Contract Year Ending 2019 Comprehensive Medical and Dental Program Capitation Rate Certification

July 1, 2018 through September 30, 2019

Prepared for:
The Centers for Medicare & Medicaid Services

Prepared by:
AHCCCS Division of Health Care Management

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AHCCCS
Arizona Health Care Cost Containment System

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Introduction and Limitations

The purpose of this rate certification is to provide documentation for compliance with the applicable provisions of 42 CFR Part 438 of 81 FR 27497 (published May 6, 2016 and effective July 5, 2016). This includes the data, assumptions, and methodologies, used to develop the retroactive capitation rate adjustment for changes in reinsurance offset effective October 1, 2018, updating non-benefit costs effective April 1, 2019, and extending the time frame of the contract period. In accordance with the change to the contract period, the capitation rates are further revised in order to be actuarially sound for the period July 1, 2018 through September 30, 2019 for Arizona's Comprehensive Medical and Dental Program (CMDP). Hereafter, the term "CYE 19" will refer to the 15-month rating period ending September 30, 2019. Comparisons to prior rates in this certification refer to the previously submitted actuarial memorandums for capitation rates as signed by Matthew C. Varitek on January 1, 2018, May 15, 2018, and August 21, 2018. This rate certification was prepared for the Centers for Medicare & Medicaid Services (CMS), or its actuaries, for review and approval of the actuarially sound certified capitation rates contained herein. This rate certification may not be appropriate for any other purpose. The actuarially sound capitation rates represent projections of future events. Actual results may vary from the projections.

This rate certification may also be made available publicly on the Arizona Health Care Cost Containment System (AHCCCS) website or distributed to other parties. If this rate certification is made available to third parties, then this rate certification should be provided in its entirety. Any third party reviewing this rate certification should be familiar with the AHCCCS Medicaid managed care program, the provisions of 42 CFR Part 438 of 81 FR 27497 applicable to this rate certification, the 2019 Medicaid Managed Care Rate Development Guide, Actuarial Standards of Practice, and generally accepted actuarial principles and practices.

The 2019 Medicaid Managed Care Rate Development Guide (2019 Guide) describes the rate development standards and appropriate documentation to be included within Medicaid managed care rate certifications. This rate certification has been organized to follow the 2019 Guide to help facilitate the review of this rate certification by CMS.

Section I Medicaid Managed Care Rates

The capitation rates included with this rate certification is considered actuarially sound according to the following criteria from 42 CFR § 438.4 at 81 FR 27858:

- § 438.4(a) Actuarially sound capitation rates defined. Actuarially sound capitation rates are projected to provide for all reasonable, appropriate, and attainable costs that are required under the terms of the contract and for the operation of the MCO, PIHP, or PAHP for the time period and the population covered under the terms of the contract, and such capitation rates are developed in accordance with the requirements in paragraph (b) of this section.
- § 438.4(b) CMS review and approval of actuarially sound capitation rates. Capitation rates for MCOs, PIHPs, and PAHPs must be reviewed and approved by CMS as actuarially sound. To be approved by CMS, capitation rates must:
- § 438.4(b)(1) Have been developed in accordance with standards specified in § 438.5 and generally accepted actuarial principles and practices. Any proposed differences among capitation rates according to covered populations must be based on valid rate development standards and not based on the rate of Federal financial participation associated with the covered populations.
- § 438.4(b)(2) Be appropriate for the populations to be covered and the services to be furnished under the contract.
- § 438.4(b)(3) Be adequate to meet the requirements on MCOs, PIHPs, and PAHPs in §§ 438.206, 438.207, and 438.208.
- § 438.4(b)(4) Be specific to payments for each rate cell under the contract.
- § 438.4(b)(5) Payments from any rate cell must not cross-subsidize or be cross-subsidized by payments for any other rate cell.
- § 438.4(b)(6) Be certified by an actuary as meeting the applicable requirements of this part, including that the rates have been developed in accordance with the requirements specified in § 438.3(c)(1)(ii) and (e).
- § 438.4(b)(7) Meet any applicable special contract provisions as specified in § 438.6.
- § 438.4(b)(8) Be provided to CMS in a format and within a timeframe that meets requirements in § 438.7.

Additionally, the term actuarially sound is defined in Actuarial Standard of Practice (ASOP) 49, "Medicaid Managed Care Capitation Rate Development and Certification," as:

> "Medicaid capitation rates are "actuarially sound" if, for business for which the certification is being prepared and for the period covered by the certification, projected capitation rates and other revenue sources provide for all reasonable, appropriate, and attainable costs. For purposes of this definition, other revenue sources include, but are not limited to, expected reinsurance and governmental stop-loss cash flows, governmental risk adjustment cash flows, and investment income. For purposes of this definition, costs include, but are not limited to, expected health benefits, health benefit settlement expenses, administrative expenses, the cost of capital, and government-mandated assessments, fees, and taxes."

As stated on page 2 of the 2019 Guide, CMS will also use these three principles in applying the regulation standards:

- the capitation rates are reasonable and comply with all applicable laws (statutes and regulations) for Medicaid managed care;
- the rate development process complies with all applicable laws (statutes and regulations)for the Medicaid program, including but not limited to eligibility, benefits, financing, any applicable waiver or demonstration requirements, and program integrity; and
- the documentation is sufficient to demonstrate that the rate development process meets the requirements of 42 CFR Part 438 and generally accepted actuarial principles and practices.

I.1. General Information

This section provides documentation for the General Information section of the 2019 Guide.

I.1.A. Rate Development Standards

I.1.A.i. Rating Period

The revised CYE 19 capitation rates for the CMDP are effective for the fifteen month time period from July 1, 2018 through September 30, 2019.

I.1.A.ii. Required Elements

I.1.A.ii.(a) Letter from Certifying Actuary

The actuarial certification letter for the revised CYE 19 capitation rates for the CMDP, signed by Matthew C. Varitek, FSA, MAAA, is in Appendix 1. Mr. Varitek meets the requirements for the definition of an Actuary described at 42 CFR § 438.2 at 81 FR 27854 and is provided below for reference.

Actuary means an individual who meets the qualification standards established by the American Academy of Actuaries for an actuary and follows the practice standards established by the Actuarial Standards Board. In this part, Actuary refers to an individual who is acting on behalf of the State when used in reference to the development and certification of capitation rates.

Mr. Varitek certifies that the revised CYE 19 capitation rates for the CMDP contained in this rate certification is actuarially sound and meet the standards within the applicable provisions of 42 CFR Part 438 of 81 FR 27497.

I.1.A.ii.(b) Final and Certified Capitation Rates

The final and certified capitation rates are located in Appendix 2. Additionally, the CMDP contract includes the final and certified capitation rates in accordance with 42 CFR § 438.3(c)(1)(i) at 81 FR 27856.

I.1.A.ii.(c) Program Information

I.1.A.ii.(c)(i) Summary of Program

I.1.A.ii.(c)(i)(A) Type and Number of Managed Care Plans

The CMDP is the health plan within the Arizona Department of Child Safety (DCS) that is responsible for managing the health care needs for children in foster care. The CMDP does not contract with any external managed care plans to deliver covered services.

I.1.A.ii.(c)(i)(B) General Description of Benefits

Services covered by the CMDP include physical health services, limited behavioral health services (i.e. treatment for ADHD, anxiety and depression when provided by the member's primary care physician) and CRS specialty care. Prior to October 1, 2018, CRS specialty care was provided through the Children's Rehabilitative Services (CRS) program to CMDP members who were diagnosed with a CRS-qualifying health condition. Effective October 1, 2018, those CRS specialty services are provided through the CMDP. Capitation rates have been revised to reflect this program change.

Additional information regarding covered services can be found in the CMDP contract.

I.1.A.ii.(c)(i)(C) Areas of State Covered and Length of Time of Operation

CMDP was formed in July 1970 by state law under Arizona Revised Statute (A.R.S.) § 8-512. CMDP operates on a statewide basis.

I.1.A.ii.(c)(ii) Rating Period Covered

The rate certification for the revised CYE 19 capitation rates for the CMDP are effective for the three month time period from July 1, 2018 through September 30, 2018, the six month time frame from October 1, 2018 through March 31, 2019, and the six month time period from April 1, 2019 through September 30, 2019.

I.1.A.ii.(c)(iii) Covered Populations

The populations covered under the CMDP are children under the age of 18 years of age and who are:

- Placed in a foster home;
- In the custody of DES and placed with a relative, in a certified adoptive home prior to the final order of adoption, or in an independent living program as provided in A.R.S. § 8-512; or
- In the custody of the Arizona Department of Juvenile Corrections or the Administrative Office of the Courts/Juvenile Probation Office and placed in foster care.

Additional information regarding covered populations can be found in the Enrollment and Disenrollment section of the CMDP contract.

I.1.A.ii.(c)(iv) Eligibility or Enrollment Criteria Impacts

AHCCCS operates as a mandatory managed care program and choice of enrollment or auto-assignment is used pursuant to the terms of the Arizona Medicaid Section 1115 Demonstration Waiver Special Terms and Conditions. AHCCCS will enroll the child with the CMDP and notify the CMDP of the child's AHCCCS enrollment. The CMDP is responsible for timely notification to AHCCCS if a member no longer meets the criteria for the CMDP coverage as set for in A.R.S. § 8-512. Additional information regarding eligibility and enrollment criteria can be found in the Enrollment and Disenrollment section of the CMDP contract.

There are no expected changes to the eligibility and enrollment criteria. Therefore, there are no expected impacts on the populations to be covered under the CMDP during CYE 19.

I.1.A.ii.(c)(v) Summary of Special Contract Provisions Related to Payment

This rate certification includes special contract provisions related to payment as defined in 42 CFR § 438.6 at 81 FR 27859. The special contract provisions related to payment included in the revised CYE 19 capitation rates are:

- Reinsurance Arrangement (42 CFR § 438.6(b)(1) at 81 FR 27859)
- Differential Adjusted Payments (DAP) (42 CFR § 438.6(c)(1)(iii)(B) at 81 FR 27860)

Documentation on these special contract provisions related to payment can be found in Section I.4 of this rate certification.

I.1.A.ii.(c)(vi) Retroactive Capitation Rate Adjustments

The actuary is certifying to retroactive adjustments to previous capitation rates and AHCCCS is submitting the corresponding contract amendment in accordance with 42 CFR § 438.7(c)(2).

I.1.A.ii.(c)(vi)(A) Retroactive Adjustment: Rationale

The capitation rates effective July 1, 2018 are changing from those contained in the CMDP Rate Certification dated May 15, 2018. This retroactive adjustment reflects the change in the rating period as described in Section I.1.A.i.

In the CMDP Rate Certification dated August 21, 2018, the changes to the reinsurance program effective October 1, 2018 were not believed to have a material impact to the total capitation rate. Subsequent analysis performed within CMS rate review determined that adjustments should be made to the projected reinsurance offset amount effective October 1, 2018 in order to reflect the accumulation of all services, including the CRS services for which the CMDP assumed responsibility, towards the reinsurance deductible; the increase to the threshold for high-dollar catastrophic reinsurance, as described in section I.4.C.ii.(c)(i); and an estimated impact of deductible leveraging when applying per member per month (PMPM) expense trends to historical encounter data. The revised CYE 19 capitation rates include adjustments for each of those considerations. The portion of the reinsurance offset attributable to CRS members was revised before these adjustments were applied.

