

**STATE OF TEXAS
CHILDREN'S HEALTH INSURANCE
PROGRAM
CHIP RATE SETTING
STATE FISCAL YEAR 2013**

Prepared for:
Texas Health and Human Services Commission

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I. Introduction

Rudd and Wisdom, Inc. has been retained by the Texas Health and Human Services Commission (HHSC) to develop the state fiscal year 2013 (FY2013, September 1, 2012 through August 31, 2013) premium rates for health plans participating in the Texas Children's Health Insurance Program (CHIP). This report presents the rating methodology and assumptions used in developing the premium rates.

Rudd and Wisdom has provided actuarial services to the Texas Medicaid program for over 25 years. We have participated in the state's Medicaid managed care rating process since its inception in 1993 and in developing premium rates for CHIP plans since that program's inception in 2000. This year, as in previous years, we have worked closely with HHSC in developing the FY2013 CHIP premium rates.

Rudd and Wisdom has relied on the following data sources as provided by HHSC, the participating health plans and the agency's External Quality Review Organization (EQRO):

- Monthly enrollment by age group for each health plan. This includes historical enrollment since September 2008 and a projection of future enrollment through August 2013.
- Claim lag reports by age group for each health plan for the period September 2008 through February 2012. These reports were provided by the health plans and include monthly paid claims by month of service.
- Financial Statistical Reports (FSR) for each participating health plan for FY2010, FY2011 and the first six months of FY2012. The FSR contains detailed information regarding monthly enrollment, revenue, incurred claims and administrative expenses, as reported by the health plan.
- Reports from the EQRO summarizing their analysis of the health plan's encounter data.
- Reports from the health plans providing information on high volume claimants during the experience period.
- Current (FY2012) premium rates for each health plan.
- Information from both HHSC and the health plans regarding recent changes in covered services and provider reimbursement under the State Medicaid and CHIP programs.
- Information from the health plans regarding current and projected payment rates for certain capitated services, such as mental health and vision.
- FY2011 acuity risk adjustment analysis prepared by the EQRO for each participating health plan.
- Information from the health plans regarding current and projected reinsurance premium rates.
- Information provided by HHSC regarding FY2011 CHIP health plan claims cost by type of service for certain services. This information was obtained from the encounter database.

- Information from HHSC regarding FY2012 and proposed FY2013 Medicaid provider reimbursement rates.
- Information provided by HHSC regarding DRG rebasing.

Although the above data was reviewed for reasonableness, Rudd and Wisdom did not audit the data.

II. Overview of the Rate Setting Methodology

This report details the development of the medical component of the total premium rate. Information regarding the carve-in of prescription drugs into the CHIP program can be found in the report titled “State of Texas Medicaid Managed Care Rate Setting Pharmacy Carve-in State Fiscal Year 2013”.

The actuarial model used to derive the FY2013 CHIP premium rates relies primarily on health plan financial experience. The historical claims experience data for each health plan was analyzed and estimates for the base period (FY2011) were developed. These estimates were then projected forward to FY2013 using assumed trend rates. Other plan expenditures such as capitated amounts, reinsurance costs and administrative expenses were added to the claims component in order to project the total FY2013 cost under the health plan. These projected total cost rates were determined separately for each health plan. The results of this analysis were then combined for all health plans in a service area in order to develop a set of community rates for each service area.

The health plans under review are located in the following service areas:

- Bexar County Service Area (San Antonio)
- Dallas County Service Area (Dallas)
- El Paso County Service Area (El Paso)
- Harris County Service Area (Houston)
- Lubbock County Service Area (Lubbock)
- Nueces County Service Area (Corpus Christi)
- Tarrant County Service Area (Fort Worth)
- Travis County Service Area (Austin)
- Rural County Service Area

The Rural Service Area (RSA) plan serves 174 mostly rural Texas counties. The FY2013 premium rates for the RSA were developed using the same methodology as that used for all other CHIP health plans.

