



**Contract Year Ending 2018  
Arizona Long Term Care System/  
Elderly and Physical Disability  
Capitation Rate Certification**

**October 1, 2017 through September 30,  
2018**

**Prepared for:  
The Centers for Medicare & Medicaid  
Services**

**Prepared by:  
AHCCCS Division of Health Care  
Management**

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## Introduction and Limitations

The purpose of this rate certification is to provide documentation, including the data, assumptions, and methodologies, used in the development of the adjustment to the October 1, 2017 through September 30, 2018 (Contract Year Ending 2018 or CYE 18) actuarially sound capitation rates for the Arizona Long Term Care System (ALTCs)/Elderly and Physical Disability (ALTCs/EPD) Program 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 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 2018 Medicaid Managed Care Rate Development Guide, Actuarial Standards of Practice, and generally accepted actuarial principles and practices.

The 2018 Medicaid Managed Care Rate Development Guide (2018 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 2018 Guide to help facilitate the review of this rate certification by CMS. Sections of the 2018 Guide that do not apply will be marked as “Not Applicable” and will be included in this rate certification as requested by CMS.

## Section I Medicaid Managed Care Rates

The capitation rates included with this rate certification are 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)(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 2018 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.

## 1. General Information

This section provides documentation for the General Information section of the 2018 Guide.

### A. Rate Development Standards

#### i. Rating Period

The CYE 18 capitation rates for the ALTCS/EPD Program are effective for the twelve month time period from October 1, 2017 through September 30, 2018.

#### ii. Rate Certification Documentation

##### (a) Letter from Certifying Actuary

The actuarial certification letter for the CYE 18 capitation rates for the ALTCS/EPD Program, 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 CYE 18 capitation rates for the ALTCS/EPD Program contained in this rate certification are actuarially sound and meet the standards within the applicable provisions of 42 CFR Part 438 of 81 FR 27497.

##### (b) Final and Certified Capitation Rates

The final and certified capitation rates by rate cell are located in Appendix 2. Additionally, the ALTCS/EPD Program contract includes the final and certified capitation rates by rate cell in accordance with 42 CFR § 438.3(c)(1)(i) at 81 FR 27856. The ALTCS/EPD contract uses the term risk group instead of rate cell. This rate certification will use the term rate cell to be consistent with the applicable provisions of 42 CFR Part 438 of 81 FR 27497 and the 2018 Guide.

##### (c) Final and Certified Capitation Rate Ranges

Not Applicable. Rate ranges were not developed for the CYE18 capitation rates for the DES/DDD Program.

**(d) Program Information**

**(i) Summary of Program**

**(A) Type and Number of Managed Care Plans**

The ALTCS/EPD Program contracts with three managed care plans. The number of managed care plans contracted with the Program varies by Geographical Service Area (GSA). The three GSAs, along with the managed care plans within the GSAs are listed in Table 1 below.

**Table 1: Managed Care Plan(s) by GSA**

GSA	Managed Care Plan(s)
Central	Banner – University Family Care (Banner – UFC) Mercy Care Plan (Mercy Care) United Health Care – Long Term Care (UHC – LTC)
North	UHC – LTC
South	Banner – UFC Mercy Care (Pima County Only)

**(B) Covered Services**

This certification covers the ALTCS/EPD Program. This program delivers long-term, acute, behavioral health and case management services to eligible members who are elderly and/or have physical disabilities.

Additional information regarding covered services can be found in the Scope of Services section of the ALTCS/EPD contract.

**(C) Areas of State Covered and Length of Time of Operation**

The ALTCS/EPD Program has operated on a statewide basis in the State of Arizona since the late 1980s. Prior to CYE 18, the state was divided into seven GSAs, where each GSA contained one or more counties, and one or more Contractors were active in each GSA. Beginning in CYE 18, the state is divided into three GSAs. Table 2 below provides the previous and current GSAs associated with each county in Arizona.

**Table 2: County by GSA**

County	Previous GSA	New GSA
Apache	44	North
Cochise	46	South
Coconino	44	North
Gila	40	Central
Graham	46	South
Greenlee	46	South

La Paz	42	South
Maricopa	52	Central
Mohave	44	North
Navajo	44	North
Pima	50	South
Pinal	40	Central
Santa Cruz	50	South
Yavapai	48	North
Yuma	42	South

**(ii) Rating Period Covered**

The rate certification for the CYE 18 capitation rates for the ALTCS/EPD Program is effective for the twelve month time period from October 1, 2017 through September 30, 2018.

**(iii) Covered Populations**

The populations covered under ALTCS/EPD Program are individuals who are elderly and/or have physical disabilities, and have been deemed eligible to receive long-term care services through ALTCS.

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

Ideally, the experience data would be analyzed by rate cells which are comprised of members with similar risk characteristics. However, segregating the ALTCS/EPD population into risk-based rate cells would lead to a statistical credibility problem due to the statewide dispersion of the relatively small membership base. The ALTCS/EPD Program has four rate cells: a prospective dual rate, a prospective non-dual rate, a prior period coverage (PPC) rate and an Acute Care Only (ACO) rate. The Prospective and ACO capitation rates for the ALTCS/EPD population differ by GSA and Contractor. The PPC rates differ by GSA but not by Contractor. Prospective capitation rates differentiate between members who are dually eligible for Medicare and Medicaid (“duals”) and members who are not eligible for Medicare (“non-duals”). The ACO capitation rate is paid for members who qualify for ALTCS but decline to receive long-term care services, and is a function of the PMPM assumptions for acute care services net of reinsurance, case management, and administrative expenses in the Prospective Dual and Non-Dual capitation rates. The PPC capitation rate is based on the enrollment and encounter experience specific to prior period coverage. The experience used in the development of these rates only

includes ALTCS/EPD Medicaid eligible expenses for ALTCS/EPD Medicaid eligible individuals.

**(iv) Eligibility or Enrollment Criteria Impacts**

ALTCS determines eligibility for ALTCS/EPD services through eligibility offices located throughout the State. Further information is available in the Eligibility section of the ALTCS/EPD Contract.

There are no expected changes to the eligibility and enrollment criteria during CYE18 that could have an impact on the populations to be covered under the ALTCS/EPD Program.

**(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 CYE18 capitation rates are:

- Risk Corridor Arrangement (42 CFR § 438.6(b)(1) at 81 FR 27859)
- Reinsurance Arrangement (42 CFR § 438.6(b)(1) at 81 FR 27859)
- Alternative Payment Model (APM) Initiative – Quality Measure Performance (Incentive Arrangement) (42 CFR § 438.6(b)(2) at 81 FR 27859)
- APM Initiative – Performance Based Payments (Incentive Arrangement) (42 CFR § 438.6(b)(2) at 81 FR 27859)
- APM Initiative – Quality Measure Performance (Withhold Arrangement) (42 CFR § 438.6(b)(3) at 81 FR 27859)
- AHCCCS Differential Adjusted Payments (DAP) (42 CFR § 438.6(c)(1)(iii)(B) at 81 FR 27860)
- Nursing Facility Enhanced Payments – Allotment 1 (Pass-Through Payments) (42 CFR § 438.6(d) at 81 FR 27860)
- Nursing Facility Enhanced Payments - Allotment 2 (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.

**(vi) Retroactive Capitation Rate Adjustments**

Not applicable. This rate certification does not cover retroactive adjustments for previous capitation rates.

**iii. Rate Development Standards and Federal Financial Participation**

Proposed differences among the CYE 18 capitation rates for the ALTCS/EPD Program are based on valid rate development standards and are not based on the rate of Federal Financial Participation for the populations covered under the ALTCS/EPD Program.

**iv. Rate Cell Cross-subsidization**

The capitation rates were developed at the rate cell level. Payments from rate cells do not cross-subsidize payments from other rate cells.

**v. Effective Dates of Changes**

The effective dates of changes to the ALTCS/EPD Program are consistent with the assumptions used to develop the CYE 18 capitation rates for the ALTCS/EPD Program.

**vi. Generally Accepted Actuarial Principles and Practices**

**(a) Reasonable, Appropriate, and Attainable Costs**

In the actuary's judgement, 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.

**(b) Rate Setting Process**

Adjustments to the rates or rate ranges 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 rates performed outside the rate setting process.

**(c) Contracted Rates**

Consistent with 42 CFR §438.7(c), the final contracted rates in each cell must either match the capitation rates or be within the rate ranges in the rate certification. This is required in total and for each and every rate cell. The CYE 18 capitation rates certified in this report represent the contracted rates by rate cell.

**vii. Rates from Previous Rating Periods**

Not Applicable. Capitation rates from previous rating periods are not used in the development of the CYE 18 capitation rates for the ALTCS/EPD Program.

**viii. Rate Certification Procedures**

**(a) CMS Rate Certification Requirement for Rate Change**

This is a new rate certification that documents the ALTCS/EPD Program capitation rates are changing effective October 1, 2017.

**(b) CMS Rate Certification Requirement for No Rate Change**

Not Applicable. This rate certification will change the ALTCS/EPD Program capitation rates effective October 1, 2017.



**(c) CMS Rate Certification Circumstances**

This section of the 2018 Guide provides information on when CMS would not require a new rate certification, and is not applicable to this certification.

**(d) CMS Contract Amendment Requirement**

CMS requires a contract amendment be submitted whenever capitation rates change for any reason other than application of an approved payment term (e.g. risk adjustment methodology) which was included in the initial managed care contract. The capitation rates are changing due to the annual rate development cycle, and thus a contract amendment is required to be submitted.

**B. Appropriate Documentation**

**i. Elements**

This rate certification documents all the elements (data, assumptions, and methodologies) used to develop the CYE 18 capitation rates for the ALTCS/EPD Program.

**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 the section numbers from the 2018 Guide relevant to ALTCS/EPD.

**iii. Differences in Federal Medical Assistance Percentage**

All covered populations under the ALTCS/EPD Program receive the regular FMAP.

**iv. Rate Ranges**

Not Applicable. Rate ranges were not developed for the CYE 18 capitation rates for the ALTCS/EPD Program.

**v. Rate Range Development**

Not Applicable. Rate ranges were not developed for the CYE 18 capitation rates for the ALTCS/EPD Program.

## 2. Data

This section provides documentation for the Data section of the 2018 Guide.

### A. Rate Development Standards

#### i. Compliance with 42 CFR § 438.5(c)

This section of the 2018 Guide provides information related to base data.

### B. Appropriate Documentation

#### 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.

#### ii. Data Used for Rate Development

##### (a) Description of Data

##### (i) Types of Data Used

The types of data that AHCCCS relied upon for developing the CYE 18 capitation rates for the ALTCS/EPD Program were:

- Adjudicated and approved encounter data (October 1, 2012 through September 30, 2015 (FFY 13, FFY 14, and FFY 15)) submitted by the incumbent ALTCS/EPD Contractors;
- The awarded Contractors' competitively bid gross medical, case management, and administrative expenses per member per month (PMPM) from the Request for Proposals (RFP) completed and awarded in early 2017;
- Reinsurance payments for FFY 13, FFY 14, and FFY 15;
- Historical member month data for FFY 13, FFY 14, and FFY 15 from the PMMIS mainframe;
- Projected enrollment data provided by the AHCCCS Division of Business and Finance (DBF) Budget Team for CYE 18;
- Current counts of members changing their enrolled Contractor following the RFP awards;
- Quarterly and annual financial statements submitted by the incumbent Contractors for FFY 13, FFY 14, FFY 15, and FFY 16 and reviewed by the AHCCCS DHCM Finance & Reinsurance Team;

- Historical and Future Fee For Service (FFS) schedules developed by DHCM Rates & Reimbursement Team; and
- Data from DHCM Rates & Reimbursement Team related to DAP, see section I.4.D.

