

November 10, 2011

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

Re: STAR+PLUS 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), Personal Assistance Services (PAS) for CBA clients 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+PLUS 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+PLUS 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, PAS 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+PLUS capitation rates to be payable for the period March 1, 2012 through August 31, 2012. Attachment 5 - Exhibit C (revised) presents the revised DME and PT/OT/ST reimbursement factors, Attachment 5 - Exhibit D (revised) presents the revised DRG rebasing

adjustment factors and Attachment 7 (revised) presents the revised PAS factors used in developing the amended capitation rates.

A handwritten signature in black ink that reads "Evan Dial". The signature is written in a cursive style with a horizontal line through the middle of the letters.

Evan Dial

Actuarial Certification of Amended FY2012 STAR+PLUS HMO Capitation Rates

I, Evan L Dial, 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 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.



Evan L. Dial, F.S.A., M.A.A.A.

FY2012 STAR+PLUS Capitation Rates - Amended
Per Member Per Month Rates

| Health Plan | Medicaid Only | | Dual Eligible | |
|---------------------------|---------------|-------------|---------------|-------------|
| | OCC | CBA | OCC | CBA |
| Effective January 1, 2012 | | | | |
| Amerigroup - Bexar | \$ 531.27 | \$ 2,984.13 | \$ 265.80 | \$ 1,685.10 |
| Molina - Bexar | 519.15 | 2,841.92 | 265.80 | 1,685.10 |
| Superior - Bexar | 588.03 | 2,850.32 | 265.80 | 1,685.10 |
| Amerigroup - Harris | 618.02 | 3,536.34 | 236.95 | 1,480.61 |
| Evercare - Harris | 679.70 | 3,241.46 | 236.95 | 1,480.61 |
| Molina - Harris | 601.39 | 3,453.66 | 236.95 | 1,480.61 |
| Evercare - Nueces | 718.11 | 2,896.88 | 385.79 | 1,585.23 |
| Superior - Nueces | 783.76 | 2,978.97 | 385.79 | 1,585.23 |
| Amerigroup - Travis | 615.67 | 3,485.14 | 179.87 | 1,724.30 |
| Evercare - Travis | 568.94 | 3,227.38 | 179.87 | 1,724.30 |
| Effective March 1, 2012 | | | | |
| Amerigroup - Bexar | \$ 527.31 | \$ 2,933.04 | \$ 265.80 | \$ 1,677.33 |
| Molina - Bexar | 515.32 | 2,795.11 | 265.80 | 1,677.33 |
| Superior - Bexar | 583.47 | 2,803.26 | 265.80 | 1,677.33 |
| Amerigroup - Harris | 615.11 | 3,481.22 | 236.95 | 1,473.24 |
| Evercare - Harris | 676.39 | 3,193.23 | 236.95 | 1,473.24 |
| Molina - Harris | 598.58 | 3,400.48 | 236.95 | 1,473.24 |
| Evercare - Nueces | 714.56 | 2,853.01 | 385.79 | 1,577.31 |
| Superior - Nueces | 779.72 | 2,932.96 | 385.79 | 1,577.31 |
| Amerigroup - Travis | 612.93 | 3,425.07 | 179.87 | 1,714.91 |
| Evercare - Travis | 566.45 | 3,175.83 | 179.87 | 1,714.91 |

FY2012 STAR+PLUS Rating
 Provider Reimbursement Adjustments
 Legislative Mandated Provider Rates Reductions (1)

| | Medicaid Only | | Dual Eligible | | Other | Grand Total |
|---|---------------|------------|---------------|-------|-------|-------------|
| | OCC | CBA | OCC | CBA | | |
| Cost Impact of Legislative Mandated Provider Rates Reductions (2) | | | | | | |
| Bexar | -2,678,186 | -556,828 | 0 | 0 | 0 | -3,235,014 |
| Harris | -7,991,958 | -1,384,608 | 0 | 0 | 0 | -9,376,566 |
| Nueces | -1,497,258 | -352,546 | 0 | 0 | 0 | -1,849,804 |
| Travis | -1,668,751 | -194,405 | 0 | 0 | 0 | -1,863,156 |
| Total | -13,836,154 | -2,488,386 | 0 | 0 | 0 | -16,324,539 |
| FY2010 Total Acute Care Claims Paid (3) | | | | | | |
| Bexar | 73,291,646 | 12,888,376 | 0 | 0 | 0 | 86,180,022 |
| Harris | 198,243,661 | 29,848,526 | 0 | 0 | 0 | 228,092,186 |
| Nueces | 36,561,415 | 7,025,836 | 0 | 0 | 0 | 43,587,252 |
| Travis | 34,992,928 | 3,111,929 | 0 | 0 | 0 | 38,104,856 |
| Total | 343,089,649 | 52,874,666 | 0 | 0 | 0 | 395,964,316 |
| Rate Adjustment Factor (4) | | | | | | |
| Bexar | -3.65% | -4.32% | 0.00% | 0.00% | 0.00% | -3.75% |
| Harris | -4.03% | -4.64% | 0.00% | 0.00% | 0.00% | -4.11% |
| Nueces | -4.10% | -5.02% | 0.00% | 0.00% | 0.00% | -4.24% |
| Travis | -4.77% | -6.25% | 0.00% | 0.00% | 0.00% | -4.89% |
| Total | -4.03% | -4.71% | 0.00% | 0.00% | 0.00% | -4.12% |

Footnotes

- (1) Effective 9/1/2011 various legislative mandated reimbursement reductions will be implemented. The fee reductions include 8% to OP hospital, 10.5% lab (excludes DSHS and physician lab), varying DME and 5% for all other providers excluding ambulance, PDN, home health (for children only), dental, ortho, physicians (includes psychiatrists, optometrists and radiologists), FQHCs, RHCs and TEFRA reimbursed hospitals. Note that this adjustment does not include the 8% inpatient facility reduction. That adjustment is included elsewhere along with the DRG rebasing adjustment.
- (2) Equals estimated impact of legislative reductions on FY2010 encounter data.
- (3) Equals FY2010 health plan fee-for-service claims for all acute care services (from Encounter database).
- (4) Equals Cost Impact of Reimbursement Reductions divided by FY2010 Total Acute Care Claims Paid.

