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June 8, 2018

Ms. Rachel Butler
Chief Actuary
Health and Human Services Commission
4900 North Lamar
Austin, Texas 78751

Re: STAR Health Rate Amendment UMCC 529-15-0001 V2.6.1

Dear Ms. Butler:

This letter amends the report titled State of Texas Medicaid Managed Care STAR Health Program Rate Setting State Fiscal Year 2018 and dated July 10, 2017.

Summary of the Revisions

HHSC's Vendor Drug Program (VDP) has recently implemented numerous changes to the Preferred Drug List (PDL) as part of the cost containment initiative. These changes include some of the program's highest expenditure drugs and will have a significant impact on managed care pharmacy cost that was not contemplated at the time the original fiscal year 2018 (FY2018) managed care capitation rates were developed. The PDL changes are outlined below:

- Nasonex was changed from preferred to non-preferred status effective July 27, 2017.
- Suprax was changed from preferred to non-preferred status effective February 1, 2018.
- Abilify Tablet was changed from preferred to non-preferred status effective March 9, 2018.
- Aripiprazole (generic Abilify) tablet was changed from non-preferred to preferred status effective March 9, 2018.
- Fanapt was changed from preferred to non-preferred status effective March 9, 2018.
- Oseltamivir (generic Tamiflu) was changed from non-preferred to preferred status effective March 9, 2018.
- Antihistamines First Generation was added as a new PDL class effective March 9, 2018.
- Pediatric Vitamins was added as a new PDL class effective March 9, 2018.

In Texas Medicaid, the managed care organizations (MCOs) are financially responsible for the delivery of pharmacy services and appropriate provision for the cost of those services is included in the capitation rates. The state retains the responsibility for the development and management of the formulary, PDL and any prior authorization requirements. In their delivery of pharmacy services, the MCOs are required to follow protocols developed by the state.

While VDP makes PDL revisions throughout the year, most have a relatively small cost impact and, as a result, do not warrant capitation rate action. The changes described above are unusual in that they include the program's highest expenditure drug and three perennial top 20 drugs. In addition, the drugs and drug categories included in the PDL revisions were identified for modification in reports prepared by both the MCO's trade association and the state's consulting actuary. These PDL changes will significantly reduce the cost of pharmacy services from that contemplated in developing the original FY2018 capitation rates.

The rate revisions described in this correspondence impact only the pharmacy component of the STAR Health capitation rates. The revised pharmacy rates were calculated using identical methods and assumptions as those described in the above-mentioned report with one exception. We added a new PDL adjustment factor to recognize the reduction in MCO pharmacy cost generated by the PDL changes. In the sections below, we will document how we derived the new adjustment factors.

This correspondence uses the following terminology to define the two sets of capitation rates discussed herein.

- Original FY2018 Pharmacy Capitation Rates. These are the pharmacy component rates currently being paid to the MCOs. They were originally developed for FY2018 in the summer of 2017.
- Revised FY2018 Pharmacy Capitation Rates. These are the original pharmacy rates adjusted for the PDL changes. These rates were determined based on the assumption that they would be effective for the entire FY2018 period.

PDL Adjustment Factors

For each of the drugs impacted by the PDL changes described above, we developed an assumption regarding the utilization of services after implementation of the change. For example, for Abilify, we assumed that, on average, 80% of the utilization during the period March 9, 2018 through August 31, 2018 would move to Aripiprazole (generic Abilify) and 20% would remain with Abilify. In deriving these utilization assumptions, we relied on input from VDP and Magellan Health, the agency's pharmacy benefit consultant.

Please note that we assumed total pharmacy utilization would remain unchanged. We only changed the mix of services. We also compared our utilization assumptions to results from

previous PDL changes and found the assumptions to be reasonable. In addition, our analysis considered the potential impacts of seasonality and progressive utilization shift (ramp-up).