**(ii) Age of Data**

The ranges of acceptable bid amounts for gross medical expenses PMPM submitted through the RFP were developed using encounter data incurred during federal fiscal year 2015 (October 1, 2014 to September 30, 2015) (FFY 15) and paid through April 2016. For the purposes of developing trend assumptions to incorporate into the RFP bid ranges and the acuity adjustments applied within the Contractor-specific CYE 18 capitation rates, AHCCCS also reviewed encounter data from FFY 13 (October 1, 2012 through September 30, 2013, paid through April 2016) and FFY 14 (October 1, 2013 through September 30, 2014, paid through April 2016).

The historical enrollment data for ALTCS/EPD members aligned with the encounter data time periods of FFY 13, FFY 14, and FFY 15. The projected enrollment data for CYE 18 was provided by the AHCCCS DBF Budget Team.

The financial statement data reviewed as part of the rate development process included financial statements for the FFY 13, FFY 14, and FFY 15 time periods.

**(iii) Sources of Data**

The enrollment and encounter data were provided from the AHCCCS PMMIS mainframe. The projected enrollment data for CYE 18 was provided by the AHCCCS DBF Budget Team. The financial statement data were reported to the DHCM Finance & Reinsurance team. Information regarding HCBS placement and member movement among Contractors was provided by the DHCM Operations Unit.

**(iv) Sub-capitated Arrangements**

The ALTCS/EPD Contractors have sub-capitated/block purchasing arrangements. During FFY 15, the ALTCS/EPD Contractors paid approximately 1.2% of total medical expenditures through sub-capitated arrangements. The sub-capitated arrangements between the ALTCS/EPD Contractors and their 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 revised amounts from the repricing methodology were provided to the bidders in the RFP data book.

**(b) Availability and Quality of the Data**

**(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.

Additionally, the AHCCCS DHCM Actuarial Team compared the encounter data to the financial statements for CYE 14, CYE 15 and CYE 16 as well as reviewing encounter data on a monthly basis throughout the year to be aware of any potential encounter issues.

**(A) Completeness of the Data**

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

**(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 encounter data only with valid AHCCCS member IDs was used in developing the CYE 18 capitation rates for the ALTCS/EPD Program. Additionally, the actuary ensured that only services covered under the state plan were included in the capitation rate development process.

**(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 encounter data was deemed to be consistent for capitation rate setting.

**(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 ALTCS/EPD Contractors and provided from the AHCCCS PMMIS mainframe. Additionally, the rate development process has relied upon the audited annual and unaudited quarterly financial statement data submitted by the ALTCS/EPD Contractors and reviewed by the AHCCCS DHCM 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 determined the FFY 13, FFY 14 and FFY 15 encounter data to be appropriate for the purposes of developing the bid ranges for gross medical expenses by Category of Service (COS) for the Prospective Dual and Prospective Non-Dual rate cells for the RFP. These same years of encounter data were determined to be appropriate for developing the gross medical expense assumptions used to set the PPC rates, and the Contractor-specific acuity adjustments applied in development of the CYE 18 Prospective capitation rates for the ALTCS/EPD Program.

**(iii) Data Concerns**

There were encounter issues for the ALTCS/EPD Contractors in FFY 16 which are still being corrected, which is why the actuary chose not to incorporate more recent encounter data in adjusting the awarded Contractors' bid gross medical expense amounts used in the Prospective capitation rates or used as the base for developing the PPC rates, even though more recent data was available.

**(c) Appropriate Data for Rate Development**

Encounter data was used to develop the RFP bid ranges for the long-term care and acute components of the CYE 18 capitation rates for the ALTCS/EPD Program.

**(i) Not using Encounter or Fee-for-Service Data**

As described above in Section I.2.B.ii.(c), managed care encounter served as the primary data source for the development of the CYE 18 capitation rates for the ALTCS/EPD Program.

**(ii) Not using Managed Care Encounter Data**

Not applicable. As described above in Section I.2.B.ii.(c), managed care encounter served as the primary data source for the development of the CYE 18 capitation rates for the ALTCS/EPD Program.

**(d) Use of a Data Book**

The rate development process of the capitation rate for the LTC and acute care components relied primarily on data extracted from the AHCCCS PMMIS mainframe and provided to the bidders through the RFP via a data book. The extracted data contained summarized enrollment data by rate cell, county, GSA, and FFY, and encounter data by rate cell, county, GSA, FFY, and COS.

**iii. Adjustments to the Data**

Encounter data from FFY 13, FFY 14, and FFY 15 was used to develop the RFP bid ranges for the long-term care and acute components of the CYE 18 capitation rates for the ALTCS/EPD Program. The RFP bid ranges were developed at a GSA level, using the average expense levels of all incumbent Contractors active in each GSA. The Offerors used the same encounter data to develop their bids for the gross medical expense PMPM amounts by COS, and attested that their bids were actuarially sound. The Offerors were also provided with the average HCBS placement percentage for each GSA and rate cell during the three months prior to release of the RFP, and instructed to assume those percentages as appropriate when developing their bids. Subsequently, the actuary adjusted the Contractors' bid gross medical expense amounts in order to reflect:

- Contractor- and GSA-specific acuity, using encounter data from the RFP data book and current information about member movement;
- Updated HCBS placement percentages, incorporating information about member movement; and
- All benefit and provider reimbursement changes that were not known at the time of release of the RFP.

**(a) Credibility of the Data**

No credibility adjustment was necessary.

**(b) Completion Factors**

In order to develop the RFP bid ranges, adjustments to the encounter data were made to reflect the level of completion. AHCCCS calculated completion factors using the development method with monthly encounter data from October 1,

2012 through September 30, 2015, paid through April 2016. Since the data book was provided with encounters rolled up by FFY, the monthly completion factors were similarly rolled up and applied to the encounter data on a FFY basis. The aggregated FFY 13, FFY 14, and FFY 15 completion factors applied to each category of service are shown in Table 3 below. These completion factors were provided to bidders in the RFP as a supplement to the data book.

**Table 3: Annual Completion Factors by Category of Service and FFY**

Category of Service	FFY 13	FFY 14	FFY 15
Professional	1.0000	0.9945	0.9670
Prescription Drugs	1.0000	0.9982	0.9958
Dental Services	1.0000	1.0000	0.9205
Inpatient	1.0000	0.9928	0.8311
Nursing Facility	1.0000	0.9942	0.9528
Outpatient Hospital	1.0000	0.9941	0.9506

**(c) Errors Found in the Data**

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

**(d) Changes in the Program**

All programmatic and reimbursement changes known at the time of the RFP and effective at any point after October 1, 2012 that were used to bring the base data to current are provided in Appendix 5. The actuary reviewed and/or revised the program change adjustments effective April 1, 2015 for actual results and used the actual experience to normalize the FFY 15 encounter experience that served as the base data for the RFP bid ranges. Other changes use the original projections to normalize earlier time periods for the purpose of developing the trend assumptions that informed the RFP bid ranges.

**(e) Exclusions of Payments or Services**

Not applicable.

### 3. Projected Benefit Costs and Trends

This section provides documentation for the Projected Benefit Costs and Trends section of the 2018 Guide.

#### A. Rate Development Standards

**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.

## **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.

## **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.

## **iv. In-Lieu-Of Services**

This is not applicable because in-lieu-of services, as defined in 42 CFR § 438.3(e)(2) of 81 FR 27497, were not used in developing the CYE 18 capitation rates for the ALTCS/EPD Program. The ALTCS/EPD Program does not have in-lieu-of services. All services provided are covered under the 1115 Waiver, and thus are considered State Plan Services.

## **v. Institution for Mental Disease**

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. No adjustment was made to encounter data or capitation rates for the ALTCS/EPD Program, since there was immaterial utilization of IMDs for enrollees aged 21 to 64 in the encounter data used for the development of the capitation rate.

## **vi. Section 12002 of the 21<sup>st</sup> Century Cures Act (P.L. 114-255)**

As requested by CMS, this section provides information in connection with Section 12002 of the 21<sup>st</sup> Century Cures Act (P.L. 114-255).

### **(a) Number of Enrollees**

There were 59 ALTCS/EPD members between the ages of 21 and 64 who received treatments in an IMD during FFY 16.

### **(b) Length of Stay**

The 59 members received a combined 772 days of care in an IMD during FFY 16, with the longest stay including 51 days and the shortest stay including 2 days.

### **(c) Impact on Rates**

No adjustment was made to the encounter data or CYE 18 capitation rates for repricing of these stays, as most of the utilization was incurred by members who were Medicare eligible. Thus the impact of repricing only the stays for members who weren't Medicare eligible was judged to be immaterial (PMPM impact of approximately \$0.13).



## **B. Appropriate Documentation**

### **i. Projected Benefit Costs**

Appendix 7a contains the projected gross medical expenses PMPM by rate cell, Contractor, and GSA.

### **ii. Projected Benefit Cost Development**

#### **(a) Description of the Data, Assumptions, and Methodologies**

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

As noted in I.2.B.ii.(a).(ii), data from FFY 15 served as the base for projections to CYE 18 for LTC and acute gross medical expenses that defined the RFP bid ranges, while data from FFY 13 and FFY 14 was used in development of trends and completion factors. The historical encounter data was analyzed by month and COS.

#### **Prospective Program Changes**

There is a state plan benefit reinstated effective October 1, 2017 that was included in the projected benefit costs (emergency adult dental services) which is described below in I.3.B.vii.(a).

#### **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.

Additionally, the ALTCS/EPD Contracts have requirements that the Contractors reimburse Federally Qualified Health Centers (FQHCs) at the Prospective

Payment System (PPS) rates. This contract requirement was effective April 1, 2015. The AHCCCS Fee-for-Service Fee Schedule Updates program change includes a fee schedule adjustment to bring the encounter base data from CYE 16 FQHC PPS rates up to projected CYE 18 FQHC PPS rates.

Effective October 1, 2017, AHCCCS will be updating 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 18 capitation rates have been adjusted to reflect these fee schedule changes. The data used by the AHCCCS DHCM Rates & Reimbursement Team to develop the adjustment to the CYE 18 capitation rates was the CYE 16 encounter data across all programs. The AHCCCS DHCM 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 18 time period. The AHCCCS DHCM Actuarial Team then reviewed the results and applied the impacts by program. The overall impact to the ALTCS/EPD Program is approximately \$348,000.

**(b) Material Changes to the Data, Assumptions, and Methodologies**

The methodology for developing the ALTCS/EPD capitation rate has changed since the CYE 17 capitation rate development process. The CYE 18 rates are developed using the bid gross medical expenses, case management expenses, and administrative expenses PMPM from the most recent RFP, with adjustments by GSA and Contractor as described in this certification.

The methodology for developing the reinsurance offset component of the ALTCS/EPD capitation rate has changed since the CYE 17 capitation rate development process. The development of the CYE 18 offset amounts is described in section I.4.C.ii.(c).(iv). Prior to October 1, 2017, all acute care services received by an ALTCS/EPD member during a federal fiscal year were eligible to accumulate towards the deductible and coinsurance for a regular reinsurance case, provided that the member incurred an inpatient stay at some point during the FFY to trigger the creation of a reinsurance case. Effective October 1, 2017, services provided by professional under Form Type A (CMS 1500) are no longer eligible to accumulate towards payments on regular reinsurance cases. This change portends a reduction in the projected reinsurance payments during CYE 18, which has the effect of increasing capitation. The estimated impact is an increase to capitation of approximately \$14.7 million.

The methodology for developing the capitation rate for the Prospective Acute Care Only rate cell has changed since the CYE 17 capitation rate development process. As in previous years, the ACO rate for each Contractor/GSA is a function of the non-LTC components of the Prospective Dual and Non-Dual rate

for that Contractor/GSA. Prior to October 1, 2017, the components were blended using member-weighted averages of the Dual and Non-Dual rate components, where the member weights were determined by the overall Prospective Dual and Non-Dual membership. Beginning October 1, 2017, the member weights are determined by the projected Dual and Non-Dual proportions of the ACO membership. This change ensures that the ACO rate cell is not cross-subsidized by any other rate cell.

