

# 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 Rate Amendment #2.5 (Uniform)

Dear Dr. Palmer:

This letter amends the report titled State of Texas Medicaid Managed Care STAR Program Rate Setting State Fiscal Year 2013 and dated June 15, 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 included below:

### **1. Risk Adjustment – Prescription Drug**

Effective March 1, 2012 prescription drug services were carved into the managed care program. Prior to that time prescription drugs were paid on a fee-for-service basis. For the period March 1, 2012 through February 28, 2013 the prescription drug portion of the premium was set on a community basis, i.e. a single premium for each risk group has been paid to all managed care plans operating within a service area. Effective March 1, 2013 the risk adjustment factors previously calculated for the medical component of the premium will be applied to the prescription drug premium in order to reflect acuity differences between managed care plans. This risk adjustment will be phased in during the period March 1, 2013 through August 31, 2013 and will only apply to those plans with a positive acuity factor in aggregate.

The risk adjustment factors utilized for this adjustment are those presented in Attachment 9 of the original report noted above.

Due to timing issues HHSC has not been able to implement this change until June 1, 2013. 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 during the period

March 1, 2013 through May 31, 2013, i.e., the rates have been adjusted in order to produce the amended capitation amounts for the March 1, 2013 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,

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

Evan Dial

Enclosure

## Actuarial Certification of Amended FY2013 STAR 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 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 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

