STATE OF TEXAS
MEDICAID MANAGED CARE
STAR PROGRAM RATE SETTING
HIDALGO, JEFFERSON AND MRSA
SERVICE DELIVERY AREAS
STATE FISCAL YEAR 2013

Prepared for:
Texas Health and Human Services Commission

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I. Introduction

Effective September 1, 2011 and March 1, 2012 the Medicaid STAR program implemented three new service areas. The Jefferson Service Delivery Area (SDA) includes eleven counties in and around Beaumont and was implemented September 1, 2011. The Hidalgo SDA includes ten counties in the South Texas region and the Medicaid Rural Service Area (MRSA) includes 164 counties previously serviced in the 197 PCCM expansion area. The MRSA is split into 3 separate areas: Central, Northeast and West. Both the Hidalgo and MRSA SDAs were implemented March 1, 2012. There will be no Primary Care Case Management (PCCM) option for clients in these new service areas.

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 HMOs participating in the Hidalgo, Jefferson and MRSA SDAs. 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 managed care rating process since its inception in 1993. This year, as in previous years, we have worked closely with HHSC in developing the HMO premium rates.

Rudd and Wisdom has relied on the following data sources as provided by HHSC:

- Monthly enrollment by program (FFS/PCCM/STAR) and risk group for the Hidalgo, Jefferson and MRSA SDAs. This includes historical PCCM and fee-for-service (FFS) plan enrollment since September 2008 and a projection of future enrollment through August 2013. These projections were prepared by HHSC System Forecasting staff.
- PCCM and FFS claims experience reports for the Hidalgo, Jefferson and MRSA service areas by risk group for the period September 2008 through February 2012. These claim reports include paid claim amounts by county, risk group, type of service and month of service. Only those services which are the financial responsibility of the health plan were included in the rating analysis.
- The FY2010 average cost of deliveries in the Hidalgo, Jefferson and MRSA areas.
- Information from both HHSC and the HMOs regarding recent changes in covered services and provider reimbursement under the Medicaid program.
- Information provided by HHSC regarding FY2011 health plan claims cost by type of service for certain services. This information was obtained from the encounter database for current STAR SDAs.
- Information provided by HHSC regarding proposed FY2013 Medicaid provider reimbursement rates.
- Information provided by HHSC regarding DRG rebasing.
- Information provided by HHSC regarding newly capitated services previously paid by HHSC.

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 STAR program can be found in the report titled State of Texas Medicaid Managed Care Rate Setting Pharmacy Carve-in State Fiscal Year 2013.

The risk groups (or rating populations) included in the analysis are as follows:

- TANF Children Over Age One Year
- TANF Children Under Age One Year
- TANF Adults
- Pregnant Women
- Newborns
- Expansion Children Over Age One Year
- Expansion Children Under Age One Year
- Federal Mandate Children
- Disabled and Blind (MRSA only)

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
- Comprehensive Care Program Services
- Vision Services
- Hearing Services
- Home Health Services
- Emergency Room Services
- Ambulance Services
- Prescription Drugs

Services specifically excluded from the analysis include:

- Dental and Orthodontia Services

The actuarial model used to derive the FY2013 Hidalgo, Jefferson and MRSA SDA premium rates relies primarily on PCCM plan financial experience from the Hidalgo, Jefferson and MRSA SDA counties. The historical PCCM claims experience by risk group was analyzed and estimates for the base period (FY2011) were developed. These estimates were then projected forward to September 1, 2012 through August 31, 2013 using assumed trend rates. Adjustments to the claim costs were made to reflect benefit and provider reimbursement changes as well as anticipated differences in cost between the PCCM and

HMO models resulting from care management (managed care efficiency). These adjustment factors are discussed in more detail in Section III.

An administrative expense provision and risk margin were added to the claims component in order to project total FY2013 cost. These projected total cost rates were determined separately for each risk group.

