STATE OF TEXAS
CHILDREN'S HEALTH INSURANCE PROGRAM
CHIP RATE SETTING
STATE FISCAL YEAR 2014

Prepared for:
Texas Health and Human Services Commission
CHIP UMCC V2.6, CHIP RSA V1.11 and CHIP Dental V1.4

Prepared by:
Khiem D. Ngo, F.S.A., M.A.A.A
Rudd and Wisdom, Inc.

July 11, 2013

TABLE OF CONTENTS

I. Introduction ... 1

II. Overview of Rate Setting Methodology ... 3

III. Adjustment Factors ... 6

IV. Administrative Fees and Risk Margin ... 8

V. CHIP Perinatal ... 9

VI. CHIP Dental ... 10

VII. Summary ... 11

VIII. Actuarial Certification ... 14

IX. Attachments ... 15

I. Introduction

Rudd and Wisdom, Inc. has been retained by the Texas Health and Human Services Commission (HHSC) to develop the state fiscal year 2014 (FY2014, September 1, 2013 through August 31, 2014) 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 FY2014 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 2009 and a projection of future enrollment through August 2014.
- Claim lag reports by age group for each health plan for the period September 2009 through February 2013. 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 FY2011, FY2012 and the first six months of FY2013. 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 (FY2013) 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.
- FY2012 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 FY2012 CHIP health plan claims cost by type of service for certain services. This information was obtained from the encounter database.

- Information from HHSC regarding FY2013 and proposed FY2014 Medicaid provider reimbursement rates.

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 2014".

The actuarial model used to derive the FY2014 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 FY2012 base period were developed. These estimates were then projected forward to FY2014 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 FY2014 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)
- Jefferson County Service Area (Jefferson)
- 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 FY2014 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 FY2014 cost for each individual health plan by estimating their base period (FY2012) 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 FY2014 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 FY2014 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 FY2014 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 5.

The FY2014 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) community rate with risk adjustment. 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 group 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 6.

III. Adjustment Factors

This section contains a description of the adjustment factors used in the FY2014 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 applies to all service areas but varies by projection year (FY2013 and FY2014).

The trend analysis included a review of HMO and RSA claims experience data through February 28, 2013. Based on this information, estimates of monthly incurred claims were made through December 2012. 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 FY2013 trend assumption was developed from two components: (i) the actual estimated trend for the period September 2012 through December 2012 and (ii) the projected trend for the period January 2013 through August 2013. The experience trends for all time periods were adjusted to remove the impact of various provider reimbursement reductions and revisions that have impacted the program. We have assumed the trend for the period January 2013 through August 2013 and all of FY2014 will be 5%.

This analysis was used to select an annual trend rate assumption of 5.6% for FY2013 and 5.0% for FY2014 for each health plan.

Provider Reimbursement and Benefit Revision Adjustment

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

- APR-DRG Implementation
- Inpatient Outlier Payment Reduction
- 5.3% Outpatient Hospital Reimbursement Reduction
- Outpatient Imaging Fee Schedule Reduction
- Cost Sharing Change
- DME Reimbursement Change
- Emergency Room Reimbursement Reduction – Flat Fee for Non-Urgent Visit
- Emergency Room Reimbursement Reduction – Multiple Visits Within 36 Hours
- 5% Ambulance Reimbursement Reduction
- Therapy Reimbursement Change
- Potentially Preventable Readmission Reduction
- Limit Related Party Reimbursement to 100% of Medicaid

- Reduction of Medicaid Reimbursement in Excess of Medicare

The rating adjustments for these provider reimbursement and benefit 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 5.

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 ($0.1025 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 FY2014 premium rates were derived using a methodology very similar to that described in Section II above for CHIP. Attachment 7 presents a description of the rating methodology used in developing the FY2014 CHIP Perinatal rates.

VI. CHIP Dental

The actuarial model used to derive the FY2014 CHIP Dental premium rates relied on recent dental plan financial experience. Historical claims experience data for the dental plans was analyzed and estimates for the base period March 1, 2012 through February 28, 2013 were developed. The claims experience was trended forward to FY2014 using assumed trend rates of 5.0% for FY2013 and FY2014.

Provisions for administrative expenses, taxes and risk margin were added to the projected claims to produce the FY2014 premium rates. Attachment 8 includes additional documentation regarding the rate calculation for CHIP Dental.

VII. Summary

The chart below presents the results of the FY2014 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 2014".

