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December 30, 2015

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

Re: FY2016 Rate Amendment for STAR, STAR+PLUS,
STAR Health, NorthSTAR, Medicaid Dental and
CHIP

Dear Ms. Butler:

This letter and accompanying rate setting documentation amend the following reports:

- A. State of Texas Medicaid Managed Care STAR Program Rate Setting State Fiscal Year 2016, dated June 26, 2015 (UMCC 529-12-0002 V2.16)
- B. State of Texas Medicaid Managed Care STAR+PLUS Program Rate Setting State Fiscal Year 2016, dated June 26, 2015 (UMCC 529-12-0002 V2.16, STAR+PLUS Expansion 529-10-0020 V1.21 and STAR+PLUS MRSA 529-13-0042 V1.7)
- C. State of Texas Medicaid Managed Care STAR Health Program Rate Setting State Fiscal Year 2016, dated June 26, 2015 (UMCC 529-15-0001 V2.1)
- D. State of Texas Medicaid Managed Care Rate Setting NorthSTAR Program State Fiscal Year 2016, dated September 4, 2015 (UMCC 2016-047949-001)
- E. State of Texas Medicaid Managed Care Dental Rate Setting FY2016, dated June 26, 2015 (Texas Dental Services UMCC 529-12-0003 V1.10)
- F. State of Texas Children's Health Insurance Program CHIP Rate Setting State Fiscal Year 2016, dated June 26, 2015 (CHIP UMCC 529-12-0002 V2.16, CHIP RSA UMCC 529-08-0001 V1.18 and Texas Dental Services UMCC 529-12-0003 V1.10)

Below are the contract amendment numbers (provided by HHSC) for the September 2015 adjusted capitation rates.

STAR, STAR+PLUS (including IDD) and CHIP	- UMCC 529-12-0002 V2.17
STAR+PLUS Expansion (including IDD)	- UMCC 529-10-0020 V1.22
STAR+PLUS MRSA (including IDD)	- UMCC 529-13-0042 V1.8
STAR Health	- UMCC 529-15-0001 V2.2
CHIP RSA	- UMCC 529-08-0001 V1.19
Dental (Medicaid and CHIP)	- UMCC 529-12-0003 V1.11
NorthSTAR	- UMCC 2016-047949-001B

The September 2015 adjusted capitation rates described in this correspondence provide for the cost of the 2015 Health Insurance Providers Fee (Fee) as required under the Affordable Care Act (ACA). These September 2015 adjusted capitation rates are applicable only to those Managed Care Organizations (MCOs) that are subject to the Fee under the ACA. In addition to the services described in the abovementioned reports, these September 2015 adjusted capitation rates include additional provision for (i) the Fee, (ii) any applicable corporate federal income tax impact resulting from receipt of the September 2015 adjusted capitation amounts described herein and (iii) any applicable Texas state premium tax impact resulting from receipt of the September 2015 adjusted capitation amounts described herein. For purposes of this correspondence, the sum of these three components will be referred to as the Adjusted Fee.

Below is a list of those Texas Medicaid/CHIP participating MCOs that are subject to the Fee under the ACA.

Aetna, Inc.
Anthem, Inc. (Amerigroup)
Health Care Service Corp. (Blue Cross Blue Shield of Texas)
Dental Service of Massachusetts, Inc. (DentaQuest)
SHA, LLC (Firstcare)
CIGNA Corp. (HealthSpring)
MCNA Health Care Holdings, LLC (MCNA)
Molina Healthcare, Inc.
Scott & White Health Plan
US Health and Life Insurance Co. (Seton)
Centene Corp. (Superior)
UnitedHealth Group Inc. (United)
FHC Health Systems, Inc (ValueOptions)

The rating methodology was developed in order to yield a set of capitation rates which, when applied to the membership assumption (as described herein), produce a capitation amount that matches (or very nearly so) the previously determined capitation amount plus the Adjusted Fee amount for each MCO. The September 2015 adjusted capitation rate methodology is intended to place each MCO in the same financial position as the MCO would have been (with respect to

federal income tax and Texas state premium tax) had no Fee been imposed. The methodology produces separate September 2015 adjusted capitation rates by program, service area, MCO and risk group.