The methodology for developing the capitation rate for the Prior Period Coverage rate cell has changed since the CYE 17 capitation rate development process. Prior to October 1, 2017, the percentage change from the prior year's PPC capitation rate was capped at an absolute value of 6.5%. Beginning October 1, 2017, the percentage change from the prior year's PPC rate will no longer be limited in that manner. PPC rates will be more volatile over time as a result of this change.

There were no other material changes to the data, assumptions, or methodologies since the last rate certification.

### **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.

#### **(a) Requirements**

##### **(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 acute component of the capitation rates for the ALTCS/EPD Program.

All data used was specific to the ALTCS/EPD population, but comparisons were made to other AHCCCS populations for reasonability of observed trends.

##### **(ii) Projected Benefit Cost Trends Methodologies**

PMPM cost trend assumptions by COS that informed the RFP bid ranges were based on annualized growth in PMPM expenses from FFY 13 to FFY 15, normalized to current benefit and reimbursement levels, with modifications to limit assumed trends as judged reasonable by the actuary. No simple formulaic solution exists to determine future trend; actuarial judgement is required. Each category of service was analyzed in the same manner, but different trend decisions were made for each based off additional knowledge of the actuary with regards to the ALTCS/EPD

Program, as well as in conjunction with knowledge of other AHCCCS programs.

**(iii) Projected Benefit Cost Trends Comparisons**

The PMPM trend assumptions were compared to similar assumptions made in prior years for ALTCS/EPD capitation rates and judged reasonable to assume for projection to CYE 18.

**(b) Projected Benefit Cost Trends by Component**

**(i) Changes in Price and Utilization**

Not applicable. Separate trend assumptions for utilization and unit costs were not developed.

**(ii) Alternative Methods**

The trend assumptions used to inform the RFP bid ranges were developed on a PMPM basis, since the Offerors were not required to split out their gross medical expense bids by unit cost and utilization. The trend assumptions are the annualized rate of change in PMPM expenses over the three years in the RFP data book, after adjustments to bring all encounter data to what was the current benefit/reimbursement level at the time of the RFP, subject to a floor of zero percent (i.e. no negative trends were assumed in developing the top of the bid ranges). In calculating the bottom of the bid ranges, a cap of five percent was applied and the zero percent floor removed. Table 4 shows the projected PMPM benefit cost trend by rate cell and COS.

**Table 4: Prospective Projected PMPM Trends Assumed in Bid Ranges, by Rate Cell and Category of Service**

Rate Cell	COS	PMPM Trend for Top of Range	PMPM Trend for Bottom of Range
Prospective Dual	Nursing Facility	2.11%	2.11%
Prospective Dual	HCBS	1.57%	1.57%
Prospective Dual	Acute Care	0.00%	-0.48%
Prospective Non-Dual	Nursing Facility	2.26%	2.26%
Prospective Non-Dual	HCBS	1.53%	1.53%
Prospective Non-Dual	Acute Care	6.42%	5.00%

**(iii) Other Components**

No other components were used in the development of the annualized trend assumptions provided in the table in I.3.B.iii.(b).(i).

**(c) Variation in Trend**

Projected benefit cost trends do not vary except by rate cell and COS.

**(d) Any Other Material Adjustments**

No other material adjustments were made to the trend assumptions.

**(e) Any Other Adjustments**

No other adjustments were made to the trend assumptions.

**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, are currently working on a Mental Health Parity and Addiction Equity Act (MHPAEA) analysis to determine if additional services are necessary to comply with parity standards. Although the analysis is not yet complete, at this time no additional services have been identified as necessary services to comply with MHPAEA.

**v. In-Lieu-Of Services**

This is not applicable because in-lieu-of services, as defined in 42 CFR § 438.3(e)(2) of 81 FR 27497, were not used in developing the CYE 18 capitation rates for the ALTCS/EPD Program. The ALTCS/EPD Program does not have in-lieu-of services. All services provided are covered under the 1115 Waiver, and thus are considered State Plan Services.

**vi. Retrospective Eligibility Periods**

**(a) Managed Care Plan Responsibility**

It is the responsibility of ALTCS/EPD to pay all claims for covered services incurred by members in the timeframe between the effective date of eligibility and the date a member is enrolled with the ALTCS/EPD Program.

**(b) Claims Data Included in Base Data**

Encounters delivered during the prior period coverage (PPC) timeframe for each member are included in the FFY 15 base encounter data used for setting the CYE 18 PPC capitation rates.

**(c) Enrollment Data Included in Base Data**

Member months during the FFY 15 PPC timeframe are included in the base enrollment data used for setting the PPC capitation rates.

**(d) Adjustments, Assumptions, and Methodology**

The PPC capitation rates are developed at a GSA level using experience for all Contractors in each GSA. The rate development applies historical program and reimbursement changes as described in Appendix 5 to reflect the FFY 15 base experience at current benefit and reimbursement levels. The PMPM trend assumptions by COS and rate cell, weighted by the dual- and non-dual eligibility

status of PPC members, were applied to project the base experience forward to CYE 18.

## **vii. Impact of All Material Changes**

This section of the 2018 Guide provides information on what must be documented for all material changes to covered benefits or services since the last rate certification.

### **(a) Covered Benefits**

As part of the 2017 Legislative session, the Arizona Legislature passed SB 1527, reinstating emergency adult dental services and extractions up to a limit of \$1,000 annually, a covered service prior to October 1, 2010. AHCCCS will restore this as a covered service effective October 1, 2017.

To estimate the impact of restoring emergency adult dental services, the AHCCCS DHCM Actuarial Team used historical adult (21 and over) dental encounter data and member month data for the time frame October 1, 2009 through September 2011. While this data is outside of the requirement under §438.5(c) to use data from the most recent three years of the rating period to develop capitation rates, the AHCCCS DHCM Actuarial Team determined that this data was reasonable to use to estimate the impact of restoring the benefit. The time frame of October 1, 2009 through September 2011 includes the final year (FFY 10 (10/1/09 – 09/30/10)) AHCCCS covered emergency adult dental services and the first year (FFY 11 (10/1/10 – 09/30/11)) AHCCCS did not cover emergency adult dental services.

The AHCCCS DHCM Actuarial Team developed dental PMPMs by rate cell and GSA for both the FFY10 and FFY11 time frames. The difference between FFY 10 PMPMs and FFY 11 PMPMs was assumed to be the impact of removing the emergency adult dental services. This difference between the FFY 10 PMPMs and FFY 11 PMPMs was trended forward to FFY 18 using an annualized trend of 2.0%. The 2.0% trend was derived using actuarial judgement with consideration of the following information:

- Consumer Price Index - data from IHS Global Insight that was provided to the AHCCCS DHCM Rates & Reimbursement Team;
- National Health Expenditures;
- Encounter data for children dental; and
- AHCCCS FFS fee schedule changes.

The FFY 18 emergency adult dental services PMPMs were then added to the capitation rates. The estimated impact is an increase of approximately \$0.8 million.

### **(b) Recoveries of Overpayments**

No adjustments were made to reflect recoveries of overpayments made to providers by health plans in accordance with 42 CFR §438.608(d). The AHCCCS

DHCM Actuarial Team will be working with the AHCCCS OIG Team to collect historical and current recoveries of overpayments to determine if adjustments will need to be included in future rate development processes.

**(c) Provider Payment Requirements**

Adjustments related to provider payment requirements under Delivery System and Provider Payment Initiatives are discussed in Section I.4.D of this rate certification. Additionally, provider payment requirements related to FQHCs are described in Section I.3.B.ii.(a).

**(d) Applicable Waivers**

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

**(e) Applicable Litigation**

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

**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.

**(a) Non-Material Changes**

Per 42 CFR § 438.7(b)(4) of 81 FR 27497, all material and non-material adjustments related to the projected benefit costs and trends have been described.

## **4. Special Contract Provisions Related to Payment**

### **A. Incentive Arrangements**

**i. Rate Development Standards**

This section of the 2018 Guide provides information on the definition and requirements of an incentive arrangement.

**ii. Appropriate Documentation**

**(a) Description of Any Incentive Arrangements**

Per section 42 CFR § 438.6(b)(2) at 81 FR 27859 the capitation payments including all incentive arrangements will not exceed 105 percent of the capitation payments prior to any incentive payments.

**Alternative Payment Model (APM) Initiative – Quality Measure Performance**

The incentive arrangement for the Alternative Payment Model (APM) Initiative – Quality Measure Performance is a special provision for payment where Contractors may receive additional funds over and above the capitation rates

for performance on a select subset of AHCCCS quality measures. An incentive pool is determined by the portion of the withhold described below that is not returned to the Contractors under the terms of the withhold arrangement. The maximum incentive pool possible is approximately \$11.2 million, which is the amount that would be available if every Contractor earned exactly 0% of the withhold described below. This is not anticipated to happen, and thus the incentive pool will be determined by the portion of the withhold which is not earned across all Contractors. The incentive arrangements will not exceed 105% of the capitation payments.

#### **APM Initiative – Performance Based Payments**

The CYE 18 capitation rates for the ALTCS/EPD Program include an incentive arrangement, as described under 42 CFR § 438.6(b)(2) at 81 FR 27589, called the APM Initiative – Performance Based Payments. The APM Initiative – Performance Based Payments incentive arrangement is a special provision for payment where the ALTCS/EPD Contractors may receive additional funds over and above the capitation rates for implementing APM arrangements with providers who successfully meet targets established by ALTCS/EPD Contractors that are aimed at quality improvement, such as reducing costs, improving health outcomes or improving access to care. The incentive arrangements will not exceed 105% of the capitation payments. It is anticipated that the APM Initiative – Performance Based Payment amounts for CYE 18 will be at least \$1.55 million, which is approximately 0.14% of projected CYE 18 capitation payments, based upon current CYE 17 APM Initiative – Performance Based Payment amounts.

#### **(i) Time Period**

The time period of the incentive arrangements described herein coincides with the rating period.

#### **(ii) Enrollees, Services, and Providers Covered**

##### **APM Initiative – Quality Measure Performance**

The incentive arrangement includes quality measures impacting emergency department and inpatient hospital services, comprehensive diabetes management, and flu shots for adults. All adult and child enrollees and providers utilizing/providing these services, respectively, are covered by the incentive arrangement, unless specifically stated otherwise.

##### **APM Initiative – Performance Based Payments**

All enrollees, children and adults, may be covered by this incentive arrangement. Likewise, all network providers have the opportunity to participate in the APM arrangements and all covered services are eligible for inclusion. The ALTCS/EPD Contractors are mandated to utilize the APM strategies in the Health Care Payment Learning and Action Network (LAN) Alternative Payment Model Framework with a focus on Categories 2, 3



and 4 as defined at <https://hcp-lan.org/workproducts/apm-whitepaper.pdf>.

The ALTCS/EPD Contractors provider contracts must include performance measures for quality and/or cost efficiency.

**(iii) Purpose**

**APM Initiative – Quality Measure Performance**

The purpose of the APM Initiative – Quality Measure Performance incentive arrangement is to encourage Contractor activity in the area of quality improvement, particularly those initiatives that are conducive to improved health outcomes and cost savings. Contractors are required to meet a targeted percentage of total expenses under an APM contract arrangement in order to participate in the APM Initiative incentive.

**APM Initiative – Performance Based Payments**

The purpose of the APM Initiative – Performance Based Payments incentive arrangement is to align incentives between the Contractors and providers to the quality and efficiency of care provided by rewarding providers for their measured performance across the dimensions of quality to achieve cost savings and quantifiable improved outcomes.

**(iv) Effect on Capitation Rate Development**

**APM Initiative – Quality Measure Performance**

Incentive payments are not included in the certified capitation rates and had no effect on the development of the capitation rates. AHCCCS does not have analysis on the amount of the anticipated incentive payment, since it is dependent on the amount of unearned withhold across all Contractors, and that has yet to be determined. Incentive payments for the APM Initiative will be paid by AHCCCS to the Contractors through lump sum payments after the completion of the contract year and the computation of the quality measures, and after the withhold payments are distributed and the value of the incentive pool determined.

