STATE OF TEXAS
MEDICAID MANAGED CARE
STAR HEALTH PROGRAM RATE SETTING
STATE FISCAL YEAR 2013

Prepared for:
Texas Health and Human Services Commission

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TABLE OF CONTENTS

I. Introduction

Rudd and Wisdom, Inc. has been retained by the Texas Health and Human Services Commission (HHSC) to develop a fiscal year 2013 (FY2013, September 2012 through August 2013) premium rate for the STAR Health program. STAR Health is the 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 FY2013 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 FY2013 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 2008 through February 2012 with a projection through August 2013. These enrollment figures were provided by HHSC System Forecasting staff.

- Claim lag reports provided by the carrier for the period September 2008 through February 2012. 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, dental and vision.

- Financial Statistical Reports (FSR) from the carrier for FY2009, FY2010, FY2011 and the first six months of FY2012. 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 FY2012 and FY2013 Medicaid provider reimbursement rate changes.

- Information provided by HHSC regarding FY2011 health plan claims cost by type of service for certain services. This information was obtained from the encounter database.

- Information provided by the carrier regarding the administrative costs for Foster Care clients under the STAR Health plan.

- Current (FY2012) STAR Health premium rate.

- Information provided by HHSC regarding the DRG rebasing which was effective September 1, 2011.

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

II. Overview of the Rate Setting Methodology

This report details the development of the medical component of the total premium rate. Information regarding the carve-in of prescription drugs into the STAR Health program can be found in the report titled State of Texas Medicaid Managed Care Rate Setting Pharmacy Carve-in State Fiscal Year 2013.

The actuarial model used to derive the FY2013 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 (FY2011, September 1, 2010 through August 2011) were developed. These estimates were then projected forward to FY2013 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 FY2013 cost under the plan.

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
- Prescription Drugs

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. There was satisfactory consistency between the three claims data sources.

We projected the FY2013 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, taxes and 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 FY2013 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 assumptions used in the rating analysis were 4.4% for FY2012 and 5.0% for FY2013.

Provider Reimbursement Adjustment

Medicaid provider reimbursement changes were provided for the following services: the two one percent provider rate cuts effective 9/1/2010 and 2/1/2011, the inclusion of wrap payments for FQHCs effective 9/1/2011, DRG rebasing, legislative mandated provider rate reductions, revision to the therapy and DME fee schedules and the transition of outpatient imaging services to a fee schedule. Effective March 1, 2012 certain Early Childhood Intervention (ECI) services and hearing and audiology services became capitated services under the STAR Health Program. Effective September 1, 2012 Personal Care Services (PCS) will also be capitated under the program. Previously these services were carved out of STAR Health and paid on a fee-for-service basis.

The legislative mandated provider rate reductions included the following:

- 8% hospital rate reduction
- 10.5% laboratory rate reduction (excludes DSHS and physician lab)
- Varying durable medical equipment reductions.
- 5% reduction for all other providers excluding ambulance, private duty nursing (children only), home health (children only), dental, orthodontics, physicians (includes psychiatrists, optometrists, radiologists, podiatrists and orthodontists), FQHCs, Rural Health Centers and TEFRA reimbursed hospitals.

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.

IV. Administrative Fees and Risk Margin

The rating methodology includes an explicit provision for administrative services. The amount allocated for administrative expenses is $23.50 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 ($0.125 pmpm) and a risk margin (2.0% of premium).

V. Summary

The FY2013 premium rate for the STAR Health program including prescription drugs is $943.58 per member per month. The total premium rate is made up of the total medical component of $771.23 and the prescription drug component of $172.35. This report details the derivation of the medical component of the rate. Further information regarding the prescription drug component of the premium rate can be found in the report titled State of Texas Medicaid Managed Care Rate Setting Pharmacy Carve-in State Fiscal Year 2013. This rate will be effective for the period September 1, 2012 through August 31, 2013. Attachment 1 shows the derivation of the medical component of the premium rate.

VI. Actuarial Certification of FY2013 STAR Health Premium Rate

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 the STAR Health premium rate for the period September 1, 2012 through August 31, 2013 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.

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

VII. Attachments

Attachment 1

Summary of FY2013 STAR Health Rating Analysis

The attached exhibit presents summary information regarding the FY2013 STAR Health rate development. Included on the exhibit are base period (FY2011) experience, projected FY2013 enrollment, trend and provider reimbursement adjustment factors, assumed capitation rates, reinsurance and administrative costs.

