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November 15, 2016

Ms. Rachel Butler
Chief Actuary
Health and Human Services Commission
1100 W. 49th Street
Austin, Texas 78756

Re: Dental Rate Amendment Dental Services Contract 529-12-0003 V1.13

Dear Ms. Butler:

This letter amends the reports titled State of Texas Medicaid Managed Care Dental Rate Setting State Fiscal Year 2017 and State of Texas Children's Health Insurance Program CHIP Rate Setting State Fiscal Year 2017 dated June 29, 2016. The amended FY2017 capitation rates were developed using identical methods and assumptions as the rates described in those reports. The amended rates are assumed to be payable for the period February 1, 2017 through August 31, 2017. The reason for these revisions are included below:

Pay-for-Quality Utilization Adjustment

Effective January 1, 2017 the P4Q Program has been suspended. The P4Q utilization adjustment factor has been revised to assume that each dental plan will increase preventive service utilization up through December 31, 2016 by closing the gap between the attainable goal and the baseline experience (calendar year 2015) by 15% per year for each of the P4Q measurements.

Medicaid Dental - Attachment 3 Exhibit C (revised) presents the revised cost impact associated with this new assumption for the Medicaid program. Attachment 1 (revised) presents the revised amended Medicaid dental premium rates to include the P4Q utilization adjustment factors presented in Attachment 3 Exhibit C (revised).

CHIP Dental - Attachment 8 Exhibit D (revised) presents the revised cost impact associated with this new assumption for the CHIP program. Attachment 8 Exhibit A (revised) presents the revised amended CHIP dental premium rates to include the P4Q utilization adjustment factors presented in Attachment 8 Exhibit D (revised).

All of the attachments referred to above have been recalculated for the entire FY2017 rating period, i.e. the adjustment factors and rates applicable to the period September 1, 2016 through August 31, 2017.

Due to timing issues HHSC will not be able to implement this rate change until February 1, 2017. Given that the current rates will be in place for the period September 1, 2016 through January 31, 2017, adjustments have been made to the February 1, 2017 through August 31, 2017 rates to ensure the appropriate premium is paid in aggregate for the entire fiscal year. Exhibit A provides a summary of i) the premium rates in place for the period September 1, 2016 through January 31, 2017, ii) the recalculated premiums based on the revised P4Q utilization adjustment factors and iii) the premium rates necessary for the period February 1, 2017 through August 31, 2017.

The calculations of the February 1, 2017 through August 31, 2017 premiums have been done as follows.

Definitions:

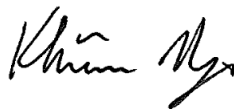
- a. Original Rates – premium rates in place as of September 1, 2016
- b. Revised Rates – recalculated premium rates that would have been in place as of September 1, 2016 based on revised P4Q utilization adjustment factors.
- c. Mid-Year Rates – premium rates that will be in place February 1, 2017

$$\text{Mid-Year Rates} = \frac{12 \times \text{Revised Rates} - 5 \times \text{Original Rates}}{(12 - 5)}$$

In the above formula 12 represents the number of months in the entire rating period, 5 equals the number of months in which the original rates will be paid and 7 equals the number of months in which the mid-year rates will be paid.

The capitation rates included in this document do not include provision for the Affordable Care Act (ACA) Health Insurance Providers Fee. HHSC will develop and implement a procedure for reimbursing the MCOs for (i) the ACA Health Insurance Providers Fee, (ii) any applicable federal income tax impact resulting from payment of the ACA Health Insurance Providers Fee and (iii) any applicable state premium tax impact resulting from payment of the ACA Health Insurance Providers Fee. Such reimbursement will be provided based on a CMS-approved methodology.

Sincerely,



Khiem Ngo

Enclosure

Actuarial Certification of FY2017 Medicaid and CHIP Dental Plan Premium Rates

I, Khiem D. Ngo, 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.

