STATE OF TEXAS
MEDICAID MANAGED CARE
STAR HEALTH PROGRAM RATE SETTING
STATE FISCAL YEAR 2010

Prepared for:
Texas Health and Human Services Commission

Prepared by:
David G. Wilkes, F.S.A., M.A.A.A
Rudd and Wisdom, Inc.

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I. Introduction

Rudd and Wisdom, Inc. has been retained by the Texas Health and Human Services Commission (HHSC) to develop a fiscal year 2010 (FY2010, September 2009 through August 2010) premium rate for the STAR Health program. STAR Health is the new managed health care program for Foster Care clients in Texas that was implemented April 1, 2008. This report presents the rating methodology and assumptions used in developing the FY2010 premium rate.

Rudd and Wisdom has provided actuarial services to the Texas Medicaid program for over 25 years. We have participated in the state's managed care rating process since its inception in 1993. We have worked closely with HHSC staff in developing the STAR Health premium rate.

Rudd and Wisdom has relied on the following data sources as provided by HHSC and Bankers Reserve Life Insurance Company of Wisconsin, the underwriting carrier for the STAR Health program (the carrier):

- Monthly Foster Care enrollment for the period September 2005 through March 2009 with a projection through August 2010. These enrollment figures were provided by HHSC System Forecasting staff.

- Detailed claim-level reports for Foster Care clients covering the period September 2005 through March 2008. This information was used to prepare claims lag reports (monthly paid claims by month of service) by type of service (inpatient, outpatient, etc.).

- Claim lag reports provided by the carrier for the period April 2008 through May 2009. These reports include monthly paid claims by month of service.

- Information provided by the carrier on high volume claimants during the experience period.

- Information from the carrier regarding current and projected payment rates for certain capitated services, such as mental health and vision.

- Financial Statistical Reports (FSR) from the carrier for FY2008 and the first six months of FY2009. The FSR contains detailed information regarding monthly enrollment, revenue, incurred claims and administrative expenses, as reported by the HMO.

- Information from the carrier regarding current and projected reinsurance premium rates.

- Information from both HHSC and the carrier regarding recent changes in covered services and provider reimbursement under the Medicaid program.

- Information provided by HHSC regarding the expected impact of FY2009 and FY2010 Medicaid provider reimbursement rate changes.

- Information provided by HHSC regarding the administrative costs for Foster Care clients under the fee-for-service (FFS) plan.

- Information provided by the carrier regarding the cost of new services to be provided under STAR Health.

- Current (FY2009) premium rate.

- Information provided by HHSC regarding the new Frew Rewards and Sanctions program.

Although the above data was reviewed for reasonableness, Rudd and Wisdom did not audit the data.

II. Overview of the Rate Setting Methodology

The actuarial model used to derive the FY2010 STAR Health premium rate relies primarily on health plan financial experience. The historical claims experience for the program was analyzed and estimates for the base period (April 2008 through March 2009) were developed. These estimates were then projected forward to FY2010 using assumed trend rates. Other plan expenditures such as capitated amounts, reinsurance costs and administrative expenses were added to the claims component in order to project the total FY2010 cost under the plan.

This is the first year that actual STAR Health program experience has been used to develop the premium rate. In prior periods, the rate was established using historical Fee-for-Service (FFS) plan experience.

Only one health plan provides services under the STAR Health program. The health plan is reimbursed using a single premium rate which does not vary by age, gender or area. The STAR Health program covers the entire state of Texas. The services used in the analysis include the following:

- Inpatient Hospital
- Outpatient Hospital
- Physician Services
- Other Professional Services
- Lab, X-ray and Radiology Services
- Medical Supplies
- Behavioral Health Services
- EPSDT Medical Services
- Family Planning and Genetics Services
- Comprehensive Care Program Services
- Vision Services
- Hearing Services
- Home Health Services
- Emergency Room Services
- Ambulance Services
- Dental and Orthodontia Services

Under the STAR Health program, prescription drugs are not the financial responsibility of the carrier and were excluded from the rating analysis. Prescription drug services are provided to STAR Health clients but the financial responsibility remains with the state.