Premium rates were determined for the following age groups:

- Under Age One Year
- Ages 1 – 5
- Ages 6 - 14
- Ages 15 - 18

The services used in the analysis include the following:

- Inpatient Hospital
- Outpatient Hospital
- Physician Services
- Other Professional Services
- Lab, X-ray and Radiology Services
- Medical Supplies
- Behavioral Health Services

- EPSDT Medical Services
- Family Planning and Genetics Services
- Hearing Services
- Home Health Services
- Emergency Room Services
- Ambulance Services
- Vision Services
- Prescription Drugs

Services specifically excluded from the analysis include:

- Dental and Orthodontia Services

After accumulating all of the information to be used in the rate setting process, a comparison of the various sources of claims data was performed to check for consistency. We compared (i) the claim lag reports provided by the health plans, (ii) the claim amounts included in the FSRs and (iii) the claim amounts in the encounter data files as provided by the EQRO. There was satisfactory consistency between the three claims data sources for each of the health plans.

We projected the FY2013 cost for each individual health plan by estimating their base period (FY2011) average claims cost and then applying trend and other adjustment factors. (These adjustment factors are described in more detail in Section III.) We added capitation expenses for services capitated by the health plan (such as vision and behavioral health), a net cost of reinsurance, a reasonable provision for administrative expenses and a risk margin. Attachment 2 presents a description and an example of the experience analysis for a sample health plan. This type of analysis was conducted on the experience of each participating CHIP health plan.

The analysis of base period claims experience for each health plan attempted to identify and adjust for any distortions in the data. Significant variations in experience, including the impact from unusually large individual claims, were investigated and adjustments were made if deemed appropriate.

HHSC utilized the combination of two rating methodologies in setting the FY2013 CHIP premium rates – individual plan experience rating and community rating. The individual plan experience rating method is described above and documented in Attachment 2. The community rates are developed by a weighted average of the projected FY2013 cost for each health plan in the service area (from the individual plan experience rating method). The weights used in this formula are the projected FY2013 number of members enrolled in each health plan by age group. Attachment 3 presents the summary community rating exhibit for each service area along with a description of the analysis.

The base community rate in each service area was adjusted to reflect the health status, or acuity, of the population enrolled in each health plan. The purpose of acuity risk adjustment is to recognize the anticipated cost differential between multiple health plans in a service area by analyzing the health status of their respective memberships. Additional information regarding risk adjustment is included in Section III below under Risk Adjustment and in Attachment 6.

The FY2013 CHIP health plan premium rates were then defined as the following: the minimum of (a) 110% of the rate developed using the individual experience of the plan and (b) the maximum of (i) community rate with full risk adjustment and (ii) 92.5% of the rate developed using the individual experience of the plan. Any resulting rate decrease was limited to 10%. The enrollment for children under age one is so small that credible rates could not be set by area. As a result the rate for this risk groups was calculated on a statewide basis.

In addition to the premium, HHSC pays the CHIP health plans a \$3,100 delivery supplemental payment (DSP) per maternity delivery. Additional information regarding DSP is included in Attachment 7.

III. Adjustment Factors

This section contains a description of the adjustment factors used in the FY2013 CHIP rate setting process.

Trend Factors

The rating methodology uses assumed trend factors to adjust the base period claims cost to the projection period. The cost trend factors used in this analysis are a combination of utilization and inflation components. The projected trend rate assumptions were developed by the actuary based on an analysis of recent experience under the CHIP program. A single trend assumption applied to all service areas but varies by projection year (FY2012 and FY2013).

The trend analysis included a review of HMO and RSA claims experience data through February 29, 2012. Based on this information, estimates of monthly incurred claims were made through December 2011. The claims cost and trend experience was reviewed separately by service area. The service area trends were then combined into a statewide average using a weighted average formula with estimated incurred claims as the weights.

The FY2012 trend assumptions were developed from two components: (i) the actual estimated trend for the period September 2011 through December 2011 and (ii) the projected trend for the period January 2012 through August 2012. The experience trends for the period September 2011 through December 2011 were adjusted to remove the impact of the various provider reimbursement reductions effective September 1, 2011 which are discussed further in this report. We have assumed the trend for the period January 2012 through August 2012 and all of FY2013 will be 5%.

This analysis was used to select an annual trend rate assumption of 3.2% for FY2012 and 5.0% for FY2013 for each health plan.

