Regional Behavioral Health Authorities (RBHAs)
Updated Actuarial Memorandum

I. Purpose

This actuarial memorandum is a revision to the already submitted rate certification for the October 1, 2016 through September 30, 2017 (Contract Year Ending 2017 (CYE 17)) capitation rates for the Regional Behavioral Health Authorities (RBHA) Program. The CYE 17 actuarial memorandum for capitation rates as signed by Matthew C. Varitek dated December 22, 2016 will detail the original rate build up.

This revision to the capitation rates is required as a result of programmatic and fee schedule changes. Due to the different effective dates of those changes this certification will cover three sets of capitation rates. One set will apply for the time frame from October 1, 2016 through December 31, 2016, another set will apply for the time frame from January 1, 2017 through March 31, 2017 and the last set will apply for the time frame from April 1, 2017 through September 30, 2017. Each set will have the earlier adjustments included in them.

The purpose of this actuarial memorandum is to demonstrate compliance with the applicable provisions of 42 CFR Part 438. It is not intended for any other purpose.

II. Overview of Changes

Effective October 1, 2015, Arizona Health Care Cost Containment System (AHCCCS) increased the behavioral health fee for service (FFS) inpatient hospital rates to align with rates paid by the RBHAs to ensure access to care for AHCCCS' FFS members. Because the RBHAs' contracted provider rates formed the basis of the FFS rate increase, AHCCCS did not adjust the capitation rates effective October 1, 2015. However, because the FFS rates are the default rates that the RBHAs pay to non-contracted providers, RBHAs have experienced a material change in costs due to members being admitted to non-contracted facilities as a result of ED visits that necessitate an emergency admit. Thus the RBHAs have experienced a significant increase in unit costs that was not previously accounted for in the capitation rate setting process.

AHCCCS' Pharmacy and Therapeutics (P&T) Committee has made policy changes that impact the utilization and unit costs of Contractors' pharmacy costs. The P&T Committee reviews classes of drugs to determine how the State can minimize the net cost of pharmaceuticals when considering the value of AHCCCS' drug rebates. As a result of the recent policy changes that were finalized after the CYE 17 rates were submitted to CMS, AHCCCS completed a thorough review to ensure that the underlying funding included in the capitation rates accurately reflected the P&T Committee decisions.

Effective January 1, 2017, AHCCCS and its Contractors fee schedules increased for select Home and Community Based Setting (HCBS) codes, all Nursing Facility codes and all alternative living facility services codes. AHCCCS adjusted rates to address the increased labor costs resulting from the Arizona minimum wage increase as approved by voters as Proposition 206 on November 8, 2016, and to assure that payments are consistent with efficiency, economy, and quality of care and are sufficient to enlist enough providers so that care and services are available at least to the extent that such care and services are available to the general population in the geographic area.

Effective April 1, 2017, AHCCCS is implementing Governor Ducey's Vivitrol Pilot initiative. The Vivitrol Pilot is an initiative within Maricopa County to provide individuals being discharged from the Arizona Department of Corrections (ADC) who meet specific criteria with a medication to prevent relapse to opioid dependence, which is administered via a monthly shot for up to 12 months. The monthly dose is expected to cost $1,000 and the manufacturer will pay for the first month of treatment. The Vivitrol Pilot is expected to treat 100 members over a two-year time period beginning April 1, 2017.

Effective April 1, 2017, the AHCCCS P&T Committee will allow Contractors to approve the generic drug for Abilify based on the Committee's determination that this option offers the State the best value for an efficacious clinical outcome for members.

