

# 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+PLUS Dallas, Tarrant and Jefferson Rate Amendment

Dear Dr. Palmer:

This letter amends the report titled State of Texas Medicaid Managed Care Expansion STAR+PLUS Program Rate Setting State Fiscal Year 2012 Dallas, Tarrant and Jefferson Service Areas and dated July 1, 2011 which was amended in the letter titled STAR+PLUS Dallas, Tarrant and Jefferson 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 and audiology services for children and early childhood intervention services will be capitated under the STAR+PLUS 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 5 (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 5 (revised) presents the revised provider reimbursement factors used in developing the amended capitation rates.

### **3. Update Long Term Care Trend**

The FY2011 trend assumption for the Dallas and Tarrant SDAs has been updated to reflect the actual long term care trend in these areas. In prior rate developments actual FY2011 trend information was not available for these areas and the assumption was made that the trends in both Dallas and Tarrant would be comparable to the emerging FY2011 trends in the existing STAR+PLUS areas. Based on updated claims information it is apparent that the trends in both Dallas and Tarrant are significantly higher than those in the existing STAR+PLUS areas. A similar analysis was performed for the Jefferson SDA and no change was warranted as the trends in this area do not deviate significantly from those of the existing STAR+PLUS areas. Exhibit B presents information regarding the revised FY2011 long term care trend assumptions.

### **4. Long Term Care Utilization Shift**

Based on emerging claims data for the STAR+PLUS expansion in the Dallas, Tarrant and Jefferson SDAs, long term care utilization appears to be significantly higher than anticipated. This increase appears to be attributable to several reasons: i) reintegration of high cost former nursing facility members into the community and ii) lower utilization of long term care services of those members who remain in Fee-for-Service (FFS) and are not transitioned into STAR+PLUS. This shift in long term care expenditures primarily effects the dual eligible populations.

In prior rate developments adjustments were made to the long term care claims data for those members currently residing in a nursing facility. Further, it was assumed that members transitioning to STAR+PLUS and those remaining in FFS would have the same average long term care cost. Exhibit C presents the adjustment factors applied to the dual eligible long term care cost to account for the apparent shift in long term care utilization patterns between STAR+PLUS and FFS members.

The capitation rates payable for the six-month period March 1, 2012 through August 31, 2012 have been adjusted to recognize the impact of this utilization shift including an adjustments for the insufficiency of the premium rates paid during the period September 1, 2011 through February 29, 2012.

### **5. Carve-in of Inpatient Hospital Services**

Prior to March 1, 2012 inpatient hospital services for STAR+PLUS members were carved out of the STAR+PLUS program and paid by TMHP on a fee-for-service basis. Effective March 1, 2012 inpatient hospital services will be carved into the STAR+PLUS program and paid by the managed care organizations. A description of the method used to develop the rates associated with inpatient hospital services and the respective rates can be found in the report titled State of Texas Medicaid Managed Care STAR+PLUS Inpatient Carve-in March 1, 2012 and dated January 16, 2012.

### **6. Carve-in of Prescription Drug Benefit**

Prior to March 1, 2012 the prescription drug benefit for STAR+PLUS members was carved out of the STAR+PLUS program and paid by the vendor drug program. Effective March 1, 2012

prescription drugs will be carved into the STAR+PLUS program and paid by the managed care organizations. 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 rates.

Sincerely,

A handwritten signature in black ink that reads "Evan Dial". The signature is written in a cursive style with a large, sweeping "E" and a long, horizontal stroke for the "l" in "Dial".

Evan Dial

Actuarial Certification of Amended FY2012 STAR+PLUS Dallas, Tarrant and Jefferson 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 STAR+PLUS Dallas, Tarrant and Jefferson 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 Expansion Capitation Rates - Amended  
 Per Member Per Month Rates

Health Plan	Medicaid Only		Dual Eligible	
	OCC	CBA	OCC	CBA
Effective March 1, 2012				
Dallas	\$ 462.76	\$ 2,373.95	\$ 241.10	\$ 1,593.69
Tarrant	490.11	2,514.24	199.50	1,318.71
Jefferson	405.45	2,079.97	237.82	1,571.97

FY2012 STAR+PLUS Dallas, Jefferson and Tarrant  
 Dallas and Tarrant Long Term Care Trend Assumptions

	<u>Dual Eligible</u>	<u>Non-Dual</u>
9/1/10-1/31/11 (1)		
Dallas	1.140	1.150
Tarrant	1.131	1.217
STAR+PLUS Average (2)	1.003	1.067

Footnotes:

- (1) Long care trend in 5 months prior to the STAR+PLUS expansion.  
 (2) Average long term care trend in the existing STAR+PLUS areas.

FY2012 STAR+PLUS Dallas, Tarrant and Jefferson  
 Long Term Care Utilization Adjustment - Dual Eligibles

	<u>Nursing Facility Utilization (1)</u>	<u>Non LTC Utilization Factor (2)</u>	<u>LTC Utilization Shift Adjustment Factor (4)</u>	<u>LTC Utilization Shift Adjustment Factor - 9/1/11- 8/31/11 (5)</u>
Dallas	18.8%	27.0%	11.2%	22.5%
Tarrant	25.6%	36.2%	16.6%	33.2%
Jefferson (3)	22.0%	31.6%	14.0%	28.1%

Footnotes:

- (1) Percentage of total members in a nursing facility during FY2010 experience period.
- (2) Percentage of clients remaining in FFS during the initial expansion period of 2/1/2011-8/31/2011.
- (3) Non LTC Utilization Factor based on average of Dallas and Tarrant data.
- (4) Increase in low cost long term care utilzers between FY2010 and initial STAR+PLUS expansion period.
- (5) Utilization shift factor adjusting for insufficient premium payments during 9/1/11-2/29/12.

FY2012 Dallas, Tarrant and Jefferson Area STAR+PLUS Rating  
 Provider Reimbursement Adjustments

	Adjustment Factor (1)	
	Medicaid Only	Dual Eligible
Fee Schedule Adjustment	0.9968	1.0000
Substance Abuse Adjustment	1.0031	1.0000
1% Provider Rate Reductions	0.9810	1.0000
Outpatient Imaging Fee Schedule	0.9793	1.0000
Legislative Reduction	0.9588	1.0000
Capitate Hearing and Audiology	1.0003	1.0000
Capitate ECI	1.0001	1.0000
Non Emergent ER Reduction	1.0000	1.0000
Therapy Reduction	1.0000	1.0000
DME Increase	1.0009	1.0000
Provider Adjustment Factor	0.9221	1.0000
PAS Reduction	0.9863	0.9863
DRG Rebasing	1.0000	1.0000

Footnotes:

- (1) Average adjustment factors developed for FY2012 STAR+PLUS rating for current STAR+PLUS service areas. Calculations by area detailed in report titled State of Texas Medicaid Managed Care STAR+PLUS Program Rate Setting State Fiscal Year 2012 and amended in the letters titled STAR+PLUS Rate Amendment and dated November 11, 2011 and January 16, 2012.