Reimbursement Adjustment

There were several significant revisions to the Texas Medicaid fee schedule which were included in the CHIP rating analysis. Reimbursement changes were recognized for the following services:

- 1% Provider Rate Cuts Effective September 1, 2010 and February 1, 2011
- Legislative Mandated Provider Rate Reductions
- DRG Rebasing
- Outpatient Imaging Services Transitioning to a Fee Schedule
- Non Emergency ER Reduction
- Cost Sharing Change
- Therapy Reimbursement Change
- DME Reimbursement Change
- Limit Related Party Reimbursement to 100% of Medicaid

The rating adjustments for these provider reimbursement changes were calculated by applying actual health plan encounter data to the old and new reimbursement basis and the resulting impact determined. Attachment 4 presents a summary of the derivation of these adjustment factors.

Risk Adjustment

Several risk adjustment techniques are employed in the rate setting methodology. Premium rates are established separately by area and age group in order to recognize the inherent geographical and demographical variation in the cost of delivering care. In an attempt to treat the health plans more equitably regarding maternity expenses, the methodology includes a separate payment for maternity services. The rating methodology also includes a health status adjustment.

The base community rate in each service area was adjusted to reflect the health status, or acuity, of the population enrolled in each health plan. The purpose of risk adjustment is to recognize the anticipated cost differential between multiple health plans in a service area by analyzing the health status of their respective members. The risk analysis was performed by the University of Florida's Institute for Child Health Policy (ICHP). The methodology used to incorporate the acuity risk adjustment is the Chronic Illness and Disability Payment System (CDPS). Additional information regarding risk adjustment is included in Attachment 6.

Although the results of the risk adjustment analysis were reviewed for reasonableness, Rudd and Wisdom did not audit the risk adjustment data or the results of ICHP's analysis.

IV. Administrative Fees and Risk Margin

The rating methodology includes an explicit provision for health plan administrative services. The amount allocated for administrative expenses is \$8.00 per member per month (pmpm) plus 5.75% of gross premium. This amount is intended to provide for all administrative-related services performed by the HMO.

The premium rates also include an amount for premium tax (1.75% of premium), maintenance tax (\$0.125 pmpm) and a risk margin (2.0% of premium).

V. CHIP Perinatal

Since January 1, 2007, a new group of clients have been covered under the CHIP program – CHIP Perinatal. The purpose of this program is to extend CHIP services to unborn children of certain non-Medicaid eligible women. Newborns under this program receive the same benefits as current CHIP participants. There is no cost sharing applied to these participants.

The CHIP benefits provided to expectant mothers are more limited in scope. They include the professional component of delivery services (for those clients under 185% FPL) and limited prenatal and post-natal services only.

We have developed premium rates for three categories of clients: (1) newborns between 185% and 200% FPL; (2) expectant mothers under 185% FPL; and (3) expectant mothers between 185% and 200% FPL.

The CHIP Perinatal FY2013 premium rates were derived using a methodology very similar to that described in Section II above for CHIP. Attachment 8 presents a description of the rating methodology used in developing the FY2013 CHIP Perinatal rates.

VI. CHIP Dental

The actuarial model used to derive the FY2013 CHIP Dental premium rates relied on recent dental plan financial experience. Historical claims experience data for the dental plan was analyzed and estimates for the FY2011 base period were developed. The claims experience was trended forward to FY2013 using assumed trend rates of 4.8% for FY2012 and 5.0% for FY2013.

The base period claims data have been adjusted to reflect reimbursement changes for the i) 1% provider rate cuts effective September 1, 2010 and February 1, 2011 and ii) member cost sharing change.

In addition, the base period claims data have also been adjusted to reflect significant benefit changes effective March 1, 2012. These changes included:

- Elimination of three benefit tiers
- Establishment of a single \$564 maximum
- Exclusion of preventive and diagnostic services from the maximum
- Prior authorization for services in excess of the maximum

Provisions for administrative expenses, taxes and risk margin were added to the projected claims to produce the FY2013 premium rates. Attachment 9 includes additional documentation regarding the rate calculation for CHIP Dental.

VII. Summary

The chart below presents the results of the FY2013 CHIP rating analysis and includes all components of the premium – medical and prescription drug. This report details the development of the medical component of the premium. Further information regarding the prescription drug component of the premium rate can be found in the report titled “State of Texas Medicaid Managed Care Rate Setting Pharmacy Carve-in State Fiscal Year 2013”.