I.1.A.ii.(c)(vi)(B) Retroactive Adjustment: Data, Assumptions, and Methodologies

The base data and trend data for gross medical expenses are not being revised from those contained in the CMDP actuarial certifications dated May 15, 2018 and August 21, 2018. The gross medical expenses within the base data (midpoint of July 1, 2017) are being trended forward at the same annualized rates assumed in the previous certifications for an additional 1.5 months to reflect the three month extension to the contract period which will retroactively impact the gross medical CYE 19 capitation rates back to July 1, 2018.

The revisions to the development of the reinsurance offset are described in Section I.4.C.

I.1.A.iii. Rate Development Standards and Federal Financial Participation

The revised CYE 19 capitation rates for the CMDP are based on valid rate development standards and are not based on the rate of Federal Financial Participation for the populations covered under the CMDP.

I.1.A.iv. Rate Cell Cross-subsidization

The revised capitation rates were developed as one statewide rate cell.

I.1.A.v. Effective Dates of Changes

The effective dates of changes to the CMDP are consistent with the assumptions used to develop the revised CYE 19 capitation rates for the CMDP.

I.1.A.vi. Generally Accepted Actuarial Principles and Practices

I.1.A.vi.(a) Reasonable, Appropriate, and Attainable Costs

In the actuary's judgment, all adjustments to the capitation rates, or to any portion of the capitation rates, reflect reasonable, appropriate, and attainable costs. To the actuary's knowledge, there are no reasonable, appropriate and attainable costs which have not been included in the rate certification.

I.1.A.vi.(b) Rate Setting Process

Adjustments to the capitation rates that are performed outside of the rate setting process described in the rate certification are not considered actuarially sound under 42 CFR §438.4. There are no adjustments to the capitation rates performed outside the rate setting process.

I.1.A.vi.(c) Contracted Rates

Consistent with 42 CFR §438.7(c), the final contracted rates in each cell must match the capitation rates in the rate certification. This is required in total and for each and every rate cell. The revised CYE 19 capitation rates certified in this report represents the final contracted rates.

I.1.A.vii. Rates from Previous Rating Periods

Not Applicable. Capitation rates from previous rating periods are not used in the development of the revised CYE 19 capitation rates for the CMDP.

I.1.A.viii. Rate Certification Procedures

I.1.A.viii.(a) CMS Rate Certification Requirement for Rate Change

This rate certification documents that the CMDP capitation rates will be changing effective July 1, 2018, October 1, 2018, and April 1, 2019.

I.1.A.viii.(b) CMS Rate Certification Requirement for No Rate Change

Not Applicable. This rate certification will retroactively and prospectively change the CMDP capitation rates effective July 1, 2018, October 1, 2018, and April 1, 2019.

I.1.A.viii.(c) CMS Rate Certification Circumstances

This section of the 2019 Guide provides information on when CMS would not require a new rate certification, which includes increasing or decreasing capitation rates up to 1.5% per rate cell in accordance with 42 CFR §438.7(c)(3) and applying risk scores to capitation rates paid to plans under a risk adjustment methodology described in the rate certification for that rating period and contract in accordance with 42 CFR §438.7(b)(5)(iii).

I.1.A.viii.(d) CMS Contract Amendment Requirement

A contract amendment will be submitted to CMS to reflect the CMDP capitation rates changing effective July 1, 2018, October 1, 2018, and April 1, 2019.

I.1.B. Appropriate Documentation

I.1.B.i. Elements

This rate certification documents all the elements (data, assumptions, and methodologies) used to develop the revised CYE 19 capitation rates for the CMDP.

I.1.B.ii. Rate Certification Index

The table of contents that follows the cover page within this rate certification serves as the index. The table of contents includes relevant section numbers from the 2019 Guide. Sections that do not apply will be marked as “Not Applicable”; any section wherein all subsections are not applicable will be collapsed to the section heading.

I.1.B.iii. Differences in Federal Medical Assistance Percentage

Variations in the assumptions used to develop the projected benefit costs for the covered populations were based on valid rate development standards and not based on the rate of Federal Medical Assistance Percentage (FMAP). The covered populations under the CMDP receive the regular FMAP. The enhanced FMAP amounts for the Children’s Health Insurance Program (CHIP) do not apply because the CHIP is not a covered population under the CMDP. AHCCCS administers the CHIP through the AHCCCS KidsCare program.

I.1.B.iv. Comparison of Rates

I.1.B.iv.(a) Comparison to Previous Rate Certification

The comparisons between the previously certified CYE 18 CMDP capitation rates, and the revised CYE 19 capitation rates being certified in this actuarial rate certification are available in Appendix 3a. The comparisons between the previously submitted CYE 19 CMDP capitation rates in the certifications dated May 15, 2018 and August 21, 2018, and the revised CYE 19 capitation rates being certified in this actuarial rate certification are available in Appendix 3b.

I.1.B.iv.(b) Material Changes to Capitation Rate Development

There were no material changes since the last rate certification, other than those described elsewhere in the certification.

I.2. Data

This section provides documentation for the Data section of the 2019 Guide.

I.2.A. Rate Development Standards

I.2.A.i. Compliance with 42 CFR § 438.5(c)

This section of the 2019 Guide provides information related to base data. AHCCCS has provided validated encounter data and audited annual and unaudited quarterly financial statement data submitted by the CMDP and the Children's Rehabilitative Services (CRS) Contractor, demonstrating experience for the populations with and without CRS conditions to be served by the CMDP to the actuary developing the capitation rates, for at least the three most recent and complete years prior to the rating period. The actuary is using the most appropriate base data, which is derived from the Medicaid population and this specific program to develop the revised capitation rates. No exception request is required as the data being used to develop rates is no older than the three most recent and complete years prior to the rating period.

I.2.B. Appropriate Documentation

I.2.B.i. Data Request

Since AHCCCS employs their own actuaries, a formal data request was not needed between the AHCCCS Division of Health Care Management (DHCM) Actuarial Team and the State. The AHCCCS DHCM Actuarial Team worked with the appropriate teams at AHCCCS to obtain the primary sources of data in accordance with 42 CFR § 438.5(c) at 81 FR 27858.

I.2.B.ii. Data Used for Rate Development

I.2.B.ii.(a) Description of Data

I.2.B.ii.(a)(i) Types of Data Used

The types of data that AHCCCS relied upon for developing the amendment to the CYE 19 capitation rates for the CMDP were:

- Adjudicated and approved encounter data submitted by the CMDP and the CRS Contractor;
- Enrollment data tied to capitation paid to the CMDP and the CRS Contractor;
- Projected enrollment data;
- Quarterly and annual financial statements submitted by the CMDP and the CRS Contractor;
- Detailed administrative expense data and projections from the CMDP; and
- Supplemental encounter data files for services provided by the CMDP that had not been submitted for processing by the AHCCCS data warehouse.

I.2.B.ii.(a)(ii) Age of Data

All data used during the rate development process was for the calendar years 2015, 2016, and 2017 (January 1, 2015 through December 31, 2017).

I.2.B.ii.(a)(iii) Sources of Data

The enrollment, encounter, and reinsurance payment data were provided from the AHCCCS PMMIS mainframe. The financial statement data were provided by the AHCCCS DHCM Finance & Reimbursement Team. The projected enrollment data for CYE 19 was provided by the AHCCCS Division of Business and Finance (DBF) Budget Team. The supplemental encounter data files and detailed administrative expense data were provided by the CMDP.

I.2.B.ii.(a)(iv) Sub-capitated Arrangements

While the CMDP does not have sub-capitated contracts with providers, the encounter data for CRS specialty services provided to children with CRS-eligible health conditions does contain sub-capitated payment amounts. The CRS Contractor uses a sub-capitated/block purchasing arrangement for some professional services. The sub-capitated/block purchasing arrangements between the CRS Contractor and its providers still require that the providers submit claims, which go through the same encounter edit and adjudication process as other claims which are not sub-capitated. These claims come into the system with a CN1 code = 05, which is an indicator for sub-capitated encounters, and health plan paid amount equaling zero. After the encounter has been adjudicated and approved, there is a repricing methodology (i.e. formula) for those (CN1 code = 05, and health plan paid of zero (i.e. sub-capitated)) encounters to estimate a health plan valued amount for these encounters. The units of service data from the encounters and the estimated health plan valued amounts were used for the basis of calculating utilization and unit cost. The CRS contractor responsible for providing CRS specialty care services to CMDP members with a CRS qualifying condition, have sub-capitated/block purchasing arrangements which account for approximately 0.2% of gross medical expenses in the base year, inclusive of the non-CRS and CRS services.

I.2.B.ii.(b) Availability and Quality of the Data

I.2.B.ii.(b)(i) Data Validation Steps

Guidelines and formats for submitting individual encounters generally follow health insurance industry standards used by commercial insurance companies and Medicare; however some requirements are specific to the AHCCCS program. All encounter submissions are subject to translation and validation using standards and custom business rules (guidelines). Once translation has occurred and the encounters pass validation, they are passed to the AHCCCS PMMIS mainframe and are subject to approximately 500 claims type edits resulting in the approval, denial or pend of each encounter. This process occurs for both regular and sub-capitated encounters.

The AHCCCS Actuarial Team regularly reviews monthly adjudicated and approved encounters by form type on a cost basis and a PMPM basis looking for anomalous patterns in encounter, unit, or cost totals, such as incurred months where totals are unusually low or high. If any anomalies are found, the AHCCCS Actuarial Team reports the findings to the AHCCCS Data Analysis & Research (DAR) Team, which then works with the CMDP to determine causal factors. In addition, the AHCCCS DAR Team performs their own checks and validations on the encounters and monitors the number of encounters that are adjudicated and approved each month.

The CMDP and the CRS Contractor know encounters are used for capitation rate setting, reconciliations (risk corridors), and reinsurance payments, and thus are cognizant of the importance of timely and accurate encounter submissions. AHCCCS provides the CMDP and the CRS Contractor with the "Encounter Monthly Data File" (aka the "magic" file) which contains the previous 36 months of encounter data. Data fields contained in this file include, but are not limited to, adjudication status, AHCCCS ID, Claim Reference Number (CRN), Provider ID and various cost amounts. The adjudication status has five types: adjudicated/approved, adjudicated/plan denied, adjudicated/AHCCCS denied, pended and adjudicated/void. Generally, the capitation rate setting process only uses the adjudicated/approved encounters, but providing this file to the CMDP and the CRS Contractor allows them to compare to their claim payments to identify discrepancies and evaluate the need for new or revised submissions.

All of these processes create confidence in the quality of the encounter data.

AHCCCS adjusted the adjudicated/approved base data using the supplemental encounter data files identified in Section I.2.B.ii.(a)(i) to include encounters that were either pending adjudication/approval, or not yet submitted by the CMDP for processing. The adjustments were judged appropriate for multiple reasons:

- The encounter data used in the adjustment contained AHCCCS member IDs, service dates, servicing provider IDs, procedure codes, and paid amounts, so that duplicated amounts could be excluded from the adjustments;
- Because those informational fields were available, AHCCCS was comfortable making adjustments supported by medical expense data rather than an under-reporting factor calculated from high-level financial statements;
- The adjustment was applied to the encounter counts and health plan valued amounts for each incurred month in the base period as determined by the service dates on the encounters. This method of adjustment was more accurate for rate and trend development than estimating future runout by calculating completion factors.

