

TREND AND RATE SETTING ASSUMPTIONS

Overview

AHCCCS used the historical encounter data (ie databook) provided in Section C of the Data Supplement as the base data for the rebase of the CYE12 capitation rates. Completion factors were then applied to this data. For any GSA where the historical encounters varied significantly from financials AHCCCS may use a true-up factor to account for possible missing encounters. No other significant adjustments were made to this data. AHCCCS then applied appropriate projected trends to the base data. The trends were developed based on projected changes to the AHCCCS fee schedules and tier rates as well as looking at trends in the marketplace, including National Health Expenditures (NHEs). Historical trends from the databook were used as guidelines for utilization trends, while unit cost trends were generally based on AHCCCS fee schedule changes for the major categories.

The assumptions in this section apply for most GSAs. Certain GSAs may have slightly lower or higher limits than what is stated below, dependent on the unique circumstances/data of those GSAs. See Appendix I for a crosswalk of the databook service matrix categories to the major categories used in rate setting as well as the fee schedule categories. For all of the services, when applicable, utilization and unit cost trends were limited to exclude abnormally high or low utilization or unit cost trends as AHCCCS does not anticipate these trends will hold in the future.

When developing the nursing facility, HCBS and acute components of the medical portion of the capitation rates, AHCCCS will group the utilization and costs in accordance with Appendix I. Member placement is not used to group utilization and costs since a member can be placed in an HCBS or NF setting and still have costs related to acute services.

The databook is inclusive of acute care only member months, costs and utilization. These members are considered part of the “Other” placement category, along with those members who are not placed. Not placed members are members who are full long term care members, but it has not been determined if they are in an HCBS or NF placement. The acute care only members are not full long term care members and they will be paid at the Acute Care Only capitation rate which will be set by AHCCCS. Table III below contains acute care only member months.

Trend Assumptions

Historical utilization trends will be used to set the utilization portion of the trend. For those categories where unit cost trends are not impacted by fee schedule changes AHCCCS will use historical encounter data in conjunction with trends from financials,

NHEs and other trends in the marketplace with limits on historical trends to exclude abnormally high or low trends. Table I include historical AHCCCS fee schedule changes and projected fee schedule changes.

Table I: Fee Schedule Changes

date of rate change	10/1/2007	10/1/2008	2/1/2009 ¹	10/1/2009	10/1/2010	4/1/2011 ⁵
Hospital Inpatient	3.5%	0.0%		0.0%	0.0%	-5.0%
Hospital Outpatient	3.5%	0.0%		0.0%	0.0%	-5.0%
Nursing Facility (level I, II,III)	7.0%	4.0%		0.0%	0.0%	0.0%
HCBS (home only) ²	6.0%	4.6%		-5.0%	-2.5%	-2.5%
Behavioral Health ³	9.1%	3.8%	-5.0%		0.0%	-5.0%
Physician Fee Schedule ⁴	0.0%	0.0%	-5.0%		0.0%	-4.7%
Free-Standing Dialysis	0.0%	0.0%	-5.0%		0.0%	-5.0%
Transportation	3.5%	4.3%	-5.0%		0.0%	-5.0%
Dental	5.3%	0.0%		-5.0%	0.0%	-5.0%

Notes

- 1) AHCCCS fee schedule changes effective 2/1/09, however capitation rates for EPD were not adjusted until 10/1/09.
- 2) Community portion of the HCBS assume held flat from 10/1/09 forward.
- 3) Behavioral Health Inpatient (non-psych tier) rates decreased by 5% on 2/1/09 and will be held flat on 4/1/2011. Psych tier has been held flat, but will go down 5% on 4/1/2011. Behavioral Health Inpatient in the databook consists of approx 53% psych tier.
- 4) Effective 4/1/2011 all physician fee schedule rates will decrease by 5% except drugs administered in a physician office as well as any data related to Ambulatory Surgery Centers (ASCs). AHCCCS assumed approx 6.9% of the physician fee schedule will remain flat for 4/1/2011.
- 5) Effective 4/1/2011 cost to charge ratios used to calculate outlier also decreased by 5% as well as "By Report" percentage.

For unit cost impacts effective October 1, 2011 forward, AHCCCS is assuming fee schedules will remain frozen for all service categories except Hospice, Pharmacy and Specialty Nursing Facility. If this assumption changes AHCCCS will adjust the awarded capitation rates prior to October 1, 2011.