Health Plan	CHIP - Medical & Prescription Drugs				DSP
	Under Age 1	Ages 1-5	Ages 6-14	Ages 15-18	
FY2013 Premium Rates pmpm					
Aetna - Bexar	205.30	99.88	88.34	93.81	3,100.00
Amerigroup - Bexar	205.30	118.71	97.77	109.44	3,100.00
CFHP - Bexar	205.30	121.64	100.97	110.74	3,100.00
Superior - Bexar	205.30	116.03	91.17	110.84	3,100.00
Amerigroup - Dallas	205.30	126.10	97.76	108.16	3,100.00
Molina - Dallas	205.30	127.96	100.13	113.51	3,100.00
Parkland - Dallas	205.30	132.32	103.37	123.31	3,100.00
El Paso First - El Paso	205.30	110.16	85.42	109.04	3,100.00
Superior - El Paso	205.30	109.82	90.08	99.50	3,100.00
Amerigroup - Harris	205.30	131.52	101.64	134.81	3,100.00
CHC - Harris	205.30	120.53	93.71	125.12	3,100.00
Molina - Harris	205.30	110.31	91.72	128.56	3,100.00
TCHP - Harris	205.30	144.46	121.74	155.39	3,100.00
UHC - Harris	205.30	125.16	96.45	127.59	3,100.00
Amerigroup - Jefferson	205.30	124.30	99.29	126.44	3,100.00
CHC - Jefferson	205.30	114.74	92.39	118.01	3,100.00
Molina - Jefferson	205.30	105.85	90.66	121.00	3,100.00
TCHP - Jefferson	205.30	135.56	116.77	144.34	3,100.00
UHC - Jefferson	205.30	118.77	94.77	120.16	3,100.00
Firstcare - Lubbock	205.30	122.31	90.26	117.20	3,100.00
Superior - Lubbock	205.30	94.75	87.54	103.94	3,100.00
Christus - Nueces	205.30	147.74	122.54	153.31	3,100.00
Driscoll - Nueces	205.30	150.32	123.13	158.81	3,100.00
Superior - Nueces	205.30	120.56	110.63	107.09	3,100.00
Aetna - Tarrant	205.30	105.41	99.72	122.72	3,100.00
Amerigroup - Tarrant	205.30	115.31	104.20	123.59	3,100.00
Cook - Tarrant	205.30	137.17	122.53	147.96	3,100.00
BCBS - Travis	205.30	109.94	99.20	128.59	3,100.00
Sendero - Travis	205.30	109.94	99.20	128.59	3,100.00
Seton - Travis	205.30	108.35	98.52	133.92	3,100.00
Superior - Travis	205.30	106.96	96.49	111.97	3,100.00
Molina - RSA	205.30	114.43	93.03	107.03	3,100.00
Superior - RSA	205.30	135.72	107.94	118.28	3,100.00

CHIP Perinatal - Medical & Prescription Drug

Health Plan	Newborns 185-200%	Perinate <185%	Perinate 185-200%	DSP
FY2013 Premium Rates pmpm				
Aetna - Bexar	865.74	402.79	361.35	3,100.00
Amerigroup - Bexar	865.74	402.79	361.35	3,100.00
CFHP - Bexar	865.74	402.79	361.35	3,100.00
Superior - Bexar	865.74	402.79	361.35	3,100.00
Amerigroup - Dallas	865.74	425.64	361.35	3,100.00
Molina - Dallas	865.74	425.64	361.35	3,100.00
Parkland - Dallas	865.74	425.64	361.35	3,100.00
El Paso First - El Paso	865.74	346.55	361.35	3,100.00
Superior - El Paso	865.74	346.55	361.35	3,100.00
Amerigroup - Harris	865.74	628.54	361.35	3,100.00
CHC - Harris	865.74	628.54	361.35	3,100.00
Molina - Harris	865.74	628.54	361.35	3,100.00
TCHP - Harris	865.74	628.54	361.35	3,100.00
UHC - Harris	865.74	628.54	361.35	3,100.00
Amerigroup - Jefferson	865.74	620.34	361.35	3,100.00
CHC - Jefferson	865.74	620.34	361.35	3,100.00
Molina - Jefferson	865.74	620.34	361.35	3,100.00
TCHP - Jefferson	865.74	620.34	361.35	3,100.00
UHC - Jefferson	865.74	620.34	361.35	3,100.00
Firstcare - Lubbock	865.74	347.50	361.35	3,100.00
Superior - Lubbock	865.74	347.50	361.35	3,100.00
Christus - Nueces	865.74	406.93	361.35	3,100.00
Driscoll - Nueces	865.74	406.93	361.35	3,100.00
Superior - Nueces	865.74	406.93	361.35	3,100.00
Aetna - Tarrant	865.74	348.94	361.35	3,100.00
Amerigroup - Tarrant	865.74	348.94	361.35	3,100.00
Cook - Tarrant	865.74	348.94	361.35	3,100.00
BCBS - Travis	865.74	432.27	361.35	3,100.00
Sendero - Travis	865.74	432.27	361.35	3,100.00
Seton - Travis	865.74	432.27	361.35	3,100.00
Superior - Travis	865.74	432.27	361.35	3,100.00
Molina - RSA	865.74	379.50	361.35	3,100.00
Superior - RSA	865.74	379.50	361.35	3,100.00

