

Rudd and Wisdom, Inc.

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January 7, 2014

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

Re: STAR Health Rate Amendment V1.19

Dear Ms. Butler:

This letter amends the report titled State of Texas Medicaid Managed Care STAR Health Program Rate Setting State Fiscal Year 2014 and dated July 11, 2013. The amended FY2014 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 April 1, 2014 through August 31, 2014. The reasons for these revisions are included below:

1. Potentially Preventable Readmission (PPR) Reductions

Effective March 1, 2014 the hospital reimbursement reductions associated with PPRs will be updated. The reimbursement reductions will continue to vary from 1-2% but the hospitals to which they will be applied will change. Attachment 3 (revised) presents the revised impact associated with the initial PPR reductions effective during the period September 1, 2013 through February 28, 2014 followed by the revised reductions effective March 1, 2014 through August 31, 2014.

2. Potentially Preventable Complication (PPC) Reductions

Effective March 1, 2014 HHSC will revise hospital reimbursement to account for PPCs. The reimbursement reductions amount to 2.0-2.5% depending on hospital performance during the evaluation period. Attachment 3 (revised) presents the revised provider reimbursement factors used in developing the amended capitation rates.

3. Electronic Visit Verification (EVV)

Effective June 1, 2014 HHSC will require all managed care organizations to incorporate EVV into their management duties for Personal Assistance Services (PAS), Personal Care Services (PCS) and Private Duty Nursing (PDN). Based on an analysis of the impact of EVV on these services in the fee-for-service program the following savings assumptions have been developed:

PAS: 4.0%

PCS: 4.0%

PDN: 3.5%

Attachment 3 (revised) presents the EVV adjustment factors used in developing the amended capitation rates. The impact of additional administrative expenses was considered and it has been determined that the administrative allowance included in the rates should be increased by \$0.50 per member per month for the period June 1, 2014 through August 31, 2014. Spread across the entire fiscal year this amounts to an increase to the fixed administrative fee of \$0.125 per member per month.

4. Prescription Drug

HHSC will implement several cost containment initiatives in the STAR Health prescription drug program over the next few months. Clients taking drugs in certain drug classes are currently allowed to continue taking a medication when it moves from preferred status to non-preferred status. This is known as grandfathering. HHSC will eliminate grandfathering for the antidepressant and growth hormone categories effective January 1, 2014 and the antipsychotic, and insulin categories effective May 1, 2014. The elimination of grandfathering results in a more rapid shift to less costly preferred drugs.

Effective January 15, 2014, HHSC will include several new drug classes in the Preferred Drug List (PDL). These new drug categories include antibiotic (inhaled), antihypertensive, glucocorticoid, immunosuppressive, growth hormone and hypoglycemic.

Attachment 6-RX presents the derivation of the adjustment factors for the elimination of grandfathering and the addition of the new drug classes. This attachment amends the report titled State of Texas Medicaid Managed Care Rate Setting Pharmacy Carve-in State Fiscal Year 2014 and dated July 11, 2013.

Due to timing issues HHSC will not be able to implement this rate change until April 1, 2014. The capitation rates payable for the five-month period April 1, 2014 through August 31, 2014 have been adjusted to recognize that the current capitation rates will be payable during the period September 1, 2013 through March 31, 2014, i.e., the rates have been adjusted in order to produce the amended capitation amounts for the September 1, 2013 through August 31, 2014 period.

The attached Exhibit A presents the amended FY2014 capitation rates payable for the period April 1, 2014 through August 31, 2014. 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 style with a horizontal line through the middle of the name.

Evan Dial

Enclosure

Actuarial Certification of Amended FY2014 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 2014 (FY2014) 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 FY2014 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.

FY2014 STAR Health Capitation Rates - Amended
Per Member Per Month Rates

Effective April 1, 2014

Total	\$ 982.96
Medical	810.91
Prescription Drug	172.05

Provider Reimbursement Adjustment Factor

Capitate PCS	4,598,058
Outpatient Reduction	-248,632
Capitate Hearing and Audiology	106,370
Capitate ECI Services	779,257
Therapy Reimbursement Reduction	-736,341
DME Reimbursement Increase	109,712
Cranial Orthosis	-90,870
Emergent Room Reductions	
Non Emergent within 36 Hours	-39,232
Non Emergent Flat Fee	-217,233
Ambulance Reduction	-79,288
Outpatient Imaging Reduction	-323,605
Reduce Medicaid rates in excess of Medicare	-83,368
Female Reproductive System Surgery Rate Increase	0
Electronic Visit Verification	-301,911
Overall Provider Reimbursement Changes	3,472,915
FY2012 Total Claims	234,196,344
Overall Rate Adjustment Factor	1.48 %

Hospital Adjustment Factor

APR DRG Implementation	2,700,770
PPR Reduction	-42,912
PPC Reduction	-17,294
Outlier Reduction	-189,642
FY2012 Incurred Claims	234,196,344
Rate Adjustment Factor	1.05 %

Health and Human Services Commission
FY2014 Pharmacy Rate Setting - Mid Year Adjustments
PDL Rate Adjustment Factors
Experience Period: 3/1/2012 - 2/28/2013
STAR Health

Estimated Pharmacy Cost Impact for PDL Changes (1)	-378,797
Total Pharmacy Incurred Claims (2)	58,967,251
FY2014 Claims Cost Adjustment Factors (3)	-0.64 %

Footnotes:

- (1) Equals the estimated cost impact from application of the PDL changes (grandfathering and new drug classes).
- (2) Equals total experience period incurred pharmacy claims.
- (3) Equals additional cost divided by total incurred claims.