

**Arizona Long Term Care System (ALTCS),  
Department of Economic Security/Division of Developmental  
Disabilities (DES/DDD) Actuarial Memorandum**

**I. Purpose**

This memorandum presents a discussion of revisions to the already approved Contract Year Ending 2014 (CYE 14) capitation rates for the ALTCS/DDD program, for the period July 1, 2013 to June 30, 2014.

The purpose of this actuarial memorandum is to demonstrate that the updated capitation rates were developed in compliance with 42 CFR 438.6(c). It is not intended for any other purpose.

Arizona Health Care Cost Containment System (AHCCCS) has computed a capitation rate change due to changes in provider fee schedules, a rebase of the behavioral health (BH) and acute components, as well as programmatic changes that have occurred since these rates were initially developed.

Due to provider rate changes mandated with an effective date of July 1, 2013, versus other changes impacting the rates with an effective date of October 1, 2013, AHCCCS has computed one capitation rate retroactively effective from July 1, 2013 through September 30, 2013, and a revised capitation rate effective October 1, 2013 through June 30, 2014.

**II. Overview of Changes**

**Institutional and HCBS Provider Fee Schedule Changes**

A 3% rate increase for developmental disabilities service providers was included in the DDD appropriation with an effective date of July 1, 2013. DDD completed an analysis of their published rates subsequent to this date and provided a recommendation to increase HCBS published rates and private Intermediate Care facility (institutional) rates. The capitation rates were adjusted to reflect this recommendation. The estimated twelve month statewide impact is an increase of approximately \$21.9 million.

**Behavioral Health Provider Fee Schedule Changes**

A 3% rate increase for behavioral health service providers was included in the Arizona Department of Health Services/Division of Behavioral Health Services (ADHS/DBHS) appropriation with an effective date of October 1, 2013.

ADHS/DBHS completed an analysis of encounter and financial expenditures for certain behavioral health (BH) categories of services and provided AHCCCS with a recommendation to increase multiple community-based and residential providers, but excluding inpatient, subacute facility, transportation, laboratory and radiology, pharmacy and electro-convulsive.. The DDD BH capitation rates were adjusted to reflect this recommendation. The estimated nine month statewide impact is an increase of approximately \$644,000.

#### **AHCCCS Fee Schedule Changes**

Effective October 1, 2013, AHCCCS is increasing FFS provider rates for certain providers based either on access to care needs, Medicare or ADHS fee schedule rates, legislative mandates, or cost of living adjustments. The unit cost (inflation) trends were adjusted appropriately for these changes. The estimated nine month statewide impact is an increase of approximately \$522,000.

#### **Medical Management Changes**

The State of Arizona's 2013 Health and Welfare Budget Reconciliation Bill (BRB) reinstated well visits, which were previously eliminated effective October 1, 2010, as a covered service for enrolled adults for federal fiscal year 2014. The estimated nine month statewide impact is an increase of approximately \$170,000.

#### **Shift of BH Services for DDD members who are eligible for CRS**

In order to facilitate efficient coordination of care and improve member outcomes, AHCCCS has integrated the services for children with special health care needs effective October 1, 2013. DDD members with diagnoses who qualify for Children's Rehabilitative Services (CRS) will now receive care related not only to their CRS services, but also their behavioral health care through a single CRS Contractor. These DDD members will continue to receive their unrelated physical health services and long term care services through DDD. All behavioral health costs for these members have been removed from the base data. This resulted in a shift of approximately \$4.5 million to the CRS Contractor over nine months.

#### **Behavioral Health Component Rate Rebase**

The BH component was rebased to follow the same method used in setting the non-DDD BHS capitation rates. The base period data consisted of the state fiscal year 12 (July 1, 2011 to June 30, 2012) Regional Behavioral Health Authority (RBHA) audited financial statements and SFY 12 member months provided by ADHS/DBHS. This base data was adjusted for historical programmatic changes, provider fee schedule changes and encounter data completeness. The base data was then trended forward and adjusted by any new programmatic and provider fee schedule changes and integration of DDD members eligible for CRS (as discussed above). Finally administration and risk contingency were applied to this rate to establish the final BH component rate. The estimated nine month statewide impact of all the changes is a decrease of approximately \$634,000 from the currently approved CYE 14 capitation rates.

**Acute Care Component Rate Rebase including Reinsurance Offset Rebase**

DDD contracts with Managed Care Organization (MCO) subcontractors to provide acute care services for their members. DDD's reinsurance deductible level with their MCOs is at \$20,000. However, DDD's reinsurance deductible level with AHCCCS is at \$100,000. In order to better align the two, DDD's reinsurance deductible level with AHCCCS will be adjusted from \$100,000 to \$50,000 effective October 1, 2013.

The reinsurance offset was rebased to account for this change using actual reinsurance paid information for federal fiscal years ending 11 and 12 and adjusted when necessary for completion, historical programmatic and provider fee schedule changes. The estimated nine month statewide impact due to the change in the deductible level was a decrease in capitation paid of approximately \$937,000.