**APM Initiative – Performance Based Payments**

Incentive payments for the APM Initiative – Performance Based Payments incentive arrangement are not included in the CYE 18 capitation rates for the ALTCS/EPD Program. Additionally, incentive payments for the APM Initiative – Performance Based Payments incentive arrangement had no impact on the development of the CYE 18 capitation rates for the ALTCS/EPD Program. The anticipated incentive payment amount of at least \$1.55 million will be paid by AHCCCS to the ALTCS/EPD Contractors through lump sum payments after the completion of the CYE 18 contract year.

## **B. Withhold Arrangements**

### **i. Rate Development Standards**

This section of the 2018 Guide provides information on the definition and requirements of a withhold arrangement.

### **ii. Appropriate Documentation**

#### **(a) Description of Any Withhold Arrangements**

The purpose of the ALTCS/EPD withhold is to encourage Contractor activity in the area of quality improvement, particularly those initiatives that are conducive to improved health outcomes and cost savings. Contractors are required to engage in a minimally-set targeted percentage of total expenses under an APM purchasing arrangement in order to receive any payment from the APM payment withhold.

#### **(i) Time Period**

The time period of the withhold arrangement coincides with the rating period.

#### **(ii) Description of Percentage of Capitation Rates Withheld**

AHCCCS has established a quality withhold of 1% of the Contractor's capitation and a percentage (up to 100%) of the withheld amount will be paid to the Contractor for performance on select quality measures including emergency department utilization, hospital readmissions, comprehensive diabetes management (including HbA1c testing and LDL-C screening), and flu shots for adults over the age of 18. AHCCCS will determine the portion of the withheld amount to be returned based on a review of each Contractor's Healthcare Effectiveness Data and Information Set (HEDIS) data and the Contractor's compliance with these quality measures.

#### **(iii) Percentage of the Withheld Amount Not Reasonably Achievable**

It is highly unlikely that a Contractor will not receive some portion of the withhold back. The only scenario where a Contractor would earn none of the withhold back is if they failed to meet the targeted percentage of total expenses under an APM purchasing arrangement. However, the AHCCCS DHCM Actuarial Team does not have the information they need to develop an estimate of the withheld amount that is not reasonably achievable.

#### **(iv) Description of Reasonableness of Withhold Arrangement**

The actuary relied upon the AHCCCS DHCM Finance & Reinsurance Team's review. That review of the total withhold percentage of 1% of capitation revenue indicated that it is reasonable within the context of the capitation rate development, and that the magnitude of the

withhold does not have a detrimental impact on the Contractors' financial operation needs and capital reserves. The AHCCCS DHCM Finance & Reinsurance Team's interpretation of financial operating needs relates to cash flow needs for the Contractors to pay claims and administer benefits for its covered populations. The AHCCCS DHCM Finance & Reinsurance Team evaluated the reasonableness of the withhold within this context by reviewing the Contractors' cash available to cover operating expenses, as well as the capitation rate payment mechanism utilized by AHCCCS. To evaluate the reasonableness of the withhold in relation to capitalization levels, the AHCCCS DHCM Finance & Reinsurance Team reviewed the surplus above the equity per member requirement, the performance bond amounts, and financial stability of each Contractor to pay all obligations. The AHCCCS DHCM Finance & Reinsurance Team reviewed cash and cash equivalent levels in relation to the withhold arrangement and has indicated the withhold arrangement is reasonable based on current cash levels.

**(v) Effect on Capitation Rate Development**

The capitation rates shown in this rate certification are illustrated before offset for the withhold amount; however the CYE18 capitation rates documented in this report are actuarially sound even if none of the withhold is earned back.

## **C. Risk-Sharing Mechanisms**

### **i. Rate Development Standards**

This section of the 2018 Guide provides information on the requirements for risk-sharing mechanisms.

### **ii. Appropriate Documentation**

#### **(a) Description of Risk-Sharing Mechanisms**

The CYE 18 capitation rates for the ALTCS/EPD Program will include risk corridors.

#### **(i) Rationale for Risk-Sharing Mechanisms**

AHCCCS has a long-standing program policy of including risk corridors within the managed care programs to protect the State against excessive Contractor profits, and to protect Contractors from excessive losses. This risk sharing arrangement also contributes to Contractor sustainability and program continuity, which is an additional intangible benefit to the stability of the Medicaid member. The CYE 18 capitation rates will continue AHCCCS' long-standing program policy and will include risk corridors. This

rate certification will use the term risk corridor to be consistent with the 2018 Guide. The ALTCS/EPD Contract refers to the risk corridor as reconciliation.

**(ii) Description of Risk-Sharing Mechanisms**

The PPC risk corridor will reconcile the Contractor's medical cost expenses to the net capitation paid to the Contractor. Net capitation is equal to the capitation rates paid less the premium tax and the administrative component. The Contractor's medical cost expenses are equal to the Contractor's fully adjudicated encounters and subcapitated/block purchase expenses as reported by the Contractor with dates of service during the contract year. This reconciliation is performed 12 months after the end of the contract year being reconciled.

The share of cost (SOC) risk corridor will reconcile the actual member share of cost (SOC) payments received by each Contractor during each federal fiscal year against the PMPM amounts assumed in the capitation rates for that year. The SOC payments are reconciled to zero; that is, payments to, or recoupments from, each Contractor are the arithmetic difference between the actual and assumed amounts, grossed up by 2% for premium tax.

The HCBS mix percentage risk corridor will reconcile each Contractor's actual observed HCBS placement percentage for each rate cell and GSA against the percentage assumed in the capitation rates. Since gross medical expenses PMPM are higher for members placed in nursing facilities than those placed in HCBS, AHCCCS pays each Contractor whose actual placement percentage is lower than the percentage assumed in the rates (because the blended capitation rate would be too low) and recoups from each Contractor whose actual placement percentage exceeds the assumption in the rates (because the blended capitation rate would be too high). Payments or recoupments for any rate cell/GSA occur only when the actual placement percentage varies from the assumption in the rates by more than one percent. The dollar amount of the payment to, or recoupment from, each Contractor is 50% of the difference between the gross NF expense PMPM and the gross HCBS expense PMPM assumed in the rates, multiplied by the number of member months that reflects excess variance above 1% from the placement mix assumption in the rates. Table 5 provides a sample calculation of the HCBS reconciliation for illustrative purposes.

**Table 5: Illustration of HCBS Reconciliation for one Contractor, Rate Cell and GSA**

1	Member Months		1,200	
2	Assumed Placement		75.0%	
3	Actual Placement		72.0%	
4	Variance (3-2)		-3.00%	
5	Gross NF PMPM Assumed in Rates	\$	6,400.00	
6	Gross HCBS PMPM Assumed in Rates	\$	1,200.00	
7	PMPM Variance (5-6)	\$	5,200.00	
8	MMs over/(under) Placement Percentage (1x4)		(36)	
9	Capitation Over/(under) Payment (7x8)	\$	(187,200.00)	
Allocate Over/(Under) Payment:				Pct
Between 0% and 1% Variance from Assumed		\$	62,400.00	0%
Above 1% Variance from Assumed		\$	124,800.00	50%
				Pay to Plan
				\$
Premium Tax				\$
Total Plan Payment including Premium Tax				\$

Additional information regarding the risk corridors can be found in the Compensation section of the ALTCS/EPD Contract.

**(iii) Effect of Risk-Sharing Mechanisms on Capitation Rates**

The risk corridors did not have any effect on the development of the CYE 18 capitation rates for the ALTCS/EPD Program.

**(iv) Risk-Sharing Mechanisms Documentation**

The predetermined threshold amounts for the risk corridors were set using actuarial judgement with consideration of conversations between the AHCCCS DHCM Actuarial Team, the AHCCCS DHCM Finance & Reinsurance Team and the AHCCCS Office of the Director.

**(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.

**(c) Description of Reinsurance Requirements**

**(i) Reinsurance Requirements**

AHCCCS provides a reinsurance program to the ALTCS/EPD Contractors for the partial reimbursement of covered medical services incurred during the contract year. This reinsurance program is similar to what you 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 ALTCS/EPD Contractors paying a premium, the capitation rates are instead adjusted by subtracting the reinsurance offset from the gross medical. One could view the reinsurance offset as a premium. Historical reinsurance experience is the basis of the reinsurance offset.

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 ALTCS/EPD Contractors for covered services incurred above the deductible. The deductible is the responsibility of the ALTCS/EPD Contractors.

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

The projected reinsurance offset PMPM assumed in the CYE 18 capitation rates varies by rate cell. Table 6 below includes the projected reinsurance offsets assumed in the CYE 18 capitation rates and the percentage of the total capitation rate for each Prospective rate cell. Reinsurance does not apply to PPC.

**Table 6: Projected Reinsurance Offsets PMPM and Percentage of Capitation**

Rate Cell	Offset PMPM	Percent of Capitation for Rate Cell
Prospective Dual	-\$40.10	1.3%
Prospective Non-Dual	-\$454.11	7.2%
Prospective Acute Care Only	-\$269.98	15.6%

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

(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 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.

(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.

(iv) **Data, Assumptions, Methodology to Develop the Reinsurance Offset**

The data used to develop the reinsurance offset are historical reinsurance payments to the ALTCS/EPD Contractors for services incurred during FFY 15. The data is “brought current” by way of completion factors specific to reinsurance payments, adjustments for historical and proposed program and reimbursement changes, and has the same trend factors applied as the gross medical expense for acute care services, since LTC services are not eligible for consideration in reinsurance. See Section I.3.B.ii.(b) for additional information about changes in the reinsurance program. See Appendix 4d for the development of the offset.

## **D. Delivery System and Provider Payment Initiatives**

### **i. Rate Development Standards**

This section of the 2018 Guide provides information on provider payment initiatives.

### **ii. Appropriate Documentation**

#### **(a) Description of Delivery System and Provider Payment Initiatives**

##### **(i) Description**

##### **AHCCCS Differential Adjusted Payments**

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.

### **Nursing Facility Enhanced Payments – Allotment 2**

AHCCCS seeks to provide enhanced support to nursing facilities in order to preserve access to these providers who deliver essential services to Medicaid recipients in Arizona. Contractors will provide a uniform dollar increase across all Contractors' reported nursing facility Medicaid bed days to network providers that provide nursing facility services. The uniform increase is intended to supplement, not supplant, payments to eligible providers.

#### **(ii) Amount**

##### **AHCCCS Differential Adjusted Payments**

The total amount of payments before premium tax, admin or underwriting gain included as an adjustment to the capitation rates is approximately \$2.5 million or \$7.79 PMPM.

##### **Nursing Facility Enhanced Payments – Allotment 2**

Anticipated enhanced nursing facility payments before premium tax are approximately \$30.5 million. Enhanced nursing facility payments will be paid by AHCCCS to the Contractors either as a per member per month adjustment or through lump sum payments after each contract year quarter.

#### **(iii) Providers Receiving Payment**

##### **AHCCCS Differential Adjusted Payments**

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.

##### **Nursing Facility Enhanced Payments – Allotment 2**

The qualifying providers receiving the payments include nursing facilities who deliver essential services to ALTCS/EPD enrollees.

#### **(iv) Effect on Capitation Rate Development**

##### **AHCCCS Differential Adjusted Payments**

Funding for DAP is included in the certified capitation rates. 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 CYE 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 CYE 18 time period. The AHCCCS DHCM Actuarial Team then reviewed the results and applied the impacts by program. AHCCCS describes the methodology, data and assumptions related the DAP within the approved 438.6(c) pre-print.

#### **Nursing Facility Enhanced Payments – Allotment 2**

Enhanced nursing facility payments are not included in the certified capitation rates and had no effect on the development of the capitation rates. AHCCCS describes the methodology, data and assumptions related the enhanced nursing facility payments within the 438.6(c) pre-print.