III. Methodology for Calculating Capitation Adjustments

Behavioral Health FFS Hospital Inpatient

AHCCCS will be adjusting CYE 17 capitation rates back to October 1, 2016 for this fee schedule change. AHCCCS does not intend to adjust CYE16 capitation rates for this change as none of the Contractors operated at a loss in CYE 16. Each RBHA provided AHCCCS with its list of contracted behavioral health inpatient providers. AHCCCS extracted hospital inpatient encounter data for the RBHAs for dates of service (DOS) July 1, 2015 until December 30, 2015. AHCCCS used the provided list to extract encounters for non-contracted hospitals with primary diagnosis of behavioral health from the encounter data. The focus of this analysis was the change that occurred from Quarter Ending September 2015 (July 1, 2015 through September 30, 2015) and Quarter Ending December 2015 (October 1, 2015 through December 31, 2015). The analysis included a review of both the changes in unit cost and utilization over the time frame, which validated the Contractors' concerns of a material change that wasn't accounted for in the capitation rates and thus AHCCCS made this change. The estimated impact of the change was determined by calculating the dollar increase of completed encounters for non-contracted hospitals with primary diagnosis of behavioral health for the Quarter Ending December 2015 less Quarter Ending September 2015 and annualizing that amount.

The statewide estimated annual impact to the RBHA program is an increase of approximately $22.3 million.

Pharmacy Analysis

AHCCCS will be adjusting CYE 17 capitation rates back to October 1, 2016 for pharmacy analysis that was completed due to decisions made by the AHCCCS P&T Committee after rates were already developed and submitted. Rather than viewing only the drugs impacted by P&T Committee decisions, AHCCCS pulled all pharmacy encounter data with dates of service (DOS) in October and November 2016, reflecting the time period by which all P&T Committee decisions should be reflected, and applied completion factors averaging 97.90% to this data. The completed encounter data was put on a per member per month (PMPM) basis and compared to what was built into the CYE 17 capitation rates for pharmacy; adjustments were made based off of the results of these comparisons. The comparisons showed only one of the three Contractors was experiencing higher PMPMs than were built into the rates for pharmacy, so the statewide impact and the impact for that Contractor are equal.

The statewide estimated annual impact to the RBHA program is an increase of approximately $38.7 million.

Minimum Wage Increase
AHCCCS will be adjusting CYE 17 capitation rates back to January 1, 2017 for the increase to the state minimum wage. AHCCCS pulled encounter data for the specific procedure codes impacted by the wage increase with DOS from October 1, 2015 through September 30, 2016. This data was completed using a factor of 90%. The actuary then applied the appropriate increases by code (7% increase for HCBS codes and 3.5% increase for NF codes) to the completed encounter data to determine the PMPM impact.

The statewide estimated nine month impact to the RBHA program is an increase of approximately $1 million.

Vivitrol Pilot
AHCCCS will be adjusting CYE 17 capitation rates effective April 1, 2017 for the Vivitrol Pilot to reflect the April 1, 2017 through September 30, 2017 costs of the two year initiative. It is anticipated that 15 members will participate by June 30, 2017, and 40 members will be enrolled by September 30, 2017. The anticipated number of members enrolling was modelled with a uniform distribution based on 25 members participating every quarter after the initial ramp-up period until the 100 member limit has been met. The impact of the Vivitrol Pilot to the April 1, 2017 through September 30, 2017 time period of the CYE 17 capitation rates for Maricopa County is expected to be $85,000.

The capitation rate increase of $85,000 was allocated across the RBHA risk groups. Since Vivitrol is an injectable form of the drug Naltrexone, AHCCCS reviewed CYE 16 encounter data for Naltrexone utilization to inform the allocation of the $85,000 across the risk groups for the Vivitrol Pilot. The Naltrexone utilization review included a review of health plan paid amounts, unique member counts, and unit counts. Additionally, AHCCCS determined it would be unlikely that the Vivitrol Pilot would include the Children and DD RBHA risk groups based on past justice-involved utilization reviews. Thus, the allocation for the Vivitrol Pilot was limited to the GMH/SA and T21 Adult - non-dual, Integrated SMI, and the non-Integrated SMI risk groups.

