Department of Economic Security /Division of Developmental Disabilities (DES/DDD) Actuarial Memorandum

I. Purpose

The purpose of this actuarial memorandum is to demonstrate that the updated capitation rates were developed in compliance with 42 CFR 438.6(c). It is not intended for any other purpose.

This memorandum presents a revision to the capitation rates for the DES/DDD program, for the period October 1, 2014 to June 30, 2015. The revision is due to updates to the behavioral health (BH) and acute components, as well as programmatic changes that have occurred since these rates were initially developed.

Arizona Health Cost Containment System (AHCCCS) intends to update these capitation rates for January 1, 2015 to include changes in cost sharing and a shift in payment responsibility for services provided at Federally Qualified Health Centers (FQHC) and Rural Health Clinics (RHC) as well as any other necessary changes.

The Affordable Care Act (ACA) places an annual fee on the health insurance industry nationwide including most Medicaid health plans effective January 1, 2014. The fee will be allocated to health insurers based on their respective market share of premium revenue in the previous year. Due to the uncertainty of the actual fees and other unknowns, AHCCCS will not be adjusting the capitation rates for this fee at this time, but intends to make retroactive capitation rate revision once the impacts are known.

II. Overview of Changes

Behavioral Health (BH) Component Rate Development

The BH component was rebased to follow the same methodology used in setting the non-DDD BH capitation rates. The base period data consisted of Regional Behavioral Health Authority (RBHA) financial statements and member month data provided by Arizona Department of Health Services/Division of Behavioral Health Services (ADHS/DBHS) for the October 1, 2012 through September 30, 2013 time period. This base data was adjusted for historical programmatic changes and provider fee schedule changes. The base data was then trended forward and adjusted by any new programmatic and provider fee schedule changes (see below) and the integration of DDD members eligible for Children's Rehabilitative Services (CRS). Finally, administration and risk contingency were applied to this rate to establish the final BH component rate.

Acute Care Component Rate Development
DDD contracts with Managed Care Organization (MCO) subcontractors to provide acute care services for a majority of their members. The Native American population also receives Acute Care services in which DDD reimburses the providers directly. The Acute component rate consists of both MCO and Fee-For-Service (FFS) payments as well as a reinsurance offset for the MCOs. The Acute component rate change was based on a combination of a capitation rate analysis performed by AHCCCS and an MCO capitation rate analysis performed by Mercer. The capitation rate analysis adjusted base data by historical programmatic changes, provider fee scheduled changes and an adjustment for one high cost member who is no longer in the program. The base data was then trended forward and adjusted by any new programmatic and provider fee schedule changes (see below).

Behavioral Health Provider Fee Schedule Changes
Arizona Department of Health Services/Division of Behavioral Health Services (ADHS/DBHS) BHS implemented a 2% provider rate increase effective October 1, 2014 for multiple community-based, inpatient and residential services, but excluding transportation, laboratory and radiology, pharmacy, and electro-convulsive therapy services. The DDD BH capitation rates were adjusted to reflect this change. The estimated nine month statewide impact is an increase of approximately $411,000.

AHCCCS Fee Schedule Changes
Effective October 1, 2014, AHCCCS is changing FFS provider rates for certain providers based either on access to care needs, Medicare or ADHS fee schedule rates, and/or legislative mandates. The unit cost (inflation) trends were adjusted appropriately for these changes. The estimated nine month statewide impact is an increase of approximately $272,000.

ADHS Ambulance Rates
In accordance with A.R.S. §36-2239, AHCCCS is required to pay ambulance providers rates equal to a prescribed percentage of the amounts approved by ADHS. Currently AHCCCS' rates are equal to 68.59% of the ADHS rates per Laws 2013, First Special Session, Chapter 10. However, AHCCCS is required by this same section of law to increase this percentage to 74.74% of the ADHS rates for rates effective October 1, 2014. This mandated adjustment results in a 9% increase in payments, assuming all utilization stays the same. The legislation also updates the base ADHS rates that are used to calculate the payments, which will result in further increases greater than 9%. The estimated nine month impact is an increase of approximately $216,000.

Diagnosis Related Group (DRG) Impacts
Acute hospital inpatient stays with dates of discharge on and after October 1, 2014 will be paid using an All Patient Refined Diagnosis Related Group (APR-DRG) payment system (with certain exclusions). This payment system replaces the 20+ year tiered per diem inpatient reimbursement system in accordance with Arizona Revised Statutes (A.R.S.) § 36-2903.01 and Arizona Administrative Code (A.A.C.) R9-22-712.60 through 712.81. The impact of this move to APR-DRG is budget neutral to the state, but does vary by Program. In addition to the methodological change there are impacts to what qualifies for reinsurance since the DRG method of

payment will no longer allow Contractors to split inpatient encounters in most cases. The estimated, combined nine month impact of both the methodological and reinsurance change is an increase of approximately $1.1 million

Medically Preferred Treatment Options
Effective October 1, 2014, AHCCCS will provide medically necessary orthotics services that are recognized as a preferred treatment option and are less expensive than other treatment or surgical options. More specifically, AHCCCS will reinstate orthotics instead of imminent surgery, or as necessary as a result of surgery, with prescribed criteria. There is no impact to rates as these orthotics are offered in place of more costly interventions.

