

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

I. Purpose

The purpose of this actuarial memorandum is to demonstrate that the updated capitation rates for contract year ending 2016 (CYE 16: July 1, 2015 through June 30, 2016) are updated for the period of October 1, 2015 through June 30, 2016, and 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 previously-proposed CYE 16 capitation rates for the ADES/DDD program. The revision is due to updates to the behavioral health (BH), acute and home and community-based services (HCBS) components of the capitation rates. Due to one programmatic change (high acuity pediatric adjustor) that will be implemented with an effective date of January 1, 2016, this certification will cover two sets of capitation rates. One set for the time frame from October 1, 2015 through December 31, 2015 and another set from January 1, 2016 through June 30, 2016. The rate development process is the same for both sets of capitation rates, except the latter set includes the impact of the high acuity pediatric adjustor.

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 CYE 16 capitation rates do not include the fee at this time; that adjustment will be addressed in a retroactive capitation rate adjustment once the fees are known. Historical actuarial certifications for health insurer fee adjustment can be found on the AHCCCS website: <http://www.azahcccs.gov/commercial/ContractorResources/capitation/capitationrates.aspx#HIF>

II. Overview of the DD Program

This certification covers the DD program. This program delivers long-term care (LTC), acute care, behavioral health (BH) and case management services to eligible members who live with intellectual and developmental disabilities. The experience used in the development of these rates only includes DDD Medicaid eligible expenses for DD Medicaid eligible individuals.

ADES/DDD subcontracts most of the acute care services and all of the behavioral health services to sub-contractors on an October 1st to September 30th Contract year basis. Due to the different contract basis the service components are updated/rebased at different times as displayed in Table I

Table I: Components of the Capitation Rate and Contract Period

Components of DDD Capitation Rate	Types of Services	Contract Period	Sub-Contracted?
Institutional Services	LTC	7/1 - 6/30	No
Home and Community Based Services	LTC	7/1 - 6/30	No
Case Management (including Targeted)	LTC	7/1 - 6/30	No
Share of Cost (SOC)	LTC	7/1 - 6/30	No
Acute Care Services Including Reinsurance Offset	Acute Care	10/1 - 9/30	Yes *
BHS Services	BH	10/1 - 9/30	Yes
Admin/Risk Contingency/Premium Tax	All	determined by component	Yes/No

* less than 5% of acute services are provided by DDD rather than sub-contracted to Managed Care Organizations (MCOs) for American Indians who have choice

DDD has three separate capitation rates:

- Regular DDD capitation rate (which covers LTC (including SOC), acute services (including reinsurance offset), case management and admin/risk/premium tax);
- Behavioral Health capitation rate (which covers BH services and admin/risk); and
- Targeted case management (TCM) capitation rate. The TCM capitation rate covers case management services for members who have a DD diagnosis and meet the financial eligibility for Title XIX and XXI programs, but do not meet the functional requirements of Arizona Long Term Care Services (ALTCS).

The DDD and BH capitation rates are paid over the same member months since they cover the same population. The TCM capitation rate is paid over only those members eligible for that program.

Prior actuarial certifications can be found on the AHCCCS website with the July 1st certifications describing more about the DD program and the rate build of the LTC services components:

<http://www.azahcccs.gov/commercial/ContractorResources/capitation/capitationrates.aspx>

III. Overview of Changes

Table II contains the changes listed in the certification, the component impact and the resulting impact.

Behavioral Health (BH) Component Rate Development

The BH component represents approximately five percent of the total DD capitation. The BH component was rebased to follow the same methodology used in setting the BH program 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 time period October 1, 2013 through September 30, 2014. This base data was adjusted for historical programmatic changes and provider fee schedule changes. The base data was then trended forward and adjusted by new programmatic and provider fee schedule changes (see below). Finally, administration and risk contingency were applied to this rate to establish the final BH component rate. The administration and risk contingency percentages are the same percentages used in the prior capitation rates.

Acute Care Component Rate Development

The Acute Care component represents approximately twelve percent of the DD capitation rate. The Acute Care component consists of services paid for by both Managed Care Organizations (MCO), and Fee-For-Service (FFS) (for the American Indian population for which DDD reimburses providers directly). Both pieces of the Acute Care component rate include a reinsurance offset.