| <u>Health Plan</u>      | <u>TANF<br/>Children<br/>(over age 1)</u> | <u>TANF<br/>Children<br/>(&lt; 1)</u> | <u>TANF<br/>Adults</u> | <u>Pregnant<br/>Women</u> | <u>Newborns</u> | <u>Expansion<br/>Children<br/>(over age 1)</u> | <u>Expansion<br/>Children<br/>(&lt; 1)</u> | <u>Federal<br/>Mandate<br/>Children</u> | <u>Delivery<br/>Supplemental<br/>Payment</u> |
|-------------------------|---|---------------------------------------|------------------------|---------------------------|-----------------|--|--|---|--|
| <b>Total</b>            |   |                                       |                        |                           |                 |  |  |   |  |
| Aetna - Bexar           | \$ 142.10                                 | \$ 454.46                             | \$ 475.87              | \$ 442.52                 | \$ 541.99       | \$ 151.69                                      | \$ 261.22                                  | \$ 112.04                               | \$ 3,266.59                                  |
| Amerigroup - Bexar      | 165.89                                    | 385.62                                | 496.70                 | 446.94                    | 603.82          | 163.23   | 242.58                                     | 128.80                                  | 3,266.59                                     |
| CFHP - Bexar            | 161.76                                    | 337.41                                | 464.91                 | 438.27                    | 547.16          | 165.97   | 239.09                                     | 128.70                                  | 3,266.59                                     |
| Superior - Bexar        | 182.71                                    | 402.79                                | 550.84                 | 455.62                    | 676.35          | 164.25   | 235.53                                     | 137.53                                  | 3,266.59                                     |
| Amerigroup - Dallas     | 161.05                                    | 387.92                                | 342.65                 | 455.74                    | 551.82          | 165.92   | 320.60                                     | 128.08                                  | 3,537.13                                     |
| Molina - Dallas         | 168.13                                    | 369.67                                | 363.40                 | 454.36                    | 577.11          | 174.17   | 348.69                                     | 131.02                                  | 3,537.13                                     |
| Parkland - Dallas       | 171.09                                    | 365.40                                | 380.64                 | 456.61                    | 603.78          | 184.54   | 379.87                                     | 138.96                                  | 3,537.13                                     |
| El Paso First - El Paso | 130.16                                    | 356.35                                | 370.37                 | 342.08                    | 524.10          | 144.63   | 257.35                                     | 114.95                                  | 3,443.04                                     |
| Molina - El Paso        | 139.36                                    | 330.92                                | 370.63                 | 346.76                    | 528.46          | 146.64   | 266.05                                     | 117.11                                  | 3,443.04                                     |
| Superior - El Paso      | 151.28                                    | 300.25                                | 371.06                 | 351.10                    | 533.01          | 149.00   | 280.38                                     | 120.54                                  | 3,443.04                                     |
| Amerigroup - Harris     | 145.25                                    | 434.35                                | 546.42                 | 503.73                    | 682.77          | 147.83   | 343.30                                     | 123.00                                  | 3,519.20                                     |
| CHC - Harris            | 145.11                                    | 413.58                                | 516.02                 | 504.67                    | 608.19          | 144.23   | 264.55                                     | 113.63                                  | 3,519.20                                     |
| Molina - Harris         | 170.48                                    | 620.12                                | 389.64                 | 468.85                    | 732.08          | 164.40   | 234.36                                     | 131.69                                  | 3,519.20                                     |
| TCHP - Harris           | 160.42                                    | 317.64                                | 403.91                 | 476.32                    | 569.71          | 163.27   | 294.97                                     | 136.55                                  | 3,519.20                                     |
| United - Harris         | 140.80                                    | 449.58                                | 592.43                 | 478.95                    | 727.21          | 157.43   | 302.35                                     | 148.34                                  | 3,519.20                                     |
| Amerigroup - Lubbock    | 146.66                                    | 692.52                                | 425.74                 | 422.70                    | 605.14          | 132.05   | 324.60                                     | 113.71                                  | 3,230.39                                     |
| Firstcare - Lubbock     | 130.67                                    | 782.91                                | 417.02                 | 422.12                    | 586.75          | 131.02   | 408.82                                     | 115.93                                  | 3,230.39                                     |
| Superior - Lubbock      | 188.62                                    | 549.76                                | 445.69                 | 423.76                    | 634.15          | 134.47   | 150.68                                     | 106.93                                  | 3,230.39                                     |
| Christus - Nueces       | 214.66                                    | 716.95                                | 454.75                 | 495.53                    | 714.05          | 204.17   | 277.21                                     | 171.48                                  | 3,203.82                                     |
| Driscoll - Nueces       | 208.90                                    | 810.99                                | 418.17                 | 502.49                    | 734.12          | 196.86   | 275.43                                     | 173.33                                  | 3,203.82                                     |
| Superior - Nueces       | 225.68                                    | 520.83                                | 536.21                 | 517.66                    | 675.66          | 248.87   | 222.21                                     | 175.62                                  | 3,203.82                                     |
| Aetna - Tarrant         | 160.14                                    | 257.34                                | 412.58                 | 422.91                    | 632.16          | 132.19   | 228.14                                     | 115.21                                  | 3,635.64                                     |
| Amerigroup - Tarrant    | 162.45                                    | 278.61                                | 436.42                 | 424.46                    | 562.70          | 149.97   | 220.41                                     | 131.75                                  | 3,635.64                                     |
| Cook - Tarrant          | 178.91                                    | 287.26                                | 461.08                 | 427.34                    | 608.79          | 184.52   | 338.94                                     | 147.02                                  | 3,635.64                                     |
| Blue Cross - Travis     | 150.42                                    | 371.30                                | 382.07                 | 605.26                    | 731.84          | 164.58   | 279.50                                     | 116.39                                  | 3,247.49                                     |
| Sendero - Travis        | 150.42                                    | 371.30                                | 382.07                 | 605.26                    | 731.84          | 164.58   | 279.50                                     | 116.39                                  | 3,247.49                                     |
| Seton - Travis          | 149.70                                    | 371.30                                | 376.26                 | 592.13                    | 731.84          | 164.40   | 279.50                                     | 115.87                                  | 3,247.49                                     |
| Superior - Travis       | 152.09                                    | 378.72                                | 398.81                 | 605.47                    | 743.62          | 165.24   | 279.51                                     | 116.93                                  | 3,247.49                                     |