After accumulating all of the information to be used in the rate setting process, a comparison of the various sources of claims data was performed to check for consistency. We compared (i) the claim lag reports provided by the HMOs, (ii) the claim amounts reported in the FSRs and (iii) the claim amounts in the encounter data files as provided by the EQRO. There was satisfactory consistency between the three claims data sources.

We projected the FY2010 cost by estimating base period average claims cost and then applying trend and other adjustment factors. (These adjustment factors are described in Section III of this report.) We added capitation expenses for services capitated by the carrier (such as behavioral health and dental services), a net cost of reinsurance, a reasonable provision for administrative expenses and a risk margin.

The analysis of base period claims experience attempted to identify and adjust for any distortions in the data. Significant variations in experience, including the impact from unusually large individual claims, were investigated and adjustments were made if deemed appropriate.

Attachment 1 to this report provides a description of the calculation of the FY2010 STAR Health premium rate. Attachment 2 contains a summary of recent program incurred claims experience. Attachment 3 details the calculation of the rate adjustment factor for provider rate increases.

III. Adjustment Factors

This section contains a description of the adjustment factors used in the STAR Health rate setting process.

Trend Factors

The rating methodology uses assumed trend factors to adjust the base period claims cost to the projection period. The cost trend factors used in this analysis are a combination of utilization and inflation components. The projected trend rate assumptions were developed by the actuary based on an analysis of recent experience for Foster Care clients and the actuary's professional judgment regarding future cost increases. The annual trend assumption used in the rating analysis is 5.0%.

Provider Reimbursement Adjustment

As a component of the Frew lawsuit settlement, the Texas Medicaid program implemented significant changes in professional provider reimbursement effective September 1, 2007. As the experience period used to set the FY2010 STAR Health premium rate includes the Frew-related provider reimbursement rates, no specific Frew-related adjustment was included in this year's rating.

Medicaid provider reimbursement changes were provided for the following services: ambulance services, ambulatory surgical centers, sonograms, increase in the number of recommended EPSDT screens, new developmental and autism screenings and the change in reimbursement for vision and hearing screens. In addition, an adjustment was made to recognize the change in Medicaid reimbursement for three hospitals from DRG to cost basis (TEFRA).

The rating adjustments for these provider reimbursement changes were calculated by applying actual health plan encounter data to the old and new reimbursement basis and the resulting impact determined. Attachment 3 presents a summary of the derivation of these adjustment factors.

Bariatric Surgery

The new Medicaid bariatric surgery benefit began July 1, 2008. The health plans will be financially responsible for bariatric surgery services provided to their Medicaid clients. Given the lack of credible experience data on which to project utilization of the benefit, HHSC has decided to fund the benefit for STAR Health clients using a supplemental payment made to the health plan. For each approved bariatric surgery, the health plan will be paid $23,000. This amount is intended to provide for all covered facility and professional costs related to the surgery including services prior to surgery, the actual surgery, counseling and after-care services.

IV. Administrative Fees and Risk Margin

The rating methodology includes an explicit provision for administrative services. The amount allocated for administrative expenses is $25.00 pmpm plus 5.75% of gross premium. This amount is intended to provide for all administrative-related services performed by the carrier.

The administrative fee includes provision for new services provided under STAR Health that were not previously provided under the FFS plan. These services include the following:

- A dedicated organizational structure for Foster Care clients
- Additional mandatory staffing
- An expanded provider network
- A dedicated member services help line
- A Nurse Line
- Creation of a Foster Care Medical Advisory Committee
- Increased training for staff and providers
- CME credit for physicians
- Creation of a new pre-appeals process
- Coordination with the Department of Family and Protective Services and the court system
- Health Passport (an electronic medical record that is available to multiple parties online)

The premium rate also includes provisions for premium tax (1.75% of premium), maintenance tax ($0.09 pmpm) and a risk margin (2.0% of premium).

V. Summary

The FY2010 premium rate for the STAR Health program is $720.42 per member per month. This rate will be effective for the period September 1, 2009 through August 31, 2010. Attachment 1 shows the derivation of the premium rate.

VI. Actuarial Certification of FY2010 STAR Health Premium Rate

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.