The Acute Care component was rebased following a method similar to that used in setting the Acute Care program capitation rates. The capitation rate rebase for both pieces of the Acute Care component consisted of encounter, financial, reinsurance payment and member month data for the October 1, 2011 through September 30, 2014 time frame. This base data was adjusted by completion factors, and historical programmatic and provider fee schedule changes. One high cost member's data was excluded from the analysis since that member moved to another AHCCCS program. The base data was then trended forward and adjusted by any new programmatic and provider fee schedule changes (see below) to develop the acute care service claim cost. Reinsurance offsets were then applied for a net acute care service claim cost. Additionally, non-benefit costs including administration expenses for the MCOs, risk contingency and premium tax were applied. These non-benefit cost items are included in Appendix I along with the non-benefit costs for LTC.

Home and Community-Based Services (HCBS) Provider Fee Schedule Change

Effective October 1, 2015 a 1.5% rate increase for HCBS service providers was included in capitation rate development due to a variety of factors impacting HCBS providers. As the economy continues to improve, HCBS providers will have increased challenges attracting and keeping individuals to work in direct care, which is more demanding both from a training and day-to-day work basis than jobs that pay comparable salaries. These rate increases will help to continue the availability of HCBS services for AHCCCS members by supporting the HCBS provider network; these services are less expensive than the institutional services that would otherwise be required. This adjustment impacts the HCBS component, which was updated in the July 1, 2015 capitation rate submission. The estimated nine month impact is an increase of approximately \$9.6 million.

Other Provider Fee Schedule Changes

Effective October 1, 2015, AHCCCS is changing FFS rates for certain providers based either on access to care needs, Medicare/ADHS fee schedule rate changes, and/or legislative mandates. Because Contractors tend to base their fee schedules on the

AHCCCS Fee Schedule, and/or adopt the same adjustments to their fee schedules, the estimated nine month statewide impact is an increase of approximately \$37,000.

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 74.74% of the ADHS rates per Laws 2013, First Special Session, Chapter 10. AHCCCS is required by Laws 2015, First Regular Session, Chapter 14 to decrease this percentage to 68.59% of the ADHS rates effective for dates of service on or after October 1, 2015. The estimated nine month impact is a decrease of approximately \$126,000.

High Acuity Pediatric Adjustor

The AHCCCS All Patient Refined Diagnosis Related Group (APR-DRG) payment system includes several policy adjustors. One such adjustor applies a factor of 1.25 to the reimbursement amount that would otherwise apply for "claims for members under age 19," so long as the claim is not subject to one of the other policy adjustors.

Beginning January 1, 2016, AHCCCS will address the costs associated with high-acuity pediatric cases by using an adjustment factor of 1.60 in place of the above pediatric policy adjustor in the following instances only: for inpatient stays, where an APR-DRG assignment of level 3 or 4 Severity of Illness is indicated. The estimated six month impact is an increase of approximately \$1.45 million.

Medically Preferred Treatment Options

Effective August 1, 2015, AHCCCS expanded the coverage of orthotics for members age 21 and over. More specifically, AHCCCS will allow orthotics when the use of orthotics is medically necessary as the preferred treatment option and consistent with Medicare guidelines; the orthotic is less expensive than all other treatment options or surgical procedures to treat the same diagnosed condition; and the orthotic is ordered by a physician or a primary care practitioner. There is no impact to capitation rates as 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.

Table II: Component Changes and Their Impacts

Changes to DDD Capitation Rate	Effective Date of Change	Service Impact	Approx Impact through 6/30/2016 *
BH Services Rate Rebase (including Admin and Risk Contingency)	10/1/2015	BHS	\$4.56 million
Acute Care Services Rate Rebase (including Reinsurance Offset and Admin Impact)	10/1/2015	Acute Care	(\$4.76 million)
HCBS Fee Schedule Change	10/1/2015	LTC	\$9.6 million
Other Provider Fee Schedule Changes	10/1/2015	Acute Care	\$37,000
ADHS Ambulance Rates	10/1/2015	Acute Care, BHS	(\$126,000)
High Acuity Pediatric Adjustment	1/1/2016	Acute Care	\$1.45 million

* impacts do not include impacts of premium tax and/or risk contingency unless noted

IV. Proposed Capitation Rates and Budget Impacts

Tables IIIa and IIIb show the current and proposed capitation rates and their budget impact. Table IIIc shows the combined budget impact for CYE 16. Appendix I shows the current and proposed capitation rate build-up by rate component.