The projected FY2013 average total per-capita cost per risk group is called the unadjusted premium rate. This rate includes provision for all health care and administrative services to be provided by the HMO. This rate is then separated into two pieces – (i) non-maternity related expenses and (ii) maternity expenses. This adjustment is made on a cost neutral basis. The premium rate for non-maternity expenses is called the adjusted premium rate. These are the monthly premium rates paid to the HMO. The amount paid for maternity expenses is called the Delivery Supplemental Payment. More information on this adjustment is provided in Section III below under Risk Adjustment.

As Medicaid managed care is new to the Hidalgo, Jefferson and MRSA areas no historical information is available to vary the premium rates by health plan, each participating HMO will receive the community rate.

Attachment 2 presents a summary of the FY2013 premium rate calculation for the Hidalgo, Jefferson and MRSA SDAs along with a description of the analysis. Projected incurred claims are based on trended FY2011 PCCM experience for Medicaid clients in the Hidalgo, Jefferson and MRSA service area counties (see Attachment 3). Adjustments were made to recognize changes in FY2013 Medicaid provider reimbursement relative to the base period (FY2011). The anticipated difference in cost between the PCCM model and the MCO model was also recognized (see Attachment 5). Reasonable provision for administrative expenses, risk margin and taxes were included.

The bottom of the exhibit shows a summary of the projected FY2013 cost based on these assumptions. Cost projections are presented both with and without the inclusion of maternity expenses.

III. Adjustment Factors

This section contains a description of the adjustment factors used in the FY2013 Hidalgo, Jefferson and MRSA STAR 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 STAR HMO plans statewide. The trend assumptions vary by risk group and projection year (FY2012 and FY2013) but are the same for all areas within the STAR program.

Additional information regarding the assumed FY2012 and FY2013 trends is available from the report titled "State of Texas Medicaid Managed Care STAR Program Rate Setting State Fiscal Year 2013". The chart below presents the assumed annual trend rates for FY2012 and FY2013.

	FY2012	FY2013
TANF Children Over Age 1	6.7%	8.9%
TANF Children Under Age 1	6.7%	8.9%
TANF Adults	6.8%	7.3%
Pregnant Women	0.2%	1.8%
Newborns	-2.3%	1.5%
Expansion Children Over Age 1	4.2%	4.9%
Expansion Children Under Age 1	4.2%	4.9%
Federal Mandate Children	3.8%	5.2%
SSI*	4.7%	3.9%

*Only applicable to the MRSA SDA.

Provider Reimbursement Adjustments

Medicaid provider reimbursement changes were provided for the following services: the two 1% provider rate cuts effective 9/1/2010 and 2/1/2011, the inclusion of wrap payments for FQHCs effective 9/1/2011, DRG rebasing, legislative mandated provider rate reductions, the transition of outpatient imaging services to a fee schedule, 40% reduction for non emergent services provided in an emergency room, and further revision to the DME and therapy fee schedules.

The legislative mandated provider rate reductions included 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.

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 adjustment factors used for the Hidalgo, Jefferson and MRSA SDAs for legislative reductions, the two one percent provider rate cuts and the outpatient imaging fee schedule were the statewide average of the factors used in developing the STAR rates. Please see the report titled "State of Texas Medicaid Managed Care STAR Program Rate Setting State Fiscal Year 2013" for additional information regarding these factors.

The adjustment factors for all other reimbursement changes can be found in Attachment 4.

Impact of Newly Capitated Services

Effective March 1, 2012 several services previously carved out of the STAR program became capitated services. Certain Early Childhood Intervention (ECI) services and hearing and audiology services for children are now be the responsibility of the participating MCOs. Attachment 4 presents a summary of the derivation of these adjustment factors.