CHIP Dental

	Under Age 1	Ages 1-5	Ages 6-14	Ages 15-18
FY2013 Premium Rate pmpm	1.57	15.23	23.90	19.93

Attachment 1 presents additional information regarding the CHIP FY2013 rates including a comparison to current (FY2012) rates. Attachments 8 and 9 contain additional information regarding the FY2013 CHIP Perinatal and CHIP Dental plan rates, respectively.

VIII. Actuarial Certification of FY2013 CHIP HMO Premium Rates

I, Khiem D. Ngo, 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.

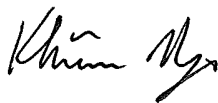
Rudd and Wisdom has been retained by the Texas Health and Human Services Commission (HHSC) to assist in the development of their state fiscal year 2013 (FY2013) managed care rate-setting methodology, assumptions and resulting premium rates and to provide the actuarial certification required under Centers for Medicare and Medicaid Services (CMS) requirements 42 CFR 438.6(c).

I certify that the FY2013 HMO premium rates developed by HHSC and Rudd and Wisdom satisfy the following:

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



Khiem D. Ngo, F.S.A., M.A.A.A.

IX. Attachments

Attachment 1

Summary of FY2013 CHIP Rating Analysis

The attached exhibit presents summary information regarding the FY2013 CHIP health plan rates. Included on the exhibits are current (FY2012) premium, split between medical and prescription drug, and delivery supplemental payment (DSP) rates, FY2013 premium, split between medical and prescription drug, and DSP rates and a comparison of FY2012 and FY2013 premium rates.

Attachment 2

Individual Health Plan Experience Analysis

The following exhibits present a summary of the experience analysis performed for each participating health plan. These exhibits use hypothetical experience data from a sample health plan. The actual analysis is based on experience data provided by each plan. This data was checked for reasonableness by comparing to other data sources provided by HHSC, the EQRO and the health plan. Below is a brief description of each of the exhibits contained in this attachment.

Exhibit A. This exhibit shows monthly enrollment and earned premium by age group for the period September 2008 through February 2012. This information was provided by HHSC.

Exhibit B. This exhibit shows a sample of a claim lag report. This report includes claim amounts by payment month and month of service. We analyzed claims experience for each plan by age group for the period September 2008 through February 2012.

Exhibit C. This exhibit shows the calculation of estimated monthly incurred claims. The exhibit includes the following information: (i) monthly enrollment, (ii) claim amounts incurred in that month and paid through February, 2012, (iii) estimated proportion of that month's incurred claims paid through February, 2012 (completion factor), (iv) estimated incurred claims, (v) estimated incurred claims pmpm and (vi) the ratio of this month's incurred claims pmpm to the same statistic from one year ago (trend factor). The assumed completion factors and estimated incurred claims were derived based on the actual historical claims payment pattern of the health plan.

Exhibit D. This exhibit is a summary of the sample health plan's projected FY2013 cost based on the plan's actual experience. The top of the exhibit shows summary base period (FY2011) enrollment, premium and claims experience. Trend assumptions for FY2012 and FY2013 are used to project the average base period claims cost to FY2013. Following that are several adjustments for benefit and provider reimbursement changes.

In addition to incurred claims, provision is also made for services that are capitated by the health plan, such as vision and behavioral health services. The cost of reinsurance is also considered. In developing the cost of reinsurance, an assumption is made regarding how much the plan is expected to receive in reinsurance recoveries (reimbursements from the reinsurance company for large claims). We have assumed that the net cost of reinsurance (reinsurance premium less reinsurance recoveries) is the minimum of (a) the actual reinsurance premium rate and (b) \$0.75 pmpm.

