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January 10, 2022

Ms. Rachel Butler
Chief Actuary
Health and Human Services Commission
4601 West Guadalupe
Austin, Texas 78751

Re: STAR Health Rate Amendment 529-15-0001 V2.16

Dear Ms. Butler:

This letter amends the report titled State of Texas Medicaid Managed Care STAR Health Program Rate Setting State Fiscal Year 2022 and dated July 8, 2021. The amended FY2022 capitation rates were developed using identical methods and assumptions as the rates described in this report. The amended rates are assumed to be payable for the period March 1, 2022 through August 31, 2022.

A. Summary of the Revisions

ARPA Reimbursement Increases

HHSC is providing additional payments to support providers' attendant and direct care staff recruitment and retention efforts under the terms of HHSC's spending plan for the American Rescue Plan Act (ARPA) enhanced Home and Community-Based Services (HCBS) funding. Effective March 1, 2022 through August 31, 2022, the increased reimbursement will impact certain attendant care services, nursing services and HCBS waiver services.

Outpatient Behavioral Health Reimbursement Change

Effective March 1, 2022 HHSC will be adjusting the reimbursement rates for certain outpatient behavioral health services.

B. Report Amendments

This section of the letter details the amendments to the original actuarial report.

Section I. Introduction

No changes applicable to this section. The same data sources were utilized in the calculation of this mid-year adjustment.

Section II. Overview of Rate Setting Methodology

The rates have been calculated for the same service delivery areas, risk groups and services as outlined in the original report using the same general methodology.

The only changes are inclusion of the two reimbursement changes effective March 1, 2022.

Section III. Adjustment Factors

The following language has been added to this section.

March 1, 2022 Reimbursement Changes

Effective March 1, 2022 HHSC will make reimbursement changes for certain attendant care, nursing, HCBS waiver and outpatient behavioral health services.

Section IV. Administrative Fees, Taxes and Risk Margin

No changes applicable to this section.

Section V. Summary

This section is replaced in entirety with the following mid-year rates effective March 1, 2022 through August 31, 2022.

The March 1, 2022 through August 31, 2022 total premium rate for the STAR Health program is \$1,093.78 per member per month. The total premium rate is made up of the medical component of \$987.34, the prescription drug component of \$104.52 and the NEMT carve-in component of \$1.92. This rate will be effective for the period March 1, 2022 through August 31, 2022. Attachment 1 Exhibit A - Revised shows the derivation of the revised medical premium rate for this period.

The premium rates for the period September 1, 2021 through February 28, 2022 are unchanged from the original report.

Section VI. Actuarial Certification of FY2022 STAR Health Premium Rates

We, Evan L. Dial, Khiem D. Ngo, David G. Wilkes and Dustin J. Kim are with the firm of Rudd and Wisdom, Inc., Consulting Actuaries. All are Fellows of the Society of Actuaries (FSAs). We are all members of the American Academy of Actuaries and 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 March 1, 2022 through August 31, 2022 and to provide the actuarial certification required under Centers for Medicare and Medicaid Services (CMS) requirements 42 CFR 438.4.

We certify that the amended STAR Health premium rates developed by HHSC and Rudd and Wisdom satisfies the following:

- (a) The premium rate has been developed in accordance with generally accepted actuarial principles and practices;
- (b) The premium rate is appropriate for the populations and services covered under the managed care contract; and
- (c) The premium 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.

The assumptions, methodologies and factors used in developing the certified capitation rates are based on valid rate development standards and represent actual cost differences in providing covered services to the covered populations, and these differences do not vary with the rate of FFP associated with the covered populations. All rates have been developed based on the actual managed care experience of the covered populations. Any services subject to varying FFP have been separately identified and documented throughout this report.

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 438.3(c), 438.3(e), 438.4, 438.5, 438.6 and 438.7. Any health plan contracting with the State should analyze its own projected premium needs before deciding whether to contract with the State.



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Section VII. Attachments

The following sections indicate any revisions applicable to each of the attachments in the original actuarial report dated July 8, 2021.

Attachment 1 - Summary of FY2022 STAR Health Rating Analysis

Exhibit A Revised. This exhibit presents summary information regarding the amended FY2022 STAR Health medical rate development. Included on the exhibit are base period (March 2019 through February 2020) experience, projected March 2022 through August 2022 enrollment, trend and provider reimbursement adjustment factors, assumed capitation rates, reinsurance and administrative costs. The only change to this exhibit from the original rate development is the update to the provider reimbursement adjustment which now includes provision for the two reimbursement changes effective March 1, 2022.

