates are appropriate for the populations and services covered under the managed care contract; and
- (c) The premium rates are actuarially sound as defined in the regulations.

We have relied on historical experience data and program information provided to us by HHSC. We have reviewed the data for reasonableness but have not audited the data.

Please note that actual health plan contractor experience will differ from these projections. Rudd and Wisdom has developed these rates on behalf of the State to demonstrate compliance with the CMS requirements under 42 CFR 438.6(c). Any health plan contracting with the State should analyze its own projected premium needs before deciding whether to contract with the State.



David G. Wilkes, F.S.A., M.A.A.A.

	Rating Period	
	4/08 - 8/08	FY2009
Base Period Used in Rating	4/07 - 8/07	FY2007
Base Period Experience		
Member Months	162,946	380,679
Estimated Incurred Claims	77,158,311	176,195,053
Estimated Incurred Claims pmpm	\$ 473.52	\$ 462.84
Projected Rating Period FFS Experience		
Member Months (2)	179,478	458,205
Delayed Enrollment Factor (3)	1.051	1.051
Adjusted Member Months (4)	170,769	435,971
Assumed Annual Claims Cost Trend Rate (5)	5.0 %	5.0 %
Projected FFS Incurred Claims pmpm (6)	\$ 522.55	\$ 536.31
Frew Settlement Adjustment Factor	12.4 %	12.4 %
DRG Rebasing Adjustment	0.0 %	-2.2 %
Projected Adjusted FFS Claims pmpm (7)	\$ 587.35	\$ 589.55
Administrative Expenses (8)	\$ 2.11	\$ 2.11
Projected Gross FFS Cost pmpm	\$ 589.46	\$ 591.66
New Services Cost (9)		
Additional Services Administration	\$ 26.83	\$ 26.83
Premium Tax	1.75 %	1.75 %
Maintenance Tax pmpm	\$ 0.1025	\$ 0.1025
Risk Charge	2.0 %	2.0 %
Premium Rate pmpm (10)	\$ 640.41	\$ 642.69
Projected Premium	114,939,312	294,485,728

Footnotes:

- (1) Development of Foster Care health plan premium rates for the 9/1/2008 through 8/31/2009 period.
- (2) HHSC's total projected caseload for the rating period.
- (3) Equals Member Months divided by Member Months less first month of enrollment. (From "DE" tab.)
- (4) Equals Member Months divided by Delayed Enrollment Factor
- (5) Assumed annual rate of increase in the average claims cost.
- (6) Equals Experience Period Incurred Claims pmpm times Delayed Enrollment Factor times trend adjustment
- (7) Equals Projected Fee-for-Service Incurred Claims pmpm times one plus the Frew Settlement Adjustment Factor
- (8) Estimated TMHP expenses under the current FFS model.
- (9) Medical and administrative services not included in the current FFS model.
- (10) Equals Projected Gross FFS Cost plus New Services Cost.

Health and Human Services Commission  
Foster Care Rating Project  
Estimated Incurred Claims