I.2.B.ii.(b)(i)(A) Completeness of the Data

The AHCCCS DHCM DAR Team performs encounter data validation studies to evaluate the completeness, accuracy, and timeliness of the collected encounter data.

I.2.B.ii.(b)(i)(B) Accuracy of the Data

AHCCCS has an additional encounter process which ensures that each adjudicated and approved encounter contains a valid AHCCCS member ID for an individual who was enrolled on the date that the service was provided. The process also checks to ensure that each adjudicated and approved encounter is for a covered service under the state plan and contains the codes necessary to map it into one of the categories of service used in the rate development process.

Through the DHCM Actuarial team review of the encounter data provided from the AHCCCS PMMIS mainframe, we ensured that only encounter data with valid AHCCCS member IDs was used in developing

the revised CYE 19 capitation rates for the CMDP. Additionally, we ensured that only services covered under the state plan were included.

I.2.B.ii.(b)(i)(C) Consistency of the Data

The AHCCCS DHCM Actuarial Team reviewed the encounter data for consistency by viewing month over month, year over year as well as encounter data versus financial statements.

The monthly encounter cycle of the AHCCCS data warehouse ensures that no duplicated encounters exist among the adjudicated and approved encounters. AHCCCS further compared the pended and non-submitted encounters from the supplemental data files using the member ID, date of service, servicing provider ID, and paid amount to remove duplicated encounters from those sources so that the adjustment to base data would be accurate. This adjustment is quantified in the Supplemental Encounter Files column in Appendix 4a.

After inclusion of the validated and non-duplicate encounters from the supplemental data files, the combined encounter data was deemed to be consistent for capitation rate setting.

I.2.B.ii.(b)(ii) Actuary's Assessment of the Data

As required by ASOP No. 23, AHCCCS discloses that the rate development process has relied upon encounter data submitted by the CMDP and the CRS Contractor and provided from the AHCCCS PMMIS mainframe as well as the supplemental encounter files provided by the CMDP. Additionally, the rate development process has relied upon the audited annual and unaudited quarterly financial statement data submitted by the CMDP and the CRS Contractor and reviewed by the AHCCCS Finance & Reinsurance Team. The AHCCCS DHCM Actuarial Team did not audit the data or financial statements and the rate development is dependent upon this reliance. The actuary notes additional reliance on data provided by the AHCCCS Rates & Reimbursement Team with regards to DAP and fee schedule impacts, and on data provided by the AHCCCS DBF Budget Team with regards to projected enrollment.

AHCCCS has determined the calendar year 2017 encounter data to be appropriate for the purposes of developing the revised CYE 19 capitation rates for the CMDP. Additionally, the calendar year 2015 and 2016 encounter data was deemed appropriate for use in trends.

I.2.B.ii.(b)(iii) Data Concerns

There are no concerns with the data used.

I.2.B.ii.(c) Appropriate Data for Rate Development

The calendar year 2017 encounter data was appropriate to use as the base data for developing the revised CYE 19 capitation rates for the CMDP.

I.2.B.ii.(c)(i) Not using Encounter or Fee-for-Service Data

As described above in Section I.2.B.ii.(c), managed care encounters served as the primary data source for the development of the revised CYE 19 capitation rates for the CMDP.

I.2.B.ii.(c)(ii) Not using Managed Care Encounter Data

Not applicable. As described above in Section I.2.B.ii.(c), managed care encounters served as the primary data source for the development of the revised CYE 19 capitation rates for the CMDP.

I.2.B.ii.(d) Use of a Data Book

Not Applicable. The rate development process of the capitation rates relied primarily on data extracted from the AHCCCS PMMIS mainframe by the AHCCCS DHCM Actuarial Team.

I.2.B.iii Adjustments to the Data

The CMDP encounter data was adjusted as described in Section I.2.B.ii.(b)(i) for pended and non-submitted encounters. The CRS encounter data was adjusted for completion. Historical program and fee schedule changes were applied as described in Section I.2.B.iii.(d) to bring the historical data to current program and reimbursement levels.

I.2.B.iii.(a) Credibility of the Data

No credibility adjustment was necessary.

I.2.B.iii.(b) Completion Factors

Completion factors were not applied to the CMDP encounter data due to the inclusion of pended and non-submitted encounters, for which the service unit counts and Health Plan Valued amounts would have ordinarily been estimated by completion factors calculated using historical runout patterns. The aggregated calendar year 2015, 2016, and 2017 encounter adjustments applied to each category of service are shown in Appendix 4a.

Completion factors were applied to the encounter data for CRS specialty services. The aggregated calendar year 2015, 2016, and 2017 encounter adjustments applied to each category of service are shown in Appendix 4b.

I.2.B.iii.(c) Errors Found in the Data

No errors were found in the data. Thus, no data adjustments were made for errors.

I.2.B.iii.(d) Changes in the Program

Table 1 summarizes the PMPM impacts by category of service for historical program and reimbursement changes used to adjust base data and to normalize experience data for trend analysis.

Table 1: PMPM Impacts of Historical Program/Reimbursement Changes

Change and Effective Date	Acute Non-CRS	Acute CRS
Provider Fee Schedule Changes effective 10/1/2015	-$0.24	$0.00
High-Acuity Pediatrics effective 1/1/2016	$2.20	$0.05
Provider Fee Schedule Changes effective 10/1/2016	$1.05	$0.05
High-Acuity Pediatrics effective 1/1/2017	$2.01	$0.20
DRG reimbursement rate changes effective 1/1/2018	$1.23	$0.40

Provider Fee Schedule Changes

AHCCCS typically makes annual updates to provider fee schedules that are used for AHCCCS fee-for-service programs. The AHCCCS DHCM Rates & Reimbursement Team and the AHCCCS DHCM Actuarial Team have typically determined impacts that the change in fees would have on the managed care programs and have applied these impacts to the managed care capitation rates. Although it is not mandated through the health plan contracts, the health plans typically update their provider fee schedules to reflect changes in the AHCCCS provider fee schedules because the health plans tend to benchmark against the AHCCCS provider fee schedules. This information is known through health plan surveys conducted by the AHCCCS DHCM Finance & Reinsurance Team regarding their fee schedules.

The PMPM impacts to Acute non-CRS and Acute CRS services effective October 1, 2015 and October 1, 2016, as provided in Table 1, were incorporated into trend development. The net impact to the CMDP program for provider fee schedule changes effective October 1, 2017 was $0.00 PMPM and no base data adjustment was made.

High-Acuity Pediatrics

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. On January 1, 2016, AHCCCS addressed 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. Effective January 1, 2017, AHCCCS will change the adjustment factor of 1.60 established January 1, 2016 to 1.945. The PMPM impacts to Acute non-CRS and Acute CRS services, as provided in Table 1, were incorporated into trend development.

DRG Reimbursement Rate Changes

AHCCCS transitioned from version 31 to version 34 of the All Patient Refined Diagnostic Related Groups (APR-DRG) payment classification system on January 1, 2018. To make the APR-DRG grouper fully ICD-10 code compliant, AHCCCS rebased the inpatient system by updating the DRG grouper version, relative weights and DRG base rates via payment simulation modeling using more recent data.

The AHCCCS DHCM Actuarial Team estimated and incorporated the impact of the DRG rebase in CYE 18 capitation rates. The method used to develop the CYE 18 capitation rates was deemed appropriate for continued use in developing CYE 19 capitation rates. This method was described in the CYE 18 certification and the language has been copied here for convenience of review.

> “Navigant Consulting did the rebase of the AHCCCS DRG system. Their modeling approach: “Rebasing calculations included updated base rates (both standardized amounts and wage indices), relative weights, and addition and change of policy adjusters. Outlier identification and payment methodology has not changed nor has any other underlying claim pricing calculation

(notwithstanding the above noted changes to factors, indices, and statewide standardized base rate).

To affect a budget neutral payment system change, Navigant first repriced the FFY 2016 claims under current APR-DRG v31 FFS rates, including changes to the payment system which have occurred since the FFY 2016 claims period (such as the removal of the transition factor, coding improvement factor, and the increase of the high acuity pediatric adjuster to 1.945). Navigant then repriced the same claims set using the APR-DRG v34 grouper and weights and calculated a statewide standardized amount (adjusted to each facility's labor cost using CMS's published FFY 2017 Final Rule Wage Indices). The statewide standardized amount was calculated to result in total simulated rebased payments equal to current system payments.

The next modeling step was to increase select policy adjusters to meet program funding goals, as determined by AHCCCS. These adjustments included an increase of the high acuity pediatric policy adjuster to 2.30, the addition of a service policy adjuster for burn cases (as identified by APR-DRG groups 841-844) of 2.70, the increase of the policy adjuster for other adult services to 1.025, and the increase of the existing High Volume Hold Harmless adjuster to 1.11."

The PMPM adjustments to apply to each rate cell were then developed as the total simulated APR-DRG rebased payments with the new policy adjuster factors applied to each inpatient hospital admission during FFY 16 by members in each rate cell, minus the total actual payments associated with those admissions, divided by the FFY 16 member months for each rate cell.

The AHCCCS Division of Health Care Management (DHCM) Actuarial Team relied upon Navigant and AHCCCS DHCM Rates & Reimbursement Team for the reasonableness of these assumptions."

The PMPM impacts to Acute non-CRS and Acute CRS services, as provided in Table 1, were incorporated into base data adjustment.

<u>Removal of DAP from Base Period</u>

CYE 17 and CYE 18 capitation rates funded Differential Adjusted Payments (DAP) made to distinguish providers who committed to supporting designated actions that improve the patient care experience, improve member health and reduce cost of care growth. AHCCCS removed the impact of DAP payments from the base period. The change reduces statewide costs for non-CRS services by approximately $0.23 PMPM as noted in Appendix 4a, and reduced costs for the CRS specialty services that will now be delivered through the CMDP Program by approximately $0.05 PMPM as noted in Appendix 4b. See section I.4.D.ii below for information on adjustments included in CYE 19 rates for DAP that are effective from July 1, 2018 through September 30, 2019.

Other adjustment factors to reflect historical changes applied to the base data period are provided in Appendices 4a and 4b.

I.2.B.iii.(e) Exclusions of Payments or Services

The AHCCCS DHCM Actuarial Team ensured that all non-covered services were excluded from the encounter data used for developing the revised CYE 19 capitation rates.

I.3. Projected Benefit Costs and Trends

This section provides documentation for the Projected Benefit Costs and Trends section of the 2019 Guide.

I.3.A Rate Development Standards

I.3.A.i. Compliance with 42 CFR § 438.3(c)(1)(ii) and § 438.3(e)

The final capitation rates are based only upon services allowed under 42 CFR § 438.3(c)(1)(ii) at 81 FR 27856 and 42 CFR § 438.3(e) at 81 FR 27861.

I.3.A.ii. Variations in Assumptions

Any variation in assumptions for covered populations is based upon valid rate development standards and is not based upon the rate of federal financial participation associated with the covered populations.