The actuarial model used to derive the FY2013 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 FY2013 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 FY2013 cost under the plan.

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.

The information presented in Attachment 1 does not include the prescription drug portion of the total premium rate. Further information regarding the prescription drug component of the premium rate can be found in the report titled State of Texas Medicaid Managed Care Rate Setting Pharmacy Carve-in State Fiscal Year 2013.

FY2013 STAR Health Rating Analysis
Rate Development for the STAR Health Program

	Rating Period FY2013
Base Period Used in Rating	FY2011
Base Period Experience	
Member Months	381,664
Estimated Incurred Claims	216,085,008
Estimated Incurred Claims pmpm	$ 566.17
Projected Rating Period Experience	
Member Months	407,303
Assumed Annual FFS Claims Cost Trend Rate	
- FY2010	4.4 %
- FY2011	5.0 %
Provider Reimbursement Adjustment	0.58 %
DRG Rebasing Adjustment	-0.30 %
Projected Incurred Claims pmpm	$ 622.36
Projected Incurred Claims	253,488,517
Capitation Expenses	
Primary Care Capitation	$ 0.03
Behavioral Health	$ 0.00
Vision Services	$ 0.00
Dental Services	$ 49.00
NIA	$ 3.07
Settlements and Miscellaneous Expenses	-$ 0.12
Total	$ 51.98
Reinsurance Expenses	
Gross Premium	$ 9.93
Projected Reinsurance Recoveries	$ 9.93
Net Reinsurance Cost	$ 0.00
Administrative Expenses	
Fixed Amount	$ 23.50
Percentage of Premium	5.75 %
Premium Tax	1.75 %
Maintenance Tax pmpm	$ 0.125
Risk Charge	2.0 %
Premium Rate pmpm	$ 771.23
Percentage Increase	0.9 %

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 February 28, 2012 and estimated incurred claims.

FY2013 STAR Health Rating Analysis
Estimated STAR Health Incurred Claims

Month	Number of Members	Claims Incurred and Paid	Completion Factor	Estimated Incurred Claims	Estimated Incurred pmpm	Trend Factor
Sep-08	31,348	14,875,727	1.0000	14,875,727	474.54	
Oct-08	31,198	14,567,891	1.0000	14,567,891	466.95	
Nov-08	30,871	14,412,031	1.0000	14,412,031	466.85	
Dec-08	30,494	14,408,041	1.0000	14,408,041	472.49	
Jan-09	30,008	15,364,731	1.0000	15,364,731	512.02	
Feb-09	29,756	15,110,409	1.0000	15,110,409	507.81	
Mar-09	29,712	16,333,985	1.0000	16,333,985	549.74	
Apr-09	29,685	16,507,216	1.0000	16,507,216	556.08	
May-09	29,780	16,094,138	1.0000	16,094,138	540.43	
Jun-09	29,657	15,856,035	1.0000	15,856,035	534.65	
Jul-09	29,565	16,149,211	1.0000	16,149,211	546.23	
Aug-09	29,006	16,361,900	1.0000	16,361,900	564.09	
Sep-09	29,034	17,626,023	1.0000	17,626,023	607.08	1.279
Oct-09	29,149	17,508,711	1.0000	17,508,711	600.66	1.286
Nov-09	29,258	16,527,047	1.0000	16,527,047	564.87	1.210
Dec-09	29,347	17,353,168	1.0000	17,353,168	591.31	1.251
Jan-10	29,224	18,032,428	1.0000	18,032,428	617.04	1.205
Feb-10	29,306	16,842,250	1.0000	16,842,250	574.70	1.132
Mar-10	29,587	18,460,998	1.0000	18,460,998	623.96	1.135
Apr-10	29,763	18,340,241	1.0000	18,340,241	616.21	1.108
May-10	30,130	17,790,602	1.0000	17,790,602	590.46	1.093
Jun-10	30,470	17,599,742	1.0000	17,599,742	577.61	1.080
Jul-10	30,837	17,578,378	1.0000	17,578,378	570.04	1.044
Aug-10	31,038	18,185,376	1.0000	18,185,376	585.91	1.039
Sep-10	31,311	17,632,893	1.0000	17,632,893	563.15	0.928
Oct-10	31,490	17,307,977	1.0000	17,307,977	549.63	0.915
Nov-10	31,641	17,527,232	1.0000	17,527,232	553.94	0.981
Dec-10	31,483	17,069,381	1.0000	17,069,381	542.18	0.917
Jan-11	31,402	18,586,027	1.0000	18,586,027	591.87	0.959
Feb-11	31,695	16,708,593	1.0000	16,708,593	527.17	0.917
Mar-11	32,013	18,682,827	0.9997	18,688,830	583.79	0.936
Apr-11	32,024	19,726,894	1.0000	19,726,894	616.00	1.000
May-11	32,213	18,723,190	1.0000	18,723,190	581.23	0.984
Jun-11	32,539	18,019,233	1.0000	18,019,233	553.77	0.959
Jul-11	32,116	17,723,120	0.9995	17,732,154	552.13	0.969
Aug-11	31,737	18,354,837	0.9996	18,362,605	578.59	0.988
Sep-11	31,328	17,042,270	0.9971	17,091,751	545.58	0.969
Oct-11	30,956	17,594,343	0.9910	17,754,970	573.55	1.044
Nov-11	31,120	17,090,558	0.9797	17,444,632	560.56	1.012
Dec-11	30,920	15,607,078	0.9390	16,621,691	537.57	0.992
FY2009	361,080			186,041,316	515.24	
FY2010	357,143			211,844,965	593.17	1.151
FY2011	381,664			216,085,008	566.17	0.954
9/10-12/10	125,925			69,537,483	552.21	
9/11-12/11	124,324			68,913,043	554.30	1.004