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 rate for the period September 1, 2009 through August 31, 2010 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 STAR Health premium rate developed by HHSC and Rudd and Wisdom satisfies the following:

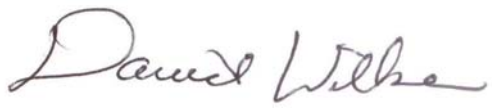
(a) The premium rate has been developed in accordance with generally accepted actuarial principals and practices;

(b) The premium rate is appropriate for the populations and services covered under the managed care contract; and

(c) The premium rate is 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 this rate 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.

VII. Attachments

Attachment 1

Summary of FY2010 STAR Health Rating Analysis

The attached exhibit presents summary information regarding the FY2010 STAR Health rate development. Included on the exhibit are base period (April 1, 2008 through March 31, 2009) experience, projected FY2010 enrollment, trend and provider reimbursement adjustment factors, assumed capitation rates, reinsurance and administrative costs.

The actuarial model used to derive the FY2010 STAR Health premium rate relies primarily on health plan financial experience. The historical claims experience for the program was analyzed and estimates for the base period were developed. These estimates were then projected forward to FY2010 using assumed trend rates. Other plan expenditures such as capitated amounts, reinsurance costs and administrative expenses were added to the claims component in order to project the total FY2010 cost under the plan.

This is the first year that actual STAR Health program experience has been used to develop the premium rate. In prior periods, the rate was set using historical Fee-for-Service (FFS) plan experience.

Only one health plan provides services through the STAR Health program. The health plan is reimbursed using a single premium rate which does not vary by age, gender or area.

FY2010 STAR Health Rating Analysis
FY2010 Rate Development for the STAR Health Program

	Rating Period FY2010
Base Period Used in Rating	4/08 - 3/09
Base Period Experience	
Member Months	365,071
Estimated Incurred Claims	116,487,900
Estimated Incurred Claims pmpm	$ 319.08
Projected Rating Period Experience	
Member Months	361,035
Assumed Annual Claims Cost Trend Rate	5.0 %
Provider Reimbursement Adjustment	1.006
Projected Claims Cost pmpm	$ 343.97
Capitation Expenses	
Primary Care Capitation	$ 0.03
Behavioral Health	$ 238.87
Vision Services	$ 2.08
Dental Services	$ 34.05
Settlements and Miscellaneous Expenses	$ 5.10
Total	$ 280.13
Reinsurance Expenses	
Gross Premium	$ 6.91
Projected Reinsurance Recoveries	$ 5.41
Net Reinsurance Cost	$ 1.50
Administrative Expenses	
Fixed Amount	$ 25.00
Percentage of Premium	5.75 %
Premium Tax	1.75 %
Maintenance Tax pmpm	$ 0.0900
Risk Charge	2.0 %
Frew Rewards and Sanctions	$ 1.43
Premium Rate pmpm	$ 720.42
Percentage Increase	12.1 %

Attachment 2

STAR Health Incurred Claims Experience

The attached exhibit presents a summary of STAR Health incurred claims experience during the base period used in the rate setting analysis. For each month during the experience period the exhibit shows enrollment, claims incurred during the month and paid through May 31, 2009 and estimated incurred claims.

FY2010 STAR Health Rating Analysis
Estimated Incurred Claims

Month	Number of Members	Claims Incurred and Paid	Completion Factor	Estimated Incurred Claims	Estimated Incurred pmpm
Apr-08	29,024	8,445,599	0.9978	8,464,252	291.63
May-08	29,749	8,681,712	0.9995	8,685,745	291.97
Jun-08	30,260	9,702,474	0.9964	9,737,117	321.78
Jul-08	30,688	9,967,706	0.9940	10,027,505	326.76
Aug-08	31,217	9,881,725	0.9966	9,915,192	317.62
Sep-08	31,348	8,987,956	0.9738	9,230,100	294.44
Oct-08	31,198	8,901,057	0.9587	9,284,977	297.61
Nov-08	30,920	9,094,211	0.9514	9,558,740	309.15
Dec-08	30,607	9,374,833	0.9040	10,370,142	338.82
Jan-09	30,147	9,682,121	0.9301	10,410,180	345.31
Feb-09	29,948	9,351,561	0.9363	9,988,086	333.52
Mar-09	29,966	10,016,969	0.9261	10,815,864	360.93
408-309	365,071			116,487,900	319.08

Attachment 3

Provider Reimbursement Adjustments

This attachment presents information regarding rating adjustments for the various provider reimbursement and benefit revisions that became effective (or will become effective) after the base period used in rate setting and before the end of FY2010.