Capitation Rate Components Set by AHCCCS

AHCCCS sets three components of the capitation rates: Share of Cost (SOC), HCBS/NF Mix Percentages and Reinsurance Offsets. AHCCCS is setting the SOC for CYE12 equal to the SOC in the CYE11 capitation rates. Prior to October 1, 2011, AHCCCS will review with up to date SOC information to determine if SOC amounts need to be adjusted. AHCCCS is using actual CYE11 YTD HCBS/NF mix percentages to set the HCBS/NF mix percentages to be used in the bid capitation rates. Prior to October 1, 2011, AHCCCS will adjust these percentages based on updated information. AHCCCS will set the CYE12 reinsurance offsets for use in the capitation bids and will assume the \$20,000/\$30,000 deductible level only. These reinsurance offsets will include adjustments for the change in the reinsurance link to inpatient services as well as the grandfathering of TBI/BEH Cases. Prior to October 1, 2011, the reinsurance offsets will be adjusted to the appropriate reinsurance deductible levels if necessary and adjusted for

any additional program changes that impact reinsurance. The reinsurance offsets will be released by March 1, 2011.

Rates Set by AHCCCS

AHCCCS will set the prior period coverage (PPC) rate and the Acute Care Only capitation rates. These rates will be published by AHCCCS prior to October 1, 2011. Historical PPC and Acute Care Only capitation rates can be found in the actuarial certifications which are located on the AHCCCS website at:

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

Table II contains the PPC member months, by GSA, for CYE08 (10/01/07 – 09/30/08), CYE09 (10/01/08 – 09/30/09) and nine months of CYE10 (10/01/09 – 06/30/10). The PPC population is reconciled.

Table II: PPC Member Months

	CYE08	CYE09	CYE10 (9 mths)
GSA 40 (Pinal, Gila)	647	588	518
GSA 42 (Yuma, LaPaz)	269	266	186
GSA 44 (Apache, Coconino, Mohave, Navajo)	645	763	460
GSA 46 (Cochise, Graham, Greenlee)	252	301	195
GSA 48 (Yavapai)	513	436	332
GSA 50 (Pima, Santa Cruz)	1,346	1,317	954
GSA 52 (Maricopa)	5,464	5,718	4,716
Statewide	9,136	9,390	7,361

Table III contains the Acute Only members months, by GSA, for CYE08 (10/01/07 – 09/30/08), CYE09 (10/01/08 – 09/30/09) and nine months of CYE10 (10/01/09 – 06/30/10).

Table III: Acute Care Only Member Months

	CYE08	CYE09	CYE10 (9 mths)
GSA 40 (Pinal, Gila)	155	246	180
GSA 42 (Yuma, LaPaz)	77	109	67
GSA 44 (Apache, Coconino, Mohave, Navajo)	100	79	121
GSA 46 (Cochise, Graham, Greenlee)	75	62	68
GSA 48 (Yavapai)	131	174	106
GSA 50 (Pima, Santa Cruz)	690	475	413
GSA 52 (Maricopa)	3,085	3,223	2,415
Statewide	4,313	4,368	3,370

Completion Factors

Table IV contains the completion factors AHCCCS will be using when setting the medical component range for the capitation rates.

Table IV: Completion Factors

CYE10 (9 months)

Form Type	I	O	A	C	D	L
GSA 40 (Pinal, Gila)	94.0%	95.8%	98.9%	92.9%	84.6%	98.8%
GSA 42 (Yuma, LaPaz)	89.4%	90.7%	97.4%	89.7%	99.4%	95.4%
GSA 44 (Apache, Coconino, Mohave, Navajo)	88.1%	87.1%	93.7%	99.6%	93.5%	98.2%
GSA 46 (Cochise, Graham, Greenlee)	93.7%	92.5%	96.2%	100.0%	99.4%	97.0%
GSA 48 (Yavapai)	95.2%	95.2%	99.3%	98.8%	96.9%	99.0%
GSA 50 (Pima, Santa Cruz)	78.7%	84.9%	93.1%	95.9%	92.0%	91.2%
GSA 52 (Maricopa)	91.2%	92.9%	96.4%	95.9%	97.0%	96.2%

CYE09

Form Type	I	O	A	C	D	L
GSA 40 (Pinal, Gila)	99.9%	99.9%	99.9%	99.9%	99.4%	100.0%
GSA 42 (Yuma, LaPaz)	98.4%	97.9%	99.4%	97.3%	100.0%	99.4%
GSA 44 (Apache, Coconino, Mohave, Navajo)	96.5%	96.7%	99.1%	99.9%	99.0%	99.8%
GSA 46 (Cochise, Graham, Greenlee)	99.6%	99.7%	99.9%	100.0%	99.9%	100.0%
GSA 48 (Yavapai)	99.9%	99.9%	100.0%	100.0%	100.0%	100.0%
GSA 50 (Pima, Santa Cruz)	97.2%	98.5%	99.0%	99.8%	97.9%	98.8%
GSA 52 (Maricopa)	98.7%	98.8%	99.6%	99.2%	99.7%	99.6%