DRG Rebasing Adjustments

Effective September 1, 2011, HHSC rebased the DRG reimbursement system and required rural hospitals to be reimbursed their full cost standard dollar amount. This rebasing effort is intended to update the Standard Dollar Amounts and Relative Weights used in the Medicaid DRG payment system. HHSC staff has utilized the FY2011 encounter data to determine the cost impact from DRG Rebasing on each service area and risk group. Attachment 4 presents a summary of the resulting adjustment factors.

Managed Care Savings Factor

The rating analysis includes an explicit assumption regarding the anticipated reduction in claims cost resulting from the implementation of managed care in the Hidalgo, Jefferson and MRSA SDAs. In deriving the managed care efficiency factor, we relied upon experience from the previous STAR expansions and comparisons of the average medical cost by risk group within each SDA with the average medical cost statewide in the existing STAR areas. The managed care savings factor vary by risk group and service area and are presented in the table below:

	Hidalgo	Jefferson	MRSA
TANF Children Over Age 1	34.7%	10.1%	13.9%
TANF Children Under Age 1	34.7%	10.1%	13.9%
TANF Adults	5.7%	10.1%	12.7%
Pregnant Women	3.0%	10.1%	11.9%
Newborns	4.5%	10.1%	12.1%
Expansion Children Over Age 1	32.1%	10.1%	14.4%
Expansion Children Under Age 1	32.1%	10.1%	14.4%
Federal Mandate Children	20.8%	10.1%	16.0%
Disabled and Blind	NA	NA	12.0%

The first step was to determine the breakeven discount factor such that the gross cost under the STAR model (including administrative expenses and risk margin) would be the same as the projected FY2013 gross cost under the PCCM model. This breakeven discount factor was calculated separately by risk group.

The assumption regarding managed care savings in the Jefferson SDA is the breakeven level.

The assumption regarding managed care savings in the MRSA is the breakeven level plus an additional 3.5%.

The average claims cost in the Hidalgo service area has been in excess of 125% of the statewide average for all existing STAR areas. It is anticipated that levels of savings much higher than the breakeven level will be achievable through the expansion in this area, increasing over time.

Further information regarding the development of the managed care savings factors can be found in Attachment 5.

Risk Adjustment

Several risk adjustment techniques are employed in the rate setting methodology. Premium rates are established separately by area of the state and risk 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 rate for maternity services.

The rate setting methodology incorporates a risk adjustment technique that is designed to provide uniform treatment of the health plans for costs related to maternity services. Maternity cases occur in several risk groups – Pregnant Women, TANF Adults, TANF Children and Federal Mandate Children. As a result, it is possible for one health plan to enroll a higher percentage of TANF Adults, for example, who are pregnant and therefore generally more expensive. In order to recognize the potential inequity that may arise between health plans, HHSC developed this risk adjustment methodology. The goal is to reimburse the plans uniformly for maternity delivery costs.

The State pays a delivery supplemental payment (DSP) for each delivery in a managed care plan. The amount of the payment is a function of the average delivery cost in the service area. The FY2013 DSP amounts will be as follows:

Hidalgo:	$3,409.95
Jefferson:	$3,394.58
MRSA Central:	$3,035.27
MRSA Northeast:	$3,160.40
MRSA West:	$3,204.07

In order to achieve cost neutrality, the projected cost of maternity expenses is subtracted from the unadjusted premium rates. The resulting adjusted premium rates are the rates actually paid to the HMOs, in addition to any DSP amounts.

As the Hidalgo, Jefferson and MRSA SDAs are new service areas, there is no acuity risk adjustment included in the FY2013 rate setting methodology.

IV. Administrative Fees and Risk Margin

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

The administrative fee amounts were determined based on a review of (i) the administrative fee provision included in Medicaid HMO premium rates in other states, (ii) the reported administrative expenses of the STAR HMOs in the existing STAR areas and (iii) the fees paid for similar services for other large Texas health plans.