The rating methodology includes an explicit provision for administrative expenses. The amount allocated for administrative expenses is \$8.00 pmpm plus 5.75% of gross premium. Provisions are also included for risk margin (2.0% of gross premium), premium tax (1.75%) and maintenance tax (\$.125 pmpm).

At the bottom of Exhibit D is a summary of the projected FY2013 cost based on the above assumptions

Attachment 3

Community Experience Analysis

The following exhibits present a summary of the experience analysis performed for each service area. HHSC utilizes an adjusted community rating methodology in setting the CHIP premium rates. The base community rates by age group vary by service area but are the same for each health plan in a service area. The community rates are developed by a weighted average of the projected FY2013 cost for each health plan in the service area. The weights used in this formula are the projected number of FY2013 members enrolled in each health plan.

Below is a brief description of each of the exhibits contained in the attachment. The exhibits present the derivation of the FY2013 CHIP HMO community premium rates for the following service areas:

- Exhibit A – Bexar Area
- Exhibit B – Dallas Area
- Exhibit C – El Paso Area
- Exhibit D – Harris Area
- Exhibit E – Lubbock Area
- Exhibit F – Nueces Area
- Exhibit G – Rural Service Area (RSA)
- Exhibit H – Tarrant Area
- Exhibit I – Travis Area

These exhibits show projected FY2013 experience for each of the service areas. These amounts were derived by summing amounts from each individual health plan in the service area. The experience analysis for individual HMOs is described in Attachment 2. The top portion of the exhibit shows summary base period (FY2011) experience. Following that are projected FY2013 enrollment, premium and incurred claims experience.

In addition to incurred claims, provision is also made for services that are capitated by the HMOs, such as vision and behavioral health services. The cost of reinsurance is also considered. In developing the cost of reinsurance we make an assumption regarding how much the HMO is expected to receive in reinsurance recoveries (reimbursements from the reinsurance company for large claims). We have assumed that the net cost of reinsurance (reinsurance premium less reinsurance recoveries) is the minimum of (a) the actual reinsurance premium rate and (b) \$0.75 pmpm.

The amount allocated for administrative expenses is \$8.00 pmpm plus 5.75% of gross premium. Provisions are also included for risk margin (2.0% of gross premium), premium tax (1.75%) and maintenance tax (\$.125 pmpm).

At the bottom of the exhibit is a summary of the projected FY2013 cost based on these assumptions.

Attachment 4

Provider Reimbursement Adjustments

This attachment presents information regarding the various provider reimbursement adjustments considered in the rating analysis and how the adjustment factors were developed.

There were several significant revisions to the Texas Medicaid fee schedule which were included in the CHIP rating analysis. The rating adjustments for these provider reimbursement changes were calculated by applying actual health plan encounter data to the old and new reimbursement basis and the resulting impact determined. The attached exhibits present a summary of the derivation of these adjustment factors.

Exhibit A – 1% Provider Rate Cut Effective September 1, 2010 and February 1, 2011

Exhibit B – Legislative Mandated Provider Rate Reduction

Exhibit C – DRG Rebasing

Exhibit D – Outpatient Imaging Services Transitioning to a Fee Schedule

Exhibit E – Related Party Reduction

Exhibit F – Cost Sharing Change

Exhibit G – Non Emergency ER Reduction

Exhibit H – Therapy Reimbursement Change

Exhibit I – DME Reimbursement Change

Effective September 1, 2010 and again on February 1, 2011, Medicaid reduced reimbursement by 1% for most providers and services. Attached Exhibit A presents the estimated cost impact for the reimbursement reduction.

Effective September 1, 2011 legislative mandated provider reimbursement reduction. The legislative rate reductions include the following:

- 8% hospital rate reduction
- 10.5% laboratory rate reduction (excludes DSHS and physician lab)
- Varying durable medical equipment reductions.
- 5% reduction for all other providers excluding ambulance, private duty nursing (children only), home health (children only), dental, orthodontics, physicians (includes psychiatrists, optometrists, radiologists, podiatrists and orthodontists), FQHCs, Rural Health Centers and TEFRA reimbursed hospitals.