The Acute gross medical component was rebased due to the reinsurance offset adjustment. The acute medical base period data consisted of three and a half years of encounter data for dates of service October 1, 2009 through March 31, 2013 and enrolled member month data for the same time frame. The base data was viewed on a federal fiscal year basis and adjusted, when necessary, by completion factors, seasonality factors, historical programmatic changes and provider fee schedule changes. The final base data consisted of an average of all the years which was then trended forward and adjusted by new programmatic and provider fee schedule changes (as discussed above) to establish the final gross medical rate for the acute component. The reinsurance offset was deducted from this rate to arrive at the final net medical rate for the acute component.

The estimated nine month statewide impact for all Acute component changes, including the rebase, is a decrease of approximately \$477,000 from the currently approved CYE 14 capitation rates.

**III. Proposed Capitation Rates and Their Impacts**

Table I below summarizes the changes per rate cell with the estimated budget impact. Since the already approved CYE 14 capitation rates are being replaced in full, the table summarizes the impact from the CYE 13 (April 1, 2013) approved capitation rates to the proposed, revised CYE 14 capitation rates, effective for the period July 1, 2013 through June 30, 2014 on a statewide basis. Because one rate will be in place for the period retroactive to July 1, 2013 through September 30, 2013, with an updated rate beginning October 1, 2013, both rates are identified in the table below.

**Table I: Proposed Capitation Rates and Budget Impact**

Rates Effective: July 1, 2013 - September 30, 2013	Based on Projected Member Months July 1, 2013 - Sept 30, 2013			Based on Projected Member Months July 1, 2013 - Sept 30, 2013		Dollar Impact	Percentage Impact
		CYE 13 (4/1/13-6/30/13) Rate	CYE 14 Revised Rate <sup>1</sup>	Estimated CYE 13 (4/1/13 - 6/30/13) Capitation	Estimated CYE 14 Revised Capitation		
DDD	77,275	\$ 3,125.69	\$ 3,184.04	\$ 241,538,136	\$ 246,047,141	\$ 4,509,004	1.87%
Behavioral Health <sup>2</sup>	77,275	\$ 120.67	\$ 120.82	\$ 9,324,791	\$ 9,336,383	\$ 11,591	0.12%
Targeted Case Management	13,544	\$ 113.18	\$ 115.86	\$ 1,532,911	\$ 1,569,209	\$ 36,298	2.37%
<b>Total</b>				<b>\$ 252,395,839</b>	<b>\$ 256,952,733</b>	<b>\$ 4,556,894</b>	<b>1.81%</b>

Rates Effective: October 1, 2013 - June 30, 2014	Based on Projected Member Months October 1, 2013 - June 30, 2014			Based on Projected Member Months October 1, 2013 - June 30, 2014		Dollar Impact	Percentage Impact
		CYE 13 (4/1/13-6/30/13) Rate	CYE 14 Updated Rate	Estimated CYE 13 (4/1/13 - 6/30/13) Capitation	Estimated CYE 14 Updated Capitation		
DDD	236,232	\$ 3,125.69	\$ 3,181.77	\$ 738,387,659	\$ 751,635,543	\$ 13,247,884	1.79%
Behavioral Health <sup>2</sup>	236,232	\$ 120.67	\$ 118.14	\$ 28,506,102	\$ 27,908,436	\$ (597,667)	-2.10%
Targeted Case Management	40,632	\$ 113.18	\$ 115.86	\$ 4,598,733	\$ 4,707,627	\$ 108,894	2.37%
<b>Total</b>				<b>\$ 771,492,494</b>	<b>\$ 784,251,606</b>	<b>\$ 12,759,112</b>	<b>1.65%</b>
<b>Total Budget Impact (July 1, 2013 - June 30, 2014)</b>				<b>\$ 1,023,888,333</b>	<b>\$ 1,041,204,338</b>	<b>\$ 17,316,005</b>	<b>1.69%</b>

- 1) For Behavioral Health and Targeted Case Management rate cell the CYE 14 rates are the rates already approved by CMS from the prior actuarial cert  
2) Behavioral Health rate does not reflect premium tax

#### **IV. Actuarial Certification of the Capitation Rates**

I, Windy J. Marks, am an employee of Arizona Health Care Cost Containment System (AHCCCS). I am a Member of the American Academy of Actuaries. I meet the qualification standards established by the American Academy of Actuaries and have followed the practice standards established from time to time by the Actuarial Standards Board.

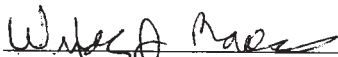
The rates were developed using generally accepted actuarial principles and practices and are considered to be actuarially sound. The rates were developed to demonstrate compliance with the CMS requirements under 42 CFR 438.6(c) and are in accordance with applicable laws and regulations. The rates are appropriate for the Medicaid populations covered and Medicaid services to be furnished under the contract. The rates may not be appropriate for any other purpose. The documentation has been included with this certification. The actuarially sound capitation rates that are associated with this certification are effective for the twelve-month period beginning July 1, 2013.

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

In developing the actuarially sound capitation rates, I have relied upon data and information provided by DES/DDD, ADHS/DBHS and the AHCCCS internal databases. I have accepted the data without audit and have relied upon the DES/DDD employees, ADHS/DBHS employees and other AHCCCS employees for the accuracy of the data.

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

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

  
Windy J. Marks

09-30-13  
Date

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