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. Summary

The chart below presents the results of the FY2013 Hidalgo, Jefferson and MRSA SDA STAR 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

Monthly Adjusted Premium Rates	Hidalgo	Jefferson	MRSA Central	MRSA Northeast	MRSA West
TANF Children Over Age 1	$205.47	$145.31	$139.29	$138.68	$144.29
TANF Children Under Age 1	416.86	525.96	371.82	651.86	451.49
TANF Adults	414.28	384.30	339.97	424.92	383.31
Pregnant Women	304.56	271.62	293.69	313.30	282.41
Newborns	571.91	633.55	505.81	447.70	519.53
Expansion Children Over Age 1	216.38	123.58	128.05	126.26	123.07
Expansion Children Under Age 1	298.94	291.95	266.56	259.04	242.60
Federal Mandate Children	152.62	118.30	108.10	111.01	111.54
Disabled and Blind	NA	NA	788.97	811.57	846.29

In addition, a delivery supplemental payment is made to the health plan for every maternity delivery in the amount of:

Hidalgo:	$3,409.95
Jefferson:	$3,394.58
MRSA Central:	$3,035.27
MRSA Northeast:	$3,160.40
MRSA West:	$3,204.07

The above premium rates include provision for 1915(b)(3) waiver services. The STAR HMOs cover adult inpatient hospital days in excess of thirty. The chart below presents the amount included in the FY2013 STAR HMO premium rates for 1915(b)(3) waiver services.

	TANF Adults	Pregnant Women	SSI
Monthly Premium Rate for 1915(b)(3) Services			
All Plans/All Areas	$ 3.85	$ 2.56	$3.54

VI. Actuarial Certification of FY2013 Hidalgo, Jefferson and MRSA STAR Premium 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 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 Hidalgo, Jefferson and MRSA STAR 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.

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

VII. Attachments

Attachment 1

Summary of FY2013 STAR Rating Analysis

The attached exhibit presents summary information regarding the FY2013 rates. Included on the exhibit 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

FY2013 STAR Premium Rates for the Hidalgo, Jefferson and MRSA SDAs

The following exhibits present a summary of the FY2013 premium rate calculation for the Hidalgo, Jefferson and MRSA SDAs. Projected incurred claims are based on trended FY2011 PCCM experience for Medicaid clients in the Hidalgo, Jefferson and MRSA service area counties (see Attachment 3). Adjustments were made to recognize changes in FY2013 Medicaid provider reimbursement relative to the FY2011 base period (see Attachment 4). The anticipated difference in cost between the PCCM model and the MCO model was also recognized (see Attachment 5). A provision for administrative expenses is included in the amount of $8.00 pmpm and 5.75% of gross premium. Additional provisions are also included for premium tax (1.75% of premium), maintenance tax ($0.125 pmpm) and risk margin (2.0% of premium).

The bottom of the exhibit shows a summary of the projected FY2013 cost based on these assumptions. Cost projections are presented both with and without the inclusion of maternity expenses. HHSC defines the average per-capita total cost as the unadjusted premium rate. This rate includes provision for all health care and administrative services to be provided by the HMO. This rate is then separated into two pieces – (i) non-maternity related expenses and (ii) maternity expenses. This adjustment is made on a cost neutral basis. HHSC defines the rate for non-maternity expenses as the adjusted premium rate. These are the monthly premium rates paid to the HMO. The amount paid for maternity expenses is called the delivery supplemental payment (DSP).

Attachment 3

Incurred Claims Analysis

The attached exhibits present our analysis of Primary Care Case Management (PCCM) plan incurred claims experience for the Hidalgo, Jefferson and MRSA SDA counties for those services included in the STAR capitation arrangement. The exhibit presents a separate analysis for each risk group. The following information is presented for each risk group: (i) monthly enrollment, (ii) claim amounts incurred in that month and paid through February 29, 2012, (iii) estimated proportion of that month's incurred claims paid through February 29, 2012 (completion factor), (iv) estimated incurred claims, (v) estimated incurred claims per member per month (pmpm) and (vi) the ratio of this month's incurred claims pmpm to the same statistic from one year ago (trend factor).

