

# Rudd and Wisdom, Inc.

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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 Kids Rate Amendment UMCC 529-13-0071 V1.6.1

Dear Ms. Butler:

This letter amends the report titled State of Texas Medicaid Managed Care STAR Kids 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 far below what was contemplated in the developing the original FY2018 capitation rates.

The rate revisions described in this correspondence impact only the pharmacy component of the STAR Kids 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 13 - 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 13 - 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 (March 1, 2016 through February 28, 2017) for drugs included on the PDL change list. Attachment 13 - 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 Rates, HHSC will pay the MCOs 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 for each MCO.

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 areas, risk groups 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***

The tables in this section are replaced in their entirety with the capitation rates presented in the attached exhibit titled "Section V-STAR Kids".

***Section VI. Actuarial Certification of FY2018 STAR Kids 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 Kids 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 Kids 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.

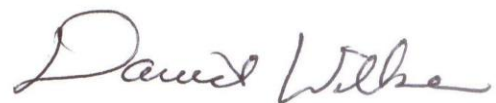
We have relied on historical experience data and program information provided to us by HHSC. We have reviewed the data for reasonableness but have not audited the data.

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.



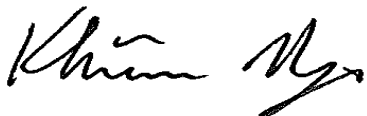
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Evan L. Dial, F.S.A., M.A.A.A.



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



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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 Kids Rating Analysis***

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

***Attachment 2 - Individual Health Plan Experience Analysis***

No changes applicable to this section.

***Attachment 3 - Community Experience Analysis***

This section is amended to include revised community rating exhibits for the pharmacy component of the FY2018 capitation rates.

***Attachment 4 - Trend Analysis***

No changes applicable to this section.

***Attachment 5 - Provider Reimbursement and Benefit Revisions Effective During FY2016, FY2017 and FY2018***

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

***Attachment 6 – Managed Care Savings***

No changes applicable to this section.

***Attachment 7 – Service Coordination***

No changes applicable to this section.

***Attachment 8 – Acuity Risk Adjustment***

No changes applicable to this section.

***Attachment 9 – Long Term Care Portion of Premium***

No changes applicable to this section.

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***Attachment 10 – Community First Choice (CHC) Initiative***

No changes applicable to this section.

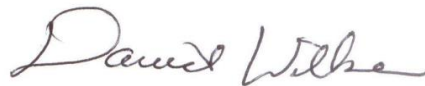
***Attachment 11 – Pay for Quality Program***

No changes applicable to this section.

***Attachment 12– FY2018 STAR Kids Rate Certification Index***

No changes applicable to this section.

Sincerely,

A handwritten signature in cursive script that reads "David Wilkes".

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