Cost factors were developed for each drug on the PDL change list. These factors represent the average gross pharmacy cost (ingredient cost plus dispensing fee) for the combination of drugs assumed to be utilized after implementation of the PDL changes (80% Aripiprazole and 20% Abilify, in our example above) to the average gross cost before implementation. Attachment 7 - Exhibit A presents the calculation of the cost factor for the Abilify change. A similar analysis was performed for each of the drugs and drug categories on the PDL change list. Attachment 7 - Exhibit B presents a summary of the cost factors for all of the impacted drugs. Adjusted cost factors were developed for each drug depending on the implementation date of the particular PDL change.

The adjusted cost factors were applied to all claims incurred during the base period (calendar year 2016) for drugs included on the PDL change list. Attachment 7 - Exhibit C presents a summary of this analysis. The resulting factors are the PDL adjustment factors. The PDL adjustment factors were then applied to the projected FY2018 pharmacy incurred claims from the original rate calculation worksheets. The remainder of the capitation rate calculation formula (administrative fees, risk margin and premium tax) used to determine the revised rates is identical to the original rate calculation. The resulting rates are defined as Revised FY2018 Pharmacy Capitation Rates. These are the rates that would have been applicable for the entire FY2018 had the PDL changes been known at the time the original rates were developed.

Revised FY2018 Pharmacy Capitation Rates

The rate revisions described in this correspondence are effective September 1, 2017 and applicable for the entire FY2018. HHSC is currently unable to administer a retrospective rate change. In order to approximate the FY2018 capitation amounts payable under the Revised FY2018 Pharmacy Capitation Rate, HHSC will pay the MCO based on an adjusted set of rates for the period August 1, 2018 through August 31, 2018. These adjusted rates are determined such that the overall average FY2018 capitation rate paid to each MCO is estimated to be equal to that under the Revised FY2018 Pharmacy Capitation Rates. HHSC will also conduct a reconciliation process to ensure that the total FY2018 capitation paid is equal to actual FY2018 caseload applied to the Revised FY2018 Pharmacy Capitation Rates.

The Revised FY2018 Pharmacy Capitation Rates are presented below under Section V. Summary and Attachment 1.

Report Amendments

This section details any revisions to the original actuarial report dated July 10, 2017.

Section I. Introduction

No changes applicable to this section. The same data sources were utilized in the calculation of these revised rates.

Section II. Overview of Rate Setting Methodology

No changes applicable to this section. The rates have been calculated for the same service delivery area and services as outlined in the original report using the same general methodology.

Section III. Adjustment Factors

This section is amended to include the narrative and attachments presented above regarding the PDL Adjustment Factors.

Section IV. Administrative Fees, Taxes and Risk Margin

No changes applicable to this section. The same administrative fee, taxes and risk margin assumptions have been applied in these revised rates.

Section V. Summary

This section is replaced in its entirety with the following:

The FY2018 total premium rate for the STAR Health program is \$924.21 per member per month. The total premium rate is made up of the total medical component of \$791.04 and the prescription drug component of \$133.17. This rate will be effective for the period September 1, 2017 through August 31, 2018. Attachment 1 shows the derivation of the premium rate.

As noted in Section III, Texas is eligible for an enhanced match rate for CFC services. CFC services of \$4.22 pmpm are a component of the total rate. Further information regarding the calculation of this amount can be found in Attachment 5 of the original report.

Section VI. Actuarial Certification of FY2018 STAR Health Capitation Rates

We, Evan L. Dial, Khiem D. Ngo and David G. Wilkes are principals with the firm of Rudd and Wisdom, Inc., Consulting Actuaries (Rudd and Wisdom). We are Fellows of the Society of Actuaries and members of the American Academy of Actuaries. We 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 the STAR Health premium rates for the period September 1, 2017 through August 31, 2018 and to provide the actuarial certification required under Centers for Medicare and Medicaid Services (CMS) requirements 42 CFR 438.4.