Abilify Generic
AHCCCS will be adjusting CYE 17 capitation rates effective April 1, 2017 for the impact of the P&T Committee decision to allow generic usage in place of the branded Abilify. AHCCCS pulled pharmacy encounter data for Abilify and aripiprazole (generic for Abilify) using encounters with DOS in October and November 2016 to establish current utilization and unit cost levels, and applied completion factors that averaged 97.90%. AHCCCS then used June 2015 encounter data representing the period when AHCCCS previously allowed the generic drug in place of Abilify, and calculated the percentage use of aripiprazole compared to Abilify which was 94.1%. This percentage was then used to assume the transfer of utilization from Abilify to aripiprazole beginning April 1, 2017 and new utilization was calculated for Abilify and aripiprazole by RBHA and risk group. These revised utilization numbers were then multiplied by the statewide unit cost for Abilify and aripiprazole to get the revised PMPMs by RBHA and risk group.

The statewide estimated six month impact to the RBHA program is a decrease of approximately $15 million.

IV. Administration/Risk Contingency/Premium Tax Components

The CYE 17 capitation rates include a provision for RBHA administration, premium tax and risk contingency. The components for administration, premium tax and risk contingency are calculated as a percentage of the final capitation rate. An 11% load (8% administration, 2% premium tax, 1% contingency) was added across all populations and for all rate revisions.

V. Revised Capitation Rates and Budget Impact

Table I summarizes the dollar impact by RBHA and programmatic changes. Table II is for budget purposes and summarizes the changes from the most recently submitted CYE 17 capitation rates on a statewide basis. Tables III, IV and V are the RBHA capitation rates that the actuary is certifying.

Table I

Dollar Impacts of Changes	South (CIC)	North (HCIC)	Maricopa (MMIC)	Statewide
Full Year Hospital Fee Schedule Change	$ 2,142,735	$ 1,972,114	$ 18,137,803	$ 22,252,652
Full Year Pharmacy Analysis	$ -	$ -	$ 38,731,491	$ 38,731,491
Full Year Admin, Risk, PT for Hosp Fee and Rx Analysis	$ 264,832	$ 243,744	$ 7,028,789	$ 7,537,366
9 Months Minimum Wage	$ 351,058	$ 177,877	$ 442,958	$ 971,892
9 Months Admin, Risk PT for Minimum Wage	$ 43,389	$ 21,985	$ 54,748	$ 120,122
6 Months Vivitrol Pilot	$ -	$ -	$ 85,000	$ 85,000
6 Months Abilify Generic	$ (4,205,135)	$ (1,473,115)	$ (9,677,867)	$ (15,356,118)
6 Months Admin, Risk PT for Vivitrol Pilot and Abilify Generic	$ (519,736)	$ (182,070)	$ (1,185,635)	$ (1,887,442)
Total	**$ (1,922,856)**	**$ 760,534**	**$ 53,617,286**	**$ 52,454,964**

Table II

Rate Category	CYE 17 Projected Member Months (10/1/16 - 9/30/17)	Most Recently Submitted CYE 17 Weighted Cap Rates (10/1/16 - 9/30/17)	Revised CYE 17 Weighted/Blended Cap Rates (10/1/16 - 9/30/17)	Most Recently Submitted CYE 17 Projected Expenditures (10/1/16 - 9/30/17)	Revised CYE 17 Projected Expenditures (10/1/16 - 9/30/17)	Dollar Change in Projected Expenditures	% Change in Projected Expenditures
T19 + T21 Non-CMDP Children	8,912,573	$ 39.49	$ 40.15	$ 351,932,321	$ 357,800,854	$ 5,868,533	1.67%
CMDP Children	221,903	$ 827.45	$ 838.10	$ 183,614,043	$ 185,975,987	$ 2,361,944	1.29%
Integrated SMI	497,085	$ 1,975.86	$ 2,036.43	$ 982,169,415	$ 1,012,281,010	$ 30,111,595	3.07%
non-Integrated SMI	15,794	$ 1,686.07	$ 1,791.45	$ 26,630,698	$ 28,295,066	$ 1,664,368	6.25%
GMH/SA and T21 Adult - non-dual	8,667,171	$ 54.50	$ 55.56	$ 472,335,410	$ 481,574,565	$ 9,239,155	1.96%
DDD Child	135,788	$ 209.90	$ 222.29	$ 28,501,804	$ 30,184,085	$ 1,682,281	5.90%
DDD Adult	152,814	$ 144.72	$ 154.71	$ 22,114,934	$ 23,642,020	$ 1,527,087	6.91%
Total				**$ 2,067,298,625**	**$ 2,119,753,589**	**$ 52,454,964**	**2.54%**