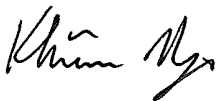
Rudd and Wisdom has been retained by the Texas Health and Human Services Commission (HHSC) to assist in the development of the Medicaid and CHIP Dental Plan premium rates for state fiscal year 2017 (FY2017) and to provide the actuarial certification required under Centers for Medicare and Medicaid Services (CMS) requirements 42 CFR 438.6(c).

I certify that the Medicaid and CHIP Dental Plan premium rates developed by HHSC and Rudd and Wisdom satisfy the following:

- (a) The premium rates have been developed in accordance with generally accepted actuarial principals and practices;
- (b) The premium rates are appropriate for the populations and services covered under the managed care contract; and
- (c) The premium 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 dental 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 dental plan contracting with the State should analyze its own projected premium needs before deciding whether to contract with the State.



Khiem D. Ngo, F.S.A., M.A.A.A.

Medicaid Dental
P4Q Utilization Adjustment
Statewide Experience

	THStep			Sealants		Total	Notes
	Preventive	Existing Mem (1)	New Member	Ages 6-9	Ages 10-14		
CY2015 Experience Period							
Total Members	2,143,001	2,143,001	609,641	593,218	697,867		(a)
Num. Members Receiving P4Q Services	1,575,947	1,217,966	154,281	142,652	104,054		(b)
Current Measurement %	73.5%	56.8%	25.3%	24.0%	14.9%		(c) = (b)/(a)
Attainable Goal	85.0%	65.0%	40.0%	35.0%	30.0%		(d)
Paid per Member (2)	154.17	76.22	42.56	81.34	66.02		(e)
Paid per Member Adjusted (3)	169.59	83.84	46.82	89.47	72.62		(f) = (e) * 1.1
15% Incremental Improvement (4)							
Year 1	1.7%	1.2%	2.2%	1.6%	2.3%		(g) = [(d) - (c)] * 15%
Year 2	0.0%	0.0%	0.0%	0.0%	0.0%		(h) No P4Q in CY2017
Total - Percent Increase	1.7%	1.2%	2.2%	1.6%	2.3%		(i) = (g) + (h)
Total - Member Increase	36,841	26,248	13,436	9,746	15,796		(j) = (i) * (a)
Estimated P4Q Impact (5)	6,247,868	2,200,661	629,084	872,018	1,147,151	11,096,781	(k) = (j) * (f)

(1) Composite Rate combining exactly one and exactly two THSteps dental visits.

(2) Average paid per member for P4Q services for each of the measurements during the experience period.

(3) Assume Paid per Member will increase by 10% due to additional ancillary services performed in addition to P4Q services.

(4) Assume each plan will increase utilization by closing gap between attainable goal and current measurement value by 15% per year.

(5) Total Member Increase * Avg. Cost per Member

FY2017 Medicaid Dental Rating
 Pay for Performance Utilization Adjustment
 Statewide Experience
 P4Q Adjustment by Age Groups

	Age <1	Age 1-5	Age 6-14	Age 15-18	Age 19-20	Total
Experience Period - CY2015						
Member Months	2,275,744	10,428,725	16,731,519	5,144,274	497,823	35,078,085
Estimated Incurred Claims - Non Ortho	20,635,690	313,680,832	559,142,981	168,739,685	11,645,356	1,073,844,543
Estimated Cost Impact of Pay for Performance Utilization Increase (1)						
Preventive Dental Services		1,986,361	3,186,855	979,831	94,820	6,247,868
THStep Dental		699,648	1,122,493	345,122	33,398	2,200,661
THStep Dental for New Enrollment		200,002	320,877	98,657	9,547	629,084
Sealant Ages 6-9			872,018			872,018
Sealant Ages 10-14			1,147,151			1,147,151
Total	-	2,886,011	6,649,395	1,423,609	137,766	11,096,781
Rate Adjustment (2)	0.0 %	0.9 %	1.2 %	0.8 %	1.2 %	1.0 %

Footnotes:

- (1) Equals the additional cost assuming an increase in utilization for each of the Pay for Performance metrics
 Assumes each plan will close the gap by 15% each year.
 (2) Additional cost divided by CY2015 Incurred Claims.