Attachment 2

Month	Members	Estimated Incurred Claims						Incurred Claims pmpm	Trend Factor
		Inpatient	Outpatient	MH Rehab	Family Planning	Dental	Total		
200409	23,248	3,251,214	6,814,561	11,708	8,869	489,275	10,575,627	454.90	1.005
200410	23,610	3,021,047	7,011,701	10,196	9,705	529,188	10,581,838	448.19	0.983
200411	24,123	2,764,571	7,142,916	10,925	11,134	487,404	10,416,949	431.83	1.045
200412	24,316	3,291,576	6,915,621	9,681	10,156	456,048	10,683,082	439.34	1.136
200501	24,614	3,698,355	8,195,677	11,561	8,754	567,246	12,481,593	507.09	1.075
200502	24,825	3,540,377	7,694,920	13,121	10,038	529,297	11,787,753	474.83	1.026
200503	25,215	4,033,721	8,346,382	17,770	12,209	604,648	13,014,731	516.15	1.034
200504	25,739	3,150,239	8,108,351	16,092	10,043	554,244	11,838,970	459.96	1.008
200505	26,006	3,935,333	7,881,051	17,181	11,338	545,352	12,390,255	476.44	1.101
200506	26,329	3,273,462	7,474,039	19,812	10,254	562,018	11,339,585	430.69	0.944
200507	26,641	3,513,910	7,143,680	12,781	6,739	531,685	11,208,795	420.73	1.007
200508	26,939	3,705,810	8,276,117	13,551	7,342	602,994	12,605,815	467.94	1.056
200509	27,170	3,593,819	7,783,607	12,224	7,709	510,216	11,907,575	438.26	0.963
200510	27,456	3,307,553	8,462,118	15,384	6,354	613,093	12,404,503	451.80	1.008
200511	27,598	4,038,002	8,329,311	17,677	10,898	617,395	13,013,282	471.53	1.092
200512	27,713	3,128,301	7,793,688	12,440	7,828	523,762	11,466,018	413.74	0.942
200601	27,887	4,037,607	9,401,999	15,802	9,278	628,643	14,093,329	505.37	0.997
200602	28,010	3,992,543	8,650,857	14,299	11,867	585,579	13,255,145	473.23	0.997
200603	28,557	4,524,773	9,234,174	20,474	8,654	693,156	14,481,230	507.10	0.982
200604	29,031	4,433,881	8,738,826	17,807	9,049	584,025	13,783,590	474.79	1.032
200605	29,378	4,524,677	9,058,613	18,469	8,643	613,810	14,224,212	484.18	1.016
200606	29,880	4,115,749	8,389,087	18,989	8,802	698,579	13,231,206	442.81	1.028
200607	30,194	4,108,578	8,474,170	19,372	10,937	577,540	13,190,596	436.86	1.038
200608	30,370	4,275,109	9,050,684	18,300	11,340	699,992	14,055,424	462.81	0.989
200609	30,515	4,245,498	8,525,709	18,776	10,006	591,775	13,391,764	438.86	1.001
200610	30,564	4,377,604	9,523,366	21,485	11,870	695,200	14,629,525	478.65	1.059
200611	30,850	3,928,462	8,755,863	15,564	10,206	619,872	13,329,966	432.09	0.916
200612	31,355	3,704,722	8,341,512	16,190	6,712	554,998	12,624,134	402.62	0.973
200701	31,443	4,599,989	9,738,511	22,841	9,682	688,730	15,059,753	478.95	0.948
200702	31,372	4,617,401	9,438,232	24,394	9,283	636,113	14,725,423	469.38	0.992
200703	31,634	4,734,860	9,819,127	22,624	10,495	689,070	15,276,176	482.90	0.952
200704	31,967	5,377,034	9,777,760	21,541	9,907	643,034	15,829,276	495.18	1.043
200705	32,295	4,712,834	9,845,867	24,161	13,463	683,548	15,279,873	473.14	0.977
200706	32,659	5,000,205	9,200,886	21,693	8,911	640,603	14,872,298	455.38	1.028
200707	32,898	4,837,015	9,772,680	20,883	12,537	652,226	15,295,341	464.93	1.064
200708	33,127	5,001,821	10,087,019	21,339	10,626	760,718	15,881,523	479.41	1.036
FY2003	245,676	30,000,296	74,724,385	145,129	110,896	5,088,130	110,068,836	448.02	
FY2004	263,903	32,538,098	79,142,841	408,460	110,323	5,408,692	117,608,415	445.65	0.995
FY2005	301,605	41,179,615	91,005,016	164,380	116,583	6,459,400	138,924,993	460.62	1.034
FY2006	343,244	48,080,592	103,367,133	201,237	111,360	7,345,789	159,106,110	463.54	1.006
FY2007	380,679	55,137,446	112,826,532	251,492	123,698	7,855,886	176,195,053	462.84	0.999

Foster Care Rating  
Delayed Enrollment Factors (1)

<u>Month</u>	<u>Total Members</u>	<u>New Members (2)</u>	<u>Adjustment Factor (3)</u>
200509	27,170		
200510	27,456	1,428	5.3 %
200511	27,598	1,418	5.2 %
200512	27,713	1,315	4.8 %
200601	27,887	1,338	4.9 %
200602	28,010	1,440	5.2 %
200603	28,557	1,566	5.6 %
200604	29,031	1,605	5.6 %
200605	29,378	1,562	5.4 %
200606	29,880	1,189	4.0 %
200607	30,194	1,980	6.8 %
200608	30,370	1,757	5.9 %
200609	30,515	1,488	4.9 %
200610	30,564	1,419	4.7 %
200611	30,850	1,676	5.5 %
200612	31,355	1,383	4.5 %
200701	31,443	1,363	4.4 %
200702	31,372	1,476	4.8 %
200703	31,634	1,420	4.5 %
Total	533,807	26,823	5.1 %

Footnotes:

- (1) The Health Plan will receive a premium for only those members enrolled in the program on the first of the month. In other words, the Health Plan will not receive a premium payment for the first month of a member's enrollment unless the member enrolls on the first on the month. The purpose of the Delayed Enrollment Factor is to adjust the premium rate in recognition of the reduced number of members on which a premium will be paid.
- (2) All members who were NOT enrolled the previous month.
- (3) Equals Total Members divided by Total Member Months minus 29/30 times new members.

Foster Care Rating  
Frew Settlement Adjustment Factor

	<u>FY2006 Incurred Claims</u>	<u>Frew Adjustment Factor</u>	<u>FY2006 Adjusted Claims</u>
Inpatient	48,080,592	0.0 %	48,080,592
Outpatient	103,367,133	14.3 %	118,130,037
MH Rehab	201,237	14.3 %	229,977
Family Planning	111,360	14.3 %	127,264
Dental	7,345,789	66.2 %	12,210,769
Total	159,106,110	12.4 %	178,778,639

Foster Care Rating  
DRG Rebasing Adjustment Factor

The state is scheduled to implement an update to the Medicaid diagnosis-related group (DRG) inpatient hospital payment system effective September 1, 2008. As a result, an adjustment was made to the FY2009 STAR Health premium rates. In determining the adjustment factor, the preliminary FY2009 DRG standard dollar amounts and relative weights were applied to the FY2006 Foster Care encounter data. The net impact of the preliminary DRG rebasing factors was -\$3,500,176. This amount was divided by total FY2006 Foster Care incurred claims of \$159,106,110 to arrive at an adjustment factor of -2.2%.

Please note that this DRG rebasing analysis is based on preliminary FY2009 DRG standard dollar amounts and relative weights. The final hospital payment factors will not be available until late summer or early fall of this year.