I.3.A.iii. Projected Benefit Cost Trend Assumptions

Projected benefit cost trend assumptions are developed in accordance with generally accepted actuarial principles and practices. The actual experience of the covered populations was the primary data source used to develop the projected benefit cost trend assumptions.

I.3.A.iv. In-Lieu-Of Services

The projected benefit costs may include costs for in-lieu-of services defined at 42 CFR § 438.3(e)(2), as the CMDP allows the following types of services as in-lieu-of services: home and community based services (HCBS) covered in lieu of a nursing facility and services in alternative inpatient settings licensed by ADHS/DLS in lieu of services in an inpatient hospital. These services are then included in the CMDP's capitation rate development categories of service. Encounters which are in-lieu-of services are not identified separately in the data, and are not repriced to the cost of the State plan service or setting, and are treated the same as all other data for rate development.

I.3.A.v. Institution for Mental Disease

Not applicable. Institution for mental disease (IMD) payments in accordance with 42 CFR § 438.6(e) of 81 FR 27497 are for enrollees aged 21 to 64. The CMDP covers members until age 18. Therefore, no adjustment was made to encounter data or to the capitation rates.

I.3.A.vi. Section 12002 of the 21st Century Cures Act (P.L. 114-255)

Not applicable. This section refers to Medicaid members between the ages of 21 and 64 who received treatment in an IMD. The CMDP has no enrolled members within that age range.

I.3.B. Appropriate Documentation

I.3.B.i Projected Benefit Costs

Appendix 6 contains the projected July 1, 2018 and October 1, 2018 gross medical expenses PMPM on a statewide basis for CRS and Non-CRS components of the capitation rates.

I.3.B.ii. Projected Benefit Cost Development

I.3.B.ii.(a) Description of the Data, Assumptions, and Methodologies

The data described in Section I.2.B.ii.(a) was adjusted to reflect historical changes in benefits, program requirements, and provider reimbursement levels as noted in Section I.2.B.iii. The per-member-per-month (PMPM) expenditures for each non-CRS COS in the base year were trended forward to the midpoint of the 15-month rating period by applying assumed annual utilization and unit cost trends for each COS, using the methodology described below in I.3.B.iii.(a)(ii). The PMPM expenditures for each CRS COS in the base year were trended forward to the midpoint of FFY 19 by applying assumed annual utilization and unit cost trends for each COS, using the methodology described below in I.3.B.iii.(a)(ii).

As noted in Section I.2.B.ii.(c), data from calendar year 2017 served as the base for projections to CYE 19 for the capitation rates, while data from calendar years 2015 and 2016 was used in development of trends. The historical encounter data was summarized by calendar year and COS.

The capitation rates were adjusted for all program and reimbursement changes, whether material or non-material. The actuary defines “non-material” as an impact of less than 0.2% to total capitation.

Table 2 summarizes the PMPM impacts by category of service for prospective program and reimbursement changes effective at any point during the CYE 19 rating period.

Table 2: PMPM Impacts of Prospective Program/Reimbursement Changes

Change and Effective Date	Acute Non-CRS	Acute CRS
CRS Specialty & BH Services effective 10/1/2018	$0.00	$18.36
Genetic Testing effective 10/1/2018	$1.11	$0.07
Social Determinants of Health effective 10/1/2018	$0.00	$0.00
Provider Fee Schedule Changes effective 10/1/2018	$0.35	$0.08

CRS Specialty Services

Effective October 1, 2018, CRS specialty care services provided to CMDP members are shifted from the CRS Program to the CMDP. The PMPM impact to Acute CRS services, as provided in Table 2, was incorporated into expense projections for the rating period. Table 3 below provides the PMPM impact to the statewide rate.

Table 3: PMPM Impacts (10/1/18 – 9/30/19) to Medical Expenditures and Reinsurance (RI) Offsets

Rate Cell	Projected CYE 19 (Oct-Sep) Member Months	Increase to Medical Expense PMPM (10/1/18)	Increase to RI Offset PMPM (10/1/18)	Net Impact to Medical Expense PMPM (10/1/18)
Statewide	173,131	$18.36	($0.56)	$17.80

Amounts in Table 3 reflect adjusted base costs of CRS specialty care services and exclude trend, program, reimbursement, and other adjustments made to CRS specialty care data that are discussed

elsewhere in the certification. Please see Appendix 7a for additional adjustments made to the revised CYE 19 CMDP capitation rate for CRS specialty care services.

No differences in utilization or unit cost were assumed for CRS services provided through the CMDP program, because there was no reasonable basis for predicting what changes would occur due to the integration of these services into the CMDP program. The CRS services provided through CMDP will be reviewed to enable the actuary to make informed decisions for future rate development cycles. However, integration will blur the line between CRS services and normal acute services since there will not be two separate plans paying for different services.

Genetic Testing

AHCCCS policy guidance changed to clarify that covered genetic testing services include specific chromosomal tests for diagnosing developmental delays in infants and children. The policy guidance is expected to lead to increased use of these currently covered services in FFY 19. The estimated impact was determined by analyzing prior year encounters and projecting increase in use of genetic testing services. The PMPM impacts to Acute non-CRS and Acute CRS services, as provided in Table 2, were incorporated into expense projections for the rating period.

Social Determinants of Health

The Targeted Investments Program has benchmarks for screening members for the presence of social determinants of health (SDOH). These benchmarks are expected to result in increased use of the covered screening services in FFY 19. No PMPM impact to Acute non-CRS services is shown in Table 2 or incorporated into expense projections for the rating period, as the change is expected to increase statewide costs for Acute non-CRS services under the CMDP program by less than $0.01 PMPM.

Provider Fee Schedule Changes

AHCCCS typically makes annual updates to provider fee schedules that are used for AHCCCS fee-for-service programs. The AHCCCS DHCM Rates & Reimbursement Team and the AHCCCS DHCM Actuarial Team have typically determined impacts that the change in fees would have on the managed care programs and have applied these impacts to the managed care capitation rates. Although it is not mandated through the health plan contracts, the health plans typically update their provider fee schedules to reflect changes in the AHCCCS provider fee schedules because the health plans tend to benchmark against the AHCCCS provider fee schedules. This information is known though health plan surveys conducted by the AHCCCS DHCM Finance & Reinsurance Team regarding their fee schedules.

Effective October 1, 2018, AHCCCS updated provider fee schedules for certain providers based either on access to care needs, Medicare/ADHS fee schedule rate changes, and/or legislative mandates. The CYE 19 capitation rates have been adjusted effective October 1, 2018 to reflect these fee schedule changes. The data used by the AHCCCS DHCM Rates & Reimbursement Team to develop the adjustment to CYE 19 capitation rates was the CYE 17 encounter data across all programs. The AHCCCS DHCSM Rates & Reimbursement Team applied the AHCCCS provider fee schedule changes as a unit cost change to determine what the impacts would be for the CYE 19 time period. The AHCCCS DHCM Actuarial Team then reviewed the results and applied the impacts by program. The PMPM impacts to Acute non-CRS

and Acute CRS services, as provided in Table 2, were incorporated into expense projections for the rating period.

I.3.B.ii.(b) Material Changes to the Data, Assumptions, and Methodologies

The CYE 19 capitation rates are developed as one rate cell based on combined Prospective and Prior Period Coverage (PPC) encounter data, where the CYE 18 capitation rates were developed as separate Prospective and PPC capitation rates using distinct encounter data. There were no other material changes to the components of the capitation rates or the process of their development.

I.3.B.iii. Projected Benefit Cost Trends

In accordance with 42 CFR § 438.7(b)(2) at 81 FR 27861, this section provides documentation on the projected benefit cost trends.

I.3.B.iii.(a) Requirements

I.3.B.iii.(a)(i) Projected Benefit Cost Trends Data

Please see Section I.2.B.ii.(a) for the types of data that AHCCCS relied upon for developing the projected benefit cost trends for the CMDP and the CRS specialty services added to the CMDP.

All data used was specific to the CMDP population and the CRS specialty services provided to CMDP members with a CRS qualifying condition.

I.3.B.iii.(a)(ii) Projected Benefit Cost Trends Methodologies

Historical utilization, unit cost and PMPM data for the non-CRS services and the CRS specialty services provided to CMDP members from calendar years 2015, 2016, and 2017 were organized by incurred year and month and category of service (COS). The three years of data were normalized for historical program and fee schedule changes. For the non-CRS services provided to CMDP members the trend rates were developed to adjust the base data (midpoint of July 1, 2017) forward 19.5 months to the midpoint of the revised contract period (February 15, 2019). For the CRS specialty services provided to CMDP members the trend rates were developed to adjust the base data (midpoint of July 1, 2017) forward 21 months to the midpoint of the portion of the revised contract period during which those services will be covered by the CMDP (April 1, 2019).

Projected benefit cost trends were based upon actuarial judgment with consideration of 3-month, 6-month, and 12-month moving averages, and with 12-month, 24-month, and 36-month linear regression results. No simple formulaic solution exists to determine future trend; actuarial judgment is required. Each category of service was analyzed in the same manner.

The revised CYE 19 CMDP capitation rates do not include a modification from the trend amounts specified in the original submitted CYE 19 CMDP capitation rates to projected benefit cost trends for non-CRS services or CRS specialty services. For more information about methodologies used in projecting benefit cost trends, please see the CYE 19 CMDP Capitation Rate Certifications dated May 15, 2018 and August 21, 2018.

I.3.B.iii.(a)(iii) Projected Benefit Cost Trends Comparisons

The projected benefit cost PMPM trends were compared in aggregate to NHE projection of growth in Medicaid spending per capita.

For the non-CRS services, the PMPM trends by COS were also compared to the CYE 18 rate development PMPM trends for the CMDP (aggregated to the CYE 19 categories of service). The actuary judged the increases in PMPM trends to be reasonable for all categories of service, excluding pharmacy. The decrease in the pharmacy PMPM trend has been analyzed and deemed reasonable due to an observed increase in the percentage of generic drugs among total pharmacy utilization, and ongoing efforts to achieve lower costs for pharmacy services. The actuary did not make a specific assumption about the projected usage of generic drugs, but used a trend assumption that is less extreme than implied by regression analysis, suggesting that the percentage of generic drug usage does not need to continue to increase at the same pace as observed in the experience period in order to achieve the negative unit cost trend rate assumed. The utilization and unit cost trends were not compared to prior years due to different methodologies in place for rate development. Prior years' trend methodologies were developed on more detailed levels of COS, and had various caps, floors and adjustments which make any comparison with the CYE 19 trends too dissimilar to be useful.

For the CRS services trends, due to the high acuity of the small number of CMDP members with a CRS health condition, comparisons to national data may have limited usefulness. The PMPM trends by COS were compared to the CYE 18 rate development PMPM trends for CMDP members receiving CRS specialty care services through the CRS Program (aggregated to the CYE 19 categories of service). The actuary judged the overall increase in PMPM trends for all categories of service within the CRS specialty care services to be reasonable.

I.3.B.iii.(b) Projected Benefit Cost Trends by Component

I.3.B.iii.(b)(i) Changes in Price and Utilization

The trend assumptions were developed by unit cost and utilization. Appendix 5 contains the components of the projected benefit cost trend by COS for the capitation rates.