Table IIIa: Proposed Capitation Rates (10/1/15)

Rate Cell	Based on Projected Member Months Oct 1, 2015 - Dec 31, 2015	CYE 16 (7/1/15) Rate	CYE 16 (10/1/15) Proposed Rate	Based on Projected Member Months Oct 1, 2015 - Dec 31, 2015			
				CYE 16 (7/1/15) Rate	CYE 16 (10/1/15) Proposed Rate	Dollar Impact	Percentage Impact
DDD	85,566	\$ 3,414.03	\$ 3,433.17	\$ 292,124,080	\$ 293,761,892	\$ 1,637,812	0.56%
Behavioral Health	85,566	\$ 124.18	\$ 140.85	\$ 10,625,505	\$ 12,051,923	\$ 1,426,419	13.42%
Targeted Case Management	12,991	\$ 145.92	\$ 145.92	\$ 1,895,626	\$ 1,895,626	\$ -	0.00%
Total				\$ 304,645,210	\$ 307,709,441	\$ 3,064,231	1.01%

Behavioral Health does not reflect premium tax

Table IIIb: Proposed Capitation Rates (1/1/16)

Rate Cell	Based on Projected Member Months Jan 1, 2016 - June 30, 2016	CYE 16 (10/1/15) Proposed Rate	CYE 16 (1/1/16) Proposed Rate	Based on Projected Member Months Jan 1, 2016 - June 30, 2016			
				CYE 16 (10/1/15) Proposed Rate	CYE 16 (1/1/16) Proposed Rate	Dollar Impact	Percentage Impact
DDD	173,753	\$ 3,433.17	\$ 3,441.79	\$ 596,523,373	\$ 598,022,326	\$ 1,498,954	0.25%
Behavioral Health	173,753	\$ 140.85	\$ 140.85	\$ 24,473,065	\$ 24,473,065	\$ -	0.00%
Targeted Case Management	25,982	\$ 145.92	\$ 145.92	\$ 3,791,251	\$ 3,791,251	\$ -	0.00%
Total				\$ 624,787,688	\$ 626,286,642	\$ 1,498,954	0.24%

Behavioral Health does not reflect premium tax

Table IIIc: CYE 16 Budget Impact (shown for informational purposes only)

Rate Cell	Based on Projected Member Months Oct 1, 2015 - June 30, 2016	CYE 16 (7/1/15) Rate	Blended CYE 16 (10/1/15 to 6/30/16)	Based on Projected Member Months Oct 1, 2015 - June 30, 2016			
				CYE 16 (7/1/15) Rate	Blended CYE 16 (10/1/15 to 6/30/16)	Dollar Impact	Percentage Impact
DDD	259,319	\$ 3,414.03	\$ 3,438.95	\$ 885,321,653	\$ 891,784,219	\$ 6,462,566	0.73%
Behavioral Health	259,319	\$ 124.18	\$ 140.85	\$ 32,202,033	\$ 36,524,988	\$ 4,322,955	13.42%
Targeted Case Management	38,973	\$ 145.92	\$ 145.92	\$ 5,686,877	\$ 5,686,877	\$ -	0.00%
Total				\$ 923,210,562	\$ 933,996,083	\$ 10,785,521	1.17%

Behavioral Health does not reflect premium tax

V. 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 capitation rates were developed using generally accepted actuarial principles and practices and are considered to be actuarially sound. The capitation 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 capitation rates are appropriate for the Medicaid populations covered and Medicaid services to be furnished under the contract. The capitation 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, 2015.

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 capitation rates.

In developing the actuarially sound capitation rates, I have relied upon data and information provided by ADES/DDD, ADHS/DBHS and the AHCCCS internal databases. In addition, I have relied upon the ADES/DDD, ADHS/DBHS and MCO auditors and other AHCCCS employees for the accuracy of the data. I have checked the data for consistency and reasonableness to the extent possible and practical.