We certify that the amended FY2018 STAR Health premium rates developed by HHSC and Rudd and Wisdom satisfy the following:

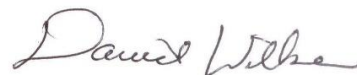
- (a) The premium rates have been developed in accordance with generally accepted actuarial principles and practices;
- (b) The premium rates are appropriate for the populations and services covered under the managed care contract; and
- (c) The premium rates are actuarially sound as defined in the regulations.

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.

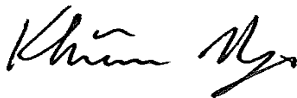
Please note that actual health plan contractor experience will differ from these projections. Rudd and Wisdom has developed these rates on behalf of the State to demonstrate compliance with the CMS requirements under 42 CFR 438.3(c), 438.3(e), 438.4, 438.5, 438.6 and 438.7. Any health plan contracting 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.



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



Khiem D. Ngo, F.S.A., M.A.A.A.

Section VII. Attachments

The following sections indicate any revisions applicable to each of the attachments in the original actuarial report dated July 10, 2017.

Attachment 1 - Summary of FY2018 STAR Health Rating Analysis

Exhibit B. This exhibit presents the calculation of the Revised FY2018 Pharmacy Capitation rates.

Exhibit C. This exhibit is amended to include the Revised FY2018 Pharmacy Capitation rates.

Attachment 2 - STAR Health Incurred Claims Experience

No changes applicable to this section.

Attachment 3 – STAR Health Trend Analysis

No changes applicable to this section.

Attachment 4 - Provider Reimbursement Adjustments

This section is amended to include the PDL Adjustment Factors section from above.

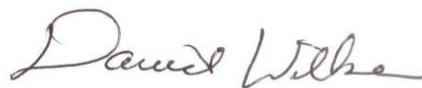
Attachment 5 – Community First Choice (CFC)

No changes applicable to this section.

Attachment 6– FY2018 STAR Health Rate Certification Index

No changes applicable to this section.

Sincerely,



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

FY2018 STAR Health Rating Analysis
 Rate Development for the STAR Health Program - Prescription Drug

	<u>Rating Period</u> <u>FY2018</u>
Base Period Used in Rating	CY2016
Base Period Experience	
Member Months	375,609
Estimated Incurred Claims	52,343,401
Estimated Incurred Claims pmpm	\$ 139.36
Projected Rating Period Experience	
Member Months	385,299
Current Premium Rate (FY2016)	\$ 161.07
Projected Premium at Current Rate	62,060,036
Assumed Annual Trend Rate	0.8 %
PDL Adjustment	-10.04 %
Projected Incurred Claims pmpm	\$ 127.04
Projected Incurred Claims	48,948,543
Administrative Expenses	\$ 1.80
Premium Tax	1.75 %
Risk Margin	1.5 %
Premium Rate pmpm	\$ 133.17
Projected Premium	51,310,207
% Change	-17.3%

FY2018 STAR Health Rating Analysis

	Projected PMPM		Projected FY2018 Premium		<u>% Rate Change</u>
	<u>FY2017 Rates</u>	<u>FY2018 Rates</u>	<u>FY2017 Rates</u>	<u>FY2018 Rates</u>	
Medical	760.64	791.04	293,073,481	304,786,557	4.0%
Pharmacy	161.07	133.17	62,060,036	51,287,084	-17.3%
Total	921.71	924.21	355,133,517	356,073,641	0.3%

Health and Human Services Commission
PDL Change Impact
Intranasal Rhinitis Agents Market Basket
Abilify Tablet (Oral)

<u>Drug Name</u>	<u>Amount Paid</u>	<u>Days Supply</u>	<u>Scripts</u>	<u>Paid/Script</u>	<u>Amount Paid</u>
CY2016 Experience Period					
Abilify Tablet (Oral)	101,416,610	3,110,169	106,425	952.94	101,416,610
Projected with PDL Changes					
Abilify Tablet (Oral)			21,285	952.94	20,283,322
Aripiprazole Tablet (Oral)			85,140	198.63	16,911,358
Total			106,425	349.49	37,194,680
PDL Impact			0	-603.45	-64,221,930
PDL Adjustment Factor (annualized)					0.3668

