

# Rudd and Wisdom, Inc.

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October 13, 2010

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

Re: STAR Rate Amendment

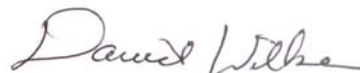
Dear Dr. Palmer:

The Health and Human Services Commission (HHSC) has made further revisions to the Diagnosis-related Group (DRG) system used to reimburse many of the state's inpatient facilities. This DRG rebasing is to go into effect November 1, 2010. The current FY2011 STAR capitation rates were developed using a previous version of DRG rebasing which was assumed to be effective September 1, 2010. After a comparison of the old and new DRG rebasing factors it was determined that the new factors would materially impact the capitation rates. As a result, we have re-determined the FY2011 capitation rates based on the new DRG rebasing factors.

This letter amends the report titled State of Texas Medicaid Managed Care STAR Program Rate Setting State Fiscal Year 2011 and dated June 29, 2010. The amended FY2011 capitation rates were developed using identical methods and assumptions as the rates described in that report (current rates), except for the revised DRG rebasing factors. The amended rates are assumed to be payable for the period December 1, 2010 through August 31, 2011. The amended capitation rates have been adjusted to recognize both (i) that the DRG rebasing will not become effective until November 1, 2010 and (ii) that the current capitation rates will be payable for the period September 1, 2010 through November 30, 2010.

The attached Exhibit A presents the amended FY2011 STAR capitation rates. Attachment 5 - Exhibit H (revised) presents the revised DRG rebasing adjustment factors used in developing the amended capitation rates.

Sincerely,



David Wilkes

DGW:nlg

Enclosure

Actuarial Certification of Amended FY2011 STAR HMO Capitation Rates

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.

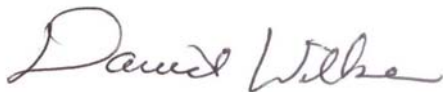
Rudd and Wisdom has been retained by the Texas Health and Human Services Commission (HHSC) to assist in the development of their state fiscal year 2011 (FY2011) managed care rate-setting methodology, assumptions and resulting capitation rates and to provide the actuarial certification required under Centers for Medicare and Medicaid Services (CMS) requirements 42 CFR 438.6(c).

I certify that the amended FY2011 HMO capitation rates developed by HHSC and Rudd and Wisdom satisfy the following:

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

A handwritten signature in cursive script that reads "David Wilkes".

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

FY2011 STAR Capitation Rates - Amended  
Adjusted Per Member Per Month Rates  
Effective December 1, 2010

Health Plan	TANF Children (over age 1)	TANF Children (< 1)	TANF Adults	Pregnant Women	Newborns	Expansion Children (over age 1)	Expansion Children (< 1)	Federal Mandate Children	Delivery Supplemental Payment
Aetna - Bexar	\$ 139.17	\$ 292.99	\$ 374.40	\$ 510.13	\$ 725.59	\$ 133.87	\$ 214.76	\$ 96.33	\$ 3,266.59
CFHP - Bexar	143.12	345.53	393.74	506.04	759.70	143.99	253.96	103.07	3,266.59
Superior - Bexar	146.79	371.55	412.41	504.36	732.37	151.03	221.42	102.83	3,266.59
Americaid - Dallas	127.20	417.34	307.23	540.79	580.65	149.31	267.77	105.54	3,537.13
Parkland - Dallas	133.80	410.10	342.55	549.38	648.46	155.06	296.55	110.59	3,537.13
Unicare - Dallas	119.78	349.95	350.01	549.53	607.04	152.29	320.40	111.48	3,537.13
El Paso First - El Paso	103.36	263.62	291.71	433.58	576.08	121.32	251.36	89.51	3,443.04
Superior - El Paso	109.55	253.74	278.76	438.98	572.65	123.60	281.88	91.82	3,443.04
Americaid - Harris	128.57	369.78	481.84	565.49	681.16	124.59	289.07	98.03	3,519.20
CHC - Harris	128.73	314.87	416.42	569.36	680.12	123.84	259.41	95.60	3,519.20
Molina - Harris	123.20	362.40	403.42	488.42	741.77	117.53	260.35	97.07	3,519.20
TCHP - Harris	132.95	287.74	392.61	548.86	734.91	136.04	292.54	104.53	3,519.20
United - Harris	121.16	282.51	395.47	525.20	704.17	127.62	250.88	95.48	3,519.20
Firstcare - Lubbock	119.10	310.46	302.49	531.02	519.27	127.70	349.05	91.03	3,230.39
Superior - Lubbock	105.88	357.23	285.20	511.75	561.78	132.58	263.95	88.69	3,230.39
Americaid - Nueces	160.82	471.71	396.17	601.66	857.24	173.83	422.71	125.16	3,203.82
Driscoll - Nueces	173.69	519.99	433.20	583.31	886.38	176.40	379.97	134.49	3,203.82
Superior - Nueces	166.00	550.09	439.99	608.03	929.98	175.34	425.49	130.71	3,203.82
Aetna - Tarrant	133.58	319.94	313.61	499.94	627.48	129.89	196.23	97.13	3,635.64
Americaid - Tarrant	129.96	268.87	303.42	482.71	612.33	134.74	247.33	100.38	3,635.64
Cook - Tarrant	135.04	324.77	288.04	491.87	673.62	144.60	299.90	104.81	3,635.64
Americaid - Travis	114.51	219.17	281.05	510.63	691.19	118.36	337.64	92.80	3,247.49
Superior - Travis	119.02	246.98	324.51	526.14	723.16	122.86	312.24	93.25	3,247.49