In-Lieu of Services
Included in the base capitation rates is funding for "in lieu of" services, substituting cost-effective alternative inpatient settings in place of more costly inpatient non-specialty hospital placements. State approved FFS rates at inpatient non-specialty hospitals are approximately 93.5% more expensive than those provided in alternative inpatient settings. The proposed capitation rates allow for the provision of services in alternative inpatient settings that are licensed by ADHS/Arizona Licensing Services/Office of Behavioral Health License, in lieu of services in an inpatient non-specialty hospital, thus no impact to capitation rates is included.

Primary Care Provider (PCP) Payment Increase
Section 1902(a)(13)(C) of the Social Security Act, as amended by the ACA, requires minimum levels of Medicaid payment for certain primary care services, provided by certain physicians. The AHCCCS managed care model, with strict requirements regarding actuarially-sound capitation rates, necessitates that Contractors be funded for expected cost increases due to primary care rate parity. AHCCCS proposes to provide Contractors the necessary funds to increase primary care payments by using Model 3: Non-risk Reconciled Payments for Enhanced Rates as referenced in the *Medicaid Managed Care Payment for PCP Services in 2013 and 2014, Technical Guidance and Rate Setting Practices* (Technical Guidance) document released by CMS.

In summary, under Model 3, prospective capitation rates would not be adjusted for the enhanced primary care payments. Rather, AHCCCS would query actual encounter data on a quarterly basis to calculate the total payments that eligible providers were paid for eligible services in order to reach the mandated enhanced payment rates. Once the data on this report is verified, AHCCCS would pay the Contractors the calculated additional payment amounts. A more detail explanation of the process and methodology can be found in the Actuarial Certification submitted March 2013 to CMS for approval of AHCCCS methodology. There is no impact to the CYE 15 capitation rates.

III. Proposed Capitation Rates and Their Impacts

Table I below summarizes the changes per rate cell with the estimated budget impact. The table summarizes the change from the current approved CYE 15 capitation rates to the proposed updated CYE 15 capitation rates, effective for the period October 1, 2014 through June 30, 2015 on a statewide basis.

Table I: Proposed Capitation Rates and Budget Impact

Rate Cell	Based on Projected Member Months October 1, 2014 - June 30, 2015	CYE 15 (7/1/14) Approved Rate	CYE 15 (10/1/14) Proposed Rate	Based on Projected Member Months October 1, 2014 - June 30, 2015			
				CYE 15 (7/1/14) Approved Rate	CYE 15 (10/1/14) Proposed Rate	Dollar Impact	Percentage Impact
DDD	247,094	$ 3,338.97	$ 3,345.48	$ 825,039,228	$ 826,647,810	$ 1,608,582	0.19%
Behavioral Health	247,094	$ 118.14	$ 122.38	$ 29,191,677	$ 30,239,355	$ 1,047,678	3.59%
Targeted Case Management	39,296	$ 123.61	$ 123.61	$ 4,857,417	$ 4,857,417	$ -	0.00%
Total				$ 859,088,322	$ 861,744,582	$ 2,656,260	0.31%

BH does not reflect premium tax

IV. Actuarial Certification of the Capitation Rates

I, Windy J. Marks, am an employee of Arizona Health Care Cost Containment System (AHCCCS). I am a Member of the American Academy of Actuaries. I meet the qualification standards established by the American Academy of Actuaries and have followed the practice standards established from time-to-time by the Actuarial Standards Board.

The rates were developed using generally accepted actuarial principles and practices and are considered to be actuarially sound. The rates were developed to demonstrate compliance with the CMS requirements under 42 CFR 438.6(c) and are in accordance with applicable laws and regulations. The rates are appropriate for the Medicaid populations covered and Medicaid services to be furnished under the contract. The rates may not be appropriate for any other purpose. The documentation has been included with this certification. The actuarially sound capitation rates that are associated with this certification are effective for the nine-month period beginning October 1, 2014.

The actuarially sound capitation rates are a projection of future events. It may be expected that actual experience will vary from the values in the rates.

In developing the actuarially sound capitation rates, I have relied upon data and information provided by DES/DDD, ADHS/BHS, the AHCCCS internal databases and analysis performed by Mercer (based on data supplied by DES/DDD). I have accepted the data without audit and have relied upon the DES/DDD auditors, ADHS/BHS auditors, other AHCCCS employees and Mercer for the accuracy of the data and analysis.

This actuarial certification has been based on the actuarial methods, considerations, and analyses promulgated from time to time through the Actuarial Standards of Practice by the Actuarial Standards Board.

This certification letter assumes the reader is familiar with the DDD program, Medicaid eligibility rules and actuarial rating techniques. It is intended for AHCCCS, DES/DDD and CMS and should not be relied upon by third parties. Other readers should seek the advice of actuaries or other qualified professionals competent in the area of actuarial rate projections to understand the technical nature of these results.

SIGNATURE ON FILE	*08/29/14*
Windy J. Marks	Date

Fellow of the Society of Actuaries
Member, American Academy of Actuaries