### **E. Pass-Through Payments**

#### **i. Rate Development Standards**

This section of the 2018 Guide provides information on the pass-through payments.

#### **ii. Appropriate Documentation**

##### **(a) Existing Pass-Through Payments**

The ALTCS/EPD Program includes an existing pass-through payment for nursing facilities.

##### **(i) Description of Pass-Through Payments**

AHCCCS seeks to provide enhanced support to Arizona nursing facilities in order to maintain access to care. Contractors will pass-through payments to qualifying network providers. The pass-through payments will not supplant any payments to eligible providers.

##### **(ii) Amount of Pass-Through Payments**

Nursing facility pass-through payments are not included in the certified capitation rates. AHCCCS will adjust capitation rates either as a per member per month adjustment or in the form of a lump sum payment to the Contractor in an amount equal to the pass-through payments due nursing facility providers after the completion of each contract year quarter. The total amount before premium tax of the pass-through payment for Nursing Facilities in the CYE 18 capitation rates is \$65,306,787. The total amount with 2% premium tax is \$66,639,578.

**(iii) Providers Receiving Pass-Through Payments**

The qualifying providers receiving the payments include nursing facilities who deliver essential services to ALTCS EPD enrollees.

**(iv) Financing Mechanism Pass-Through Payments**

The nursing facility pass-through payments are financed through an assessment on Arizona nursing facilities pursuant to State Law ARS §36-2999.51 et seq. and State Rule R9-28-702.

**(v) Amount of Pass-Through Payments in Previous Rating Period**

The total amount before premium tax of the pass-through payment for nursing facilities incorporated in the CYE 17 capitation rates was \$85,735,303. The total amount with 2% premium tax was \$87,485,003.

**(vi) Amount of Pass-Through Payments in Rating Period with July 5, 2016**

The total amount before premium tax of the pass-through payment for nursing facilities in the CYE 16 capitation rates was \$65,306,787. The CYE 16 capitation rates covered the October 1, 2015 through September 30, 2016 and therefore included the date of July 5, 2016 as required by 42 CFR § 438.6(d) at 81 FR 27860 and later amended by 42 CFR Part 438 of 82 FR 5415 (published January 18, 2017 and effective March 20, 2017).

**(b) Base Amount Information**

Not applicable. The CYE 18 capitation rates for the ALTCS/EPD Program do not include a hospital pass-through.

**5. Projected Non-Benefit Costs**

**A. Rate Development Standards**

This section of the 2018 Guide provides information on the non-benefit component of the capitation rates.

**B. Appropriate Documentation**

**i. Description of the Development of Projected Non-Benefit Costs**

**(a) Data, Assumptions, Methodology**

The case management expense PMPM in each Contractor- and GSA- specific Prospective Dual and Non-Dual capitation rate was the amount bid by each awarded Contractor, adjusted for the difference between the HCBS placement percentage assumed in the RFP and the revised projected placement percentage that informed the certified CYE 18 capitation rates.

The administrative expense PMPM assumption in each Contractor- and GSA-specific capitation rate was the amount bid by each awarded Contractor. No adjustments were made to the bid amounts.

**(b) Material Changes**

The methodology for developing the ALTCS/EPD non-benefit component of the capitation rate has changed since the CYE 17 capitation rate development process. The CYE 18 non-benefit components of the capitation rates are developed by using the awarded case management expenses and administrative expenses PMPM from the most recent RFP, with adjustments by GSA and Contractor as described in this certification.

There were no other material changes to the data, assumptions, or methodologies since the last rate certification.

**(c) Description of Other Material Adjustments**

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

**ii. Projected Non-Benefit Costs by Category**

The actuary estimated the projected non-benefit costs for each of the listed categories of costs in the guide. Please see the table in Appendix 4c.

**(a) Administrative Costs**

The administrative expenses PMPM by GSA for the Prospective Dual and Non-Dual rate cells were competitively bid and awarded. No further adjustments were applied. As noted above in Section I.1.A.ii.(d).(i).(C).(iii), the administrative expenses PMPM applied in the buildup of the Acute Care Only capitation rate are a function of those for the Dual and Non-Dual rate cells. For the PPC capitation rate, the administrative expense PMPM was set by calculating the percentage of total net medical expenses for the Dual and Non-Dual rate cells that the respective administrative expenses represent, and applying that percentage to the total projected medical expenses for PPC.

The administrative expense PMPMs by rate cell, Contractor and GSA are provided in Appendix 4c.

**(b) Taxes and Other Fees**

The CYE 18 capitation rates for the ALTCS/EPD Program 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.

**(c) Contribution to Reserves, Risk Margin, and Cost of Capital**

The CYE 18 capitation rate for the ALTCS/EPD Program includes a provision of 1% for risk margin (i.e. underwriting gain).

**(d) Other Material Non-Benefit Costs**

No other material or non-material non-benefit costs are reflected in the CYE 18 capitation rates for the ALTCS/EPD Program.

**iii. Health Insurance Provider's Fee**

**(a) Address if in Rates**

The CYE 18 capitation rates for the ALTCS/EPD Program reflected in this rate certification do not incorporate the Health Insurance Providers Fee (HIPF). AHCCCS will follow previous ALTCS/EPD Program capitation rate methodologies for the HIPF, in which capitation rates are amended to reflect the calculated HIPF and related tax impacts. AHCCCS does not intend to submit a new actuarial certification due to this update since the documentation below describes the process. A letter to CMS with the impact to the ALTCS/EPD Program will be submitted once it is known, anticipated late 2018.

**(b) Data Year or Fee Year**

Not applicable. The HIPF is not incorporated into the CYE 18 capitation rates for the ALTCS/EPD Program.

**(c) Description of how Fee was Determined**

Not applicable. The HIPF is not incorporated into the CYE 18 capitation rates for the ALTCS/EPD Program.

**(d) Address if not in Rates**

The CYE 18 ALTCS/EPD capitation rates do not include the fee at this time; the impact to the ALTCS/EPD Program will be addressed in a letter to CMS once the fees are known.

The PMPM capitation adjustments will be developed based on the fee liability reported to AHCCCS. ALTCS/EPD Contractors are notified of the fee liability for the entire entity by the Treasury Department. Contractors who receive multiple streams of revenue applicable to the HIPF calculation will be responsible for allocating an appropriate portion of their fee liability to AHCCCS, which will be verified by AHCCCS for reasonableness and appropriateness. To determine if the reported revenue and the HIF liability allocations to AHCCCS from the Contractors is reasonable and appropriate, AHCCCS will review for each Contractor the HIF liability allocated to AHCCCS as a percentage of the total HIF liability from the IRS, and the revenue allocated to AHCCCS as a percentage of the total revenue reported to the IRS. Additionally, AHCCCS will compare the revenue allocated to each AHCCCS program from each Contractor against paid

capitation data and determine if the revenue allocated by Contractor to each AHCCCS program is reasonable and appropriate.

As in previous years, the PMPM adjustments will be developed based on each entity’s actual member months within each applicable rate cell. This adjustment is expected to be calculated in late 2018. The estimated impact to the ALTCS/EPD Program of this adjustment is a statewide increase of approximately \$3.8 million.

**(e) Summary of Benefits Under 26 CFR § 57.2(h)(2)(ix)**

The portion of the CYE 18 capitation rates for the ALTCS/EPD Program attributable to nursing facility services, and related home and community based services, are shown below in Table 7.

**Table 7: Percentage of Capitation Attributable to NF & HCBS Services**

Rate Cell	CYE 18 MMs	LTC NF	LTC HCBS	LTC Total
Prospective Dual	268,311	\$1,260.81	\$1,237.19	\$2,497.99
Prospective Non-Dual	49,591	\$1,869.73	\$1,568.46	\$3,438.19
Prospective Acute Care Only	4,892	\$0.00	\$0.00	\$0.00
Prior Period Coverage	11,524	\$616.80	\$150.65	\$767.45
<b>Total</b>	<b>334,317</b>	<b>\$1,310.48</b>	<b>\$1,230.77</b>	<b>\$2,541.25</b>

**6. Risk Adjustment and Acuity Adjustments**

The ALTCS/EPD Program does not apply diagnosis-based risk adjustment in development of capitation rates. For CYE 18, acuity adjustments by rate cell, Contractor, GSA, and COS were applied to the bid gross medical expense PMPM amounts, as noted in Section I.2.B.iii, to reflect estimated variation in Contractor-specific acuity from the GSA-average amounts used in the RFP bids.

**A. Rate Development Standards**

**i. Risk Adjustment**

This section of the 2018 Guide provides information about risk adjustment. Not applicable.

**ii. Budget Neutrality**

This section of the 2018 Guide provides information on budget neutrality. Not applicable.

**iii. Acuity Adjustment**

This section of the 2018 Guide provides information on acuity adjustments.

In developing the CYE 18 Prospective capitation rates, acuity adjustments were applied to the bid PMPM amounts for NF, HCBS, and Acute Care expenses by GSA and rate cell from the RFP. The acuity adjustments in the CYE 18 capitation rates for the ALTCS/EPD Program are applied on a prospective basis and were developed to reflect that RFP bids were submitted using GSA-average gross medical expenses, but PMPM medical expenses are expected to vary by Contractor within each GSA where more than one Contractor is active.

## **B. Appropriate Documentation**

### **i. Prospective Risk Adjustment**

Not applicable. The CYE 18 capitation rates for the ALTCS/EPD Program do not include prospective risk adjustment.

### **ii. Retrospective Risk Adjustment**

Not applicable. The CYE 18 capitation rates for the ALTCS/EPD Program do not include retrospective risk adjustment.

### **iii. Additional Items on Risk Adjustment**

Not applicable. The CYE 18 capitation rates for the ALTCS/EPD Program do not include retrospective risk adjustment.

### **iv. Acuity Adjustment Description**

#### **(a) Reason for Uncertainty**

The adjustments were necessary because the RFP bid ranges for gross medical expense amounts by COS and GSA were developed using GSA-average cost levels (e.g. the combined experience for all three incumbent Contractors active in the Central GSA). Since two of the three Contractors which will be active in CYE 18 are not new to the program, and AHCCCS has preliminary information about members' plan movement as noted in Section I.2.B.iii, the acuity adjustments facilitate a better representation of each Contractor's projected medical expenses.

#### **(b) Acuity Adjustment Model**

The acuity adjustments by COS for each rate cell, Contractor, and GSA are based on member-weighted averages of the cost relativities of each incumbent Contractor to the GSA average for each COS.

#### **(c) Acuity Adjustment Data**

The acuity adjustments are developed from the three federal fiscal years of encounter data contained in the RFP data book.

**(d) Relationship and Potential Interactions**

The acuity adjustments for each Contractor relate to each other in that they are budget-neutral in aggregate.

**(e) Frequency of Calculation**

When sufficient Contractor-specific experience is available for rate development, the acuity adjustments incorporated into the CYE 18 capitation rates will no longer apply.

**(f) Application of Acuity Scores**

The acuity adjustments were multiplied by the bid gross medical expense PMPM for each rate cell, Contractor, GSA, and COS.

**(g) Acuity Score Documentation**

The acuity adjustments are provided in Appendix 6. The development of the acuity adjustment will be provided to CMS in a separate Excel file.

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

Section II of the 2018 Medicaid Managed Care Rate Development Guide is applicable to the ALTCS/EPD Program because the CYE 18 capitation rates are subject to the applicable “actuarial soundness” provisions from 42 CFR § 438.4 of 81 FR 27497 and the ALTCS/EPD Program includes managed long-term services and supports (MLTSS).

### 1. Managed Long-Term Services and Supports

#### A. CMS Expectations

The rate development standards and appropriate documentation described in Section I of the 2018 Guide are applicable to the MLTSS rate development process.