FY2011 STAR Rating  
 Facility Reimbursement Changes  
 DRG Rebasing

	TANF Children Age 1+	TANF Children <1	TANF Adult	Pregnant Women	Newborn	Expansion Children Age 1+	Expansion Children <1	Federal Mandate Children	Other	Total
Limited DRG Rebasing										
Bexar	47,280	8,083	93,809	-4,566,437	-6,975,020	-100,145	27,338	-220,982	-168,994	-11,855,067
Dallas	-52,801	7,486	-18,856	-1,645,757	-1,518,286	-199,089	-70,129	-99,210	175,349	-3,421,292
El Paso	-72,761	-45,951	-59,617	-1,548,804	-1,736,995	-359,843	35,858	-79,350	17,835	-3,849,628
Harris	123,638	-21,909	586,309	111,329	-9,010,883	-61,122	-72,386	535,009	-79,541	-7,889,555
Lubbock	-185	-5,279	-13,846	-511,895	-68,121	-23,201	-1,576	-14,135	-25,444	-663,681
Nueces	-58,961	-1,021	90,433	-248,081	-1,460,383	-143,158	-9,985	-26,020	6,545	-1,850,631
Tarrant	18,821	-10,606	20,514	-105,424	178,175	13,465	5,192	-12,771	102,642	210,009
Travis	96,620	3,620	1,194,762	1,064,325	-872,327	-5,584	-9,207	9,553	48,072	1,529,833
Total	101,652	-65,577	1,893,508	-7,450,743	-21,463,838	-878,677	-94,895	92,094	76,463	-27,790,012
FY2009 Total Incurred Claims (2)										
Bexar	10,121,140	1,988,871	10,021,948	88,003,711	118,115,561	55,667,101	3,174,191	49,140,966	2,977,581	339,211,070
Dallas	11,877,555	2,988,195	8,188,495	114,088,812	122,408,119	102,433,344	13,764,885	78,861,912	44,996,391	499,607,708
El Paso	6,061,473	1,083,500	3,910,580	37,082,329	40,993,308	24,081,817	2,403,267	26,137,867	631,499	142,385,640
Harris	17,468,744	3,136,054	16,174,895	179,040,092	252,761,902	150,101,446	21,447,079	131,237,650	6,074,954	777,442,816
Lubbock	1,709,996	366,751	1,503,980	20,499,119	17,022,773	7,745,294	638,563	7,168,515	3,738,157	60,393,148
Nueces	5,985,293	1,296,470	5,392,802	34,308,713	50,633,090	22,628,314	1,165,007	23,596,351	3,017,728	148,023,766
Tarrant	6,061,001	887,776	3,938,903	82,038,673	88,177,785	50,025,850	5,942,852	42,262,689	2,796,835	282,132,363
Travis	19,997,537	3,605,701	21,038,866	32,045,161	46,644,970	22,220,270	5,104,489	16,317,035	2,008,900	168,982,931
Total	79,282,738	15,353,318	70,170,468	587,106,611	736,757,509	434,903,435	53,640,334	374,722,986	66,242,044	2,418,179,442
Rate Adjustment (3)										
Bexar	0.39 %	0.34 %	0.78 %	-4.32 %	-4.92 %	-0.15 %	0.72 %	-0.37 %	-4.73 %	-2.91 %
Dallas	-0.37 %	0.21 %	-0.19 %	-1.20 %	-1.03 %	-0.16 %	-0.42 %	-0.10 %	0.32 %	-0.57 %
El Paso	-1.00 %	-3.53 %	-1.27 %	-3.48 %	-3.53 %	-1.25 %	1.24 %	-0.25 %	2.35 %	-2.25 %
Harris	0.59 %	-0.58 %	3.02 %	0.05 %	-2.97 %	-0.03 %	-0.28 %	0.34 %	-1.09 %	-0.85 %
Lubbock	-0.01 %	-1.20 %	-0.77 %	-2.08 %	-0.33 %	-0.25 %	-0.21 %	-0.16 %	-0.57 %	-0.92 %
Nueces	-0.82 %	-0.07 %	1.40 %	-0.60 %	-2.40 %	-0.53 %	-0.71 %	-0.09 %	0.18 %	-1.04 %
Tarrant	0.26 %	-1.00 %	0.43 %	-0.11 %	0.17 %	0.02 %	0.07 %	-0.03 %	3.06 %	0.06 %
Travis	0.40 %	0.08 %	4.73 %	2.77 %	-1.56 %	-0.02 %	-0.15 %	0.05 %	1.99 %	0.75 %
Total	0.11 %	-0.36 %	2.25 %	-1.06 %	-2.43 %	-0.17 %	-0.15 %	0.02 %	0.10 %	-0.96 %

## Footnotes:

(1) Equals the additional cost resulting from limited DRG Rebasing.

(2) Equals FY2009 health plan fee-for-service claims for all services (ICHP provided encounter data).

(3) Additional cost divided by FY2009 Total Incurred Claims multiplied by 10/12 (since the DRG rebasing is effective November 1, 2010).