Medicaid Dental FY2017 Rating
Rating Period: 9/1/2016 - 8/31/2017
Statewide

Attachment 1 - Revised

	<1		1-5		6-14		15-18		19-20		Total	
	Amount	pmpm	Amount	pmpm	Amount	pmpm	Amount	pmpm	Amount	pmpm	Amount	pmpm
CY2015 Experience Period												
Member Months	2,275,744		10,428,725		16,731,519		5,144,274		497,823		35,078,085	
Estimated CY2015 Incurred Claims												
Non Ortho - Diagnostic	20,516,773	9.02	123,698,213	11.86	138,958,401	8.31	36,516,503	7.10	2,065,962	4.15	321,755,851	9.17
Non Ortho - Preventive	89,137	0.04	44,892,569	4.30	149,915,335	8.96	34,858,177	6.78	1,713,456	3.44	231,468,674	6.60
Non Ortho - Restorative	11,514	0.01	113,733,002	10.91	218,861,153	13.08	68,366,468	13.29	5,354,570	10.76	406,326,707	11.58
Non Ortho - Other	1,683	0.00	31,357,971	3.01	51,396,699	3.07	28,998,173	5.64	2,511,444	5.04	114,265,970	3.26
Orthodontic	562	0.00	6,997	0.00	1,668,993	0.10	2,909,913	0.57	453,375	0.91	5,039,840	0.14
Total	20,619,669	9.06	313,688,751	30.08	560,800,582	33.52	171,649,234	33.37	12,098,806	24.30	1,078,857,042	30.76
Projected FY2017 Member Months	2,363,376		10,693,374		17,104,055		5,272,368		519,542		35,952,715	
Projected FY2017 Premium												
Current Rates	25,335,395	10.72	375,551,283	35.12	663,808,367	38.81	203,091,630	38.52	15,378,442	29.60	1,283,165,118	35.69
Annual Cost Trend Assumptions												
Non Orthodontia	2.73 %		2.73 %		2.73 %		2.73 %		2.73 %			
Orthodontia	2.73 %		2.73 %		2.73 %		2.73 %		2.73 %			
Non Orthodontia Adjustment Factors												
P4Q Utilization Adjustment	1.000		1.009		1.012		1.008		1.012			
Orthodontia Adjustment Factors												
Runoff Adjustment	0.677		0.677		0.677		0.677		0.677			
Projected FY2017 Incurred Claims												
Non Orthodontia	22,396,223	9.48	339,504,635	31.75	604,933,202	35.37	182,407,254	34.60	12,861,879	24.76	1,162,103,193	32.32
Orthodontia	414	0.00	5,083	0.00	1,208,813	0.07	2,113,014	0.40	335,231	0.65	3,662,554	0.10
Total	22,396,637	9.48	339,509,718	31.75	606,142,015	35.44	184,520,268	35.00	13,197,110	25.40	1,165,765,747	32.42
Administrative Fee	4,135,909	1.75	18,713,404	1.75	29,932,096	1.75	9,226,645	1.75	909,198	1.75	62,917,252	1.75
Risk Margin	552,472	2.00%	7,448,782	2.00%	13,225,417	2.00%	4,028,466	2.00%	293,370	2.00%	25,548,507	2.00%
Premium Tax	483,413	1.75%	6,517,684	1.75%	11,572,240	1.75%	3,524,908	1.75%	256,699	1.75%	22,354,944	1.75%
Maintenance Tax	55,145	0.02	249,512	0.02	399,095	0.02	123,022	0.02	12,123	0.02	838,897	0.02
Projected Total Cost	27,623,575	11.69	372,439,100	34.83	661,270,863	38.66	201,423,308	38.20	14,668,499	28.23	1,277,425,346	35.53
Rate Change %		9.0%		-0.8%		-0.4%		-0.8%		-4.6%		-0.4%