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 (FY2011) and before the end of FY2013.

The benefit and provider reimbursement changes recognized in the FY2013 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 bases and the resulting impact determined. The attached exhibit presents a summary of the derivation of the adjustment factors.

- Effective September 1, 2010 and again on February 1, 2011, Medicaid reduced reimbursement by 1% for most providers and services.

- Effective September 1, 2010, HHSC revised the rating methodology to exclude from the claims experience base any amounts paid by a health plan to a related party in excess of 100% of Medicaid.

- Effective September 1, 2011, HHSC implemented the legislative mandated provider rate reductions described below.

    - 8% hospital rate reduction
    - 10.5% laboratory rate reduction (excludes DSHS and physician lab)
    - Varying durable medical equipment reductions.
    - 5% reduction for all other providers excluding ambulance, private duty nursing (children only), home health (children only), dental, orthodontics, physicians (includes psychiatrists, optometrists, radiologists, podiatrists and orthodontists), FQHCs, Rural Health Centers and TEFRA reimbursed hospitals.

- Effective September 1, 2011, HHSC implemented a new fee schedule for outpatient imaging services.

- Effective September 1, 2011, HHSC required MCOs to pay Federally Qualified Health Centers (FQHCs) the full encounter rate.

- Effective March 1, 2012 certain early childhood intervention (ECI) and hearing and audiology services for children will be capitated under the program. Prior to this time these services were paid on a fee-for-service basis.

- Effective March 1, 2012 HHSC implemented further revisions to the therapy and Durable Medical Equipment fee schedules.

- Effective September 1, 2011, HHSC implemented DRG rebasing. This rebasing effort updated the Standard Dollar Amounts and Relative Weights used in the Medicaid DRG payment system.

- Effective September 1, 2102, HHSC will require Personal Care Services (PCS) to be capitated under the STAR Health program. Prior to this time these services were carved out and paid on a fee-for-service basis.

The attached exhibit presents a summary of the derivation of the rating adjustment factors.

FY2013 STAR Health Rating Analysis
Provider Reimbursement Adjustments
Estimates Based on FY2011 STAR Health Encounter Data

Provider Reimbursement Adjustment Factor

Capitate PCS	3,869,075
2% Provider Rate Reduction - 9/10 + additional 2/11	-506,550
OP Imaging Fee Schedule	-911,751
Legislative Reductions	-3,490,160
FQHC Wrap Payment	353,269
Captiate Hearing and Audiology	218,818
Capitate ECI Services	1,752,915
Therapy Reimbursement Reduction	-288,860
DME Reimbursement Increase	250,225
Overall Provider Reimbursement Change	1,246,983
FY2011 Total Claims	216,085,008
Rate Adjustment Factor	0.58 %

DRG Rebasing Adjustment Factor

Estimated FY2010 Impact	-650,274
FY2011 Total Claims	216,085,008
Rate Adjustment Factor	-0.30 %