Exhibit B presents a summary of the derivation of the legislative rate reduction adjustment factors for services other than inpatient facility. Exhibit C presents a summary of the derivation of the legislative rate reduction adjustment factors for inpatient facility reimbursement and DRG rebasing.

Effective September 1, 2011 outpatient imaging services were transitioned to a fee schedule. Exhibit D presents an estimate of the cost impact resulting from this change.

Effective September 1, 2010, HHSC revised the rating methodology to exclude from the claims experience base any amounts paid by a health plan to a related party in excess of 100% of Medicaid. Attached Exhibit E presents a summary of the derivation of the rating adjustment

factors.

Effective March 1, 2012 HHSC increased the cost share requirements resulting in a corresponding reduction in medical expense. Exhibit F presents an estimate of the cost impact resulting from this change.

Effective September 1, 2011, HHSC implemented a 40% reduction to reimbursement for non-emergent services provided in the emergency room. Attached Exhibit G presents a summary of the derivation of the rating adjustment factors.

Effective March 1, 2012 HHSC made further revisions to the Therapy and Durable Medical Equipment fee schedules. Attached Exhibits H and I presents a summary of the derivation of the rating adjustment factors.

Attachment 5

Jefferson Service Delivery Area

Effective March 1, 2012 the Harris and Jefferson service delivery areas (SDA) will be considered separate SDAs. Previously the two SDAs were combined for rating purposes. The relative cost difference between the two areas was developed based on an analysis of the cost difference between expansion children and federal mandate children in the STAR program. During FY2010 and FY2011 the Jefferson SDA average cost was approximately 87% of the Harris SDA average cost for these risk groups. Attachment 5 presents the development of the rates separately for the Harris and Jefferson SDAs.

Attachment 6

Acuity Risk Adjustment

The rate setting methodology incorporates a risk adjustment technique that is designed to adjust the base community rate in each service area to reflect the health status, or acuity, of the population enrolled in each health plan. The purpose of acuity risk adjustment is to recognize the anticipated cost differential between multiple health plans in a service area by analyzing the health status of their respective members. The risk analysis was performed by the University of Florida's Institute for Child Health Policy (ICHP). The methodology used to incorporate the risk adjustment is the Chronic Illness and Disability Payment System (CDPS). The attached exhibits (provided by ICHP) present a summary of the risk adjustment analysis. There is a separate exhibit for each age group.

The column titled Case Mix on the chart is the acuity risk adjustment factor. It is the ratio of the predicted average cost of the individual health plan's membership divided by the predicted average cost of the entire service area's membership. The risk adjustment factor is applied to the community rate for each health plan and age group. The risk adjustment factors determined by ICHP for the Under Age 1 category were not applied in developing the FY2013 premium rates due to the relative small size of this category and the resulting variation in acuity scores.

Representatives of HHSC and the MCOs formed a workgroup to study the acuity risk adjustment methodology and recommend potential revisions. Based on this analysis, the following changes were implemented for the FY2012 rate setting process and have been continued into the FY2013 rate development:

- The minimum enrollment period for newborns to be eligible for inclusion in the analysis was reduced from three months to one month
- Five new baby weights were added
- The weights for all risk groups are now determined on a concurrent basis. Previously, the weights were developed on a prospective basis.

Attachment 7

Delivery Supplemental Payment

The rate setting methodology includes a risk adjustment technique designed to provide uniform treatment of the health plans for costs related to maternity services. In order to recognize the potential inequity that might arise between health plans with respect to the proportion of maternity cases, HHSC reimburses each plan \$3,100 for each birth.

Attachment 8

CHIP Perinatal Rating

Since January 1, 2007, a new group of clients have been covered under the CHIP program – CHIP Perinatal. The purpose of this program is to extend CHIP services to unborn children of certain non-Medicaid eligible women. Newborns under this program receive the same benefits as current CHIP participants. There is no cost sharing applied to these participants.

The CHIP benefits provided to expectant mothers are more limited in scope. They include the professional component of delivery services (for those clients under 185% FPL) and limited prenatal and post-natal services only.

We have developed premium rates for three categories of clients: (1) newborns between 185% and 200% FPL; (2) expectant mothers under 185% FPL; and (3) expectant mothers between 185% and 200% FPL.