I.3.B.iii.(b)(ii) Alternative Methods

Not applicable.

I.3.B.iii.(b)(iii) Other Components

No other components were used in the development of the annualized trend assumptions summarized in Appendix 5.

I.3.B.iii.(c) Variation in Trend

Projected benefit cost trends vary by category of service.

I.3.B.iii.(d) Any Other Material Adjustments

No other material adjustments were made to the trend assumptions.

I.3.B.iii.(e) Any Other Adjustments
No other adjustments were made to the trend assumptions.

I.3.B.iv. Mental Health Parity and Addiction Equity Act Compliance
The AHCCCS DHCM Medical Management Team, the AHCCCS Office of Administrative Legal Services (OALS) Legal Counsel Team, and the AHCCCS Office of the Director, have completed a Mental Health Parity and Addiction Equity Act (MHPAEA) analysis to determine if additional services are necessary to comply with parity standards. No additional services have been identified as necessary services to comply with MHPAEA.

I.3.B.v. In-Lieu-Of Services
The following types of services can be provided as in-lieu-of-services: home and community based services (HCBS) covered in lieu of a nursing facility and services in alternative inpatient settings licensed by ADHS/DLS in lieu of services in an inpatient hospital. These services are then included in CMDP's capitation rate development categories of service. Encounters which are in-lieu-of-services are not identified separately in the data. Thus, the actuaries cannot define the percentage of cost that in-lieu-of services represented in the capitation rate development categories of service. However, the in-lieu-of services are treated exactly the same as all other State Plan approved services in capitation rate development.

I.3.B.vi. Retrospective Eligibility Periods

I.3.B.vi.(a) Managed Care Plan Responsibility
AHCCCS provides prior period coverage for the period of time prior to the member's enrollment during which the member is eligible for covered services. Prior period coverage (PPC) refers to the time frame from the effective date of eligibility (usually the first day of the month of application) until the date the member is enrolled with the CMDP. The CMDP receives notification from AHCCCS of the member's enrollment. The CMDP is responsible for payment of all claims for medically necessary services covered by the CMDP and provided to members during prior period coverage.

I.3.B.vi.(b) Claims Data Included in Base Data
Encounters delivered during the PPC timeframe for each member are included in the base encounter data used for setting capitation rates.

I.3.B.vi.(c) Enrollment Data Included in Base Data
Member months during the PPC timeframe are included in the base enrollment data used for setting capitation rates.

I.3.B.vi.(d) Adjustments, Assumptions, and Methodology
Due to limited number of members in the PPC time frame, a separate PPC capitation rate was not developed and all covered expenses and member months are included in the CMDP capitation rate cell. The removal of a separate PPC rate cell for CYE 19 for the CMDP is consistent with the treatment of PPC encounters and enrollment in other AHCCCS programs and eliminates the reconciliation associated with

the risk corridor on the PPC rate cell. All issues relevant to rate setting and financial performance support combining the rate cells instead of leaving them separate.

I.3.B.vii. Impact of All Material Changes to Covered Benefits or Services

This section of the 2019 Guide provides information on what must be documented for all material changes to covered benefits or services since the last rate certification.

I.3.B.vii.(a) Covered Benefits

Documentation of impacts for all material changes to covered benefits or services since the last rate certification has been provided above in Section I.3.B.ii.

I.3.B.vii.(b) Recoveries of Overpayments

Base period data was not adjusted to reflect recoveries of overpayments made to providers because Contractors are required to adjust encounters for recovery of overpayments, per the following contract requirement:

"The Contractor must void encounters for claims that are recouped in full. For recoupments that result in a reduced claim value or adjustments that result in an increased claim value, replacement encounters must be submitted."

I.3.B.vii.(c) Provider Payment Requirements

Adjustments related to provider reimbursement changes are discussed in Section I.3.B.ii.(a). Adjustments related to provider payment requirements are discussed in Section I.4.D of this rate certification.

I.3.B.vii.(d) Applicable Waivers

There were no material changes since the last rate certification related to waiver requirements or conditions.

I.3.B.vii.(e) Applicable Litigation

There were no material changes since the last rate certification related to litigation.

I.3.B.viii. Impact of All Material and Non-Material Changes

Documentation regarding all material and non-material changes has been provided above in Section I.3.B.vii.

I.4. Special Contract Provisions Related to Payment

I.4.A. Incentive Arrangements

Not Applicable. No incentive arrangements exist with the CMDP.

I.4.B. Withhold Arrangements

Not Applicable. No withhold arrangement exists with the CMDP.

I.4.C. Risk-Sharing Mechanisms

I.4.C.i. Rate Development Standards

This section of the 2019 Guide provides information on the requirements for risk-sharing mechanisms.

I.4.C.ii. Appropriate Documentation

I.4.C.ii.(a) Description of Risk-Sharing Mechanisms

Not Applicable. In prior years, AHCCCS included a risk corridor on the PPC rate cell due to its volatility and level of uncertainty. For CYE 19, no risk corridor will be applied.

I.4.C.ii.(b) Description of Medical Loss Ratio

The contract does not include a remittance/payment requirement for being above/below a specified medical loss ratio (MLR). This section is not applicable.

I.4.C.ii.(c) Description of Reinsurance Requirements

I.4.C.ii.(c)(i) Reinsurance Requirements

AHCCCS provides a reinsurance program to the CMDP for the partial reimbursement of covered medical services incurred during the contract year. This reinsurance program is similar to what one would see in commercial reinsurance programs with a few differences. The deductible is lower than a standard commercial reinsurance program. AHCCCS has different reinsurance case types - with the majority of the reinsurance cases falling into the regular reinsurance case type. Regular reinsurance cases cover partial reimbursement (anything above the deductible and the coinsurance percentage amounts) of inpatient facility medical services. Most of the other reinsurance cases fall under catastrophic, including reinsurance for biotech drugs. Additionally, rather than the CMDP paying a premium, the capitation rates are instead adjusted by subtracting the reinsurance offset from the gross medical expense. One could view the reinsurance offset as a premium.

The AHCCCS reinsurance program has been in place for more than twenty years and is funded with General Fund for State Match and Federal Matching authority. AHCCCS is self-insured for the reinsurance program, which is characterized by an initial deductible level and a subsequent coinsurance percentage. The coinsurance percentage is the rate at which AHCCCS reimburses the CMDP for covered services incurred above the deductible. The deductible is the responsibility of the CMDP. There has been no change to the deductible or coinsurance factors applicable to the regular CMDP reinsurance program since the last rate setting period. Effective October 1, 2018, the threshold at which a

reinsurance case becomes eligible for high-dollar catastrophic coverage is increased from $650,000 to $1 million.

Effective October 1, 2018, CRS services for CMDP members, which previously accumulated toward a $75,000 deductible associated with the CRS program, now combine with non-CRS services to accumulate towards the $20,000 deductible associated with the CMDP.

The actual reinsurance case amounts are paid to the CMDP whether the actual amount is above or below the reinsurance offset in the capitation rates. This can result in a loss or gain by the CMDP based on actual reinsurance payments versus expected reinsurance payments.

This component of the rate cell has been updated with an effective date of October 1, 2018 to incorporate costs for CRS specialty services provided to CMDP members with CRS-qualifying health conditions and other programmatic and reimbursement changes described in section I.3.B; and to reflect the changes to the development of the reinsurance offset described in Section I.4.C.ii.(c)(iv). The table in Appendix 7 includes the projected reinsurance payments assumed in the revised CYE 19 capitation rates.

For additional information, including all deductibles and coinsurance amounts, on the reinsurance program refer to the Reinsurance section of the CMDP contract.

I.4.C.ii.(c)(ii) Effect on Development of Capitation Rates

The reinsurance offset (expected PMPM of reinsurance payments for the rate setting period) is subtracted from the gross medical expense PMPM calculated for the rate setting period. It is a separate calculation and does not affect the methodologies for development of the gross medical capitation PMPM rate.

I.4.C.ii.(c)(iii) Development in Accordance with Generally Accepted Actuarial Principles and Practices

Projected reinsurance offsets are developed in accordance with generally accepted actuarial principles and practices.

I.4.C.ii.(c)(iv) Data, Assumptions, Methodology to Develop the Reinsurance Offset

The data used to develop the reinsurance offset are calculated reinsurance payments to the CMDP for services and to the CRS Contractor for CRS specialty services for CMDP members incurred during calendar year 2017. Prior years' capitation rates included a reinsurance offset developed using historical reinsurance payment data. Calculated reinsurance payments were used to develop the CYE 19 reinsurance offset in order to align expected payments with the timing of incurred services. The calculated payments were expressed as PMPMs using calendar year 2017 member months, and then adjusted for historical programmatic and reimbursement changes, and trended to the midpoint of the appropriate timeframe (CYE 19 for non-CRS offset and FFY 19 for CRS offset) using the same trend factors applied to the gross medical capitation rate by category of service (provided in Appendix 5).

The portion of the reinsurance offset attributed to the incorporation of CRS services is revised as of this certification in order to facilitate implementation of the impact of the changes to the reinsurance offset described in the next paragraph. The CRS portion of the offset, before adjusting for the changes addressed below, was a percentage of the gross medical expense projected for those services. The percentage used was developed from the reinsurance offset and gross medical expense PMPM projections in CYE 18 capitation rates for the rate cell within the CRS Program that contained CMDP members with CRS-qualifying conditions.

In the CMDP Rate Certification dated August 21, 2018, the changes to the reinsurance program effective October 1, 2018 were not believed to have a material impact to the total capitation rate. Subsequent analysis performed within CMS rate review determined that adjustments should be made to the projected reinsurance offset amount for CYE 19 in order to reflect the accumulation of all services, including the CRS services for which the CMDP assumed responsibility, towards the reinsurance deductible; the increase to the threshold for high-dollar catastrophic reinsurance, as described in section I.4.C.ii.(c)(i); and an estimated impact of deductible leveraging when applying PMPM expense trends to historical encounter data. The revised CYE 19 capitation rates include adjustments for each of those considerations.

I.4.D. Delivery System and Provider Payment Initiatives

I.4.D.i. Rate Development Standards

This section of the 2019 Guide provides information on delivery system and provider payment initiatives.

I.4.D.ii. Appropriate Documentation

I.4.D.ii.(a) Description of Delivery System and Provider Payment Initiatives

The only pre-prints addressed in this certification are the ones related to the CMDP. Those pre-prints are Uniform Increase for FQHCs and Differential Adjusted Payments. This certification combines both under the Differential Adjusted Payments language.

I.4.D.ii.(a)(i) Description

The Differential Adjusted Payment (DAP) initiative delivers a uniform percentage increase to registered providers who provide a particular service under the contract and who meet specific criteria established by AHCCCS. The purpose of the DAP is to distinguish providers which have committed to supporting designated actions that improve patients' care experience, improve members' health, and reduce cost of care growth. The rate increase is intended to supplement, not supplant, payments to eligible providers. The rate increases range from 0.5% to 10%, depending on the provider type.

I.4.D.ii.(a)(ii) Amount

For the period July 1, 2018 through September 30, 2018, the total amount of DAP payments before premium tax, admin or underwriting gain included as an adjustment to the capitation rate is approximately $19,500 per calendar quarter ($78,000 annualized) or $0.45 PMPM. The PMPM amounts

are displayed by provider type in Appendix 8. The Uniform Increase to FQHCs did not apply during this time frame.