As a component of the Frew lawsuit settlement, the Texas Medicaid program implemented significant changes in professional provider reimbursement effective September 1, 2007. As the experience period used to set the FY2010 STAR Health premium rate includes the Frew-related provider reimbursement rates, no specific Frew-related adjustment was included in this year's rating.

The benefit and provider reimbursement changes recognized in the FY2010 rate setting are listed below. The rating adjustments for these provider reimbursement changes were calculated by applying actual health plan encounter data to the old and new reimbursement basis and the resulting impact determined. The attached exhibit presents a summary of the derivation of the adjustment factor.

- Effective September 1, 2008, Medicaid reimbursement for ambulatory surgical centers and hospital-based ambulatory surgical centers increased.
- Effective September 1, 2008, Medicaid reimbursement for sonogram services increased.
- Effective September 1, 2008, Medicaid reimbursement for three state teaching hospitals (The University of Texas MD Anderson Cancer Center, The University of Texas Medical Branch and The University of Texas Health Science Center at Tyler) will change from DRG to cost-based.
- Effective September 1, 2009, Medicaid will implement a 2% rate increase for ambulance services.
- Effective September 1, 2009, Medicaid will revise the recommended EPSDT schedule to include four additional screens.
- Effective September 1, 2009, Medicaid will revise the reimbursement for developmental and autism screens.
- Effective January 1, 2010, Medicaid will revise the reimbursement for vision and hearing screens.

FY2010 STAR Health Rating Analysis
Provider Reimbursement Adjustments*

Ambulance Claims	400,665
2% Increase	8,013
ASC/HASC Claims	169,576
Estimated Increase	16,628
Sonogram Claims	21,849
Estimated Increase	3,933
New TEFRA hospitals	319,832
Estimated Increase	58,371
Increased EPSDT cost	121,865
Estimated Increased Developmental/Autism Screening Cost	26,286
Vision and Hearing Screening	52,900
Total Provider Reimbursement Increases	287,996
FY2008 Total Claims	44,576,707
Rate Adjustment Factor	0.6 %

* Estimates Based on FY2008 STAR Health Encounter Data

Attachment 4

Frew Rewards and Sanctions

Effective September 1, 2009, HHSC will implement a new provision in the STAR Heath program named Frew Rewards and Sanctions. This benefit is part of the corrective actions order under the Frew lawsuit settlement. The benefit is intended to provide strong incentives for the health plans to invest in THSteps check-up compliance. Those health plans that satisfy HHSC-specified performance targets will retain their full allotment of Frew Rewards and Sanctions funding. Those plans that do not meet the targets will be required to return a portion of their funding.

The attached exhibit presents the calculation of the Frew Rewards and Sanctions monthly amount paid to each health plan for each child enrolled in STAR, STAR+PLUS and STAR Health.

FY2010 STAR Health Rating Analysis
Frew Rewards and Sanctions

	STAR	STAR+ PLUS (4)	STAR Health	Total
Projected FY2010 Member Months Under Age 21 (1)	13,478,147	123,431	361,035	13,962,613
Frew Rewards and Sanctions Amount (2)				20,000,000
Rate Adjustment (3)	$ 1.43	$ 0.18	$ 1.43	$ 1.43

Footnotes:
(1) For STAR, includes TANF Children, Newborns, Expansion Children and Federal Mandate Children risk groups. Excludes those Pregnant Women under age 21. For STAR+PLUS, caseload provided by System Forecasting.
(2) Amount provided by Managed Care Operations.
(3) Equals Frew Rewards and Sanctions amount divided by member months.
(4) For STAR+PLUS, applies to Medicaid Only risk group only. Also, because STAR+PLUS does not have separate children's risk groups, the rate applies to all Medicaid Only clients including those age 21 and over. Approximately 12.4% of Medicaid Only clients are under age 21 so the STAR+PLUS add-on factor is adjusted from $1.43 pmpm to $0.18 pmpm (equals $1.43 times 12.4%).