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 DD 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

Windy J. Marks

08-13-15

Date

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

APPENDIX I: Capitation Rates by Rate Component

DES/DDD Capitation Rate	CYE 16 (7/1/15) Capitation Rate	CYE16 (10/1/15) Proposed Capitation Rate	Percentage Change	CYE16 (10/1/15) Proposed Capitation Rate	CYE16 (1/1/16) Proposed Capitation Rate	Percentage Change
Claim Costs						
Institutional Services	\$ 111.83	\$ 111.83	0.00%	\$ 111.83	\$ 111.83	0.00%
Home and Community Based Services	\$ 2,467.06	\$ 2,504.07	1.50%	\$ 2,504.07	\$ 2,504.07	0.00%
Acute Care Services	\$ 415.01	\$ 384.20	-7.42%	\$ 384.20	\$ 392.57	2.18%
Total Claim Costs	\$ 2,993.89	\$ 3,000.10	0.21%	\$ 3,000.10	\$ 3,008.46	0.28%
Share of Cost	\$ (5.18)	\$ (5.18)	0.00%	\$ (5.18)	\$ (5.18)	0.00%
Acute Care Services Reinsurance Offset	\$ (28.85)	\$ (12.05)	-58.21%	\$ (12.05)	\$ (12.05)	0.00%
Total Net Claim Costs	\$ 2,959.86	\$ 2,982.86	0.78%	\$ 2,982.86	\$ 2,991.23	0.28%
Non-Benefit Costs						
Case Management	\$ 154.13	\$ 154.13	0.00%	\$ 154.13	\$ 154.13	0.00%
Administration	\$ 197.79	\$ 193.15	-2.34%	\$ 193.15	\$ 193.15	0.00%
Risk Contingency	\$ 31.48	\$ 31.54	0.19%	\$ 31.54	\$ 31.63	0.29%
Premium Tax	\$ 70.76	\$ 71.48	1.01%	\$ 71.48	\$ 71.65	0.24%
Total Non-Benefit Costs	\$ 454.16	\$ 450.30	-0.85%	\$ 450.30	\$ 450.57	0.06%
DES/DDD Capitation Rate (includes Premium Tax)	\$ 3,414.03	\$ 3,433.17	0.56%	\$ 3,433.17	\$ 3,441.79	0.25%

Behavioral Health Capitation Rate	CYE 16 (7/1/15) Capitation Rate	CYE16 (10/1/15) Proposed Capitation Rate	Percentage Change	CYE16 (10/1/15) Proposed Capitation Rate	CYE16 (1/1/16) Proposed Capitation Rate	Percentage Change
Claim Costs						
Behavioral Health Services	\$ 111.33	\$ 126.58	13.70%	\$ 126.58	\$ 126.58	0.00%
Total Claim Costs	\$ 111.33	\$ 126.58	13.70%	\$ 126.58	\$ 126.58	0.00%
Non-Benefit Costs						
Administration and Risk Contingency	\$ 12.85	\$ 14.27	11.06%	\$ 14.27	\$ 14.27	0.00%
Total Non-Benefit Costs	\$ 12.85	\$ 14.27	11.06%	\$ 14.27	\$ 14.27	0.00%
Behavioral Health Capitation Rate (no Premium Tax)	\$ 124.18	\$ 140.85	13.42%	\$ 140.85	\$ 140.85	0.00%

Targeted Case Management (TCM)	CYE 16 (7/1/15) Capitation Rate	CYE16 (10/1/15) Proposed Capitation Rate	Percentage Change	CYE16 (10/1/15) Proposed Capitation Rate	CYE16 (1/1/16) Proposed Capitation Rate	Percentage Change
Non-Benefit Costs						
Case Management	\$ 143.00	\$ 143.00	0.00%	\$ 143.00	\$ 143.00	0.00%
Premium Tax	\$ 2.92	\$ 2.92	0.00%	\$ 2.92	\$ 2.92	0.00%
Targeted Case Management Rate	\$ 145.92	\$ 145.92	0.00%	\$ 145.92	\$ 145.92	0.00%

Notes

DES/DDD Capitation Rate includes Premium Tax for the Behavioral Health Capitation Rate