Exhibit D Revised presents a comparison of the projected expenditures under the current (September 1, 2021 through February 28, 2022) premium rates and the proposed (March 1, 2022 through August 31, 2022) premium rates. The projection is split by medical, pharmacy and NEMT.

The reasons for the rate changes shown in Exhibit D Revised are due solely to the two reimbursement changes discussed above. There are no other changes applicable to the revised rate development.

Attachment 2 – STAR Health Incurred Claims Experience

There have been no changes to this section.

Attachment 3 - Trend Analysis

There have been no changes to this section.

Attachment 4 - Provider Reimbursement Adjustment

The following language has been added to this section.

Effective March 1, 2022 through August 31, 2022 HHSC will implement reimbursement increases for certain personal attendant, nursing and HCBS waiver services.

Effective March 1, 2022 HHSC will make revisions to the reimbursement for outpatient behavioral health services.

Attachment 5 – PHE Related Cost Adjustment

There have been no changes to this section.

Attachment 6 – Community First Choice (CFC)

Attachment 6 - Revised presents the calculation of the CFC component of the March 1, 2022 through August 31, 2022 capitation rate which takes into account the March 1, 2022 rate change.

Attachment 7

FY2022 STAR Health Rate Certification Index

The index below includes the pages of this report that correspond to the applicable sections of the 2021-2022 Medicaid Managed Care Rate Development Guide, dated June 2021.

Section I. Medicaid Managed Care Rates

1. General Information

A. Rate Development Standards

- i. Rate ranges are not being utilized in this rate development.
- ii. Rates are for the period March 1, 2022 through August 31, 2022 and revise those currently in effect as of September 1, 2021.
- iii. (a) The certification letter is on page 3 of the amendment letter.
(b) The final capitation rates are shown on page 2 of the amendment letter.
(c) (i) See pages 1 and 4 through 5 of the original report.
(ii) The rates included in this amendment are for the period March 1, 2022 through August 31, 2022.
(iii) See page 1 of the original report.
(iv) Not applicable. There have been no changes since the prior certification.
(v) Not applicable. There are no special contract provisions related to payment within the STAR Health program.
(vi) Not applicable.
- iv. Acknowledged.
- v. Acknowledged.

- vi. Acknowledged.
- vii. Acknowledged.
- viii. Not applicable.
- ix. Not applicable.
- x. Acknowledged.
- xi. Acknowledged.
- xii. See pages 4, 6, 11 and 44 through 45 of the original report for discussion on how COVID-19 and PHE have been accounted for in the FY2022 rate development.
- xiii. Acknowledged.

B. Appropriate Documentation

- i. The actuary is certifying capitation rates. See pages 2 and 3 of the amendment letter.
- ii. Acknowledged.
- iii. Acknowledged.
- iv. Not applicable.
- v. Acknowledged.
- vi. Acknowledged. See page 3 of the amendment letter.
- vii. See pages 46 through 47 of the original report and page 16 of the amendment letter.
- viii. (a) See pages 16 through 20 of the original report and pages 3 and 4 of the amendment letter.

(b) Not applicable. All rating adjustment factors have been included in the report.

(c) FY2021 rates were not adjusted by a *de minimis* amount using the authority in 42 C.F.R 438.7(c)(3).

- ix. Not applicable. There are no known amendments at this time.
- x. (a) Texas Medicaid Managed Care data has been studied for all programs, risk groups and service delivery areas through December 2020 to study the impact of COVID and the PHE.

(b) See pages 11 and 44 through 45 of the original report.

(c) See pages 11 and 44 through 45 of the original report. Unlike the prior rating period we are making a prospective adjustment to the FY2022 capitation rates. In addition, the experience rebate provisions have been tightened to limit the possibility of excessive profits in FY2022.

2. Data

A. Rate Development Standards

- i. (a) Acknowledged.

(b) Acknowledged.

(c) Acknowledged.

(d) Not applicable.

B. Appropriate Documentation

- i. (a) See pages 1 through 3 of the original report.
- ii. (a) See pages 1 through 3 of the original report.

(b) See pages 2 through 3 of the original report.

(c) See pages 2 through 3 of the original report.

(d) Not applicable.
- iii. (a) Base period data is fully credible.

(b) See page 4 of the original report.

(c) No errors found in the data.

(d) See pages 40 through 43 of the original report and page 15 of the amendment letter.

(e) Value added services and non-capitated services have been excluded from the analysis.

