

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

I. Purpose

The purpose of this actuarial memorandum is to demonstrate that the updated capitation rates for contract year ending 2017 (CYE 17: July 1, 2016 through June 30, 2017) are updated for the period of October 1, 2016 through June 30, 2017, and were developed in compliance with 42 CFR 438.6(c). It is not intended for any other purpose.

This memorandum presents a revision to the previously-proposed CYE 17 capitation rates for the ADES/DDD program. The revision is due to updates to the institutional service component and acute component of the capitation rates. Due to one programmatic change (high acuity pediatric adjustor) that will be implemented with an effective date of January 1, 2017, this certification will cover two sets of capitation rates. One set for the time frame from October 1, 2016 through December 31, 2016 and another set from January 1, 2017 through June 30, 2017. The rate development process is the same for both sets of capitation rates, except the latter set includes the impact of the high acuity pediatric adjustor.

The Affordable Care Act (ACA) places an annual fee on the health insurance industry nationwide including most Medicaid health plans effective January 1, 2014. The CYE 17 capitation rates do not include the fee at this time; that adjustment will be addressed in a retroactive capitation rate adjustment once the fees are known. Historical actuarial certifications for health insurer fee adjustment can be found on the AHCCCS website: <https://www.azahcccs.gov/PlansProviders/RatesAndBilling/ManagedCare/capitationrates.html>

II. Overview of the DD Program

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

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

Table I: Components of the Capitation Rate and Contract Period

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

* Of the total acute services for DDD members 95% are provided by the sub-contracted MCOs and 5% are provided by DDD as fee for service. The 5% covers those American Indians who opted out of MCOs. The 95% could contain American Indians who chose to enroll in an MCO.

**Admin and Risk contingency are part of the subcontracted rate for the MCOs, but DDD pays the premium tax on their behalf.

DDD has two separate capitation rates:

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

The TCM capitation rate is paid over only those members eligible for that program.

Prior actuarial certifications can be found on the AHCCCS website with the July 1, 2016 certification describing more about the DD program and the rate build of the LTC services components.

III. Overview of Changes

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

Acute Care Component Rate Development

The Acute Care component represents approximately eleven percent of the DD capitation rate. The Acute Care component consists of services paid for by both subcontracted Managed Care Organizations (MCO), and Fee-For-Service (FFS) (for the American Indian population for which DDD reimburses providers directly). Both pieces of the Acute Care component rate include a reinsurance offset. The Acute Care component distinguishes between members who are dually eligible for Medicare (“duals”) and those who are not (“non-duals”) for rate development purposes but is combined into a single blended rate before going into the regular DDD capitation rate build up.

The Acute Care component was rebased using data from October 1, 2012 through September 30, 2015. The data used for the capitation rate rebase for both pieces of the Acute Care component consisted of encounter, financial, reinsurance payment and member month data. The data was reviewed for accuracy, timeliness and completeness

through encounter validation studies, and deemed acceptable for use with no concerns regarding data quality.

The base encounter data was adjusted by completion factors, and historical programmatic and provider fee schedule changes. One high cost member's data was excluded from the analysis since that member moved to another AHCCCS program. Per member per month (PMPM) annualized trends by category of service (COS) and risk group were developed using the adjusted encounter data with upper and lower limits on the trend percentages to smooth out unreasonable trends. The trends do not reflect the impact of any future programmatic changes or provider fee schedule changes. The base data was then trended forward and adjusted by any new programmatic and provider fee schedule changes (see below) to develop the acute care service claim cost. Reinsurance offsets were then applied for a net acute care service claim cost. Additionally, non-benefit costs including administration expenses for the MCOs, risk contingency and premium tax were applied. These non-benefit cost items are included in Appendix I along with the non-benefit costs for LTC.

Nursing Facility Fee Schedule Change

Effective October 1, 2016, AHCCCS has increased the Nursing Facility Fee Schedule rates by 1%, uniformly applied to the current rates, to address improvements in the Arizona economy leading to challenges in hiring and retaining direct care staff and to ensure access to care. The estimated nine month impact to the DDD program is an increase of approximately \$151,000.

Adult Dental

During the 2016 legislative session, non-emergency (basic and preventive) dental services were reinstated for DDD adults up to a limit of \$1,000 annually per member. Effective October 1, 2016 AHCCCS will restore this covered service. The estimated nine month statewide impact is an increase of approximately \$924,000.