	CHIP - Medical & Prescription Drug Rates				
Health Plan	Under Age 1	Ages 1-5	Ages 6-14	Ages 15-18	DSP
FY2014 CHIP Premium Rates pmpm					
Aetna - Bexar	183.57	99.44	87.16	121.18	3,100.00
Amerigroup - Bexar	183.57	62.48	62.33	68.82	3,100.00
CFHP - Bexar	183.57	122.96	113.33	134.45	3,100.00
Superior - Bexar	183.57	122.75	101.50	134.71	3,100.00
Amerigroup - Dallas	183.57	139.63	111.13	127.71	3,100.00
Molina - Dallas	183.57	150.14	90.50	111.36	3,100.00
Parkland - Dallas	183.57	150.95	117.24	137.43	3,100.00
El Paso First - El Paso	183.57	111.96	85.18	96.84	3,100.00
Superior - El Paso	183.57	105.40	91.10	99.91	3,100.00
Amerigroup - Harris	183.57	129.74	109.06	133.07	3,100.00
CHC - Harris	183.57	133.73	95.53	134.05	3,100.00
Molina - Harris	183.57	137.12	111.35	128.25	3,100.00
TCHP - Harris	183.57	153.84	134.09	176.58	3,100.00
UHC - Harris	183.57	112.14	94.31	148.39	3,100.00
Amerigroup - Jefferson	183.57	78.68	119.19	99.97	3,100.00
CHC - Jefferson	183.57	139.57	90.50	161.40	3,100.00
Molina - Jefferson	183.57	74.79	83.27	121.11	3,100.00
TCHP - Jefferson	183.57	151.66	130.81	147.49	3,100.00
UHC - Jefferson	183.57	142.36	109.32	157.26	3,100.00
Firstcare - Lubbock	183.57	111.62	95.51	167.77	3,100.00
Superior - Lubbock	183.57	89.31	78.52	100.19	3,100.00
Christus - Nueces	183.57	129.81	115.87	116.69	3,100.00
Driscoll - Nueces	183.57	154.60	153.66	183.80	3,100.00
Superior - Nueces	183.57	125.56	127.56	118.90	3,100.00
Aetna - Tarrant	183.57	123.25	97.84	124.26	3,100.00
Amerigroup - Tarrant	183.57	120.74	107.39	128.18	3,100.00
Cook - Tarrant	183.57	151.25	134.71	158.97	3,100.00
BCBS - Travis	183.57	107.38	117.62	117.91	3,100.00
Sendero - Travis	183.57	111.40	71.88	91.01	3,100.00
Seton - Travis	183.57	129.45	116.67	144.71	3,100.00
Superior - Travis	183.57	119.59	110.70	150.52	3,100.00
Molina - RSA	183.57	101.61	91.71	105.60	3,100.00
Superior - RSA	183.57	116.66	110.41	124.21	3,100.00

Health Plan	CHIP Perinate - Medical & Prescription Drug Rates			
	Newborns 185%-200%	Perinate <185%	Perinate 185%-200%	DSP
FY2014 CHIP Perinate Premium Rates pmpm				
Aetna - Bexar	632.17	403.98	310.72	3,100.00
Amerigroup - Bexar	632.17	403.98	310.72	3,100.00
CFHP - Bexar	632.17	403.98	310.72	3,100.00
Superior - Bexar	632.17	403.98	310.72	3,100.00
Amerigroup - Dallas	632.17	459.76	310.72	3,100.00
Molina - Dallas	632.17	459.76	310.72	3,100.00
Parkland - Dallas	632.17	459.76	310.72	3,100.00
El Paso First - El Paso	632.17	361.62	310.72	3,100.00
Superior - El Paso	632.17	361.62	310.72	3,100.00
Amerigroup - Harris	632.17	579.04	310.72	3,100.00
CHC - Harris	632.17	579.04	310.72	3,100.00
Molina - Harris	632.17	579.04	310.72	3,100.00
TCHP - Harris	632.17	579.04	310.72	3,100.00
UHC - Harris	632.17	579.04	310.72	3,100.00
Amerigroup - Jefferson	632.17	561.74	310.72	3,100.00
CHC - Jefferson	632.17	561.74	310.72	3,100.00
Molina - Jefferson	632.17	561.74	310.72	3,100.00
TCHP - Jefferson	632.17	561.74	310.72	3,100.00
UHC - Jefferson	632.17	561.74	310.72	3,100.00
Firstcare - Lubbock	632.17	368.30	310.72	3,100.00
Superior - Lubbock	632.17	368.30	310.72	3,100.00
Christus - Nueces	632.17	349.89	310.72	3,100.00
Driscoll - Nueces	632.17	349.94	310.72	3,100.00
Superior - Nueces	632.17	349.94	310.72	3,100.00
Aetna - Tarrant	632.17	356.13	310.72	3,100.00
Amerigroup - Tarrant	632.17	356.13	310.72	3,100.00
Cook - Tarrant	632.17	356.13	310.72	3,100.00
BCBS - Travis	632.17	421.43	310.72	3,100.00
Sendero - Travis	632.17	421.43	310.72	3,100.00
Seton - Travis	632.17	421.42	310.72	3,100.00
Superior - Travis	632.17	421.43	310.72	3,100.00
Molina - RSA	632.17	395.17	310.72	3,100.00
Superior - RSA	632.17	395.17	310.72	3,100.00