For the period October 1, 2018 through September 30, 2019, the total amount of DAP payments before reinsurance, premium tax, admin or underwriting gain included as an adjustment to the capitation rate is approximately $108,000 per calendar quarter ($433,000 annualized) or $2.50 PMPM. The PMPM amounts are displayed by provider type in Appendix 8.

I.4.D.ii.(a)(iii) Providers Receiving Payment

For the period July 1, 2018 through September 30, 2018, the qualifying providers receiving the payments include hospitals subject to APR-DRG reimbursement (eligible for a 0.5% increase), other hospitals and inpatient facilities (eligible for a 0.5% increase), nursing facilities (eligible for up to 2% increase), integrated clinics (eligible for a 10% increase on a limited set of codes), physicians, physician assistants, and registered nurse practitioners (all eligible for a 1% increase). All providers were notified via a proposed and a final Public Notice of the criteria required to qualify for the DAP.

For the period October 1, 2018 through September 30, 2019, the qualifying providers receiving the payments include hospitals subject to APR-DRG reimbursement (eligible for up to a 3.5% increase), other hospitals and inpatient facilities (eligible for up to a 3.0% increase), nursing facilities (eligible for a 2% increase), integrated clinics (eligible for a 10% increase on a limited set of codes), , physicians, physician assistants, and registered nurse practitioners (all eligible for a 1% increase), and federally qualified health centers (eligible for up to a 1.5% increase). All providers were notified via a proposed and a final Public Notice of the criteria required to qualify for the DAP.

I.4.D.ii.(a)(iv) Effect on Capitation Rate Development

For the period July 1, 2018 through September 30, 2018, the AHCCCS DHCM Rates & Reimbursement Team provided the AHCCCS DHCM Actuarial Team with data for the impact of DAP. The data used by the AHCCCS DHCM Rates & Reimbursement Team to develop the DAP was the FFY 16 encounter data across all programs for the providers who qualify for DAP. The AHCCCS DHCM Rates & Reimbursement Team applied the percentage increase earned under DAP to the AHCCCS provider payments resulting from the fee schedule changes, for all services subject to DAP, to determine what the impacts would be for the FFY 18 time period, part of which falls within CYE 19 for CMDP rating purposes. The AHCCCS DHCM Actuarial Team then reviewed the results and applied the impacts by program. AHCCCS describes the methodology, data and assumptions related to DAP within the approved 438.6(c) pre-print.

For the period October 1, 2018 through September 30, 2019, the AHCCCS DHCM Rates & Reimbursement Team provided the AHCCCS DHCM Actuarial Team with data for the impact of DAP. The data used by the AHCCCS DHCM Rates & Reimbursement Team to develop the DAP was the FFY 17 encounter data across all programs for the providers who qualify for DAP. The AHCCCS DHCM Rates & Reimbursement Team applied the percentage increase earned under DAP to the AHCCCS provider payments resulting from the fee schedule changes, for all services subject to DAP, to determine what the impacts would be for the FFY 19 time period, part of which falls within CYE 19 for CMDP rating

purposes. The AHCCCS DHCM Actuarial Team then reviewed the results and applied the impacts by program. AHCCCS describes the methodology, data and assumptions related to DAP within the approved 438.6(c) pre-prints.

I.4.D.ii.(a)(v) Inclusion of Payments in the Capitation Rates

Funding for DAP is included in the certified capitation rates.

I.4.E. Pass-Through Payments

Not applicable. Pass-through payments, as defined in 42 CFR § 438.6(a) of 81 FR 27497, were not developed for the revised CYE 19 capitation rates for the CMDP.

I.5 Projected Non-Benefit Costs

I.5.A. Rate Development Standards

This section of the 2019 Guide provides information on the non-benefit component of the capitation rates.

I.5.B. Appropriate Documentation

I.5.B.i. Description of the Development of Projected Non-Benefit Costs

I.5.B.i.(a) Data, Assumptions, and Methodology

The CMDP provides AHCCCS with an administrative expense request for funding that details employee compensation, data processing costs, management fees, interest charges, occupancy (rent/utilities), and other administrative expenses. The administrative expense request typically includes the most recent calendar year of administrative expense data and a projection of the administrative expenses for the upcoming contract year. These administrative expense requests are reviewed by AHCCCS for reasonableness by comparing against the financial statements submitted by the CMDP and against previous administrative expense requests. Once the reports are determined to be reasonable by AHCCCS, an administrative expense PMPM is calculated using the appropriate projected member months for the contract year. This is typically the methodology to develop the administrative expenses on a PMPM basis.

The administrative expense request used for the CYE 19 capitation rates for the CMDP included the actual administrative expenses for calendar year 2017 and a projection of administrative expenses for CYE 19. The projection for CYE 19 includes new staffing associated with incorporation of physical health services currently provided to CMDP members through the CRS program, as described in Section I.A.ii.(c)(i)(B). Most of the expenses for the new staffing are allocated to Care Management Expenses as described in subsection (b).

I.5.B.i.(b) Changes from the Previous Rate Certification

The CYE 19 capitation rates include an adjustment effective April 1, 2019 to reflect additional administrative costs associated with new contract requirements that mandate a full-time, dedicated chief financial officer be staffed by the program and require the program to engage in comprehensive readiness planning activities to facilitate the anticipated integration of behavioral health services current administered through the Regional Behavioral Health Authorities for members enrolled in the CMDP.

The retroactive adjustments to the capitation rates effective July 1, 2018, and October 1, 2018, include a revision to the allocation of Care Management and Administrative expenses into non-CRS and CRS portions. There is no change to the sum of the Care Management and Administrative expenses PMPM effective October 1, 2018 from the certification dated August 21, 2018. There is, however, a change to the sum of the Care Management and Administrative expenses PMPM effective July 1, 2018 from the certification dated May 15, 2018. This change is to create consistency between the time periods July 1, 2018 through September 30, 2018 and October 1, 2018 through September 30, 2019 based on a revised membership forecast utilized in the development of the rates certified on August 21. Since there are no

differences in staffing or other administrative costs between July 1, 2018 and March 31, 2019, and the membership basis for projection is now consistent for the entire CYE 19 rating period, the PMPM expenditures are likewise equal for the nine-month period. There is a difference in staffing and other administrative costs effective April 1, 2019 through September 30, 2019, which was addressed separately above.

I.5.B.i.(c) Any Other Material Changes

There were no other adjustments (material or non-material) to the projected non-benefit expenses included in the capitation rates.

I.5.B.ii. Projected Non-Benefit Costs by Category

I.5.B.ii.(a) Administrative Costs

The administrative component of the CYE 19 capitation rates for the CMDP is described above in Section I.5.B.i.(a). The PMPM amounts assumed can be found in Appendices 7a, 7b, and 7c.

I.5.B.ii.(b) Taxes and Other Fees

The revised CYE 19 capitation rates for the CMDP include a provision for premium tax of 2.0% of capitation. The premium tax is applied to the total capitation. The Health Insurance Providers Fee (HIPF) is discussed below in I.5.B.iii. No other taxes, fees, or assessments are applicable for this filing.

I.5.B.ii.(c) Contribution to Reserves, Risk Margin, and Cost of Capital

The revised CYE 19 capitation rates for the CMDP include a provision of 1% for margin (i.e. underwriting gain).

I.5.B.ii.(d) Other Material Non-Benefit Costs

No other material or non-material non-benefit costs are reflected in the revised CYE 19 capitation rates for the CMDP.

I.5.B.iii. Health Insurance Provider's Fee

I.5.B.iii.(a) Address if in Rates

Not applicable. The CMDP is a governmental entity and thus is excluded from the Health Insurance Providers Fee (HIPF).

I.6. Risk Adjustment and Acuity Adjustments

This section of the 2019 Guide is not applicable to the CMDP. The CMDP does not utilize risk adjustments or acuity adjustments. This is not anticipated to change.

Section II Medicaid Managed Care Rates with Long-Term Services and Supports

Section II of the 2019 Guide is not applicable to the CMDP. Managed long-term services and supports, as defined at 42 CFR § 438.2 at 81 FR 27855, are not covered services under the CMDP. The CMDP does cover nursing facility services, and related home and community based services, for 90 days of short-term convalescent care.

Section III New Adult Group Capitation Rates

Section III of the 2019 Guide is not applicable to the CMDP.

Appendix 1: Actuarial Certification

I, Matthew C. Varitek, am an employee of Arizona Health Care Cost Containment System (AHCCCS). I am a Member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. I meet the qualification standards established by the American Academy of Actuaries and have followed the practice standards established the Actuarial Standards Board.

The capitation rates included with this rate certification is considered actuarially sound according to the following criteria from 42 CFR § 438.4 at 81 FR 27858:

- § 438.4 (a) Actuarially sound capitation rates defined. Actuarially sound capitation rates are projected to provide for all reasonable, appropriate, and attainable costs that are required under the terms of the contract and for the operation of the MCO, PIHP, or PAHP for the time period and the population covered under the terms of the contract, and such capitation rates are developed in accordance with the requirements in paragraph (b) of this section.
- § 438.4 (b) CMS review and approval of actuarially sound capitation rates. Capitation rates for MCOs, PIHPs, and PAHPs must be reviewed and approved by CMS as actuarially sound. To be approved by CMS, capitation rates must:
- § 438.4 (b) (1) Have been developed in accordance with standards specified in § 438.5 and generally accepted actuarial principles and practices. Any proposed differences among capitation rates according to covered populations must be based on valid rate development standards and not based on the rate of Federal financial participation associated with the covered populations.
- § 438.4 (b) (2) Be appropriate for the populations to be covered and the services to be furnished under the contract.
- § 438.4(b)(3) Be adequate to meet the requirements on MCOs, PIHPs, and PAHPs in §§ 438.206, 438.207, and 438.208.
- § 438.4(b)(4) Be specific to payments for each rate cell under the contract.
- § 438.4 (b) (5) Payments from any rate cell must not cross-subsidize or be cross-subsidized by payments for any other rate cell.
- § 438.4 (b) (6) Be certified by an actuary as meeting the applicable requirements of this part, including that the rates have been developed in accordance with the requirements specified in § 438.3(c)(1)(ii) and (e).
- § 438.4 (b) (7) Meet any applicable special contract provisions as specified in § 438.6.
- § 438.4(b) (8) Be provided to CMS in a format and within a timeframe that meets requirements in § 438.7.

Additionally, the term actuarially sound is Actuarial Standard of Practice (ASOP) 49, "Medicaid Managed Care Capitation Rate Development and Certification," as:

> "Medicaid capitation rates are "actuarially sound" if, for business for which the certification is being prepared and for the period covered by the certification, projected capitation rates and other revenue sources provide for all reasonable, appropriate, and attainable costs. For purposes of this definition, other revenue sources include, but are not limited to, expected reinsurance and governmental stop-loss cash flows, governmental risk adjustment cash flows,

> and investment income. For purposes of this definition, costs include, but are not limited to, expected health benefits, health benefit settlement expenses, administrative expenses, the cost of capital, and government-mandated assessments, fees, and taxes."