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

| <u>Health Plan</u>                  | <u>TANF<br/>Children<br/>(over age 1)</u> | <u>TANF<br/>Children<br/>(&lt; 1)</u> | <u>TANF<br/>Adults</u> | <u>Pregnant<br/>Women</u> | <u>Newborns</u> | <u>Expansion<br/>Children<br/>(over age 1)</u> | <u>Expansion<br/>Children<br/>(&lt; 1)</u> | <u>Federal<br/>Mandate<br/>Children</u> | <u>Delivery<br/>Supplemental<br/>Payment</u> |
|-------------------------------------|---|---------------------------------------|------------------------|---------------------------|-----------------|--|--|---|--|
| <b>Excluding Prescription Drugs</b> |   |                                       |                        |                           |                 |  |  |   |  |
| Aetna - Bexar                       | \$ 104.73                                 | \$ 408.11                             | \$ 360.07              | \$ 400.46                 | \$ 506.34       | \$ 125.34                                      | \$ 222.96                                  | \$ 75.76                                | \$ 3,266.59                                  |
| Amerigroup - Bexar                  | 128.52                                    | 339.27                                | 380.90                 | 404.88                    | 568.17          | 136.88   | 204.32                                     | 92.52                                   | 3,266.59                                     |
| CFHP - Bexar                        | 124.39                                    | 291.06                                | 349.11                 | 396.21                    | 511.51          | 139.62   | 200.83                                     | 92.42                                   | 3,266.59                                     |
| Superior - Bexar                    | 139.43                                    | 352.81                                | 416.77                 | 412.36                    | 633.82          | 137.64   | 198.80                                     | 97.60                                   | 3,266.59                                     |
| Amerigroup - Dallas                 | 124.41                                    | 351.25                                | 265.92                 | 414.28                    | 521.59          | 137.06   | 277.47                                     | 92.95                                   | 3,537.13                                     |
| Molina - Dallas                     | 131.49                                    | 333.00                                | 286.67                 | 412.90                    | 546.88          | 145.31   | 305.56                                     | 95.89                                   | 3,537.13                                     |
| Parkland - Dallas                   | 132.18                                    | 330.85                                | 294.87                 | 415.07                    | 570.88          | 152.65   | 328.55                                     | 100.79                                  | 3,537.13                                     |
| El Paso First - El Paso             | 97.67                                     | 298.92                                | 272.88                 | 312.83                    | 470.16          | 114.90   | 210.03                                     | 80.32                                   | 3,443.04                                     |
| Molina - El Paso                    | 106.87                                    | 273.49                                | 273.14                 | 317.51                    | 474.52          | 116.91   | 218.73                                     | 82.48                                   | 3,443.04                                     |
| Superior - El Paso                  | 114.29                                    | 251.57                                | 273.39                 | 321.23                    | 478.31          | 118.49   | 229.41                                     | 84.37                                   | 3,443.04                                     |
| Amerigroup - Harris                 | 112.03                                    | 397.39                                | 442.36                 | 461.38                    | 646.50          | 119.52   | 307.90                                     | 91.32                                   | 3,519.20                                     |
| CHC - Harris                        | 111.89                                    | 376.62                                | 411.96                 | 462.32                    | 571.92          | 115.92   | 229.15                                     | 81.95                                   | 3,519.20                                     |
| Molina - Harris                     | 129.99                                    | 544.71                                | 325.88                 | 430.78                    | 683.86          | 132.43   | 211.13                                     | 97.52                                   | 3,519.20                                     |
