

Rudd and Wisdom, Inc.

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January 16, 2012

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:

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 which was amended in the letter titled STAR Health Rate Amendment and dated November 10, 2011. The amended FY2012 capitation rates were developed using identical methods and assumptions as the rates described in that report and the previous amendment. The amended rates are assumed to be payable for the period March 1, 2012 through August 31, 2012. The reasons for these revisions are included below:

1. Capitation of previously non capitated services

Effective March 1, 2012 certain hearing, audiology and early childhood intervention services for children will be capitated under the STAR Health Program. Previously these services were carved out and paid on a fee-for-services basis. The impact of capitating these services is included in Attachment 3 (revised).

2. Reimbursement Revisions

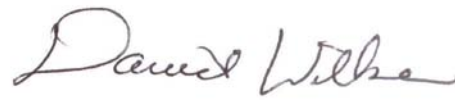
HHSC has made further revisions to Medicaid provider reimbursement effective March 1, 2012. Provider reimbursement will be adjusted for the following services: (i) non emergent services provided in an emergency room, (ii) therapy services and (iii) durable medical equipment. These changes in provider reimbursement will impact the capitation rates currently in effect for FY2012. Attachment 3 (revised) presents the revised provider reimbursement factors used in developing the amended capitation rates.

3. Carve-in of Prescription Drug Benefit

Prior to March 1, 2012 the prescription drug benefit for STAR Health members was carved out of the STAR Health program and paid by the vendor drug program. Effective March 1, 2012 prescription drugs will be carved into the STAR Health program and paid by the managed care organization. A description of the method used to develop the rates associated with prescription drugs and the respective rates can be found in the report titled State of Texas Medicaid Managed Care Pharmacy Carve-in March 1, 2012 and dated January 16, 2012.

The attached Exhibit A presents the amended FY2012 capitation rate.

Sincerely,

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

David Wilkes

DGW:nlg

Enclosure

Actuarial Certification of Amended FY2012 STAR Health 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.

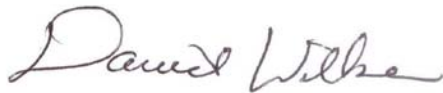
Rudd and Wisdom has been retained by the Texas Health and Human Services Commission (HHSC) to assist in the development of their state fiscal year 2012 (FY2012) managed care rate-setting methodology, assumptions and resulting capitation rates and to provide the actuarial certification required under 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 March 1, 2012 \$ 764.62

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
Capitate Hearing and Audiology*	67,566
Capitate ECI Services*	420,223
Therapy Reimbursement Reduction*	-109,261
DME Reimbursement Increase*	142,898
Overall Provider Reimbursement Change	-5,385,240
FY2010 Total Claims	211,975,445
Rate Adjustment Factor	-2.54 %

DRG Rebasing Adjustment Factor

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

*From HHSC. Effective 3/1/2012

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