3. Projected Benefit Costs and Trends

A. Rate Development Standards

- i. Acknowledged.
- ii. Acknowledged.
- iii. Acknowledged.
- iv. Not applicable. STAR Health eligibility ends at age 21 and therefore the IMD regulation does not impact this population.

B. Appropriate Documentation

- i. See pages 16 through 20 of the original report and pages 13 and 14 of the amendment letter.
- ii. (a) See pages 16 through 20 of the original report and pages 13 and 14 of the amendment letter.

(b) There have been no significant changes in the development of the benefit cost since the last certification. The only changes are due to the two reimbursement changes described on page 1 of the amendment letter which are effective March 1, 2022.

(c) All recoupments and recoveries resulting from overpayments to providers have been netted out of the claim payments used in the rate development. MCOs are required to adjust encounter data to remove all overpayments and correct the submitted information. Any provider recoveries not adjusted for in the submitted encounter data are excluded from the base period as a negative add-on payment.

- iii. (a) See 30 through 39 of the original report.

(b) See 30 through 39 of the original report.

(c) See 30 through 39 of the original report.

(d) See pages 30 through 39 of the original report.

(e) Not applicable.

iv. Not applicable.

v. The STAR Health program stipulates the following provisions related to in lieu of services:

- The MCO may provide inpatient services for acute psychiatric conditions in a free-standing psychiatric hospital in lieu of an acute care inpatient hospital setting.
- The MCO may provide substance use disorder treatment services in a chemical dependency treatment facility in lieu of an acute care inpatient hospital setting.

The cost for in lieu of services is not tracked from other services and are included in the rate development and are not treated differently than any other category of service.

vi. (a) Restorative enrollment can occur when an individual is deemed to have been Medicaid eligible during a prior period. If the individual was eligible for and enrolled in Medicaid managed care during the prior six months, then the individual is retrospectively enrolled in the same managed care plan as their prior enrollment segment. The managed care plan is then retrospectively responsible for all Medicaid expenses incurred during this retrospective period and is also paid a retrospective premium for this time period.

(b) All claims paid during retroactive enrollment periods are included in the base period data used to develop the FY2022 premium rate.

(c) All enrollment data during retroactive enrollment periods are included in the base period data used to develop the FY2022 premium rate.

(d) No adjustments are necessary to account for retroactive enrollment periods because the enrollment criteria have not changed from the base period to the rating period. All retroactive enrollment and claims information have been included in the base period data, the trend calculations and all other adjustment factors.

vii. See pages 40 through 43 of the original report and page 15 of the amendment letter.

viii. See pages 40 through 43 of the original report and page 15 of the amendment letter.

4. Special Contract Provisions Related to Payment

A. Incentive Arrangements

i. Rate Development Standards

Not applicable.

ii. Appropriate Documentation

Not applicable.

B. Withhold Arrangements

i. Rate Development Standards

Not applicable.

ii. Appropriate Documentation

Not applicable.

C. Risk-Sharing Arrangements

i. Rate Development Standards

Acknowledged.

ii. Appropriate Documentation

HHSC includes an experience rebate provision in its uniform managed care contracts which requires the MCOs to return a portion of net income before taxes if greater than the specified percentages. The net income is measured by the financial statistical reports (FSRs) submitted by the MCOs and audited by an external auditor. Net income is aggregated across all programs and service delivery areas. The aggregated net income is shared as follows:

Pre-tax Income as a % of Revenues	MCO Share	HHSC Share
≤ 3%	100%	0%
> 3% and ≤ 5%	80%	20%
> 5% and ≤ 7%	0%	100%
> 7% and ≤ 9%	0%	100%
> 9% and ≤ 12%	0%	100%
> 12%	0%	100%

D. State Directed Payments

i. Rate Development Standards

Not applicable.

ii. Appropriate Documentation

(a) Not applicable. No such arrangements exist in the STAR Health program.

(b) Confirmed.

(c) Confirmed.

E. Pass-Through Payments

i. Rate Development Standards

Not applicable.

ii. Appropriate Documentation

(a) Not applicable. No such arrangements exist in the STAR Health program.

5. Projected Non-Benefit Costs

A. Rate Development Standards

i. Acknowledged.

ii. Acknowledged.

B. Appropriate Documentation

- i. See page 12 of the original report.
- ii. See page 12 of the original report.
- iii. See page 12 of the original report.

6. Risk Adjustment and Acuity Adjustments

A. Rate Development Standards

- i. Acknowledged.
- ii. Acknowledged.
- iii. Acknowledged.