Please note that the rate methodology used to develop the September 2015 adjusted capitation rates described in this report is identical to that used to develop the September 2014 adjusted capitation rates described in the report titled “FY2015 Rate Amendment for STAR, STAR+PLUS, STAR Health, NorthSTAR, Medicaid Dental and CHIP” and dated March 10, 2015.

For purposes of this rate development, HHSC has selected September 2015 as the adjustment month. The membership used in the rate calculation is that from September 2015. The September 2015 adjusted capitation rates described in this correspondence will be applicable for FY2016 and will be paid on a one-time basis. No future adjustments will be made for retroactive changes in member counts.

The September 2015 adjusted capitation rates were calculated based on the following steps:

1. The actual Fee amount was obtained from each of the MCOs by receiving a copy of their final “Annual Fee on Health Insurance Providers for 2015” notice from IRS.
2. The portion of the MCO’s Fee attributable to Texas Medicaid/CHIP was determined by multiplying the MCO’s net premium for Texas Medicaid/CHIP business by the ratio of (a) the MCO’s total Fee amount to (b) the MCO’s net premium for all business. The MCO’s net premium for all business was included in the IRS notice. The MCO’s net premium for Texas Medicaid/CHIP business was provided to HHSC by each of the MCOs. The Texas amounts were verified by comparison to HHSC reports. Any material discrepancies were researched and reconciled.
3. The Adjusted Fee was determined for each MCO by adjusting their Texas Medicaid/CHIP-specific Fee amount to include the cost impact from applicable federal income taxes and applicable state premium taxes. Inclusion of an adjustment for federal income tax was necessary because the Fee is an excise tax and payment thereof is not a deductible expense for federal income tax purposes. The federal income tax rate was assumed to be 35% for all MCOs. HHSC will later reconcile the amount included for federal income tax if the actual tax rate ultimately proves to be less than 35%. The state premium tax rate was assumed to be 1.75% for all MCOs.
4. Determine September 2015 HHSC total capitation amounts based on September 2015 membership estimates applied to the capitation rates in effect for September 2015. The capitation rates used for the STAR program are the unadjusted rates in order to include the cost of maternity services. The capitation rates used for the STAR+PLUS program exclude long term care services as those services are excluded from the Fee calculation. The September 2015 capitation amounts were determined for each program, service area and risk group for each of the MCOs subject to the Fee.

5. For each MCO, determine the Rating Adjustment Factor by dividing the MCO's Adjusted Fee (from Item #3 above) by the MCO's total HHSC September 2015 capitation amounts (from Item #4 above).
6. The September 2015 adjusted capitation rates were then calculated by applying one plus the Rating Adjustment Factor (from Item #5 above) to the FY2016 capitation rates in effect for September 2015.

There are several instances where the formula for developing the Adjusted Fee differed from that described above. The details of these situations are described below:

- Blue Cross Blue Shield of Texas. On July 9, 2015, HHSC notified Blue Cross that approximately \$1.6 million in ACA primary care enhanced payments were a pass-through payment and should not be included in their IRS Form 8963. Blue Cross acknowledged receipt of the notification but included the pass-through payments in their final Form 8963. The CY2014 HHSC Premium amount for Blue Cross used in this analysis excludes the \$1.6 million in pass-through payments.
- DentaQuest. A portion of Dental Service of Massachusetts, Inc.'s revenue is from not-for-profit business written in Massachusetts and was subject to a 50% exemption in IRS' calculation of their total Fee. This exemption was considered in determining the portion of Dental Service of Massachusetts, Inc.'s total Fee attributable to Texas Medicaid/CHIP by excluding the exempted portion of the premium from the DMO's net premium for all business.
- Scott & White. Scott & White Health Plan is a non-profit corporation and is not subject to federal income tax. As a result, we assumed zero federal income tax in developing the Adjusted Fee for Scott & White.
- United. In their preliminary Form 8963 filed with IRS, UnitedHealth Group Inc.'s reported HHSC premium and the allocation of premium between non-Long Term Care and Long Term Care services was consistent with HHSC's records. However, in the final version of their Form 8963, United reallocated approximately \$36 million in premium from non-Long Term Care to Long Term Care services and, as a result, overstated the premium amount subject to the Fee. HHSC notified United of the error immediately upon discovery but not in time for United to revise Form 8963. The CY2014 HHSC Premium amount for United used in this analysis is from HHSC's records and shows approximately \$36 million less than that reported by United.