The data, assumptions, and methodologies used to develop the revised CYE 19 capitation rates for the CMDP have been documented according to the guidelines established by CMS in the 2019 Guide. The revised CYE 19 capitation rates for the CMDP are effective for the three-month time period from July 1, 2018 to September 30, 2018; the six-month time period from October 1, 2018 through March 31, 2019; and the six-month time period from April 1, 2019 through September 30, 2019.

The actuarially sound capitation rates are based on projections of future events. Actual results may vary from the projections. In developing the actuarially sound capitation rates, I have relied upon data and information provided by AHCCCS and the CMDP. I have relied upon AHCCCS and the CMDP for the accuracy of the data and I have accepted the data without audit, after checking the data for reasonableness and consistency.

SIGNATURE ON FILE	February 14, 2019
Matthew C. Varitek	Date

Fellow, Society of Actuaries
Member, American Academy of Actuaries

Appendix 2: Actuarial Certified Capitation Rates

CMDP Capitation Rates	
Effective 7/1/2018 - 9/30/2018	$278.64
Effective 10/1/2018 - 3/31/2019	$301.76
Effective 4/1/2019 - 9/30/2019	$304.71

Appendix 3a: Fiscal Impact Summary Compared to CYE 18

CMDP	Projected CYE 19 (Jul-Sep 2018) Member Months	CYE 18 Blended Capitation Rate [1]	CYE 19 Revised Capitation Rate Effective 07/01/18 - 09/30/18	CYE 18 Projected Expenditures (based on 1/1/18 Rates)	CYE 19 Projected Expenditures (based on 7/1/18 rates)	Dollar Impact	Percentage Impact
Statewide	43,389	$226.52	$278.64	$9,828,437	$12,089,811	$2,261,374	23.0%

CMDP	Projected CYE 19 (Oct 18 - March 19) Member Months	CYE 19 Revised Capitation Rate Effective 07/01/18 - 09/30/18	CYE 19 Revised Capitation Rate Effective 10/01/18 - 03/31/19	CYE 19 Projected Expenditures (based on 7/1/18 rates)	CYE 19 Projected Expenditures (based on 10/1/18 rates)	Dollar Impact	Percentage Impact
Statewide	86,650	$278.64	$301.76	$24,144,219	$26,147,178	$2,002,959	8.3%

CMDP	Projected CYE 19 (April-Sep 2019) Member Months	CYE 19 Revised Capitation Rate Effective 10/01/18 - 03/31/19	CYE 19 Capitation Rate Effective 04/01/19 - 09/30/19	CYE 19 Projected Expenditures (based on 10/1/18 rates)	CYE 19 Projected Expenditures (based on 4/1/19 rates)	Dollar Impact	Percentage Impact
Statewide	86,481	$301.76	$304.71	$26,096,141	$26,351,654	$255,513	1.0%

CMDP	Projected CYE 19 (April-Sep 2019) Member Months	CYE 18 Blended Capitation Rate [1]	CYE 19 Revised Blended Capitation Rate [2]	CYE 18 Projected Expenditures (based on 1/1/18 blended rate)	CYE 19 Projected Expenditures (based on blended rate)	Dollar Impact	Percentage Impact
Statewide	216,520	$226.52	$298.30	$49,046,311	$64,588,644	$15,542,332	31.7%

1) The CYE 18 Blended Capitation Rate shown here is an average of the Prospective and PPC capitation rates effective January 1, 2018, weighted by the distribution of Prospective and PPC member months projected for CYE 19.

2) The CYE 19 Revised Blended Capitation is shown for informational purposes only.

Appendix 3b: Fiscal Impact Summary Compared to Prior CYE 19 Submission

CMDP	Projected Member Months	Prior Submitted Capitation Rates	Revised Capitation Rates	Projected Expenditures (based on prior submitted rates)	Projected Expenditures (based on revised rates)	Dollar Impact	Percentage Impact
Effective 7/1/2018 - 9/30/2018	43,389	$279.18	$278.64	$12,113,241	$12,089,811	($23,430)	-0.2%
Effective 10/1/2018 - 3/31/2019	86,650	$298.38	$301.76	$25,854,695	$26,147,178	$292,483	1.1%
Effective 4/1/2019 - 9/30/2019	86,481	$298.38	$304.71	$25,804,229	$26,351,654	$547,425	2.1%
CYE 19	216,520	$294.53	$298.30	$63,772,165	$64,588,644	$816,479	1.3%

Appendix 4a: Unadjusted and Adjusted Base Data (Non-CRS Expenses)

Calendar Year 2015					
Service Category	Unadjusted Base Data PMPMs	Reimb Changes	Supplemental Encounter Files	DAP PMPM Removed	Adjusted Base Data
Professional	$78.97	1.0057	1.0001	$0.00	$79.43
Pharmacy	$27.21	1.0000	1.0000	$0.00	$27.21
Dental	$21.18	1.0035	1.0000	$0.00	$21.25
Inpatient & NF	$16.09	1.2799	1.0000	$0.00	$20.59
Outpatient	$24.84	1.0007	1.0000	$0.00	$24.86
Total	**$168.29**	**1.0300**	**1.0001**	**$0.00**	**$173.34**

Calendar Year 2016					
Service Category	Unadjusted Base Data PMPMs	Reimb Changes	Supplemental Encounter Files	DAP PMPM Removed	Adjusted Base Data
Professional	$81.76	1.0054	1.0267	$0.00	$84.39
Pharmacy	$27.58	1.0000	1.0012	$0.00	$27.62
Dental	$20.34	1.0007	1.1954	$0.00	$24.33
Inpatient & NF	$19.20	1.1641	1.3843	-$0.02	$30.92
Outpatient	$15.62	1.0047	1.3749	-$0.02	$21.56
Total	**$164.50**	**1.0268**	**1.1181**	**-$0.04**	**$188.82**

Calendar Year 2017					
Service Category	Unadjusted Base Data PMPMs	Reimb Changes	Supplemental Encounter Files	DAP PMPM Removed	Adjusted Base Data
Professional	$83.32	1.0000	1.1217	-$0.05	$93.41
Pharmacy	$21.73	1.0000	1.0006	$0.00	$21.74
Dental	$25.28	1.0000	1.2796	$0.00	$32.35
Inpatient & NF	$25.14	1.0547	1.1276	-$0.11	$29.79
Outpatient	$17.07	1.0000	1.8666	-$0.08	$31.79
Total	**$172.54**	**1.0075**	**1.2041**	**-$0.23**	**$209.08**

Appendix 4b: Unadjusted and Adjusted Base Data (CRS Expenses)

Calendar Year 2015					
Service Category	Unadjusted Base Data PMPMs	Completion Factors	Reimb Changes	DAP PMPM Removed	Adjusted Base Data
Professional	$7.66	1.0000	1.0057	$0.00	$7.70
Pharmacy	$3.75	1.0000	1.0000	$0.00	$3.75
Dental	$0.08	1.0000	1.0035	$0.00	$0.08
Inpatient & NF	$3.74	1.0000	1.2799	$0.00	$4.79
Outpatient	$2.53	1.0000	1.0007	$0.00	$2.53
Total	**$17.76**			**$0.00**	**$18.85**

Calendar Year 2016					
Service Category	Unadjusted Base Data PMPMs	Completion Factors	Reimb Changes	DAP PMPM Removed	Adjusted Base Data
Professional	$5.29	1.0000	1.0054	$0.00	$5.32
Pharmacy	$4.06	1.0000	1.0000	$0.00	$4.06
Dental	$0.11	1.0000	1.0007	$0.00	$0.11
Inpatient & NF	$3.64	1.0000	1.1641	$0.00	$4.23
Outpatient	$1.49	1.0000	1.0047	$0.00	$1.49
Total	**$14.59**			**-$0.01**	**$15.21**

Calendar Year 2017					
Service Category	Unadjusted Base Data PMPMs	Completion Factors	Reimb Changes	DAP PMPM Removed	Adjusted Base Data
Professional	$4.82	0.9700	1.0000	$0.00	$4.97
Pharmacy	$4.29	0.9700	1.0000	$0.00	$4.43
Dental	$0.10	0.9700	1.0000	$0.00	$0.10
Inpatient & NF	$7.09	0.9700	1.0547	-$0.04	$7.67
Outpatient	$1.17	0.9700	1.0000	-$0.01	$1.20
Total	**$17.47**			**-$0.05**	**$18.36**

Appendix 5: Projected Benefit Cost Trends

Service Category (Non-CRS Expenses)	Annualized Trend Rates		
	Utilization	Unit Cost	PMPM
Professional	0.0%	5.7%	5.7%
Pharmacy	0.0%	-3.8%	-3.8%
Dental	3.0%	3.4%	6.5%
Inpatient & NF	-2.0%	7.3%	5.2%
Outpatient	4.1%	1.5%	5.7%

Service Category (CRS Expenses)	Annualized Trend Rates		
	Utilization	Unit Cost	PMPM
Professional	0.2%	1.6%	1.8%
Pharmacy	0.1%	5.7%	5.8%
Dental	3.0%	1.0%	4.0%
Inpatient & NF	-1.1%	8.4%	7.2%
Outpatient	0.2%	2.5%	2.7%

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Appendix 6: Projected CYE 19 Gross Medical Expense (GME) by Category of Service

Gross Medical Expense (Excluding CRS) effective 7/1/2018							
Service Category	Adj Base Data PMPM	Trend				7/1/2018 DAP	Proj GME PMPM (7/1/18 - 9/30/18)
Professional	$93.41	5.7%				$0.29	$102.51
Pharmacy	$21.74	-3.8%				$0.00	$20.42
Dental	$32.35	6.5%				$0.00	$35.84
Inpatient & NF	$29.79	5.2%				$0.09	$32.41
Outpatient	$31.79	5.7%				$0.06	$34.83
Total	$209.08					$0.45	$226.00

Gross Medical Expense (Excluding CRS) effective 10/1/2018							
Service Category	Proj GME PMPM (7/1/18 - 9/30/18)	Trend[1]	Prgm Chg 10/1/2018	Reimb Chg 10/1/2018	Remove 7/1/2018 DAP	10/1/2018 DAP	Proj GME PMPM (10/1/18 - 9/30/19)
Professional	$102.51		$1.11	$0.35	($0.29)	$0.09	$103.77
Pharmacy	$20.42		$0.00	$0.00	$0.00	$0.26	$20.68
Dental	$35.84		$0.00	$0.00	$0.00	$0.00	$35.84
Inpatient & NF	$32.41		$0.00	$0.00	($0.09)	$1.85	$34.18
Outpatient	$34.83		$0.00	$0.00	($0.06)	$0.03	$34.80
Total	$226.00		$1.11	$0.35	($0.45)	$2.24	$229.26

Gross Medical Expense (CRS Expense) effective 10/1/2018							
Service Category	Adj Base Data PMPM	Trend	Prgm Chg 10/1/2018	Reimb Chg 10/1/2018	Remove 7/1/2018 DAP	10/1/2018 DAP	Proj GME PMPM (10/1/18 - 9/30/19)
Professional	$4.97	1.8%	$0.07	$0.03	$0.00	$0.00	$5.22
Pharmacy	$4.43	5.8%	$0.00	$0.00	$0.00	$0.00	$4.89
Dental	$0.10	4.0%	$0.00	$0.00	$0.00	$0.00	$0.11
Inpatient & NF	$7.67	7.2%	$0.00	$0.00	$0.00	$0.23	$8.90
Outpatient	$1.20	2.7%	$0.00	$0.06	$0.00	$0.02	$1.33
Total	$18.36		$0.07	$0.08	$0.00	$0.26	$20.45

1. No trend applies at 10/1/2018 to the non-CRS gross medical expense projection effective 7/1/2018, because the projection was developed to be sound for the 15-month CYE 19 contract period.