FY2017 CHIP Dental Rating
P4Q Utilization Adjustment
Statewide Experience

	Preventive	Sealants		Annual Dental Visit				
		6-9	10-14	2-3	4-6	7-10	11-14	15-18
CY2015 Experience Period								
Total Members	185,200	83,342	107,707	16,518	27,483	50,379	46,331	38,607
Num. Members Receiving P4Q Ser	132,210	18,072	13,688	12,272	21,846	40,448	35,256	26,218
Current Measurement %	71.4%	21.7%	12.7%	74.3%	79.5%	80.3%	76.1%	67.9%
Attainable Goal	80.0%	30.0%	25.0%	80.0%	88.0%	90.0%	85.0%	75.0%
Paid per Member (1)	112.52	83.72	68.52	234.46	357.94	371.57	366.93	416.14
Paid per Member Adjusted (2)	123.77	92.10	75.37	257.90	393.74	408.73	403.62	457.75
15% Incremental Improvement (3)								
Year 1	1.3%	1.2%	1.8%	0.9%	1.3%	1.5%	1.3%	1.1%
Year 2	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total - Percent Increase	1.3%	1.2%	1.8%	0.9%	1.3%	1.5%	1.3%	1.1%
Total - Member Increase	2,393	1,040	1,986	141	351	734	619	411
Estimated P4Q Impact (4)	296,126	95,741	149,674	36,457	138,145	299,991	249,764	187,947

No P4Q in CY2017

(1) Average paid per member for P4Q services for each of the measurements.

(2) Assume Paid per Member will increase by 10% due to additional ancillary services performed on top of P4Q services.

(3) Assume each plan will increase utilization by closing gap between attainable goal and current measurement value

(4) Total Member Increase * Avg. Cost per Member

FY2017 CHIP Dental Rating
Pay for Performance Utilization Adjustment

	Age <1	Age 1-5	Age 6-14	Age 15-18	Total
Estimated Cost Impact of Pay for Performance Utilization Increase (1)					
Preventive Services	-	67,029	169,243	59,854	296,126
Sealant 6-9	-	-	95,741	-	95,741
Sealant 10-14	-	-	149,674	-	149,674
Annual Dental Visit 2-3	-	36,457	-	-	36,457
Annual Dental Visit 4-6	-	92,096	46,048	-	138,145
Annual Dental Visit 7-10	-	-	299,991	-	299,991
Annual Dental Visit 11-14	-	-	249,764	-	249,764
Annual Dental Visit 15-18	-	-	-	187,947	187,947
Total	-	195,583	1,010,462	247,801	1,453,846
Estimated Incurred Claims -Non Ortho	2,223	13,566,706	51,448,079	16,559,096	81,576,104
Rate Adjustment (2)	0.0 %	1.4 %	2.0 %	1.5 %	1.8 %

Footnotes:

(1) Equals the additional cost assuming an increase in utilization for each of the Pay-for-Quality metrics.

Assumes each plan will close the gap between the attainable goal and the baseline experience value by 15% per year.

(2) Additional cost divided by CY2015 Total Incurred Claims.