Notes:

- (1) Includes experience for all managed care programs except CHIP and Dual Eligible Integrated Care project.
- (2) Projected Scripts based on Magellan's estimate of utilization change from PDL change. 80% of Abilify Tablet (Oral) utilization is assumed to shift to Aripiprazole Tablet (Oral).

FY2018 Mid-year Prescription Drug Rating Analysis
PDL Changes

Drug Category	Drug Name	Cost Factor	
		Annual (1)	Adjusted (2)
Antihistamines, First Generation	Aller-Chlor Syrup OTC (Oral)	2.4604	1.6995
Antihistamines, First Generation	Carbinoxamine Tablet (Oral)	0.6133	0.8148
Antihistamines, First Generation	Chlorpheniramine Tablet ER OTC (Oral)	0.7139	0.8629
Antihistamines, First Generation	Cyproheptadine Tablet (Oral)	0.7082	0.8602
Antihistamines, First Generation	Diphenhydramine Syrup OTC (Oral)	8.4085	4.5487
Antihistamines, First Generation	ED Chlorped Drops OTC (Oral)	0.9080	0.9559
Antihistamines, First Generation	Vanahist PD Drops OTC (Oral)	0.4233	0.7238
Antihistamines, First Generation	Vistaril Capsule (Oral)	0.2956	0.6626
Antipsychotics	Abilify Tablet (Oral)	0.3668	0.6967
Antipsychotics	Fanapt Tablet (Oral)	0.3688	0.6976
Antipsychotics	Latuda (Oral)	1.0000	1.0000
Antivirals, Oral/Nasal	Tamiflu Capsule (Oral)	0.6515	0.9350
Antivirals, Oral/Nasal	Tamiflu Suspension (Oral)	0.6932	0.9430
Cephalosporins And Related Antibiotics	Suprax Capsule (Oral)	0.2986	0.5946
Cephalosporins And Related Antibiotics	Suprax Suspension (Oral)	0.3251	0.6099
Intranasal Rhinitis Agents	Nasonex (Nasal)	0.2757	0.2757
Pediatric Vitamin Preparations	Escavite (Oral)	0.4040	0.7139
Pediatric Vitamin Preparations	Escavite D Chew Tab (Oral)	0.3158	0.6716
Pediatric Vitamin Preparations	Escavite Lq (Oral)	0.2873	0.6579
Pediatric Vitamin Preparations	Floriva Chew (Oral)	0.3111	0.6693
Pediatric Vitamin Preparations	Floriva Plus Drops (Oral)	0.3303	0.6786
Pediatric Vitamin Preparations	Fluoride/Vitamins A,C,And D Drops (Oral)	1.1906	1.0915
Pediatric Vitamin Preparations	Pedi Mvi No.17 With Fluoride Chew (Oral)	1.5593	1.2685
Pediatric Vitamin Preparations	Quflora (Oral)	0.2412	0.6358
Pediatric Vitamin Preparations	Quflora Fe (Oral)	0.2254	0.6282

Footnotes:

- (1) The Annual Cost Factor represents the average gross pharmacy cost (ingredient cost plus dispensing fee) for the combination of drugs assumed to be utilized after implementation of the PDL changes to the average gross cost before implementation.
- (2) The Adjusted Cost Factor equals the Annual Cost Factor multiplied by the portion of the fiscal year's utilization remaining after implementation.

FY2018 Prescription Drug Rating Analysis
CY2016 Pharmacy Experience
STAR Health

Actual CY2016 Experience	51,671,462
Adjusted CY2016 Experience	46,481,454
Adjustment Factors	0.8996