

# Rudd and Wisdom, Inc.

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June 15, 2010

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

Re: NorthSTAR Actuarial Certification

Dear Dr. Palmer:

We have been asked to review the proposed premium rates applicable to Medicaid clients enrolled in the NorthSTAR program for fiscal year 2011 (FY2011, September 1, 2010 through August 31, 2011) and to determine whether those rates are actuarially sound. We have relied on information provided by Department of State Health Services (DSHS) staff and the NorthSTAR vendor. We have not independently derived or audited any experience data.

The base period used in deriving the proposed premium rates was FY2009. DSHS staff used actual encounter claims data provided by the vendor (ValueOptions) for claims incurred in FY2009. A 4.0% annual trend assumption was selected for projecting forward to the rating period. Based on our analysis of recent claims cost trends under the program, we believe that this assumption is reasonable.

In addition to paying for certain services on a fee-for-service basis (encounter claims), ValueOptions also has various fixed fee and other capitated arrangements with providers of services. These amounts were also included in the rate calculation at the contractual fee for the projection period.

Rate adjustments were made to recognize additional funding for state hospital costs for adult Medicaid enrollees. These costs were previously funded outside of the NorthSTAR program. The amount of additional FY2011 funding (on an All Funds basis) for state hospital services is approximately \$6.9 million.

The rating methodology includes an explicit provision for administrative services. The amount allocated for administrative expenses is \$0.97 per member per month (pmpm) plus 5.75% of

gross premium. This amount is intended to provide for all administrative-related services performed by the vendor. The administrative fee formula is similar to that used in the State's other managed care programs (STAR, STAR+PLUS and CHIP) with the fixed fee (\$0.97 pmpm) being significantly reduced (relative to the other programs) to reflect the reduced level of service provided under the NorthSTAR program which provides behavioral health services only.

The premium rates also include provision for premium tax (1.75% of premium), maintenance tax (\$0.037 pmpm) and a risk margin equal to 2.0% of gross premium.

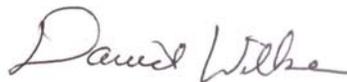
The chart below compares the current NorthSTAR monthly premium rates to the proposed rates for each risk group.

NorthSTAR Rate Comparison  
Rates per Member per Month

Risk Group	FY2009 Member Months	Current (FY2010) Monthly Rates	Proposed FY2011 Monthly Rates	Percentage Change
SSI Child	196,910	\$36.70	\$35.61	-3.0%
SSI Adult	406,073	53.07	69.19	30.4%
SSI Aged	199,971	3.53	1.95	-44.8%
TANF Child	3,244,158	6.78	5.24	-22.7%
TANF Adult	151,299	12.17	11.63	-4.4%
Total	4,198,411	\$12.70	\$12.93	1.8%

If you have any questions or need additional information, please let us know.

Sincerely,



David G. Wilkes

DGW:nlg

Enclosure

## Actuarial Certification

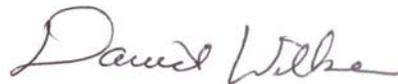
I, David G. Wilkes, am a principal with the firm of Rudd and Wisdom, Inc., Consulting Actuaries (Rudd and Wisdom). I am a Fellow of the Society of Actuaries and a member of the American Academy of Actuaries. I meet the Academy's qualification standards for rendering this opinion and follow the standards of practice established by the Actuarial Standards Board.

Rudd and Wisdom has been retained by the Texas Health and Human Services Commission (HHSC) to review the proposed premium rates applicable to Medicaid clients enrolled in the NorthSTAR program for the period September 1, 2010 through August 31, 2011 (FY2011) 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 proposed FY2011 NorthSTAR premium rates 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 NorthSTAR 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.

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

David G. Wilkes, F.S.A.