| TCHP - Harris                       | 123.57                                    | 293.96                                | 335.30                 | 437.07                    | 539.35          | 131.65   | 258.57                                     | 100.42                                  | 3,519.20                                     |
| United - Harris                     | 111.05                                    | 403.33                                | 459.74                 | 439.29                    | 679.53          | 127.64   | 264.35                                     | 107.46                                  | 3,519.20                                     |
| Amerigroup - Lubbock                | 111.76                                    | 649.20                                | 319.76                 | 385.14                    | 566.18          | 108.78   | 281.79                                     | 80.18                                   | 3,230.39                                     |
| Firstcare - Lubbock                 | 95.77                                     | 739.59                                | 311.04                 | 384.56                    | 547.79          | 107.75   | 366.01                                     | 82.40                                   | 3,230.39                                     |
| Superior - Lubbock                  | 137.60                                    | 522.65                                | 331.95                 | 386.02                    | 591.64          | 110.48   | 148.96                                     | 76.46                                   | 3,230.39                                     |
| Christus - Nueces                   | 164.35                                    | 654.54                                | 343.92                 | 455.07                    | 670.89          | 164.97   | 239.42                                     | 123.54                                  | 3,203.82                                     |
| Driscoll - Nueces                   | 158.20                                    | 748.58                                | 305.09                 | 458.94                    | 690.96          | 157.66   | 237.64                                     | 124.94                                  | 3,203.82                                     |
| Superior - Nueces                   | 169.95                                    | 488.61                                | 397.83                 | 472.39                    | 637.13          | 196.62   | 194.05                                     | 126.41                                  | 3,203.82                                     |
| Aetna - Tarrant                     | 128.10                                    | 222.98                                | 301.29                 | 381.05                    | 605.96          | 109.92   | 194.33                                     | 82.23                                   | 3,635.64                                     |
| Amerigroup - Tarrant                | 130.41                                    | 244.25                                | 325.13                 | 382.60                    | 536.50          | 127.70   | 186.60                                     | 98.77                                   | 3,635.64                                     |
| Cook - Tarrant                      | 142.79                                    | 250.18                                | 337.72                 | 384.96                    | 581.46          | 155.44   | 289.19                                     | 108.49                                  | 3,635.64                                     |
| Blue Cross - Travis                 | 123.33                                    | 342.18                                | 289.45                 | 569.06                    | 706.63          | 144.02   | 251.18                                     | 90.07                                   | 3,247.49                                     |
| Sendero - Travis                    | 123.33                                    | 342.18                                | 289.45                 | 569.06                    | 706.63          | 144.02   | 251.18                                     | 90.07                                   | 3,247.49                                     |
| Seton - Travis                      | 122.96                                    | 342.18                                | 285.88                 | 558.11                    | 706.63          | 143.84   | 251.18                                     | 89.89                                   | 3,247.49                                     |
| Superior - Travis                   | 125.00                                    | 349.60                                | 306.19                 | 569.27                    | 718.41          | 144.68   | 251.19                                     | 90.61                                   | 3,247.49                                     |