Facility Reimbursement Changes

Legislative Mandated Inpatient Facility Rate Reductions and DRG Rebasing (1)

| | Medicaid Only | | Dual Eligible | | Other | Grand Total |
|--|---------------|------------|---------------|-------|-------|-------------|
| | OCC | CBA | OCC | CBA | | |
| Impact of 8% Inpatient Facility Rate Reduction and DRG Rebasing (2) | | | | | | |
| Bexar | -566,999 | -11,097 | 0 | 0 | 0 | -578,096 |
| Harris | -1,116,255 | -59,669 | 0 | 0 | 0 | -1,175,924 |
| Nueces | -177,630 | -9,868 | 0 | 0 | 0 | -187,498 |
| Travis | -50,518 | -82 | 0 | 0 | 0 | -50,600 |
| Total | -1,911,402 | -80,716 | 0 | 0 | 0 | -1,992,118 |
| FY2010 Total Acute Care Claims Paid (3) | | | | | | |
| Bexar | 73,291,646 | 12,888,376 | 0 | 0 | 0 | 86,180,022 |
| Harris | 198,243,661 | 29,848,526 | 0 | 0 | 0 | 228,092,186 |
| Nueces | 36,561,415 | 7,025,836 | 0 | 0 | 0 | 43,587,252 |
| Travis | 34,992,928 | 3,111,929 | 0 | 0 | 0 | 38,104,856 |
| Total | 343,089,649 | 52,874,666 | 0 | 0 | 0 | 395,964,316 |
| Rate Adjustment Factor (4) | | | | | | |
| Bexar | -0.64% | -0.07% | 0.00% | 0.00% | 0.00% | -0.56% |
| Harris | -0.47% | -0.17% | 0.00% | 0.00% | 0.00% | -0.43% |
| Nueces | -0.40% | -0.12% | 0.00% | 0.00% | 0.00% | -0.36% |
| Travis | -0.12% | 0.00% | 0.00% | 0.00% | 0.00% | -0.11% |
| Total | -0.46% | -0.13% | 0.00% | 0.00% | 0.00% | -0.42% |

Footnotes

- (1) Effective 9/1/2011 hospital reimbursement will be adjusted to reflect the legislative mandated 8% reimbursement reduction along with DRG rebasing.
- (2) Equals estimated impact of applying 8% reduction and DRG rebasing to FY2010 encounter data.
- (3) Equals FY2010 health plan fee-for-service claims for all acute care services (from Encounter database).
- (4) Equals Cost Impact of Reimbursement Reduction divided by FY2010 Total Acute Care Claims Paid. Assume two month delay in implementation.

FY2012 STAR+PLUS Rating
 Provider Reimbursement Adjustments
 Personal Assistance Services (1)

| | <u>OCC</u> | <u>CBA</u> | <u>Grand Total</u> |
|---|-------------|-------------|--------------------|
| FY2010 Personal Assistance Services (2) | | | |
| Bexar | 58,722,286 | 58,272,565 | 116,994,851 |
| Harris | 121,878,582 | 74,144,188 | 196,022,771 |
| Nueces | 34,805,422 | 39,198,021 | 74,003,443 |
| Travis | 17,966,299 | 23,842,208 | 41,808,507 |
| Total | 233,372,589 | 195,456,983 | 428,829,572 |
| Estimated PAS Reduction (3) | | | |
| | 0.00% | -3.60% | |
| Cost Impact of PAS Reduction | | | |
| Bexar | 0 | -2,097,812 | -2,097,812 |
| Harris | 0 | -2,669,191 | -2,669,191 |
| Nueces | 0 | -1,411,129 | -1,411,129 |
| Travis | 0 | -858,319 | -858,319 |
| Total | 0 | -7,036,451 | -7,036,451 |
| FY2010 Total Long Term Care Claims Paid (4) | | | |
| Bexar | 76,367,480 | 75,794,115 | 152,161,595 |
| Harris | 141,916,179 | 88,956,575 | 230,872,753 |
| Nueces | 40,886,232 | 46,037,983 | 86,924,215 |
| Travis | 19,394,999 | 25,800,319 | 45,195,318 |
| Total | 278,564,889 | 236,588,992 | 515,153,882 |
| Rate Adjustment Factor (5) | | | |
| Bexar | 0.00% | -2.77% | -1.38% |
| Harris | 0.00% | -3.00% | -1.16% |
| Nueces | 0.00% | -3.07% | -1.62% |
| Travis | 0.00% | -3.33% | -1.90% |
| Total | 0.00% | -2.97% | -1.37% |

Footnotes

- (1) Effective 9/1/2010 Personal Assistance services for CBA clients were reduced by \$0.46 per unit.
- (2) Equals FY2010 PAS payments (from FY2010 FSR data)
- (3) Equals \$0.46 reduction of current PAS rate of \$11.66. Assumed to be applicable to 90% of PAS services
- (4) Equals FY2010 health plan fee-for-service claims for all long term care services (from MCO reported data).
- (5) Equals Cost Impact of \$0.46 PAS reduction divided by FY2010 Total Long Term Care Claims Paid.