#### B. Rate Development Standards

##### i. Rate Cell Structure

This section of the 2018 Guide provides the two most common approaches to structuring the rate cells.

#### C. Appropriate Documentation

##### i. Considerations

###### (a) Rate Cell Structure

The monthly capitation rate for each rate cell is developed as a blended rate payable for each enrolled member.

###### (b) Data, Assumptions, Methodologies

Data, assumptions and methodologies used for the adjustments to the bid gross medical expenses and case management expenses are described above in Sections I.5.B and I.6.

###### (c) Other Payment Structures, Incentives, or Disincentives

There are no other payment structures, incentives or disincentives to pay ALTCS/EPD Contractors other than what has already been described above in Sections I.4.A and I.4.C.

###### (d) Effect of MLTSS on Utilization and Unit Cost

The ALTCS/EPD Program operates as managed care. No data is available that would quantify the impacts of care management on utilization or unit costs.

###### (e) Effect of MLTSS on Setting of Care

The ALTCS/EPD Program operates as managed care. No data is available that quantifies the effect that the management of this care is expected to have on the level of care within each care setting.



**ii. Projected Non-benefit Costs**

The development of projected non-benefit costs is described in Section I.5.B of this certification.

**iii. Additional Information**

No additional information beyond the types and sources of data described in Section I.2.B.ii of this certification was considered.

### **Section III New Adult Group Capitation Rates**

Section III of the 2018 Medicaid Managed Care Rate Development Guide is not applicable to the ALTCS/EPD Program. As noted in Section I.1.B.iii, all covered populations under the ALTCS/EPD Program receive the regular FMAP.

## 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 are 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) (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 CYE 18 capitation rates for the DES/DDD Program have been documented according to the guidelines established by CMS in the 2018 Guide. The CYE 18 capitation rates for the ALTCS/EPD Program are effective for the twelve month time period from October 1, 2017 through September 30, 2018.

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 ALTCS/EPD. I have relied upon AHCCCS and ALTCS/EPD 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

October 1, 2017

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Matthew C. Varitek

Date

Fellow, Society of Actuaries

Member, American Academy of Actuaries

## Appendix 2: Certified Capitation Rates

Rate Cell	Contractor	GSA	CYE 18 Capitation Rate
Prospective Dual	UHC-LTC	North	\$2,771.65
Prospective Dual	Banner-UFC	South	\$2,940.84
Prospective Dual	Mercy Care	South	\$3,130.43
Prospective Dual	UHC-LTC	Central	\$2,676.91
Prospective Dual	Banner-UFC	Central	\$3,137.78
Prospective Dual	Mercy Care	Central	\$3,272.61
Prospective Non-Dual	UHC-LTC	North	\$5,363.16
Prospective Non-Dual	Banner-UFC	South	\$5,489.66
Prospective Non-Dual	Mercy Care	South	\$6,095.08
Prospective Non-Dual	UHC-LTC	Central	\$5,858.90
Prospective Non-Dual	Banner-UFC	Central	\$6,551.50
Prospective Non-Dual	Mercy Care	Central	\$6,940.43
Prospective Acute Care Only	UHC-LTC	North	\$1,694.76
Prospective Acute Care Only	Banner-UFC	South	\$1,585.61
Prospective Acute Care Only	Mercy Care	South	\$1,544.39
Prospective Acute Care Only	UHC-LTC	Central	\$1,719.49
Prospective Acute Care Only	Banner-UFC	Central	\$1,729.41
Prospective Acute Care Only	Mercy Care	Central	\$1,848.32
Prior Period Coverage	UHC-LTC	North	\$1,072.88
Prior Period Coverage	Banner-UFC	South	\$929.48
Prior Period Coverage	Mercy Care	South	\$929.48
Prior Period Coverage	UHC-LTC	Central	\$898.55
Prior Period Coverage	Banner-UFC	Central	\$898.55
Prior Period Coverage	Mercy Care	Central	\$898.55

### Appendix 3: Fiscal Impact Summary

Rate Cell	Projected CYE 18 Member Months	Updated CYE 17 Capitation Rate	CYE 18 Capitation Rate	PMPM Change
Prospective Dual	268,311	\$3,127.35	\$3,018.02	-\$109.34
Prospective Non-Dual	49,591	\$5,884.15	\$6,314.06	\$429.91
Prospective Acute Care Only	4,892	\$614.69	\$1,727.43	\$1,112.73
Prior Period Coverage	11,524	\$1,034.26	\$923.86	-\$110.39
<b>Total</b>	<b>334,317</b>	<b>\$3,427.37</b>	<b>\$3,415.86</b>	<b>-\$11.50</b>

Rate Cell	CYE 17 Projected Expenditures	CYE 18 Projected Expenditures	Dollar Impact	Percentage Impact
Prospective Dual	\$839,102,026	\$809,765,496	-\$29,336,529	-3.5%
Prospective Non-Dual	\$291,798,528	\$313,117,837	\$21,319,309	7.3%
Prospective Acute Care Only	\$3,007,175	\$8,450,824	\$5,443,649	181.0%
Prior Period Coverage	\$11,918,339	\$10,646,233	-\$1,272,106	-10.7%
<b>Total</b>	<b>\$1,145,826,068</b>	<b>\$1,141,980,390</b>	<b>-\$3,845,678</b>	<b>-0.3%</b>

**Notes:**

1. The Updated CYE 17 Capitation Rate represents the most recently submitted rate effective from January 1, 2017 through September 30, 2017.

## Appendix 4a: Unadjusted and Adjusted Base Data by Rate Cell – Top of Range for RFP Bid

CYE 18, Gross Nursing Facility (NF) Expenses PMPM						
Rate Cell	GSA	Unadjusted Base Data PMPMs	Completion Factors	Reimbursement Changes	PMPM Trend	Adjusted Base Data PMPMs, Trended to CYE 18
Prospective Dual	North	\$3,709.50	0.9528	1.0183	2.11%	\$5,303.96
Prospective Dual	South	\$4,183.63	0.9528	1.0152	2.11%	\$5,609.95
Prospective Dual	Central	\$4,477.28	0.9528	1.0168	2.11%	\$6,019.12
Prospective Non-Dual	North	\$4,976.07	0.9528	1.0182	2.26%	\$5,857.89
Prospective Non-Dual	South	\$6,187.55	0.9528	1.0158	2.26%	\$7,224.29
Prospective Non-Dual	Central	\$6,760.19	0.9528	1.0178	2.26%	\$7,863.12

CYE 18, Gross Home- and Community-Based Settings (HCBS) Expenses PMPM						
Rate Cell	GSA	Unadjusted Base Data PMPMs	Completion Factors	Reimbursement Changes	PMPM Trend	Adjusted Base Data PMPMs, Trended to CYE 18
Prospective Dual	North	\$1,052.70	0.9670	1.0353	1.57%	\$1,180.98
Prospective Dual	South	\$1,343.57	0.9670	1.0353	1.57%	\$1,507.29
Prospective Dual	Central	\$1,475.52	0.9670	1.0353	1.57%	\$1,655.33
Prospective Non-Dual	North	\$1,350.34	0.9670	1.0353	1.53%	\$1,513.28
Prospective Non-Dual	South	\$1,599.77	0.9670	1.0353	1.53%	\$1,792.82
Prospective Non-Dual	Central	\$1,895.06	0.9670	1.0353	1.53%	\$2,123.74

CYE 18, Gross Acute Care Expenses PMPM						
Rate Cell	GSA	Unadjusted Base Data PMPMs	Completion Factors	Reimbursement Changes	PMPM Trend	Adjusted Base Data PMPMs, Trended to CYE 18
Prospective Dual	North	\$116.30	0.9530	1.1199	0.00%	\$136.66
Prospective Dual	South	\$156.40	0.9413	1.1016	0.00%	\$183.04
Prospective Dual	Central	\$208.82	0.9433	1.0680	0.00%	\$236.41
Prospective Non-Dual	North	\$2,083.69	0.9457	1.0055	6.42%	\$2,670.37
Prospective Non-Dual	South	\$2,124.42	0.9453	1.0128	6.42%	\$2,743.40
Prospective Non-Dual	Central	\$2,278.01	0.9366	1.0162	6.42%	\$2,979.05

## Appendix 4b: Unadjusted and Adjusted Base Data by Rate Cell – Bottom of Range for RFP Bid

CYE 18, Gross Nursing Facility Expenses PMPM						
Rate Cell	GSA	Unadjusted Base Data PMPMs	Completion Factors	Reimbursement Changes	PMPM Trend	Adjusted Base Data PMPMs, Trended to CYE 18
Prospective Dual	North	\$3,650.24	0.9816	1.2969	2.11%	\$5,244.63
Prospective Dual	South	\$4,172.71	0.9818	1.2008	2.11%	\$5,549.61
Prospective Dual	Central	\$4,387.44	0.9815	1.2157	2.11%	\$5,910.20
Prospective Non-Dual	North	\$4,900.01	0.9816	1.0272	2.26%	\$5,814.96
Prospective Non-Dual	South	\$6,157.54	0.9818	1.0120	2.26%	\$7,100.45
Prospective Non-Dual	Central	\$6,658.62	0.9816	1.0195	2.26%	\$7,698.01

CYE 18, Gross HCBS Expenses PMPM						
Rate Cell	GSA	Unadjusted Base Data PMPMs	Completion Factors	Reimbursement Changes	PMPM Trend	Adjusted Base Data PMPMs, Trended to CYE 18
Prospective Dual	North	\$1,049.68	0.9869	1.0258	1.57%	\$1,161.21
Prospective Dual	South	\$1,325.71	0.9868	1.0245	1.57%	\$1,464.34
Prospective Dual	Central	\$1,452.95	0.9868	1.0121	1.57%	\$1,585.73
Prospective Non-Dual	North	\$1,313.65	0.9867	1.0253	1.53%	\$1,451.18
Prospective Non-Dual	South	\$1,585.29	0.9869	1.0242	1.53%	\$1,748.56
Prospective Non-Dual	Central	\$1,870.53	0.9868	1.0122	1.53%	\$2,038.63

CYE 18, Gross Acute Care Expenses PMPM						
Rate Cell	GSA	Unadjusted Base Data PMPMs	Completion Factors	Reimbursement Changes	PMPM Trend	Adjusted Base Data PMPMs, Trended to CYE 18
Prospective Dual	North	\$109.69	0.9809	1.1232	-0.48%	\$125.60
Prospective Dual	South	\$152.86	0.9773	1.1126	-0.48%	\$174.03
Prospective Dual	Central	\$217.06	0.9793	1.0589	-0.48%	\$234.71
Prospective Non-Dual	North	\$2,060.28	0.9794	1.2210	5.00%	\$2,568.68
Prospective Non-Dual	South	\$1,986.58	0.9783	1.2386	5.00%	\$2,515.25
Prospective Non-Dual	Central	\$2,175.23	0.9753	1.2659	5.00%	\$2,823.16



## Appendix 4c: Projected Member Share of Cost and Reinsurance Payments, Unadjusted and Adjusted Case Management Expenses, and Awarded Administrative Expenses PMPM by Rate Cell

