STATE OF TEXAS
MEDICAID MANAGED CARE
STAR HEALTH PROGRAM RATE SETTING
STATE FISCAL YEAR 2014

Prepared for:
Texas Health and Human Services Commission
V1.15

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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 2014 (FY2014, September 2013 through August 2014) 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 FY2014 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 FY2014 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 2009 through March 2013 with a projection through August 2014. These enrollment figures were provided by HHSC System Forecasting staff.

- Claim lag reports provided by the carrier for the period September 2009 through February 2013. 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 FY2010, FY2011, FY2012 and the first six months of FY2013. 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 FY2013 and FY2014 Medicaid provider reimbursement rate changes.

- Information provided by HHSC regarding FY2012 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 (FY2013) STAR Health premium rate.

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 2014.

The actuarial model used to derive the FY2014 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 (FY2012, September 1, 2011 through August 2012) were developed. These estimates were then projected forward to FY2014 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 FY2014 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 FY2014 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 FY2014 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 changes.

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 4.6% for FY2013 and 5.0% for FY2014.

Provider Reimbursement Adjustment

Medicaid provider reimbursement changes were provided for the following services: APR DRG implementation, Potentially Preventable Readmission reimbursement reductions, 10% reimbursement reduction for inpatient outlier reimbursement, revisions to the therapy and DME fee schedules, outpatient facility reimbursement reductions, outpatient imaging reimbursement reductions, ambulance reimbursement reductions, revisions to emergency room reimbursement provisions for non emergent services, reduction of Medicaid reimbursement in excess of Medicare and cranial orthosis reimbursement revisions. 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) became capitated under the program. Previously these services were carved out of STAR Health and paid on a fee-for-service basis.

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 ($0.1025 pmpm) and a risk margin (2.0% of premium).

V. Summary

The FY2013 premium rate for the STAR Health program including prescription drugs is $987.88 per member per month. The total premium rate is made up of the total medical component of $813.17 and the prescription drug component of $174.71. 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 2014. This rate will be effective for the period September 1, 2013 through August 31, 2014. Attachment 1 shows the derivation of the medical component of the premium rate.

VI. Actuarial Certification of FY2014 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, 2013 through August 31, 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 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 FY2014 STAR Health Rating Analysis

The attached exhibit presents summary information regarding the FY2014 STAR Health rate development. Included on the exhibit are base period (FY2012) experience, projected FY2014 enrollment, trend and provider reimbursement adjustment factors, assumed capitation rates, reinsurance and administrative costs.

The actuarial model used to derive the FY2014 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 FY2014 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 FY2014 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 2014.

FY2014 STAR Health Rating Analysis
Rate Development for the STAR Health Program

	Rating Period FY2014
Base Period Used in Rating	FY2012
Base Period Experience	
Member Months	374,047
Estimated Incurred Claims	234,196,344
Estimated Incurred Claims pmpm	$ 626.11
Projected Rating Period Experience	
Member Months	363,125
Assumed Annual FFS Claims Cost Trend Rate	
- FY2013	4.6 %
- FY2014	5.0 %
Provider Reimbursement Adjustment	1.61 %
DRG Rebasing Adjustment	1.06 %
Projected Incurred Claims pmpm	$ 706.14
Projected Incurred Claims	256,417,158
Capitation Expenses	
Laboratory	$ 0.03
Behavioral Health	$ 0.00
Vision Services	$ 0.00
Dental Services	$ 0.00
Radiology	$ 2.51
Settlements and Miscellaneous Expenses	$ 3.64
Total	$ 6.18
Reinsurance Expenses	
Gross Premium	$ 0.04
Projected Reinsurance Recoveries	$ 0.04
Net Reinsurance Cost	$ 0.00
Administrative Expenses	
Fixed Amount	$ 23.50
Percentage of Premium	5.75 %
Premium Tax	1.75 %
Maintenance Tax pmpm	$ 0.1025
Risk Charge	2.0 %
Premium Rate pmpm	$ 813.17
Percentage Increase	5.4 %

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, 2013 and estimated incurred claims.

FY2014 STAR Health Rating Analysis
Estimated STAR Health Incurred Claims (excluding prescription drugs)