Attachment 1 presents the calculation of HHSC's portion of the Fee for each MCO. The exhibit also shows the calculation of Adjusted Fee for each MCO along with federal income tax and state premium tax components of the Adjusted Fee.

Attachment 2 presents the FY2016 Medicaid and CHIP capitation rates used in this rating analysis. Please note that these are the capitation rates that were in effect September 1, 2015. The capitation rates included for the STAR program are the unadjusted capitation rates in order to include the cost of maternity services. The capitation rates included for the STAR+PLUS program exclude long term care services as those services are specifically excluded from the Fee calculation.

Attachment 3 presents the calculation of the September 2015 adjusted capitation rates for each of the Texas Medicaid/CHIP MCOs subject to the Fee in 2015. The calculation of the rates for each MCO is presented on a separate exhibit as follows:

Exhibit A - Aetna
Exhibit B - Amerigroup
Exhibit C - Blue Cross
Exhibit D - DentaQuest
Exhibit E - Firstcare
Exhibit F - HealthSpring
Exhibit G - MCNA
Exhibit H - Molina
Exhibit I - Scott & White
Exhibit J - Seton
Exhibit K - Superior
Exhibit L - United
Exhibit M - ValueOptions

Each exhibit shows the September 2015 adjusted capitation rate calculation for each program, service area and risk group in which the MCO participates. The exhibit includes (a) September 2015 enrollment, (b) the applicable FY2016 capitation rate (from Attachment 2), (c) the September 2015 capitation amount [the product of (a) and (b)] and the 2015 Adjusted Fee (from Attachment 1). The 2015 Adjusted Fee is divided by the September 2015 capitation amount to determine the Rating Adjustment Factor. The Rating Adjustment Factor is then applied to each of the FY2016 capitation rates in order to yield the September 2015 adjusted capitation rate by program, service area and risk group. The exhibit also shows the resulting September 2015 capitation adjustment amounts and a comparison to the MCO's Adjusted Fee. The small difference between the Adjusted Fee amount and the September 2015 capitation adjustment amount is a result of rounding.

Attachment 4 presents a summary of the September 2015 adjusted capitation rates by program, service area, MCO and risk group. Each Medicaid/CHIP program is presented on a separate exhibit as follows:

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Exhibit A - STAR
Exhibit B - STAR+PLUS
Exhibit C - STAR Health
Exhibit D - NorthSTAR
Exhibit E - Dental (Medicaid and CHIP)
Exhibit F - CHIP

Attachment 5 presents a summary comparison of the September 2015 adjusted capitation rates and the FY2016 capitation rates by program and MCO. The exhibit includes the calculated amount of the increase in capitation (September 2015 adjusted capitation amount less original capitation amount) and a comparison to HHSC's portion of the 2015 Adjusted Fee for each MCO.

Actuarial Certification of September 2015 Adjusted Capitation Rates

I, David G. Wilkes, am a principal with the firm of Rudd and Wisdom, Inc., Consulting Actuaries (Rudd and Wisdom, Inc.). 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.

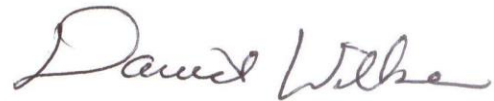
Rudd and Wisdom, Inc. has been retained by the Texas Health and Human Services Commission (HHSC) to assist in the development of their rate-setting methodology, assumptions and resulting capitation rates and to provide the actuarial certification required under Centers for Medicare and Medicaid Services (CMS) requirements 42 CFR 438.6(c). The September 2015 adjusted capitation rates described in this report are applicable for September 2015.

I certify that the capitation rates developed by HHSC and Rudd and Wisdom, Inc. satisfy the following:

- (a) The capitation rates have been developed in accordance with generally accepted actuarial principals and practices;
- (b) The capitation rates are appropriate for the populations and services covered under the managed care contract; and
- (c) The capitation 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, Inc. 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.



David G. Wilkes, F.S.A., M.A.A.A.