CHIP Dental Rating
Rating Period: 9/1/2016 - 8/31/2017
Statewide Experience

	<1		1-5		6-14		15-18		Total	
	Amount	pmpm	Amount	pmpm	Amount	pmpm	Amount	pmpm	Amount	pmpm
CY2015 Experience Period										
Member Months	1,983		919,178		2,320,841		820,778		4,062,780	
Estimated CY2015 Incurred Claims										
Non Ortho - Diagnostic	1,299	0.66	4,981,783	5.42	17,537,078	7.56	5,197,910	6.33	27,718,070	6.82
Non Ortho - Preventive	979	0.49	4,118,414	4.48	16,407,229	7.07	4,742,840	5.78	25,269,462	6.22
Non Ortho - Restorative	0	0.00	3,885,921	4.23	15,291,582	6.59	5,124,412	6.24	24,301,915	5.98
Non Ortho - Other	0	0.00	598,157	0.65	2,269,007	0.98	1,510,744	1.84	4,377,908	1.08
Orthodontic	0	0.00	0	0.00	31,172	0.01	99,866	0.12	131,037	0.03
Total	2,278	1.15	13,584,275	14.78	51,536,068	22.21	16,675,772	20.32	81,798,392	20.13
Projected FY2017 Member Months	2,100		960,516		2,422,440		849,408		4,234,464	
Projected FY2017 Premium										
Current Rates	6,300	3.00	17,519,812	18.24	63,249,908	26.11	19,901,629	23.43	100,677,650	23.78
Annual Cost Trend Assumptions										
Non Orthodontia	6.7 %		6.7 %		6.7 %		6.7 %			
Orthodontia	6.7 %		6.7 %		6.7 %		6.7 %			
Non Orthodontia Adjustment Factors										
P4Q Utilization Adjustment	1.000		1.014		1.020		1.015			
Projected FY2017 Incurred Claims										
Non Orthodontia	2,686	1.28	16,030,945	16.69	61,024,557	25.19	19,382,967	22.82	96,441,155	22.78
Orthodontia	0	0.00	0	0.00	36,222	0.01	115,056	0.14	151,277	0.04
Total	2,686	1.28	16,030,945	16.69	61,060,778	25.21	19,498,023	22.95	96,592,432	22.81
Administrative Fee	3,675	1.75	1,680,903	1.75	4,239,270	1.75	1,486,464	1.75	7,410,312	1.75
Risk Margin	133	2.00%	368,504	2.00%	1,358,059	2.00%	436,453	2.00%	2,163,149	2.00%
Premium Tax	117	1.75%	322,441	1.75%	1,188,301	1.75%	381,896	1.75%	1,892,755	1.75%
Maintenance Tax	49	0.02	22,412	0.02	56,524	0.02	19,820	0.02	98,804	0.02
Projected Total Cost	6,659	3.17	18,425,205	19.18	67,902,932	28.03	21,822,656	25.69	108,157,453	25.54
Rate Change %		5.7%		5.2%		7.4%		9.7%		7.4%

FY2017 Mid-Year Dental Rate Setting
 Capitation Rates Per Member Per Month
 Capitation Rates Effective February 1, 2017 - August 31, 2017

Dental Program	Age <1	Age 1-5	Age 6-14	Age 15-18	Age 19-20
Medicaid Dental					
Original Rates (1)	\$ 11.69	\$ 35.00	\$ 38.91	\$ 38.37	\$ 28.40
Revised Rates (2)	\$ 11.69	\$ 34.83	\$ 38.66	\$ 38.20	\$ 28.23
Mid-Year Rates (3)	\$ 11.69	\$ 34.71	\$ 38.48	\$ 38.08	\$ 28.11
CHIP Dental					
Original Rates (1)	\$ 3.17	\$ 19.32	\$ 28.31	\$ 25.88	n/a
Revised Rates (2)	\$ 3.17	\$ 19.18	\$ 28.03	\$ 25.69	n/a
Mid-Year Rates (3)	\$ 3.17	\$ 19.08	\$ 27.83	\$ 25.55	n/a

Footnotes:

- (1) Medicaid - From Attachment 1 of original actuarial report.
 CHIP - From Attachment 8 - Exhibit A of original actuarial report.
- (2) Medicaid - From Attachment 1 Revised
 CHIP - From Attachment 8 - Exhibit A Revised
- (3) Premium rates effective 2/1/2017 through August 31, 2017
 given that Original Rates will be effective 9/1/2016 through 1/31/2017.