Attachment 4

Provider Reimbursement and Benefit Revisions Effective During FY2012 and FY2013

This attachment presents information regarding rating adjustments for the various provider reimbursement and benefit revisions that became effective (or will become effective) after the base period used in rate setting (FY2011) and before the end of FY2013.

Medicaid provider reimbursement changes were provided for the following services: the two 1% provider rate cuts effective 9/1/2010 and 2/1/2011, the inclusion of wrap payments for FQHCs effective 9/1/2011, DRG rebasing, legislative mandated provider rate reductions, the transition of outpatient imaging services to a fee schedule, 40% reduction for non emergent services provided in an emergency room, and further revision to the DME and therapy fee schedules.

The legislative mandated provider rate reductions included 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.

The adjustment factors used for the Hidalgo, Jefferson and MRSA SDAs for legislative reductions, the two one percent provider rate cuts and the outpatient imaging fee schedule were the statewide average of the factors used in developing the STAR rates. Please see the report titled "State of Texas Medicaid Managed Care STAR Program Rate Setting State Fiscal Year 2013" for additional information regarding these factors.

Effective September 1, 2011, HHSC rebased the DRG reimbursement system and required rural hospitals to be reimbursed their full cost standard dollar amount. This rebasing effort is intended to update the Standard Dollar Amounts and Relative Weights used in the Medicaid DRG payment system. HHSC staff has utilized the FY2011 encounter data to determine the cost impact from DRG Rebasing on each service area and risk group.

Effective September 1, 2011, HHSC implemented a 40% reduction to reimbursement for non-emergent services provided in the emergency room.

Effective March 1, 2012 HHSC made further revisions to the Therapy and Durable Medical Equipment fee schedules.

Effective March 1, 2012 HHSC carved in several services previously not capitated under the STAR program. Certain Early Childhood Intervention (ECI) services and hearing and audiology services for children are now the responsibility of the MCOs.

The attached exhibits A through E present the adjustment factors for DRG rebasing, non-emergent reduction, revision to the therapy and DME fee schedules and the capitation of ECI and hearing and audiology services for children for each service area.

Attachment 5

Managed Care Savings Factor

The rating analysis includes an explicit assumption regarding the anticipated reduction in claims cost resulting from the implementation of managed care in the Hidalgo, Jefferson and MRSA SDAs. In deriving the managed care efficiency factor, we relied upon experience from the previous STAR expansions and comparisons of the average medical cost by risk group within each SDA with the average medical cost statewide in the existing STAR areas.

Exhibit A presents the breakeven discount factor such that the gross cost under the STAR model (including administrative expenses and risk margin) would be the same as the projected FY2013 gross cost under the PCCM model. This breakeven discount factor was calculated separately by risk group.

The average cost in the Hidalgo service area has been in excess of 125% of the statewide average for all existing STAR areas. It is anticipated that much higher levels of savings than breakeven will be achievable through the expansion in this area. Exhibit B presents a comparison of the average cost in the Hidalgo service area to the cost in the existing STAR service areas during FY2008, FY2009, FY2010 and FY2011.

The managed care savings factors developed for the Hidalgo SDA has been determined as a weighted average of (i) the difference in cost between the Hidalgo SDA and the statewide STAR average cost and (ii) the breakeven PCCM discount factor from Exhibit A with 31.5% weight given to (i) and 68.5% weight given to (ii). Exhibit C presents the calculation of the Hidalgo SDA managed care discount factors.

The managed care savings factors developed for the Jefferson SDA is defined as the breakeven discount factor from Exhibit A aggregated across all risk groups excluding the SSI category. The same discount, 10.1%, was applied to all risk groups.

The managed care savings factors developed for the MRSA SDAs are defined as the breakeven discount factor from Exhibit A plus an additional 3.5%. Exhibit D presents the MRSA SDA managed care discount factors.