B. Appropriate Documentation

- i. Not applicable, risk adjustment is not applied to the STAR Health rate development.
- ii. Not applicable, risk adjustment is not applied to the STAR Health rate development.
- iii. Not applicable, risk adjustment is not applied to the STAR Health rate development.
- iv. Not applicable, risk adjustment is not applied to the STAR Health rate development.

FY2022 STAR Health Rating Analysis
Rate Development for the STAR Health Program - Medical
March 1, 2022 through August 31, 2022

	Rating Period	
	FY2022	
	Total	PMPM
Base Period Used in Rating	3/2019-2/2020	
Base Period Experience		
Member Months	389,987	
Estimated Incurred Claims	292,505,596	750.04
Projected Rating Period Experience		
Member Months	200,709	
Assumed Annual Trend Rate		4.6 %
Provider Reimbursement Adjustment		1.34 %
Hospital Reimbursement Adjustment		-0.39 %
PHE Related Cost Adjustment		-2.67 %
Projected Incurred Claims	165,504,539	824.60
Capitation Expenses		
Dental Services	8,229,055	41.00
Radiology	305,077	1.52
Settlements and Miscellaneous Expenses	1,248,408	6.22
Total	9,782,540	48.74
Reinsurance Expenses		
Gross Premium	0	0.00
Projected Reinsurance Recoveries	0	0.00
Net Reinsurance Cost	0	0.00
Administrative Expenses		
Fixed Amount	6,021,259	30.00
Percentage of Premium	10,403,803	5.25 %
Total	16,425,062	81.84
Premium Tax	3,467,934	1.75 %
Maintenance Tax pmpm	14,551	0.07
Risk Margin	2,972,515	1.50 %
Projected Premium	198,167,677	\$ 987.34

FY2022 STAR Health Rating Analysis
 March 1, 2022 through August 31, 2022

	<u>Projected PMPM</u>		<u>Projected 3/2022-8/2022 Premium</u>		<u>% Rate Change</u>
	<u>Current Rates</u>	<u>Proposed Rates</u>	<u>Current Rates</u>	<u>Proposed Rates</u>	
Medical	969.55	987.34	194,597,070	198,167,677	1.8%
Pharmacy	104.52	104.52	20,978,068	20,978,068	0.0%
NEMT	1.92	1.92	385,361	385,361	0.0%
Total	1,075.99	1,093.78	215,960,498	219,531,105	1.7%

FY2022 STAR Health Rating Analysis
 Provider Reimbursement Adjustments
 Estimates Based on 3/2019-2/2020 STAR Health Encounter Data

Medical - Provider Reimbursement Adjustment Factor

Therapy Reimbursement Changes	1,212,683
Remove FQHC Wrap Payment	-4,384,741
Removal of Invalid CAD	-9
PDN Reimbursement Increase	761,233
Rural Hospital Outpatient Reimbursement Increase	485,952
ARPA Reimbursement Increase	656,406
Outpatient Behavioral Health Reimbursement Increase	5,200,814
Total Provider Reimbursement Changes	3,932,338
3/2019-2/2020 Total Claims	292,505,596
Provider Reimbursement Adjustment	1.34 %

Medical - Hospital Reimbursement Adjustment Factor

Standard Dollar Amount Changes	-839,910
PPR Reduction/Restoration	84,599
PPC Reduction/Restoration	-239,709
PPR Efficiency Improvements	-1,379,916
DRG Grouper Revisions	1,239,806
Total Hospital Reimbursement Changes	-1,135,130
3/2019-2/2020 Total Claims	292,505,596
Hospital Reimbursement Adjustment	-0.39 %

Pharmacy Adjustment Factors

3/2019-2/2020 Total Claims	38,486,646
Impact of PDL Changes 7/1/2019 & 7/1/2021 Adjustment	577,300 1.50 %

NEMT Carve-in Adjustment Factors

3/2019-2/2020 Total Claims	480,946
Impact of TNC Adjustment	239 0.05 %
Impact of Mileage Reimbursement Change Adjustment	-6,991 -1.45 %

FY2022 STAR Health Rating Analysis
CFC Enhanced Match Calculation

3/2019-2/2020 Personal Care Services (1)	864,993
3/2019-2/2020 Total Claims	292,505,596
PCS % of Total	0.3%
3/2022-8/2022 Premium Rate	987.34
CFC Portion of Premium Rate (2)	2.92

Footnotes:

- (1) Total PCS provided to CFC eligible members.
- (2) PCS % of Total Claims multiplied by FY2022 Premium Rate.