

Rudd and Wisdom, Inc.

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January 27, 2014

Ms. Rachel Butler, A.S.A., M.A.A.A.
Chief Actuary
Health and Human Services Commission
1100 West 49th Street
Austin, Texas 78756

Re: Actuarial Certification for Full Risk Broker Contracts

Dear Ms. Butler:

Rudd and Wisdom, Inc. (Rudd and Wisdom) has developed capitation rates applicable to the Texas Medicaid Medical Transportation Program's (MTP) Full Risk Broker (FRB) contracts for the remainder of fiscal year 2014 (FY2014). This correspondence presents a description of the rate setting methodology and assumptions and a certification that the resulting capitation rates are actuarially sound according to CMS requirements.

The Health and Human Services Commission (HHSC) current has two FRB contracts operating in Texas. Medical Transportation Management, Inc. (MTM) provides non-emergency medical transportation services in the Houston region under a full risk capitated arrangement. LogistiCare Solutions LLC (Logisticare) provided similar services in the Dallas/Fort Worth region under the same full risk financial arrangement. The FRB capitation rates expire March 15, 2014 and April 15, 2014 for MTM and Logisticare, respectively. The renewal capitation rates described in this correspondence will be applicable from the expiration of the current rates through August 31, 2014.

The information used in developing the new capitation rates included data from the FRB's Financial Statistical Reports (FSR), encounter claims provided by the FRBs, other information and reporting from HHSC staff and the FRBs and membership information from HHSC's System Forecasting Division. We have relied on this information provided by HHSC and its vendors to prepare the capitation rates. We have not independently derived or audited any experience data.

The base period used in deriving the renewal capitation rates was March 1, 2013 through August 31, 2013 for MTM and April 1, 2013 through August 31, 2013 for Logisticare. These experience periods were used to eliminate any need to adjust for seasonality.

We applied two adjustment factors to the actual claims experience. The first was the Claims Adjustment Factor which includes (a) an adjustment for incurred but unpaid claims and (b) an adjustment to recognize that transportation services to certain providers (mostly therapy) were underreported during the experience period. The second adjustment factor was a 5.0% annual trend assumption which was used to project historical experience forward to the rating period.

The rating methodology includes an explicit provision for administrative services cost. The amount allocated for administrative expenses is \$0.40 per member per month (pmpm) plus 16.0% of gross premium. This amount is intended to provide for all administrative-related services performed by the vendors.

No provision for premium or maintenance taxes is included in the rate calculation as these services are exempt from such taxes. The rates do include a risk margin equal to 2.0% of gross capitation.

Attachments 1 and 2 present the derivation of the capitation rates for MTM and Logisticare, respectively. The chart below compares the current FRB monthly capitation rates to the renewal rates by rate category.

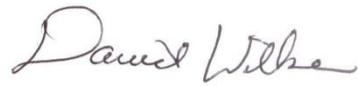
**Full Risk Broker Rate Comparison
Capitation Rates per Member per Month**

FRB/Risk Group	FY2014* Member Months	Current Monthly Rates	FY2014* Monthly Rates	Percentage Change
MTM:				
Children	5,022,785	\$ 1.59	\$ 1.20	-24.5 %
Adults	1,170,855	7.45	8.99	20.7 %
CSHCN	2,002	1.59	1.20	-24.5 %
Total/Average	6,195,642	2.70	2.67	-1.0 %
Logisticare:				
Children	3,869,181	\$ 1.90	\$ 1.28	-32.6 %
Adults	843,341	11.16	11.46	2.7 %
CSHCN	2,245	1.90	1.28	-32.6 %
Total/Average	4,714,767	3.56	3.10	-12.9 %

* FY2014 represents the rating period – March 16, 2014 through August 31, 2014 for MTM and April 16, 2014 through August 31, 2014 for Logisticare.

If you have any questions or need additional information, please let us know.

Sincerely,

A handwritten signature in cursive script that reads "David Wilke". The signature is written in black ink and is positioned below the word "Sincerely,".

David G. Wilkes

DGW:nlg

Enclosure

Actuarial Certification

I, David G. Wilkes, 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 and follow the standards of practice established by the Actuarial Standards Board.

Rudd and Wisdom has been retained by the Texas Health and Human Services Commission (HHSC) to develop the capitation rates applicable to the Texas Medicaid Medical Transportation Program's (MTP) Full Risk Broker (FRB) contracts for the remainder of fiscal year 2014 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 capitation rates applicable to the FRB contracts for the period March 16, 2014 through August 31, 2014 for MTM and April 16, 2014 through August 31, 2014 for Logisticare 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 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.

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

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