

November 10, 2011

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

Re: STAR Health Rate Amendment

Dear Dr. Palmer:

The Health and Human Services Commission (HHSC) has made further revisions to the Medicaid fee schedules used to reimburse durable medical equipment providers, physical/occupational/speech therapists (PT/OT/ST) and the Diagnosis-related Group (DRG) system used to reimburse many of the state's inpatient facilities. These changes went into effect September 1, 2011. The current FY2012 STAR Health capitation rates were developed using previous versions of the reimbursement schedules for these providers which were assumed to be effective September 1, 2011. After a comparison of the old and new reimbursement factors it was determined that the new factors would materially impact the capitation rates. As a result, we have re-determined the FY2012 capitation rates based on these new factors.

This letter amends the report titled State of Texas Medicaid Managed Care STAR Health Program Rate Setting State Fiscal Year 2012 and dated July 1, 2011. The amended FY2012 capitation rates were developed using identical methods and assumptions as the rates described in that report (current rates), except for the revised DME, PT/OT/ST and DRG rebasing factors. The capitation rates payable for the two-month period January 1, 2012 through February 29, 2012 have been adjusted to recognize that the current capitation rates will be payable for the period September 1, 2011 through December 31, 2011, i.e., the rates have been adjusted in order to produce the amended capitation amounts for the September 1, 2011 through February 29, 2012 period. Effective March 1, 2012, the capitation rates will be set at the FY2012 amended rates.

The attached Exhibit A presents both (i) the FY2012 capitation rates to be payable for the two-month period January 1, 2012 through February 29, 2012 and (ii) the amended FY2012 STAR Health capitation rates to be payable for the period March 1, 2012 through August 31, 2012.

Attachment 3 (revised) presents the revised DME, PT/OT/ST and DRG rebasing adjustment factors used in developing the amended capitation rates.

A handwritten signature in cursive script that reads "David Wilkes". The signature is written in black ink and is positioned above the printed name.

David Wilkes

Actuarial Certification of Amended FY2012 STAR Health 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.

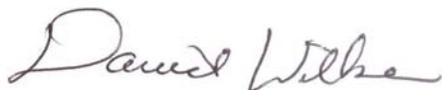
Rudd and Wisdom has been retained by the Texas Health and Human Services Commission (HHSC) to assist in the development of their state fiscal year 2012 (FY2012) managed care rate-setting methodology, assumptions and resulting capitation rates and to provide the actuarial certification required under Centers for Medicare and Medicaid Services (CMS) requirements 42 CFR 438.6(c).

I certify that the amended FY2012 STAR Health 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.



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

FY2012 STAR Health Capitation Rates - Amended
Per Member Per Month Rates

Effective January 1, 2012 \$ 769.71

Effective March 1, 2012 \$ 762.86

Provider Reimbursement Adjustment Factor

Fee Schedule Changes	119,614
Vision and Hearing Screening	167,303
2% Provider Rate Reduction - 9/1 + additional 2/1	-2,420,781
OP Imaging Fee Schedule	-1,004,036
Legislative Reductions	-3,319,541
FQHC Wrap Payment	550,774
Overall Provider Reimbursement Change	-5,906,666
FY2010 Total Claims	211,975,445
Rate Adjustment Factor	-2.79 %

DRG Rebasing Adjustment Factor

Estimated FY2010 Impact*	-760,231
FY2010 Total Claims	211,975,445
Rate Adjustment Factor	-0.36 %

* From HHSC. Assumed to become effective 11/1/2011.