CYE08

Form Type	I	O	A	C	D	L
GSA 40 (Pinal, Gila)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
GSA 42 (Yuma, LaPaz)	100.0%	99.8%	100.0%	99.9%	100.0%	100.0%
GSA 44 (Apache, Coconino, Mohave, Navajo)	99.8%	99.8%	100.0%	100.0%	100.0%	100.0%
GSA 46 (Cochise, Graham, Greenlee)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
GSA 48 (Yavapai)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
GSA 50 (Pima, Santa Cruz)	100.0%	99.9%	100.0%	100.0%	100.0%	100.0%
GSA 52 (Maricopa)	99.9%	99.9%	100.0%	100.0%	100.0%	100.0%

Appendix I: Service Matrix

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Section C – General Trend and Rate Setting Assumptions

SVC	SVC-DESC	Major Rate Category/ Fee Schedule Category
01	NURSING FACILITY LEVEL 1	Nursing Facility
02	NURSING FACILITY LEVEL 2	Nursing Facility
03	NURSING FACILITY LEVEL 3	Nursing Facility
04	NURSING FACILITY ALL OTHER LEVELS	Nursing Facility (historical)
05	LEAVE OF ABSENCE (LOA) BED HOLD DAYS	Nursing Facility (historical)
07	ASSISTED LIVING HOME LEVEL 1	HCBS/Community
08	ASSISTED LIVING HOME LEVEL 2	HCBS/Community
10	ASSISTED LIVING CENTER LEVEL 1	HCBS/Community
11	ASSISTED LIVING CENTER LEVEL 2	HCBS/Community
12	ASSISTED LIVING CENTER LEVEL 3	HCBS/Community
14	ADULT FOSTER CARE LEVEL 1	HCBS/Community
15	ADULT FOSTER CARE LEVEL 2	HCBS/Community
16	ADULT FOSTER CARE LEVEL 3	HCBS/Community
18	ADULT DAY HEALTH CARE	HCBS/Home
19	HOME DELIVERED MEALS	HCBS/Home
20	HOME HEALTH AIDE	HCBS/Home
21	HOME HEALTH NURSE	HCBS/Home
22	HOMEMAKER	HCBS/Home
23	PERSONAL CARE	HCBS/Home
24	RESPIRE CARE (NON-INSTITUTIONAL)	HCBS/Home
25	GROUP RESPIRE CARE	HCBS/Home
26	RESPIRE CARE-CONT IN-HOME	HCBS/Home
27	RESPIRE CARE (INSTITUTIONAL)	Nursing Facility (historical)
28	ATTENDANT CARE	HCBS/Home
29	SELF DIRECTED ATTENDANT CARE (SDAC	HCBS/Home
30	SDAC TRAINING	HCBS/Home
31	SDAC FEA (FISCAL AND EMPLOYER AGENT) PER EVEN	HCBS/Home
32	OTHER HCBS	HCBS/Home
34	HOSPITAL DAYS	Acute/Hospital Inpatient
36	EMERGENCY FACILITY VISITS	Acute/Hospital Outpatient
37	OUTPATIENT FACILITY VISITS	Acute/Hospital Outpatient
38	LAB/RADIOLOGY SERVICES	Acute/Physician
39	SURGERY SERVICES	Acute/Physician
40	PRIMARY CARE SERVICES	Acute/Physician
41	OTHER PROFESSIONAL SERVICES - PHYSICIAN, HOSP	Acute/Physician
42	OTHER PROFESSIONAL PROVIDER SERVICES	Acute/Physician
43	THERAPY SERVICES	Acute/Physician
44	HOSPICE FACILITY SERVICES	Acute/Hospice (historical)
45	TRANSPORTATION - EMERGENCY TRIPS	Acute/Transportation
46	TRANSPORTATION - NON-EMER TRIPS	Acute/Transportation
47	DME AND MEDICAL SUPPLIES - RENTAL	Acute/Physician
48	DME AND MEDICAL SUPPLIES - PURCHASE	Acute/Physician
49	PHARMACY	Acute/Pharmacy (historical)
50	BEHAVIORAL HEALTH - INPATIENT	Acute/Behavioral Health
51	BEHAVIORAL HEALTH - NON INPATIENT	Acute/Behavioral Health
52	DENTAL	Acute/Dental