Month	Number of Members	Claims Incurred and Paid	Completion Factor	Estimated Incurred Claims	Estimated Incurred pmpm	Trend Factor
Sep-09	29,034	18,648,189	1.0000	18,648,189	642.29	
Oct-09	29,149	18,692,483	1.0000	18,692,483	641.27	
Nov-09	29,258	17,594,339	1.0000	17,594,339	601.35	
Dec-09	29,347	18,389,955	1.0000	18,389,955	626.64	
Jan-10	29,224	19,340,973	1.0000	19,340,973	661.82	
Feb-10	29,306	18,090,588	1.0000	18,090,588	617.30	
Mar-10	29,587	19,852,959	1.0000	19,852,959	671.00	
Apr-10	29,763	19,619,561	1.0000	19,619,561	659.19	
May-10	30,130	19,005,957	1.0000	19,005,957	630.80	
Jun-10	30,470	18,961,206	1.0000	18,961,206	622.29	
Jul-10	30,837	19,040,698	1.0000	19,040,698	617.46	
Aug-10	31,038	19,598,251	1.0000	19,598,251	631.43	
Sep-10	31,311	18,979,280	1.0000	18,979,280	606.15	0.944
Oct-10	31,490	18,697,407	1.0000	18,697,407	593.76	0.926
Nov-10	31,641	18,965,209	1.0000	18,965,209	599.39	0.997
Dec-10	31,483	18,339,340	1.0000	18,339,340	582.52	0.930
Jan-11	31,402	20,019,488	1.0000	20,019,488	637.52	0.963
Feb-11	31,695	17,887,648	1.0000	17,887,648	564.37	0.914
Mar-11	32,013	20,373,671	1.0000	20,373,671	636.42	0.948
Apr-11	32,024	21,145,680	1.0000	21,145,680	660.31	1.002
May-11	32,213	20,168,707	1.0000	20,168,707	626.10	0.993
Jun-11	32,539	19,742,343	1.0000	19,742,343	606.73	0.975
Jul-11	32,116	19,033,548	1.0000	19,033,548	592.65	0.960
Aug-11	32,076	20,115,050	1.0000	20,115,050	627.11	0.993
Sep-11	31,641	18,603,136	1.0000	18,603,136	587.94	0.970
Oct-11	31,273	19,079,026	1.0000	19,079,026	610.08	1.027
Nov-11	31,681	18,705,468	1.0000	18,705,468	590.43	0.985
Dec-11	31,475	18,236,321	1.0000	18,236,321	579.39	0.995
Jan-12	31,003	19,370,156	1.0000	19,370,156	624.78	0.980
Feb-12	30,913	19,037,393	1.0000	19,037,393	615.84	1.091
Mar-12	31,021	20,451,882	0.9999	20,453,203	659.33	1.036
Apr-12	31,153	18,924,680	0.9999	18,925,998	607.52	0.920
May-12	31,127	20,653,057	0.9999	20,654,488	663.56	1.060
Jun-12	31,105	19,877,477	0.9999	19,880,276	639.13	1.053
Jul-12	30,948	20,675,753	0.9995	20,685,216	668.39	1.128
Aug-12	30,707	20,547,315	0.9991	20,565,664	669.74	1.068
Sep-12	30,756	19,130,921	0.9976	19,177,471	623.54	1.061
Oct-12	30,607	20,467,316	0.9920	20,631,917	674.10	1.105
Nov-12	30,365	18,596,431	0.9794	18,988,088	625.33	1.059
Dec-12	29,907	16,364,481	0.9416	17,379,544	581.12	1.003
FY2010	357,143			226,835,158	635.14	
FY2011	382,003			233,467,371	611.17	0.962
FY2012	374,047			234,196,344	626.11	1.024
9/11-12/11	126,070			74,623,951	591.92	
9/12-12/12	121,634			76,177,020	626.28	1.058

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 (FY2012) and before the end of FY2014.

The benefit and provider reimbursement changes recognized in the FY2014 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 March 1, 2012 certain early childhood intervention (ECI) and hearing and audiology services for children became capitated under the program. Prior to this time these services were paid on a fee-for-service basis.

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

- Effective February 1, 2012 HHSC implemented revisions to the reimbursement provisions for cranial orthosis treatment.

- Effective May 1, 2013 HHSC implemented revisions to hospital reimbursement to account for Potentially Preventable Readmissions (PPR). The reimbursement reductions amount to 1-2% depending on a hospitals performance during the evaluation time period.

- Effective September 1, 2012, HHSC required 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.

- Effective September 1, 2013 HHSC will be implementing an outpatient hospital reduction of 5.3%, which excludes clinical lab and outpatient imaging services. This reduction does not apply to children's hospitals, rural hospitals, or state-owned teaching hospitals.

- Effective September 1, 2013 HHSC will be implementing further revisions to the therapy fee schedules. The reductions apply to independent therapists, Comprehensive Outpatient Rehabilitation Facilities/Outpatient Rehabilitation Facilities (CORFs/ORFs), and home health agencies. Reimbursement will be reduced by 5% for therapy services provided outside the home and 3% for therapy services provided inside the home.

- Effective September 1, 2013 HHSC will be reducing hospital imaging reimbursement to 125% of the amount reimbursed for imaging performed in a physician's office.

- Effective September 1, 2013 HHSC will be revising the reimbursement for non emergent services provided in an emergency room. These changes will include the following:

    - Reimbursement will be restricted when an individual returns to the emergency department within a 36 hour period.
    - Reimbursement will be restricted for non-urgent visits in excess of 24 per year.
    - Non-urgent visits will be reimbursed using a flat fee.

- Effective September 1, 2013 HHSC will be reducing ambulance reimbursement by 5%.

- Effective September 1, 2013 HHSC will be reducing any Medicaid rates that exceed Medicare reimbursement levels.

- Effective September 1, 2012 HHSC implemented the APR-DRG reimbursement system for all hospitals excluding rural, children's and state owned teaching facilities. Effective September 1, 2013 HHSC will transition all rural and children's facilities to the APR-DRG reimbursement system.

- Effective September 1, 2013 HHSC will be reducing the outlier portion of facility reimbursement by 10%. Children's hospitals are excluding from this reduction.

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

FY2014 STAR Health Rating Analysis
Provider Reimbursement Adjustments
Estimates Based on FY2012 STAR Health Encounter Data

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
Overall Provider Reimbursement Changes	3,774,826
FY2012 Total Claims	234,196,344
Overall Rate Adjustment Factor	1.61 %

Hospital Adjustment Factor

APR DRG Implementation	2,700,770
PPR Reduction	-19,488
Outlier Reduction	-189,642
FY2012 Incurred Claims	234,196,344
Rate Adjustment Factor	1.06 %