Rate Cell	Contractor	GSA	SOC PMPM	Reinsurance PMPM	Bid Case Mgmt PMPM	Case Mgmt Adj Factor	Adjusted Case Mgmt PMPM	Awarded Admin Exp PMPM
Prospective Dual	UHC-LTC	North	-\$293.14	-\$9.78	\$158.00	1.0086	\$159.35	\$180.00
Prospective Dual	Banner-UFC	South	-\$226.61	-\$17.15	\$128.15	1.0028	\$128.51	\$138.24
Prospective Dual	Mercy Care	South	-\$224.17	-\$23.51	\$131.71	1.0047	\$132.34	\$45.34
Prospective Dual	UHC-LTC	Central	-\$154.94	-\$33.97	\$150.00	1.0417	\$156.25	\$180.00
Prospective Dual	Banner-UFC	Central	-\$258.57	-\$44.12	\$124.14	0.9700	\$120.42	\$148.58
Prospective Dual	Mercy Care	Central	-\$227.67	-\$67.23	\$134.17	0.9914	\$133.01	\$47.13
Prospective Non-Dual	UHC-LTC	North	-\$37.73	-\$368.34	\$158.00	1.0021	\$158.34	\$180.00
Prospective Non-Dual	Banner-UFC	South	-\$32.88	-\$510.04	\$127.10	1.0204	\$129.69	\$273.38
Prospective Non-Dual	Mercy Care	South	-\$38.21	-\$510.95	\$137.48	0.9975	\$137.14	\$220.67
Prospective Non-Dual	UHC-LTC	Central	-\$27.02	-\$426.40	\$150.00	1.0265	\$153.98	\$180.00
Prospective Non-Dual	Banner-UFC	Central	-\$44.79	-\$414.81	\$128.12	0.9442	\$120.98	\$317.80
Prospective Non-Dual	Mercy Care	Central	-\$34.38	-\$463.15	\$138.66	0.9924	\$137.61	\$257.68
Prospective Acute Care Only	UHC-LTC	North	\$0.00	-\$209.56	\$158.00	1.0050	\$158.79	\$180.00
Prospective Acute Care Only	Banner-UFC	South	\$0.00	-\$291.78	\$127.56	1.0126	\$129.17	\$213.54
Prospective Acute Care Only	Mercy Care	South	\$0.00	-\$295.11	\$134.92	1.0006	\$135.01	\$143.03
Prospective Acute Care Only	UHC-LTC	Central	\$0.00	-\$252.62	\$150.00	1.0332	\$154.98	\$180.00
Prospective Acute Care Only	Banner-UFC	Central	\$0.00	-\$250.66	\$126.36	0.9555	\$120.73	\$242.87
Prospective Acute Care Only	Mercy Care	Central	\$0.00	-\$287.83	\$136.67	0.9920	\$135.58	\$164.45

**Notes:**

1. Neither SOC, RI, nor case management apply to PPC capitation.
2. The Case Management Adjustment Factor for each rate cell, Contractor, and GSA is based on the difference between the projected HCBS placement percentages assumed in the CYE 18 rates, and the placement percentages assumed in the RFP bids.

## Appendix 4d: Data and Development of Reinsurance Estimates

Rate Cell	Contractor	GSA	CYE 15 Regular RI Payments PMPM	CYE 15 Non-Regular RI Payments PMPM	Factor to Apply to Regular RI Payments to remove Form Type A (CMS 1500) Encounters	PMPM Impact of High Acuity Pediatrics Adjustments (Non-Duals Only)	Trend Assumed	Acuity Adjustments	CYE 18 Projected RI Offset PMPM
Prospective Dual	UHC-LTC	North	\$1.11	\$9.78	0.00%	\$0.00	0.00%	1.0000	-\$9.78
Prospective Dual	Banner-UFC	South	\$2.57	\$17.65	62.66%	\$0.00	0.00%	0.8904	-\$17.15
Prospective Dual	Mercy Care	South	\$2.57	\$17.65	62.66%	\$0.00	0.00%	1.2209	-\$23.51
Prospective Dual	UHC-LTC	Central	\$4.32	\$49.31	84.73%	\$0.00	0.00%	0.6412	-\$33.97
Prospective Dual	Banner-UFC	Central	\$4.32	\$49.31	84.73%	\$0.00	0.00%	0.8329	-\$44.12
Prospective Dual	Mercy Care	Central	\$4.32	\$49.31	84.73%	\$0.00	0.00%	1.2691	-\$67.23
Prospective Non-Dual	UHC-LTC	North	\$311.50	\$137.74	52.86%	\$3.18	6.42%	1.0000	-\$368.34
Prospective Non-Dual	Banner-UFC	South	\$346.21	\$229.35	55.15%	\$3.18	6.42%	0.9993	-\$510.04
Prospective Non-Dual	Mercy Care	South	\$346.21	\$229.35	55.15%	\$3.18	6.42%	1.0010	-\$510.95
Prospective Non-Dual	UHC-LTC	Central	\$501.20	\$122.49	48.80%	\$3.18	6.42%	0.9555	-\$426.40
Prospective Non-Dual	Banner-UFC	Central	\$501.20	\$122.49	48.80%	\$3.18	6.42%	0.9295	-\$414.81
Prospective Non-Dual	Mercy Care	Central	\$501.20	\$122.49	48.80%	\$3.18	6.42%	1.0378	-\$463.15
Prospective Acute Care Only	UHC-LTC	North							-\$209.56
Prospective Acute Care Only	Banner-UFC	South							-\$291.78
Prospective Acute Care Only	Mercy Care	South							-\$295.11
Prospective Acute Care Only	UHC-LTC	Central							-\$252.62
Prospective Acute Care Only	Banner-UFC	Central							-\$250.66
Prospective Acute Care Only	Mercy Care	Central							-\$287.83

**Notes:**

1. The reinsurance (RI) offset is the negative of the projected RI payments.
2. The RI offsets in the Acute Care Only rate cell are member-weighted averages of the Dual and Non-Dual RI offsets by Contractor/GSA.

## Appendix 5: Base Data Programmatic and Reimbursement Changes

Effective Date	Programmatic Change	Prospective Dual PMPM Impact	Prospective Non-Dual PMPM Impact	Original Rate Certification Description
1/1/2016	High Acuity Pediatrics Adjustor	\$0.00	\$8.20	The AHCCCS All Patient Refined Diagnosis Related Group (APR-DRG) payment system includes several policy adjustors. One such adjustor applies a factor of 1.25 to the reimbursement amount that would otherwise apply for "claims for members under age 19," so long as the claim is not subject to one of the other policy adjustors. Beginning January 1, 2016, AHCCCS will address the costs associated with high-acuity pediatric cases by using an adjustment factor of 1.60 in place of the above pediatric policy adjustor in the following instances only: for inpatient stays, where an APR-DRG assignment of level 3 or 4 Severity of Illness is indicated.
10/1/2016	Adult Dental	\$6.24	\$6.24	During the 2016 legislative session, non-emergency (basic and preventive) dental services were reinstated for ALTCS adults up to a limit of \$1,000 annually per elderly and physically disabled (EPD) member. Effective October 1, 2016 AHCCCS will restore this covered service.
10/1/2016	Podiatry	\$0.47	\$0.47	During the 2016 legislative session, services provided by a podiatrist were reinstated. Effective October 1, 2016 AHCCCS will restore this covered service.
10/1/2016	Expand Criteria for Hepatitis C Rx	\$0.00	\$10.42	Effective October 1, 2016, AHCCCS is amending clinical criteria for members utilizing Hepatitis C drugs including, but not limited to, lowering the liver fibrosis/cirrhosis of Metavir stage (i.e. fibrosis level) to F2 from F3 for members with Hepatitis B or HIV.

Effective Date	Programmatic Change	Prospective Dual PMPM Impact	Prospective Non-Dual PMPM Impact	Original Rate Certification Description
10/1/2016	VBP Differential Payments	\$7.91	\$13.17	AHCCCS 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 and 0.5% for qualified AHCCCS-registered Arizona Hospital providers for inpatient and outpatient services. Contractors are required to adopt the VBP Differential payment adjustments for qualified providers meeting the specific criteria.
1/1/2017	High Acuity Pediatrics Adjustor	\$0.00	\$7.62	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.

Effective Date	Programmatic Change	Prospective Dual PMPM Impact	Prospective Non-Dual PMPM Impact	Original Rate Certification Description
1/1/2017	Proposition 206	\$133.79	\$159.57	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.
7/1/2017	Proposition 206/414	\$26.15	\$33.69	Effective July 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 approved by voters as Proposition 206 on November 8, 2016, and the city of Flagstaff minimum wage increase approved by voters as Proposition 414 on November 8, 2016. The fee schedule increases 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.

**Historical Provider Fee Schedule (PFS) Changes applied as PMPM change**

Effective Date	COS	Prospective Dual PMPM Impact	Prospective Non-Dual PMPM Impact
10/1/2013	Acute Care	\$0.22	\$5.55
10/1/2014	Acute Care	\$0.83	\$10.23
10/1/2015	Acute Care	-\$0.44	-\$3.85
10/1/2016	Acute Care	\$0.07	\$0.52

**Historical Provider Fee Schedule (PFS) Changes applied as percentage change**

Effective Date	COS	Prospective Dual Percentage Impact	Prospective Non-Dual Percentage Impact
10/1/2013	NF	1.5%	1.5%
10/1/2014	NF	2.0%	2.0%
10/1/2015	NF	0.0%	0.0%
10/1/2016	NF	1.0%	1.0%
10/1/2013	HCBS	1.5%	1.5%
10/1/2014	HCBS	2.0%	2.0%
10/1/2015	HCBS	1.5%	1.5%
10/1/2016	HCBS	2.0%	2.0%

## Appendix 6: Acuity Adjustments by Rate Cell, Contractor, GSA, and COS

Rate Cell	Contractor	GSA	NF Acuity Adjustment	HCBS Acuity Adjustment	Acute Acuity Adjustment
Prospective Dual	UHC-LTC	North	1.0000	1.0000	1.0000
Prospective Dual	Banner-UFC	South	0.9758	0.9667	0.8904
Prospective Dual	Mercy Care	South	1.0493	1.0668	1.2209
Prospective Dual	UHC-LTC	Central	0.9548	0.9013	0.6412
Prospective Dual	Banner-UFC	Central	0.9885	0.9273	0.8329
Prospective Dual	Mercy Care	Central	1.0227	1.0879	1.2691
Prospective Non-Dual	UHC-LTC	North	1.0000	1.0000	1.0000
Prospective Non-Dual	Banner-UFC	South	0.9741	0.9060	0.9993
Prospective Non-Dual	Mercy Care	South	1.0317	1.1401	1.0010
Prospective Non-Dual	UHC-LTC	Central	0.9307	0.9102	0.9555
Prospective Non-Dual	Banner-UFC	Central	0.9148	0.8945	0.9295
Prospective Non-Dual	Mercy Care	Central	1.0525	1.0673	1.0378

## Appendix 7a: CYE 18 Projected Gross and Net Medical Expenses PMPM by COS and Rate Cell

### Nursing Facility (NF) Expenses PMPM

Rate Cell	Contractor	GSA	Gross NF Expense Amount PMPM	NF Acuity Adj	NF Prop 206 Adjustments	Projected NF Mix Pct	Projected SOC PMPM	Net NF Expense Amount PMPM
Prospective Dual	UHC-LTC	North	\$5,259.46	1.0000	1.0383	29.70%	-\$293.14	\$1,328.62
Prospective Dual	Banner-UFC	South	\$5,549.61	0.9758	1.0381	27.56%	-\$226.61	\$1,322.66
Prospective Dual	Mercy Care	South	\$5,549.61	1.0493	1.0381	27.26%	-\$224.17	\$1,423.91
Prospective Dual	UHC-LTC	Central	\$5,910.20	0.9548	1.0381	17.10%	-\$154.94	\$846.78
Prospective Dual	Banner-UFC	Central	\$5,910.20	0.9885	1.0381	28.54%	-\$258.57	\$1,472.00
Prospective Dual	Mercy Care	Central	\$5,915.62	1.0227	1.0381	25.13%	-\$227.67	\$1,350.24
Prospective Non-Dual	UHC-LTC	North	\$5,825.69	1.0000	1.0382	24.05%	-\$37.73	\$1,416.92
Prospective Non-Dual	Banner-UFC	South	\$7,100.45	0.9741	1.0381	22.29%	-\$32.88	\$1,567.37
Prospective Non-Dual	Mercy Care	South	\$7,100.45	1.0317	1.0381	25.90%	-\$38.21	\$1,930.98
Prospective Non-Dual	UHC-LTC	Central	\$7,698.01	0.9307	1.0381	19.92%	-\$27.02	\$1,454.58
Prospective Non-Dual	Banner-UFC	Central	\$7,698.01	0.9148	1.0381	33.02%	-\$44.79	\$2,368.99
Prospective Non-Dual	Mercy Care	Central	\$7,698.01	1.0525	1.0381	25.34%	-\$34.38	\$2,097.14
Prospective Acute Care Only	UHC-LTC	North						\$0.00
Prospective Acute Care Only	Banner-UFC	South						\$0.00
Prospective Acute Care Only	Mercy Care	South						\$0.00
Prospective Acute Care Only	UHC-LTC	Central						\$0.00
Prospective Acute Care Only	Banner-UFC	Central						\$0.00
Prospective Acute Care Only	Mercy Care	Central						\$0.00
Prior Period Coverage	UHC-LTC	North						\$851.46
Prior Period Coverage	Banner-UFC	South						\$690.53
Prior Period Coverage	Mercy Care	South						\$690.53
Prior Period Coverage	UHC-LTC	Central						\$553.21
Prior Period Coverage	Banner-UFC	Central						\$553.21
Prior Period Coverage	Mercy Care	Central						\$553.21

