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December 13, 2010

Dr. David Palmer
Chief Actuary
Health and Human Services Commission
1100 W. 49th Street
Austin, Texas 78756

Re: STAR Health Rate Amendment

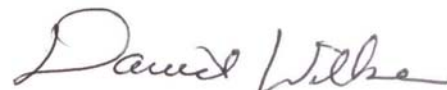
Dear Dr. Palmer:

The Health and Human Services Commission (HHSC) has made further revisions to Medicaid provider reimbursement effective February 1, 2011. Provider reimbursement will be reduced by an additional 1% for most acute care services except for TEFRA facilities, Federal Qualified Health Centers (FQHCs) and Rural Health Clinics (RHCs). This reduction in provider reimbursement will impact the current capitation rate. As a result, we have re-determined the FY2011 capitation rate based on the new Medicaid provider reimbursement schedule.

This letter amends the report titled State of Texas Medicaid Managed Care STAR Health Program Rate Setting State Fiscal Year 2011 and dated June 15, 2010. The amended FY2011 capitation rate was developed using identical methods and assumptions as the rate described in that report. The amended rate of \$804.64 is assumed to be payable for the period February 1, 2011 through August 31, 2011.

Attachment 3 (revised) presents the revised provider reimbursement adjustment factors used in developing the amended capitation rate.

Sincerely,



David Wilkes

DGW:nlg

Enclosure

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Actuarial Certification of Amended FY2011 STAR Health HMO Capitation Rates

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.

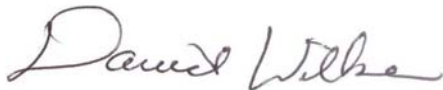
Rudd and Wisdom has been retained by the Texas Health and Human Services Commission (HHSC) to assist in the development of their state fiscal year 2011 (FY2011) managed care rate-setting methodology, assumptions and resulting capitation rates and to provide the actuarial certification required under Centers for Medicare and Medicaid Services (CMS) requirements 42 CFR 438.6(c).

I certify that the amended FY2011 HMO capitation rates developed by HHSC and Rudd and Wisdom 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 managed care 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.

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.

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

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

Estimates Based on FY2008 STAR Health Encounter Data (4/1/2008 - 8/31/2008)

Ambulance Claims	400,665
2% Increase	8,013
Increased EPSDT cost	121,865
Estimated Increased Developmental/Autism Screening Cost	26,286
Vision and Hearing Screening	52,900
Overall Provider Reimbursement Increase	209,065
FY2008 Total Claims	44,576,707
Rate Adjustment Factor	0.47 %

Estimates Based on FY2009 STAR Health Encounter Data

Fee Schedule Changes	31,138
1% Provider Rate Reduction - effective 9/1/10 and 2/1/2011	-1,617,003
Overall Provider Reimbursement Increase	-1,585,865
FY2009 Total Claims	119,887,879
Rate Adjustment Factor	-1.32 %
Overall Rate Adjustment Factor	-0.85 %

DRG Rebasing Adjustment Factor

Estimated FY2009 Impact (from Bill Warburton)	260,024
FY2009 Incurred Claims	199,011,123
Rate Adjustment Factor	0.13 %