Health Plan	CHIP Dental Rates			
	Under Age 1	Ages 1-5	Ages 6-14	Ages 15-18
FY2014 CHIP Dental Premium Rates pmpm	3.28	15.62	22.76	19.33

Attachment 1 presents additional information regarding the CHIP FY2014 rates including a comparison to current (FY2013) rates. Attachments 7 and 8 contain additional information regarding the FY2014 CHIP Perinatal and CHIP Dental plan rates, respectively.

VIII. Actuarial Certification of FY2014 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 2014 (FY2014) 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 FY2014 HMO premium rates developed by HHSC and Rudd and Wisdom satisfy the following:

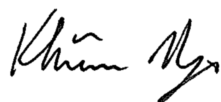
(a) The premium rates have been developed in accordance with generally accepted actuarial principals and practices;

(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 FY2014 CHIP Rating Analysis

The attached exhibit presents summary information regarding the FY2014 CHIP health plan rates. Included on the exhibits are current (FY2013) premium, split between medical and prescription drug, and delivery supplemental payment (DSP) rates, FY2014 premium, split between medical and prescription drug, and DSP rates and a comparison of FY2013 and FY2014 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 2009 through February 2013. 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 2009 through February 2013.

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, 2013, (iii) estimated proportion of that month's incurred claims paid through February, 2013 (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 FY2014 cost based on the plan's actual experience. The top of the exhibit shows summary base period (FY2012) enrollment, premium and claims experience. Trend assumptions for FY2013 and FY2014 are used to project the average base period claims cost to FY2014. 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 $8.00 pmpm plus 5.75% of gross premium. Provisions are also included for risk margin (2.0% of gross premium), premium tax (1.75%) and maintenance tax ($.1025 pmpm).

At the bottom of Exhibit D is a summary of the projected FY2014 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 FY2014 cost for each health plan in the service area. The weights used in this formula are the projected number of FY2014 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 FY2014 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 – Jefferson Area
Exhibit F – Lubbock Area
Exhibit G – Nueces Area
Exhibit H – Rural Service Area (RSA)
Exhibit I – Tarrant Area
Exhibit J – Travis Area

These exhibits show projected FY2014 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 (FY2012) experience. Following that are projected FY2014 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 $8.00 pmpm plus 5.75% of gross premium. Provisions are also included for risk margin (2.0% of gross premium), premium tax (1.75%) and maintenance tax ($.1025 pmpm).

At the bottom of the exhibit is a summary of the projected FY2014 cost based on these assumptions.

Attachment 4

Provider Reimbursement and Benefit Revision Adjustments

This attachment presents information regarding the various provider reimbursement and benefit revision 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 and benefit 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 – APR-DRG Implementation
Exhibit B – Inpatient Outlier Payment Reduction
Exhibit C – 5.3% Outpatient Hospital Reimbursement Reduction
Exhibit D – Outpatient Imaging Fee Schedule Reduction
Exhibit E – Cost Sharing Change
Exhibit F – DME Reimbursement Change
Exhibit G – Emergency Room Reimbursement Reduction – Flat Fee for Non-Urgent Visit
Exhibit H – Emergency Room Reimbursement Reduction – Multiple Visits within 36 Hours
Exhibit I – 5% Ambulance Reimbursement Reduction
Exhibit J – Therapy Reimbursement Change
Exhibit K – Potentially Preventable Readmission (PPR) Reduction
Exhibit L – Limit Related Party Reimbursement to 100% of Medicaid
Exhibit M – Medicaid Rates in Excess of Medicare Reduction

Effective September 1, 2012 HHSC implemented the APR-DRG reimbursement system for all hospitals excluding rural, children's and state owned teaching facilities. Effective September 1, 2013 HHSC will transition all rural and children's facilities to the APR-DRG reimbursement system. Attached Exhibit A presents a summary of the derivation of the rating adjustment factors.