VBP Differential Adjustment

AHCCCS has proposed Value-Based Purchasing (VBP) Differential Adjusted Fee Schedule rates to distinguish providers who have committed to supporting designated actions that improve the patient care experience, improve member health, and reduce cost of care growth. The proposed VBP differential rates are applicable for dates of service from October 1, 2016 through September 30, 2017. FFS rates for select providers meeting specific criteria will be increased 1% for qualified AHCCCS-registered Arizona Nursing Facility providers, 0.5% for qualified AHCCCS-registered Arizona Hospital providers for inpatient and outpatient services, and 10% for qualified AHCCCS-registered Integrated Clinics for selected physical health services. Contractors are required to adopt the VBP Differential payment adjustments for qualified providers meeting the specific criteria. The estimated nine month impact to the DDD program is an increase of approximately \$109,000.

Provider Fee Schedule Changes

Effective October 1, 2016, AHCCCS is changing FFS rates for certain providers based either on access to care needs, Medicare/ADHS fee schedule rate changes, and/or legislative mandates. The estimated nine month statewide impact is an increase of approximately \$344,000.

High Acuity Pediatric Adjustor

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

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 estimated six month impact is an increase of approximately \$2.1 million.

Table II: Component Changes and Their Impacts

Changes to DDD Capitation Rate	Effective Date of Change	Service Impact	Approx Impact through 6/30/2017 *
Acute Care Services Rate Rebase (including Reinsurance Offset and Admin Impact)	10/1/2016	Acute Care	\$751,000
Nursing Facility Fee Schedule Changes	10/1/2016	Institutional	\$151,000
Adult Dental Benefit	10/1/2016	Acute Care	\$924,000
VBP Differential Adjusted Fee Schedule	10/1/2016	Acute Care	\$109,000
Provider Fee Schedule Changes	10/1/2016	Acute Care	\$344,000
High Acuity Pediatric Adjustment	1/1/2017	Acute Care	\$2.1 million

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

IV. Proposed Capitation Rates and Budget Impacts

Tables IIIa and IIIb show the current and proposed capitation rates and their budget impact. Table IIIc shows the combined budget impact for CYE 17. Appendix I shows the current and proposed capitation rate build-up by rate component.

Table IIIa: Proposed Capitation Rates (10/1/16)

Rate Cell	Based on Projected Member Months Oct 1, 2016 - Dec 31, 2016	CYE 17 (7/1/16) Rate	CYE 17 (10/1/16) Proposed Rate	Based on Projected Member Months Oct 1, 2016 - Dec 31, 2016			
				CYE 17 (7/1/16) Rate	CYE 17 (10/1/16) Proposed Rate	Dollar Impact	Percentage Impact
DDD	89,263	\$ 3,530.13	\$ 3,550.11	\$ 315,111,165	\$ 316,894,903	\$ 1,783,738	0.57%
Targeted Case Management	12,879	\$ 151.59	\$ 151.59	\$ 1,952,356	\$ 1,952,356	\$ -	0.00%
Total				\$ 317,063,521	\$ 318,847,259	\$ 1,783,738	0.56%

Table IIIb: Proposed Capitation Rates (1/1/17)

Rate Cell	Based on Projected Member Months Jan 1, 2017 - June 30, 2017	CYE 17 (10/1/16) Proposed Rate	CYE 17 (1/1/17) Proposed Rate	Based on Projected Member Months Jan 1, 2017 - June 30, 2017			
				CYE 17 (10/1/16) Proposed Rate	CYE 17 (1/1/17) Proposed Rate	Dollar Impact	Percentage Impact
DDD	181,257	\$ 3,550.11	\$ 3,560.38	\$ 643,482,778	\$ 645,342,504	\$ 1,859,726	0.29%
Targeted Case Management	25,689	\$ 151.59	\$ 151.59	\$ 3,894,223	\$ 3,894,223	\$ -	0.00%
Total				\$ 647,377,001	\$ 649,236,727	\$ 1,859,726	0.29%

Table IIIc: CYE 17 Budget Impact (shown for informational purposes only)