**Notes:**

1. Gross expense amounts for Dual and Non-Dual were bid by the Contractors based on GSA average expense levels.



**HCBS Expenses PMPM**

Rate Cell	Contractor	GSA	Gross HCBS Expense Amount PMPM	HCBS Acuity Adj	HCBS Prop 206 Adjustments	Projected HCBS Mix Pct	Net HCBS Expense Amount PMPM
Prospective Dual	UHC-LTC	North	\$1,166.15	1.0000	1.0906	70.30%	\$894.13
Prospective Dual	Banner-UFC	South	\$1,464.34	0.9667	1.0885	72.44%	\$1,116.27
Prospective Dual	Mercy Care	South	\$1,464.34	1.0668	1.0885	72.74%	\$1,236.85
Prospective Dual	UHC-LTC	Central	\$1,585.73	0.9013	1.0874	82.90%	\$1,288.39
Prospective Dual	Banner-UFC	Central	\$1,585.73	0.9273	1.0874	71.46%	\$1,142.67
Prospective Dual	Mercy Care	Central	\$1,585.73	1.0879	1.0874	74.87%	\$1,404.61
Prospective Non-Dual	UHC-LTC	North	\$1,466.71	1.0000	1.0830	75.95%	\$1,206.44
Prospective Non-Dual	Banner-UFC	South	\$1,748.56	0.9060	1.0783	77.71%	\$1,327.47
Prospective Non-Dual	Mercy Care	South	\$1,748.56	1.1401	1.0783	74.10%	\$1,592.99
Prospective Non-Dual	UHC-LTC	Central	\$2,038.63	0.9102	1.0790	80.08%	\$1,603.28
Prospective Non-Dual	Banner-UFC	Central	\$2,038.63	0.8945	1.0790	66.98%	\$1,317.94
Prospective Non-Dual	Mercy Care	Central	\$2,038.63	1.0673	1.0790	74.66%	\$1,752.67
Prospective Acute Care Only	UHC-LTC	North					\$0.00
Prospective Acute Care Only	Banner-UFC	South					\$0.00
Prospective Acute Care Only	Mercy Care	South					\$0.00
Prospective Acute Care Only	UHC-LTC	Central					\$0.00
Prospective Acute Care Only	Banner-UFC	Central					\$0.00
Prospective Acute Care Only	Mercy Care	Central					\$0.00
Prior Period Coverage	UHC-LTC	North					\$68.87
Prior Period Coverage	Banner-UFC	South					\$107.27
Prior Period Coverage	Mercy Care	South					\$107.27
Prior Period Coverage	UHC-LTC	Central					\$179.28
Prior Period Coverage	Banner-UFC	Central					\$179.28
Prior Period Coverage	Mercy Care	Central					\$179.28

**Notes:**

1. Gross expense amounts for Dual and Non-Dual were bid by the Contractors based on GSA average expense levels.

**Acute Expenses PMPM**

Rate Cell	Contractor	GSA	Gross Acute Expense Amount PMPM	Acute Acuity Adj	Acute Pgm/Reimb Changes PMPM	Reinsurance Offset PMPM	Net Acute Expense Amount PMPM
Prospective Dual	UHC-LTC	North	\$128.37	1.0000	\$8.53	-\$9.78	\$127.11
Prospective Dual	Banner-UFC	South	\$174.03	0.8904	\$9.82	-\$17.15	\$147.63
Prospective Dual	Mercy Care	South	\$174.03	1.2209	\$9.82	-\$23.51	\$198.78
Prospective Dual	UHC-LTC	Central	\$234.71	0.6412	\$9.10	-\$33.97	\$125.63
Prospective Dual	Banner-UFC	Central	\$234.71	0.8329	\$9.10	-\$44.12	\$160.47
Prospective Dual	Mercy Care	Central	\$234.71	1.2691	\$9.10	-\$67.23	\$239.74
Prospective Non-Dual	UHC-LTC	North	\$2,594.10	1.0000	\$12.75	-\$368.34	\$2,238.51
Prospective Non-Dual	Banner-UFC	South	\$2,515.25	0.9993	\$20.28	-\$510.04	\$2,023.64
Prospective Non-Dual	Mercy Care	South	\$2,515.25	1.0010	\$20.28	-\$510.95	\$2,027.20
Prospective Non-Dual	UHC-LTC	Central	\$2,823.16	0.9555	\$17.78	-\$426.40	\$2,288.82
Prospective Non-Dual	Banner-UFC	Central	\$2,823.16	0.9295	\$17.78	-\$414.81	\$2,227.09
Prospective Non-Dual	Mercy Care	Central	\$2,823.16	1.0378	\$17.78	-\$463.15	\$2,484.59
Prospective Acute Care Only	UHC-LTC	North	\$1,502.24	1.0000	\$10.88	-\$209.56	\$1,303.56
Prospective Acute Care Only	Banner-UFC	South	\$1,478.53	0.9936	\$15.65	-\$291.78	\$1,192.92
Prospective Acute Care Only	Mercy Care	South	\$1,478.53	1.0125	\$15.65	-\$295.11	\$1,217.55
Prospective Acute Care Only	UHC-LTC	Central	\$1,676.96	0.9360	\$13.94	-\$252.62	\$1,330.93
Prospective Acute Care Only	Banner-UFC	Central	\$1,676.96	0.9235	\$13.94	-\$250.66	\$1,311.97
Prospective Acute Care Only	Mercy Care	Central	\$1,676.96	1.0522	\$13.94	-\$287.83	\$1,490.54
Prior Period Coverage	UHC-LTC	North					\$78.17
Prior Period Coverage	Banner-UFC	South					\$67.23
Prior Period Coverage	Mercy Care	South					\$67.23
Prior Period Coverage	UHC-LTC	Central					\$103.78
Prior Period Coverage	Banner-UFC	Central					\$103.78
Prior Period Coverage	Mercy Care	Central					\$103.78

**Notes:**

1. Gross expense amounts for Dual and Non-Dual were bid by the Contractors based on GSA average expense levels.

## Appendix 7b: CYE 18 Projected Capitation Rates PMPM by Rate Cell, Contractor, and GSA

Rate Cell	Contractor	GSA	Net NF Expense Amount PMPM	Net HCBS Expense Amount PMPM	Net Acute Expense Amount PMPM	Adjusted Case Mgmt PMPM	Awarded Admin Exp PMPM	UW Gain PMPM	Premium Tax PMPM	Final Net Capitation PMPM
Prospective Dual	UHC-LTC	North	\$1,328.62	\$894.13	\$127.11	\$159.35	\$180.00	\$26.99	\$55.43	\$2,771.65
Prospective Dual	Banner-UFC	South	\$1,322.66	\$1,116.27	\$147.63	\$128.51	\$138.24	\$28.70	\$58.82	\$2,940.84
Prospective Dual	Mercy Care	South	\$1,423.91	\$1,236.85	\$198.78	\$132.34	\$45.34	\$30.61	\$62.61	\$3,130.43
Prospective Dual	UHC-LTC	Central	\$846.78	\$1,288.39	\$125.63	\$156.25	\$180.00	\$26.31	\$53.54	\$2,676.91
Prospective Dual	Banner-UFC	Central	\$1,472.00	\$1,142.67	\$160.47	\$120.42	\$148.58	\$30.88	\$62.76	\$3,137.78
Prospective Dual	Mercy Care	Central	\$1,350.24	\$1,404.61	\$239.74	\$133.01	\$47.13	\$32.42	\$65.45	\$3,272.61
Prospective Non-Dual	UHC-LTC	North	\$1,416.92	\$1,206.44	\$2,238.51	\$158.34	\$180.00	\$55.69	\$107.26	\$5,363.16
Prospective Non-Dual	Banner-UFC	South	\$1,567.37	\$1,327.47	\$2,023.64	\$129.69	\$273.38	\$58.32	\$109.79	\$5,489.66
Prospective Non-Dual	Mercy Care	South	\$1,930.98	\$1,592.99	\$2,027.20	\$137.14	\$220.67	\$64.20	\$121.90	\$6,095.08
Prospective Non-Dual	UHC-LTC	Central	\$1,454.58	\$1,603.28	\$2,288.82	\$153.98	\$180.00	\$61.07	\$117.18	\$5,858.90
Prospective Non-Dual	Banner-UFC	Central	\$2,368.99	\$1,317.94	\$2,227.09	\$120.98	\$317.80	\$67.68	\$131.03	\$6,551.50
Prospective Non-Dual	Mercy Care	Central	\$2,097.14	\$1,752.67	\$2,484.59	\$137.61	\$257.68	\$71.93	\$138.81	\$6,940.43
Prospective Acute Care Only	UHC-LTC	North	\$0.00	\$0.00	\$1,303.56	\$158.79	\$180.00	\$18.52	\$33.90	\$1,694.76
Prospective Acute Care Only	Banner-UFC	South	\$0.00	\$0.00	\$1,192.92	\$129.17	\$213.54	\$18.27	\$31.71	\$1,585.61
Prospective Acute Care Only	Mercy Care	South	\$0.00	\$0.00	\$1,217.55	\$135.01	\$143.03	\$17.91	\$30.89	\$1,544.39
Prospective Acute Care Only	UHC-LTC	Central	\$0.00	\$0.00	\$1,330.93	\$154.98	\$180.00	\$19.19	\$34.39	\$1,719.49
Prospective Acute Care Only	Banner-UFC	Central	\$0.00	\$0.00	\$1,311.97	\$120.73	\$242.87	\$19.26	\$34.59	\$1,729.41
Prospective Acute Care Only	Mercy Care	Central	\$0.00	\$0.00	\$1,490.54	\$135.58	\$164.45	\$20.78	\$36.97	\$1,848.32
Prior Period Coverage	UHC-LTC	North	\$851.46	\$68.87	\$78.17	\$0.00	\$42.51	\$10.41	\$21.46	\$1,072.88
Prior Period Coverage	Banner-UFC	South	\$690.53	\$107.27	\$67.23	\$0.00	\$36.83	\$9.02	\$18.59	\$929.48
Prior Period Coverage	Mercy Care	South	\$690.53	\$107.27	\$67.23	\$0.00	\$36.83	\$9.02	\$18.59	\$929.48
Prior Period Coverage	UHC-LTC	Central	\$553.21	\$179.28	\$103.78	\$0.00	\$35.60	\$8.72	\$17.97	\$898.55
Prior Period Coverage	Banner-UFC	Central	\$553.21	\$179.28	\$103.78	\$0.00	\$35.60	\$8.72	\$17.97	\$898.55
Prior Period Coverage	Mercy Care	Central	\$553.21	\$179.28	\$103.78	\$0.00	\$35.60	\$8.72	\$17.97	\$898.55

**Notes:**

- Admin expense amounts for PPC calculated as a percentage of medical expenses.