

Rudd and Wisdom, Inc.

CONSULTING ACTUARIES

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

Christopher S. Johnson, F.S.A.
Oliver B. Kiel, A.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, F.S.A.
Ronald W. Tobleman, F.S.A.
Kenneth Torng, A.S.A.
David G. Wilkes, F.S.A.

January 5, 2015

Ms. Rachel Butler
Chief Actuary
Health and Human Services Commission
1100 W. 49th Street
Austin, Texas 78756

Re: STAR Health Rate Amendment 529-06-0293 V1.22

Dear Ms. Butler:

This letter amends the report titled State of Texas Medicaid Managed Care STAR Health Program Rate Setting State Fiscal Year 2015 and dated May 30, 2014. The amended FY2015 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 March 1, 2015 through August 31, 2015. The reasons for these revisions are included below:

1. Electronic Visit Verification (EVV)

The capitation rates effective September 1, 2014 assume that EVV would be operational on or before September 1, 2014. Once implemented it is anticipated that the use of EVV will reduce unnecessary personal attendant services utilization and reduce long term care expenditures. Implementation delays due to contract award, provider education and managed care organization implementation have resulted in EVV not yet being in place. Because of these delays the assumed level of savings associated with the EVV initiative have been reduced from our original estimates. Attachment 3 (revised) presents the revised impact associated with the EVV implementation during the period September 1, 2014 through August 31, 2015.

2. Prescription Drug

HHSC implemented a new cost containment initiative in the managed care prescription drug programs effective December 1, 2014. The Vendor Drug Program (VDP) instituted a new reimbursement arrangement for 340B drugs in the fee-for-service program. MCOs were required to develop and implement reimbursement reduction plans for 340B drugs designed to achieve comparable savings.

Exhibit B presents the derivation of the rating adjustment factors for the 340B reimbursement change. This exhibit amends the report titled State of Texas Medicaid Managed Care Rate Setting Pharmacy Carve-in State Fiscal Year 2015 and dated May 30, 2014. Based on each MCO's 340B reimbursement plan, we re-priced their pharmacy claims during the period March 1, 2014 through August 31, 2014. We then compared the estimated cost impact of the reimbursement change to the original claims cost to determine the adjustment factor. The calculation of the adjustment factor takes into account that the reimbursement change is effective for only nine months of FY2015.

Due to timing issues HHSC will not be able to implement this rate change until March 1, 2015. The capitation rates payable for the six-month period March 1, 2015 through August 31, 2015 have been adjusted to recognize that the current capitation rates will be payable during the period September 1, 2014 through February 28, 2015, i.e., the rates have been adjusted in order to produce the amended capitation amounts for the September 1, 2014 through August 31, 2015 period.

The capitation rates included in this document do not include provision for the Affordable Care Act (ACA) Health Insurance Providers Fee. HHSC will develop and implement a procedure for reimbursing the MCOs for (i) the ACA Health Insurance Providers Fee, (ii) any applicable federal income tax impact resulting from payment of the ACA Health Insurance Providers Fee and (iii) any applicable state premium tax impact resulting from payment of the ACA Health Insurance Providers Fee. Such reimbursement will be provided based on a CMS-approved methodology.

The attached Exhibit A presents the amended FY2015 capitation rates payable for the period March 1, 2015 through August 31, 2015. 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, flowing style.

Evan Dial

Enclosure

Actuarial Certification of Amended FY2015 STAR Health 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 2015 (FY2015) 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 FY2015 STAR Health 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.

FY2015 STAR Health Capitation Rates - Amended
Per Member Per Month Rates

Effective March 1, 2015

Total	\$ 926.96
Medical	767.44
Prescription Drug	159.52

FY2015 STAR Health Rating
Provider Reimbursement Adjustments
340B Reimbursement Change
STAR Health

Estimated Cost Impact of 340B Reimbursement Change (1)	-9,271
Total Pharmacy Incurred Claims 3/2014 - 8/2014 (2)	21,991,717
Rate Adjustment Factors (3)	0.9997

Footnotes:

- (1) Equals the cost impact from 340b pharmacy reimbursement change. Reimbursement based on each PBM's proposed Shared Savings plan.
- (2) Equals total pharmacy claims during the period.
- (3) Equals one plus (Cost Impact divided by Incurred Claims) times 9/12. The 340B change becomes effective 12/1/2014 and, therefore, applies to 9/12 of the plan year.

FY2015 STAR Health Rating Analysis
 Provider Reimbursement Adjustments
 Estimates Based on FY2013 STAR Health Encounter Data

Provider Reimbursement Adjustment Factor

EVV	-635,089
5.3% Outpatient Reduction	-251,970
Therapy Reimbursement Reduction	-325,796
Emergent Room Reductions	
Non Emergent within 36 Hours	-22,329
Non Emergent Flat Fee	-185,607
5% Ambulance Reduction	-96,824
Outpatient Imaging Reduction	-333,291
Reduce Medicaid rates in excess of Medicare	-86,569
Targeted Case Management	119,792
Overall Provider Reimbursement Changes	-1,817,683
FY2013 Total Claims	217,140,095
Provider Reimbursement Adjustment	-0.84 %

Hospital Adjustment Factor

APR DRG Implementation	1,569,448
PPR Reduction	-7,571
PPC Reduction	-37,975
Outlier Reduction	-143,522
FY2013 Incurred Claims	217,140,095
Hospital Reimbursement Adjustment	0.64 %