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

| <u>Health Plan</u>        | <u>TANF<br/>Children<br/>(over age 1)</u> | <u>TANF<br/>Children<br/>(&lt; 1)</u> | <u>TANF<br/>Adults</u> | <u>Pregnant<br/>Women</u> | <u>Newborns</u> | <u>Expansion<br/>Children<br/>(over age 1)</u> | <u>Expansion<br/>Children<br/>(&lt; 1)</u> | <u>Federal<br/>Mandate<br/>Children</u> | <u>Delivery<br/>Supplemental<br/>Payment</u> |
|---------------------------|---|---------------------------------------|------------------------|---------------------------|-----------------|--|--|---|--|
| <b>Prescription Drugs</b> |   |                                       |                        |                           |                 |  |  |   |  |
| Aetna - Bexar             | \$ 37.37                                  | \$ 46.35                              | \$ 115.80              | \$ 42.06                  | \$ 35.65        | \$ 26.35                                       | \$ 38.26                                   | \$ 36.28                                |  |
| Amerigroup - Bexar        | 37.37                                     | 46.35                                 | 115.80                 | 42.06                     | 35.65           | 26.35  | 38.26                                      | 36.28                                   |  |
| CFHP - Bexar              | 37.37                                     | 46.35                                 | 115.80                 | 42.06                     | 35.65           | 26.35  | 38.26                                      | 36.28                                   |  |
| Superior - Bexar          | 43.28                                     | 49.98                                 | 134.07                 | 43.26                     | 42.53           | 26.61  | 36.73                                      | 39.93                                   |  |
| Amerigroup - Dallas       | 36.64                                     | 36.67                                 | 76.73                  | 41.46                     | 30.23           | 28.86  | 43.13                                      | 35.13                                   |  |
| Molina - Dallas           | 36.64                                     | 36.67                                 | 76.73                  | 41.46                     | 30.23           | 28.86  | 43.13                                      | 35.13                                   |  |
| Parkland - Dallas         | 38.91                                     | 34.55                                 | 85.77                  | 41.54                     | 32.90           | 31.89  | 51.32                                      | 38.17                                   |  |
| El Paso First - El Paso   | 32.49                                     | 57.43                                 | 97.49                  | 29.25                     | 53.94           | 29.73  | 47.32                                      | 34.63                                   |  |
| Molina - El Paso          | 32.49                                     | 57.43                                 | 97.49                  | 29.25                     | 53.94           | 29.73  | 47.32                                      | 34.63                                   |  |
| Superior - El Paso        | 36.99                                     | 48.68                                 | 97.67                  | 29.87                     | 54.70           | 30.51  | 50.97                                      | 36.17                                   |  |
| Amerigroup - Harris       | 33.22                                     | 36.96                                 | 104.06                 | 42.35                     | 36.27           | 28.31  | 35.40                                      | 31.68                                   |  |
| CHC - Harris              | 33.22                                     | 36.96                                 | 104.06                 | 42.35                     | 36.27           | 28.31  | 35.40                                      | 31.68                                   |  |
| Molina - Harris           | 40.49                                     | 75.41                                 | 63.76                  | 38.07                     | 48.22           | 31.97  | 23.23                                      | 34.17                                   |  |
| TCHP - Harris             | 36.85                                     | 23.68                                 | 68.61                  | 39.25                     | 30.36           | 31.62  | 36.40                                      | 36.13                                   |  |
| United - Harris           | 29.75                                     | 46.25                                 | 132.69                 | 39.66                     | 47.68           | 29.79  | 38.00                                      | 40.88                                   |  |
| Amerigroup - Lubbock      | 34.90                                     | 43.32                                 | 105.98                 | 37.56                     | 38.96           | 23.27  | 42.81                                      | 33.53                                   |  |
| Firstcare - Lubbock       | 34.90                                     | 43.32                                 | 105.98                 | 37.56                     | 38.96           | 23.27  | 42.81                                      | 33.53                                   |  |
| Superior - Lubbock        | 51.02                                     | 27.11                                 | 113.74                 | 37.74                     | 42.51           | 23.99  | 1.72                                       | 30.47                                   |  |
| Christus - Nueces         | 50.31                                     | 62.41                                 | 110.83                 | 40.46                     | 43.16           | 39.20  | 37.79                                      | 47.94                                   |  |
| Driscoll - Nueces         | 50.70                                     | 62.41                                 | 113.08                 | 43.55                     | 43.16           | 39.20  | 37.79                                      | 48.39                                   |  |
| Superior - Nueces         | 55.73                                     | 32.22                                 | 138.38                 | 45.27                     | 38.53           | 52.25  | 28.16                                      | 49.21                                   |  |
| Aetna - Tarrant           | 32.04                                     | 34.36                                 | 111.29                 | 41.86                     | 26.20           | 22.27  | 33.81                                      | 32.98                                   |  |
| Amerigroup - Tarrant      | 32.04                                     | 34.36                                 | 111.29                 | 41.86                     | 26.20           | 22.27  | 33.81                                      | 32.98                                   |  |
| Cook - Tarrant            | 36.12                                     | 37.08                                 | 123.36                 | 42.38                     | 27.33           | 29.08  | 49.75                                      | 38.53                                   |  |
| Blue Cross - Travis       | 27.09                                     | 29.12                                 | 92.62                  | 36.20                     | 25.21           | 20.56  | 28.32                                      | 26.32                                   |  |
| Sendero - Travis          | 27.09                                     | 29.12                                 | 92.62                  | 36.20                     | 25.21           | 20.56  | 28.32                                      | 26.32                                   |  |
| Seton - Travis            | 26.74                                     | 29.12                                 | 90.38                  | 34.02                     | 25.21           | 20.56  | 28.32                                      | 25.98                                   |  |
| Superior - Travis         | 27.09                                     | 29.12                                 | 92.62                  | 36.20                     | 25.21           | 20.56  | 28.32                                      | 26.32                                   |  |