The CHIP Perinatal FY2013 premium rates were derived using a methodology very similar to that described in Section II above for CHIP. Below is a description of the trend, benefit and provider reimbursement adjustments, risk adjustment and administrative cost provisions included in the CHIP Perinatal rates.

Trend Factors

The rating methodology uses assumed trend factors to adjust the base period claims cost to the projection period. The cost trend factors used in this analysis are a combination of utilization and inflation components. The projected trend rate assumptions were developed by the actuary based on an analysis of recent experience under the CHIP Perinatal program. The analysis included a review of claims experience data through February, 2012.

The chart below presents the assumed annual trend rates for FY2012 and FY2013.

	<u>FY2012</u>	<u>FY2013</u>
Newborns 185-200% FPL	5.0 %	5.0 %
Perinates Under 185% FPL	5.0 %	5.0 %
Perinates 185-200% FPL	5.0 %	5.0 %

Provider Reimbursement Adjustment

The types of adjustments for benefit and provider reimbursement changes, and the methodology for estimating the cost impact of the changes, are the same for CHIP Perinatal as described in Section III above for CHIP. Exhibit C presents a summary of the adjustment factors.

Administrative Fees and Risk Margin

The rating methodology includes an explicit provision for health plan administrative services. The amount allocated for administrative expenses is \$12.50 pmpm plus 5.75% of gross premium. This amount is intended to provide for all administrative-related services performed by the HMO.

In addition to incurred claims, provision is also made for services that are capitated by the HMOs, such as vision and behavioral health services. The cost of reinsurance is also considered. In developing the cost of reinsurance we make an assumption regarding how much the HMO is expected to receive in reinsurance recoveries (reimbursements from the reinsurance company for large claims). We have assumed that the net cost of reinsurance (reinsurance premium less reinsurance recoveries) is the minimum of (a) the actual reinsurance premium rate and (b) \$0.75 pmpm.

The premium rates also include a provision for premium tax (1.75% of premium), maintenance tax (\$0.125 pmpm) and a risk margin (2.0% of premium).

Summary

Exhibit A presents current (FY2012) premium, split between medical and prescription drug, and delivery supplemental payment (DSP) rates, FY2013 premium, split between medical and prescription drug, and DSP rates and a comparison of FY2012 and FY2013 premium rates. Exhibit B presents the summary community rating exhibit for each service area along with a description of the analysis. The enrollment in both the Newborn 185-200% FPL and Perinate 185-200% FPL risk groups are so small that credible rates could not be set by area. Thus the rates for these two risk groups were calculated on a statewide basis. In addition to the premium, HHSC pays the health plans a \$3,100 delivery supplemental payment (DSP) per maternity delivery for those CHIP Perinatal clients between 185% and 200% FPL.

Attachment 9

CHIP Dental Rating

The actuarial model used to derive the FY2013 CHIP Dental premium rates relies on recent dental plan financial experience. Historical claims experience data for the dental plan was analyzed and estimates for the base period (FY2011, September, 2010 through August, 2011) were developed. The claims experience was trended forward to FY2013 using assumed annual trend rates of 4.8% for FY2012 and 5.0% for FY2013. Provisions for administrative expenses, taxes and risk margin were added to the projected claims to produce the FY2013 premium rates.

The base period claims data have been adjusted to reflect reimbursement changes for the i) 1% provider rate cuts effective September 1, 2010 and February 1, 2011 and ii) member cost sharing change.

In addition, the base period claims data have also been adjusted to reflect significant benefit changes effective March 1, 2012. These changes included:

- Elimination of three benefit tiers
- Establishment of a single \$564 maximum
- Exclusion of preventive and diagnostic services from the maximum
- Prior authorization for services in excess of the maximum

The amount allocated for administrative expenses is \$1.06 pmpm. Provision is also included for risk margin (2.0% of gross premium), premium tax (1.75%) and maintenance tax (\$.042 pmpm).

The bottom of the exhibit shows a summary of the projected FY2013 cost based on these assumptions and the experience rate increase.

Attached Exhibit A presents a summary of the experience analysis performed for the CHIP dental plan. The top portion of the exhibit shows summary FY2011 base period experience. Following that is projected FY2013 enrollment, premium and incurred claims experience.

Attached Exhibit B presents a summary of historical Dental Plan claims experience.