Table III: RBHA Capitation Rates Effective 10/1/16 – 12/31/16

Rate Category	South (CIC)	North (HCIC)	Maricopa (MMIC)
T19 + T21 Non-CMDP Children	$57.70	$63.28	$30.03
CMDP Children	$939.95	$1,310.31	$737.35
Integrated SMI	$1,663.79	$1,778.99	$2,394.76
non-Integrated SMI	$1,515.02	$2,210.27	$1,808.28
GMH/SA and T21 Adult - non-dual	$60.78	$58.55	$53.43
DDD Child	$263.61	$624.16	$187.69
DDD Adult	$193.07	$209.30	$135.03

Table IV: RBHA Capitation Rates Effective 1/1/17 – 3/31/17

Rate Category	South (CIC)	North (HCIC)	Maricopa (MMIC)
T19 + T21 Non-CMDP Children	$57.82	$63.48	$30.07
CMDP Children	$941.09	$1,312.64	$737.63
Integrated SMI	$1,664.49	$1,779.44	$2,396.17
non-Integrated SMI	$1,517.50	$2,210.66	$1,809.14
GMH/SA and T21 Adult - non-dual	$60.79	$58.56	$53.43
DDD Child	$263.99	$625.52	$187.78
DDD Adult	$193.07	$209.32	$135.03

Table V: RBHA Capitation Rates Effective 4/1/17 – 9/30/17

Rate Category	South (CIC)	North (HCIC)	Maricopa (MMIC)
T19 + T21 Non-CMDP Children	$57.11	$62.52	$29.29
CMDP Children	$936.68	$1,309.40	$737.58
Integrated SMI	$1,646.14	$1,765.81	$2,368.59
non-Integrated SMI	$1,471.72	$2,190.60	$1,774.97
GMH/SA and T21 Adult - non-dual	$59.49	$57.48	$51.91
DDD Child	$252.86	$607.33	$178.26
DDD Adult	$182.36	$203.21	$120.28

VI. Actuarial Certification of the Capitation Rates

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 from time-to-time by the Actuarial Standards Board.

The capitation rates were developed using generally accepted actuarial principles and practices and are considered to be actuarially sound. The capitation rates were developed to demonstrate compliance with the applicable provisions of 42 CFR Part 438. The program for which the capitation rates were developed is administered in accordance with applicable state and federal laws and regulations. The capitation rates are appropriate for the Medicaid populations covered and Medicaid services to be furnished under the contract. The capitation rates may not be appropriate for any other purpose. The proposed actuarially sound capitation rates that are associated with this certification are effective for the twelve-month period beginning October 1, 2016.

In developing the actuarially sound CYE 17 capitation rates, I have relied upon data and information provided by the Contractors and the AHCCCS internal databases. I have accepted the data without audit and have relied upon the Contractors' auditors and other AHCCCS employees for the accuracy of the data. Checks for consistency and reasonableness to the extent possible and practical were applied.

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

RBHAs are advised that the use of these rates may not be appropriate for their particular circumstance. RBHAs should analyze their own projected medical expense, administrative expense and other premium needs.

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

SIGNATURE ON FILE *03/16/17*

Matthew C. Varitek Date

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