

Rudd and Wisdom, Inc.

CONSULTING ACTUARIES

Steven T. Anderson, A.S.A.
Mitchell L. Bilbe, F.S.A.
Evan L. Dial, F.S.A.
Philip S. Dial, F.S.A.
Charles V. Faerber, F.S.A., A.C.A.S.
Mark R. Fenlaw, F.S.A.
Carl L. Frammolino, F.S.A.

Kenneth J. Herbold, A.S.A.
Christopher S. Johnson, F.S.A.
Robert M. May, F.S.A.
J. Christopher McCaul, F.S.A.
Edward A. Mire, F.S.A.

Rebecca B. Morris, A.S.A.
Michael J. Muth, F.S.A.
Khiem Ngo, F.S.A.
Coralie A. Taylor, A.S.A.
Ronald W. Tobleman, F.S.A.
Elizabeth A. Wiley, F.S.A.
David G. Wilkes, F.S.A.

March 20, 2013

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

Re: STAR Hidalgo, Jefferson and MRSA Rate Amendment #2.5 (Uniform)

Dear Dr. Palmer:

This letter amends the report titled State of Texas Medicaid Managed Care STAR Program Rate Setting Hidalgo, Jefferson and MRSA Service Delivery Areas State Fiscal Year 2013 and dated June 26, 2012. The amended FY2013 capitation rates were developed using identical methods and assumptions as the rates described in that report. The amended rates are assumed to be payable for the period June 1, 2013 through August 31, 2013. The reasons for these revisions are described below:

1. Revised Managed Care Savings Assumptions

The original managed care savings assumption for the Medicaid Rural Service Area (MRSA) assumed that managed care organizations (MCOs) would achieve a level of savings equal to the breakeven level plus 3.5%. The breakeven level is defined as the discount factor such that the gross cost under the STAR model (including administrative expenses and risk margin) would be the same as the projected gross cost under the PCCM model. Based on emerging experience in the MRSA service areas it appears that the MCOs have not been able to achieve this level of savings. The savings assumption has been revised such that it is equal to the breakeven level. The table below presents the revised managed care savings assumptions for the MRSA service areas by risk group:

Breakeven
Discount

TANF Children >1	10.4%
TANF Children <1	10.4%
TANF Children Total	10.4%
TANF Adult	9.2%
Pregnant Women	8.4%
Newborn	8.6%
Exp Children >1	10.9%
Exp Children <1	10.9%
Exp Children Total	10.9%
Fed Mandate	12.5%
SSI	8.5%

No changes have been made to the managed care savings assumptions assumed for the Hidalgo and Jefferson service areas.

The capitation rates payable for the three-month period June 1, 2013 through August 31, 2013 have been adjusted to recognize that the current capitation rates will be payable for the period September 1, 2012 through May 31, 2013, i.e., the rates have been adjusted in order to produce the amended capitation amounts for the September 1, 2012 through August 31, 2013 period.

The attached Exhibit A presents the amended FY2013 capitation rates payable for the period June 1, 2013 through August 31, 2013. The exhibit presents the total capitation rate along with the two components of the rate – medical and prescription drug.

Sincerely,



Evan Dial

Actuarial Certification of Amended 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 state fiscal year 2013 (FY2013) 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 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.

FY2013 STAR Capitation Rates - Amended
Adjusted Per Member Per Month Rates - Effective June 1, 2013

Health Plan	TANF Children (over age 1)	TANF Children (< 1)	TANF Adults	Pregnant Women	Newborns	Expansion Children (over age 1)	Expansion Children (< 1)	Federal Mandate Children	SSI	Delivery Supplemental Payment
FY2013 Total Premium Rates pmpm										
Hidalgo	\$ 205.47	\$ 416.86	\$ 414.28	\$ 304.56	\$ 571.91	\$ 216.38	\$ 298.94	\$ 152.62		\$ 3,409.95
Jefferson	145.31	525.96	384.30	271.62	633.55	123.58	291.95	118.30		3,394.58
MRSA Central	155.65	426.82	386.89	383.73	581.01	143.53	305.04	119.10	866.77	3,035.27
MRSA Northeast	153.52	749.66	481.72	408.94	511.10	140.18	292.80	121.41	891.01	3,160.40
MRSA West	161.13	518.65	435.19	378.13	595.89	137.71	275.92	122.90	925.13	3,204.07
FY2013 Medical Premium Rates pmpm										
Hidalgo	\$ 156.17	\$ 345.46	\$ 300.96	\$ 259.75	\$ 514.97	\$ 169.92	\$ 236.33	\$ 105.59		\$ 3,409.95
Jefferson	94.21	462.35	276.88	234.24	581.92	86.90	229.97	73.96		3,394.58
MRSA Central	121.40	402.23	312.43	351.87	556.26	119.20	282.54	85.30	573.53	3,035.27
MRSA Northeast	111.89	708.06	380.70	367.72	470.61	108.07	249.13	81.12	585.80	3,160.40
MRSA West	125.33	489.24	342.22	346.31	564.73	112.99	245.93	87.53	581.45	3,204.07
FY2013 Prescription Drug Premium Rates pmpm										
Hidalgo	\$ 49.30	\$ 71.40	\$ 113.32	\$ 44.81	\$ 56.94	\$ 46.46	\$ 62.61	\$ 47.03		
Jefferson	51.10	63.61	107.42	37.38	51.63	36.68	61.98	44.34		
MRSA Central	34.25	24.59	74.46	31.86	24.75	24.33	22.50	33.80	293.24	
MRSA Northeast	41.63	41.60	101.02	41.22	40.49	32.11	43.67	40.29	305.21	
MRSA West	35.80	29.41	92.97	31.82	31.16	24.72	29.99	35.37	343.68	