Rate Cell	Based on Projected Member Months Oct 1, 2016 - June 30, 2017	CYE 17 (7/1/16) Rate	Blended CYE 17 (10/1/16 to 6/30/17)	Based on Projected Member Months Oct 1, 2016 - June 30, 2017			
				CYE 17 (7/1/16) Rate	Blended CYE 17 (10/1/16 to 6/30/17)	Dollar Impact	Percentage Impact
DDD	270,520	\$ 3,530.13	\$ 3,556.99	\$ 954,971,907	\$ 962,237,407	\$ 7,265,500	0.76%
Targeted Case Management	38,567	\$ 151.59	\$ 151.59	\$ 5,846,579	\$ 5,846,579	\$ -	0.00%
Total				\$ 960,818,486	\$ 967,015,715	\$ 6,197,229	0.76%

V. 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. I meet the qualification standards established by the American Academy of Actuaries and have followed the practice standards established from time-to-time by the Actuarial Standards Board.

The capitation rates were developed using generally accepted actuarial principles and practices and are considered to be actuarially sound. The capitation rates were developed to demonstrate compliance with the CMS requirements under 42 CFR 438.6(c) and are in accordance with applicable laws and regulations. The capitation rates are appropriate for the Medicaid populations covered and Medicaid services to be furnished under the contract. The capitation rates may not be appropriate for any other purpose. The documentation has been included with this certification. The actuarially sound capitation rates that are associated with this certification are effective for the nine-month period beginning October 1, 2016.

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

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

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

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

Signature on File
Matthew C. Varitek

08/21/2016
Date

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

APPENDIX I: Capitation Rates by Rate Component

DES/DDD Capitation Rate	CYE 17 (7/1/16) Capitation Rate	CYE17 (10/1/16) Proposed Capitation Rate	Percentage Change	CYE17 (10/1/16) Proposed Capitation Rate	CYE17 (1/1/17) Proposed Capitation Rate	Percentage Change
Claim Costs						
Institutional Services Home and Community Based Services	\$ 111.92	\$ 112.48	0.50%	\$ 112.48	\$ 112.48	0.00%
Acute Care Services	\$ 2,560.62	\$ 2,560.62	0.00%	\$ 2,560.62	\$ 2,560.62	0.00%
	\$ 392.57	\$ 414.67	5.63%	\$ 414.67	\$ 426.21	2.78%
Total Claim Costs	\$ 3,065.10	\$ 3,087.77	0.74%	\$ 3,087.77	\$ 3,099.31	0.37%
Share of Cost Acute Care Services Reinsurance Offset	\$ (5.35)	\$ (5.35)	0.00%	\$ (5.35)	\$ (5.35)	0.00%
	\$ (12.05)	\$ (18.52)	53.66%	\$ (18.52)	\$ (21.19)	14.37%
Total Net Claim Costs	\$ 3,047.70	\$ 3,063.89	0.53%	\$ 3,063.89	\$ 3,072.77	0.29%
Non-Benefit Costs						
Case Management	\$ 175.75	\$ 175.75	0.00%	\$ 175.75	\$ 175.75	0.00%
Administration	\$ 203.68	\$ 206.84	1.55%	\$ 206.84	\$ 207.90	0.51%
Risk Contingency	\$ 32.41	\$ 32.64	0.70%	\$ 32.64	\$ 32.75	0.35%
Premium Tax	\$ 70.60	\$ 71.00	0.57%	\$ 71.00	\$ 71.21	0.30%
Total Non-Benefit Costs	\$ 482.43	\$ 486.22	0.78%	\$ 486.22	\$ 487.61	0.28%
DES/DDD Capitation Rate (includes Premium Tax)	\$ 3,530.13	\$ 3,550.11	0.57%	\$ 3,550.11	\$ 3,560.38	0.29%

Targeted Case Management (TCM)	CYE 17 (7/1/16) Capitation Rate	CYE17 (10/1/16) Proposed Capitation Rate	Percentage Change	CYE17 (10/1/16) Proposed Capitation Rate	CYE17 (1/1/17) Proposed Capitation Rate	Percentage Change
Non-Benefit Costs						
Case Management	\$ 148.56	\$ 148.56	0.00%	\$ 148.56	\$ 148.56	0.00%
Premium Tax	\$ 3.03	\$ 3.03	0.00%	\$ 3.03	\$ 3.03	0.00%
Targeted Case Management Rate	\$ 151.59	\$ 151.59	0.00%	\$ 151.59	\$ 151.59	0.00%