Effective September 1, 2103 HHSC will be reducing the outlier portion of inpatient facility reimbursement by 10%. Children's hospitals are excluded from this reduction. Exhibit B presents a summary of the derivation of the rating adjustment factors.

Effective September 1, 2013 HHSC will be implementing an outpatient hospital reduction of 5.3%, which excludes clinical lab and outpatient imaging services. This reduction does not apply to children's hospitals, rural hospitals, or state-owned teaching hospitals. Exhibit C presents a summary of the derivation of the rating adjustment factors.

Effective September 1, 2013 HHSC will be reducing hospital imaging reimbursement to 125% of the amount reimbursed for imaging performed in a physician's office. Exhibit D 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 E presents a summary of the derivation of the rating adjustment factors.

Effective March 1, 2012 HHSC made revisions to the Durable Medical Equipment fee schedules. Exhibit F presents a summary of the derivation of the rating adjustment factors.

Effective September 1, 2013 HHSC reduced reimbursement for non-emergent services provided in the emergency room. This includes (i) a reduction in payment if an individual returns to the emergency department within a 36 hour period and (ii) non-urgent visit will be reimbursed using a flat fee. Exhibits G and H presents a summary of the derivation of the rating adjustment factors.

Effective September 1, 2013 HHSC will be reducing ambulance reimbursement by 5%. Exhibit I presents a summary of the derivation of the rating adjustment factors.

Effective March 1, 2012 and again on September 1, 2013, HHSC implemented revisions to the therapy fee schedules. The reductions that will be effective on September 1, 2013 apply to independent therapists, Comprehensive Outpatient Rehabilitation Facilities/Outpatient Rehabilitation Facilities (CORFs/ORFs), and home health agencies. Reimbursement will be reduced by 5% for therapy services provided outside the home and 3% for therapy services provided inside the home. Exhibit J presents a summary of the derivation of the rating adjustment factors.

Effective May 1, 2013 HHSC implemented revisions to hospital reimbursement to account for Potentially Preventable Readmissions (PPR). The reimbursement reductions amount to 1-2% depending on a hospitals performance during the evaluation time period. Exhibit K presents a summary of the derivation of the rating adjustment factors.

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. Exhibit L presents a summary of the derivation of the rating adjustment factors.

Effective September 1, 2013 HHSC will be reducing all Medicaid rates that are in excess of Medicare. Exhibit M presents a summary of the derivation of the rating adjustment factors.

Attachment 5

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. If necessary, an additional adjustment was made to the risk adjusted community rates to ensure that, in total, they produce the same premium as the community rates.

The risk adjustment factors determined by ICHP for the Under Age 1 category were not applied in developing the FY2014 premium rates due to the relative small size of this category and the resulting variation in acuity scores.

Any plan new to an existing service area effective March 1, 2012 received 50% of their calculated risk adjustment factor. These plans have not had the full risk adjustment applied due to the tendency of a plan new to an existing service area to gravitate towards a risk adjustment factor of 1.0 in the periods following their initial enrollment.

In addition, the following changes were made to the ICHP methodology and implemented in the FY2014 rate development:

- Both medical and pharmacy encounter claims were included in the acuity analysis.
- The enrollment criteria were relaxed to five months for the expansion areas and health plans new to the program effective March 1, 2012.
- The acuity risk adjustment analysis used CDPS version 5.3

Attachment 6

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 7

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 FY2014 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, 2013.

The chart below presents the assumed annual trend rates for FY2013 and FY2014.

	FY2013	FY2014
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 ($0.1025 pmpm) and a risk margin (2.0% of premium).

Summary

Exhibit A presents current (FY2013) premium, split between medical and prescription drug, and delivery supplemental payment (DSP) rates, FY2014 premium, split between medical and prescription drug, and DSP rates and a comparison of FY2013 and FY2014 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 8

CHIP Dental Rating

The actuarial model used to derive the FY2014 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 March 1st, 2012 through February 28th, 2013 were developed. The claims experience was trended forward to FY2014 using assumed trend rates of 5.0% for FY2013 and FY2014. Provisions for administrative expenses, taxes and risk margin were added to the projected claims to produce the FY2014 premium rates.

The amount allocated for administrative expenses is $1.75 pmpm. Provision is also included for risk margin (2.0% of gross premium), premium tax (1.75%) and maintenance tax ($.034 pmpm).

The bottom of the exhibit shows a summary of the projected FY2014 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 base period experience for the period March 1st, 2012 through February 28th, 2013. Following that is projected FY2014 enrollment, premium and incurred claims experience.

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