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Appendix 7a: Projected CYE 19 Capitation Rate Development

Service Category	Revised CYE 19 Proj PMPM (7/1/18)	Rebase	Trend	Pgm Chg Eff 10/1/18	Reimb Chg Eff 10/1/18	Remove 7/1/18 DAP	10/1/18 DAP	Revised CYE 19 Proj PMPM (10/1/18)	4/1/19 Admin	Revised CYE 19 Proj PMPM (4/1/19)
PMPM Excluding CRS Portion										
Total Gross Medical Expense PMPM	$226.00	$0.00	$0.00	$1.11	$0.35	($0.45)	$2.24	$229.26	$0.00	$229.26
Less Reinsurance PMPM	($9.39)	$0.00	$0.00	($0.43)	($0.04)	$0.05	($0.23)	($10.04)	$0.00	($10.04)
Less TPL PMPM	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Net Claim Cost PMPM	$216.61	$0.00	$0.00	$0.68	$0.32	($0.40)	$2.01	$219.22	$0.00	$219.22
Care Management PMPM	$14.59	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$14.59	$0.78	$15.37
Administrative Expenses PMPM	$36.56	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$36.56	$1.95	$38.51
Underwriting Gain PMPM	$2.77	$0.00	$0.00	$0.01	$0.00	($0.00)	$0.02	$2.80	$0.03	$2.83
Premium Tax Rate	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Capitation PMPM (Non-CRS)	**$276.05**	**$0.00**	**$0.00**	**$0.70**	**$0.33**	**($0.42)**	**$2.08**	**$278.74**	**$2.81**	**$281.56**
PMPM of CRS Costs										
Total Gross Medical Expense PMPM		$18.36	$1.68	$0.07	$0.08	$0.00	$0.26	$20.45	$0.00	$20.45
Less Reinsurance PMPM		($0.56)	($0.05)	($0.02)	$0.00	$0.00	$0.00	($0.63)	$0.00	($0.63)
Less TPL PMPM		$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Net Claim Cost PMPM		$17.80	$1.62	$0.05	$0.08	$0.00	$0.26	$19.82	$0.00	$19.82
Care Management PMPM	$2.45	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$2.45	$0.13	$2.58
Administrative Expenses PMPM	$0.06	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.06	$0.00	$0.06
Underwriting Gain PMPM	$0.03	$0.18	$0.02	$0.00	$0.00	$0.00	$0.00	$0.23	$0.00	$0.23
Premium Tax Rate	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Capitation PMPM (CRS)	**$2.58**	**$18.35**	**$1.67**	**$0.05**	**$0.09**	**$0.00**	**$0.27**	**$23.01**	**$0.14**	**$23.15**
Combined CMDP PMPM	**$278.64**	**$18.35**	**$1.67**	**$0.75**	**$0.41**	**($0.42)**	**$2.34**	**$301.76**	**$2.95**	**$304.71**

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Appendix 7b: Capitation Rate Development Compared to CYE 18

CMDP Capitation Rate	CYE 18 Blended Capitation Rate [1]	CYE 19 Revised Capitation Rates Effective 07/01/18 - 09/30/18	Percentage Change	CYE 19 Revised Capitation Rates Effective 10/01/18 - 3/31/19	Percentage Change	CYE 19 Revised Capitation Rates Effective 04/01/19 - 09/30/19	Percentage Change
PMPM Excluding CRS Portion							
Total Gross Medical Expense PMPM	**$193.17**	**$226.00**	**17.0%**	**$229.26**	**1.4%**	**$229.26**	**0.0%**
Less Reinsurance PMPM	-$7.22	-$9.39	30.1%	-$10.04	7.0%	-$10.04	0.0%
Less TPL PMPM	$0.00	$0.00	0.0%	$0.00	0.0%	$0.00	0.0%
Net Claim Cost PMPM	**$185.95**	**$216.61**	**16.5%**	**$219.22**	**1.2%**	**$219.22**	**0.0%**
Care Management PMPM		$14.59	0.0%	$14.59	0.0%	$15.37	5.3%
Administrative Expenses PMPM	$33.87	$36.56	7.9%	$36.56	0.0%	$38.51	5.3%
Underwriting Gain PMPM	$2.27	$2.77	22.1%	$2.80	1.2%	$2.83	1.0%
Premium Tax Rate	2.0%	2.0%	0.0%	2.0%	0.0%	2.0%	0.0%
Capitation PMPM (Non-CRS)	**$226.63**	**$276.05**	**21.8%**	**$278.74**	**1.0%**	**$281.56**	**1.0%**
PMPM of CRS Costs							
Total Gross Medical Expense PMPM				**$20.45**		**$20.45**	**0.0%**
Less Reinsurance PMPM				-$0.63		-$0.63	0.0%
Less TPL PMPM				$0.00		$0.00	0.0%
Net Claim Cost PMPM				**$19.82**		**$19.82**	**0.0%**
Care Management PMPM		$2.45		$2.45		$2.58	5.3%
Administrative Expenses PMPM		$0.06		$0.06		$0.06	5.3%
Underwriting Gain PMPM		$0.03		$0.23		$0.23	0.6%
Premium Tax Rate		2.0%		2.0%		2.0%	0.0%
Capitation PMPM (CRS)		**$2.58**		**$23.01**		**$23.15**	**0.6%**
Combined CMDP PMPM	**$226.63**	**$278.64**	**22.9%**	**$301.76**	**8.3%**	**$304.71**	**1.0%**

1) The CYE 18 Blended Capitation Rate shown here is an average of the Prospective and PPC capitation rates effective January 1, 2018, weighted by the distribution of Prospective and PPC member months projected for CYE 19.

Appendix 7c: Capitation Rate Development Compared to CYE 19 Prior Submission

CMDP Capitation Rate	CYE 19 Prior Submitted Rate (7/1/18-9/30/18)	CYE 19 Revised Capitation Rates Effective 07/01/18 - 09/30/18	Percentage Change	CYE 19 Prior Submitted Rate (10/1/18-6/30/19)	CYE 19 Revised Capitation Rates Effective 10/01/18 - 03/31/19	Percentage Change	CYE 19 Prior Submitted Rate (10/1/18-6/30/19)	CYE 19 Revised Capitation Rates Effective 04/01/19 - 09/30/19	Percentage Change
PMPM Excluding CRS Portion									
Total Gross Medical Expense PMPM	**$224.67**	**$226.00**	**0.6%**	**$227.93**	**$229.26**	**0.6%**	**$227.93**	**$229.26**	**0.6%**
Less Reinsurance PMPM	-$9.33	-$9.39	0.6%	-$9.66	-$10.04	3.9%	-$9.66	-$10.04	3.9%
Less TPL PMPM	$0.00	$0.00	0.0%	$0.00	$0.00	0.0%	$0.00	$0.00	0.0%
Net Claim Cost PMPM	**$215.34**	**$216.61**	**0.6%**	**$218.27**	**$219.22**	**0.4%**	**$218.27**	**$219.22**	**0.4%**
Care Management PMPM	$15.17	$14.59	-3.8%	$14.68	$14.59	-0.6%	$14.68	$15.37	4.7%
Administrative Expenses PMPM	$37.41	$36.56	-2.3%	$36.20	$36.56	1.0%	$36.20	$38.51	6.4%
Underwriting Gain PMPM	$2.77	$2.77	0.0%	$2.79	$2.80	0.6%	$2.79	$2.83	1.6%
Premium Tax Rate	2.0%	2.0%	0.0%	2.0%	2.0%	0.0%	2.0%	2.0%	0.0%
Capitation PMPM (Non-CRS)	**$276.22**	**$276.05**	**-0.1%**	**$277.48**	**$278.74**	**0.5%**	**$277.48**	**$281.56**	**1.5%**
PMPM of CRS Costs									
Total Gross Medical Expense PMPM				**$20.32**	**$20.45**	0.6%	**$20.32**	**$20.45**	0.6%
Less Reinsurance PMPM				-$2.85	-$0.63	-77.8%	-$2.85	-$0.63	-77.8%
Less TPL PMPM				$0.00	$0.00	0.0%	$0.00	$0.00	0.0%
Net Claim Cost PMPM				**$17.48**	**$19.82**	13.4%	**$17.48**	**$19.82**	13.4%
Care Management PMPM	$2.54	$2.45	-3.6%	$2.45	$2.45	-0.3%	$2.45	$2.58	5.0%
Administrative Expenses PMPM	$0.33	$0.06	-82.8%	$0.32	$0.06	-82.2%	$0.32	$0.06	-81.3%
Underwriting Gain PMPM	$0.03	$0.03	-12.8%	$0.23	$0.23	-0.6%	$0.23	$0.23	-0.1%
Premium Tax Rate	2.0%	2.0%	0.0%	2.0%	2.0%	0.0%	2.0%	2.0%	0.0%
Capitation PMPM (CRS)	**$2.96**	**$2.58**	**-12.8%**	**$20.90**	**$23.01**	**10.1%**	**$20.90**	**$23.15**	**10.7%**
Combined CMDP PMPM	**$279.18**	**$278.64**	**-0.2%**	**$298.38**	**$301.76**	**1.1%**	**$298.38**	**$304.71**	**2.1%**

Appendix 8: Projected Differential Adjusted Payment PMPM by Provider Type

Appendix 8: Projected Differential Adjusted Payment PMPM by Provider Type

FFY 18 (10/1/17 - 9/30/18) Differential Adjustment Payments

Differential Adjustment Payments (DAP)	Acute Non-CRS	Statewide PMPM
E-Prescribing	$ 0.29	$ 0.29
Integrated Clinic	$ -	$ -
Inpatient Hospital	$ 0.09	$ 0.09
Nursing Facility	$ -	$ -
Other Hospital	$ 0.06	$ 0.06
Total CMDP DAP	$ 0.45	$ 0.45

Amounts reflect gross medical expense and are prior to adjustments for reinsurance, premium tax and underwriting gain.

FFY 19 (10/1/18 - 9/30/19) Differential Adjustment Payments

Differential Adjustment Payments (DAP)	Acute Non-CRS	Acute CRS	Statewide PMPM
E-Prescribing	$ 0.26	$ 0.00	$ 0.27
Integrated Clinic	$ 0.00	$ 0.00	$ 0.00
Inpatient Hospital	$ 1.85	$ 0.23	$ 2.09
Nursing Facility	$ -	$ -	$ -
Other Hospital	$ 0.03	$ 0.02	$ 0.05
FQHC/RHC	$ 0.09	$ -	$ 0.09
Total CMDP DAP	$ 2.24	$ 0.26	$ 2.50

Amounts reflect gross medical expense and are prior to adjustments for reinsurance, premium tax and underwriting gain.