

# Department of Economic Security / Division of Developmental Disabilities (DES/DDD) Actuarial Memorandum

## **I. Purpose**

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

Arizona Health Cost Containment System (AHCCCS) intends to review and possibly update the DDD Contractor capitation rates effective October 1, 2016 to include changes to the acute care category of service. This capitation rate update for July 1, 2016 does not include adjustments for anticipated reimbursement changes or program changes with effective dates after July 1, 2016. If appropriate, AHCCCS will include these adjustments in the capitation rates updated effective October 1, 2016.

The Affordable Care Act (ACA) places an annual fee on the health insurance industry nationwide including most Medicaid health plans effective January 1, 2014. The fee will be allocated to health insurers based on their respective market share of premium revenue in the previous year. Due to the uncertainty of the actual fees and other unknowns, AHCCCS will not be adjusting the capitation rates for this fee at this time. AHCCCS intends to make a revision once the impacts are known, if applicable to DDD's sub-contractors.

## **II. General Program Information**

This certification covers the Medicaid eligible members with intellectual and developmental disabilities (DD) program. The program offers long-term care services, acute physical health services, and behavioral health services.

Contract year ending 2017 (CYE 17) capitation rates were developed as a rate rebase from the previously approved contract year ending 2016 (CYE 16) capitation rates. The CYE 17 capitation rates represent the twelve month contract period from July 1, 2016 through June 30, 2017. DDD is a division of the state's Department of Economic Security and thus operates on the state fiscal year period.

The experience used in the development of these rates only includes DDD Medicaid eligible expenses for DD Medicaid eligible individuals.

Ideally, the experience data should be analyzed by different rate cells which are comprised of members with similar risk characteristics. However, segregating the DD population into different rate cells would lead to a statistical credibility problem due to the statewide disbursement of the relatively small membership base. Accordingly, DDD will have two separate capitation rates – a regular DDD capitation rate and a targeted case management (TCM) capitation rate. The regular DDD capitation rate covers the DD members' acute and long-term care services. Previous years'

certifications included a behavioral health capitation rate to cover the DD members' behavioral health services. Effective July 1, 2016, the responsibility for the provision of behavioral health services to DD members will be removed from the DDD contract and moved into the Regional Behavioral Health Authorities (RBHAs) contract, thus expected costs for those services will be incorporated into the capitation rates for the RBHAs. The TCM capitation rate covers case management services for members who have a DD diagnosis and meet the financial eligibility for Title XIX and XXI programs, but do not meet the functional requirements of Arizona Long Term Care Services (ALTCS).

The Acute rate component (including the Acute reinsurance offset) of the regular DDD capitation rate will not be rebased or updated for this certification. These rates will be reviewed for an October 1, 2016 effective date and updated as appropriate.

### **III. Overview of Rate Setting Methodology**

CYE 17 actuarially sound capitation rates were developed utilizing the steps outlined as follows:

1. Develop base period data (Section IV)
2. Develop trend factors (Section V)
3. Apply trend factors to bring base period data forward (Section VI)
4. Adjust projected CYE 17 claims costs for programmatic and provider fee schedule changes, if applicable (Section VII)
5. Add provision for share of cost (SOC) (Section VIII)
6. Add provision for non-benefit costs (Section IX)
7. Combine for final capitation rates (Section X)

### **IV. Base Period Data**

The base period data consisted of historical Medicaid adjudicated and approved encounter and member month data for this population for the time period July 1, 2012 through June 30, 2015. In addition, AHCCCS used the Contractor's supplemental experience data for the same time frame due to zero payment data submitted on encounter data for a small portion (approximately three percent) of nursing facility (institutional) and home and community based services (HCBS) expenses. The encounter data also included an immaterial amount of costs associated with prior period coverage.

The data was reviewed for accuracy, timeliness and completeness through encounter validation studies as well as studies comparing the encounter data to the Contractor's financial statements, and deemed acceptable for use with no concerns regarding data quality.

Adjustments were made to the base data for completion factors, historical programmatic changes and historical provider fee for service rate schedule changes. The base period claim costs PMPM by category of service (COS) shown in Table I represent the adjusted base data for CYE 15 (July 1, 2014 through June 30, 2015).

**Table I: Base Period Claims Costs PMPM**

High Level COS	Data Source	Detail COS	Base Period PMPM
Institutional	Encounters	Institutional	\$ 50.31
Institutional	DDD Supplemental Information	ATPC, ICF/IID <sup>1</sup>	\$ 62.91
HCBS	Encounters	Attendant Care	\$ 226.23
HCBS	Encounters	Respite	\$ 272.05
HCBS	Encounters	Hab Res Per Diem	\$ 915.77
HCBS	Encounters	Hab Rest Per 15 mins	\$ 279.88
HCBS	Encounters	Day Treatment	\$ 323.92
HCBS	Encounters	Self Care Home	\$ 7.43
HCBS	Encounters	Therapy and Evals	\$ 118.97
HCBS	Encounters	Transportation	\$ 41.36
HCBS	Encounters	Nursing	\$ 121.57
HCBS	Encounters	Employment	\$ 80.13
HCBS	Encounters	Misc	\$ 1.04
HCBS	DDD Supplemental Information	SOGH <sup>2</sup>	\$ 13.57

1) Arizona Training Program Coolidge (ATPC), Institutional Care Facility/Individuals with Intellectual Disabilities (ICF/ID)

2) State Operated Group Home (SOGH)

## V. Projected Trend Rates

A trend analysis was performed using the adjusted base period data. The trends were developed at a category of service (COS) level, examining annualized growth rates in utilization and unit costs, with a limit on the percentage change to smooth out unreasonable trends.

The annual historical PMPM trend rates by COS are identified in Table II.

**Table II: Annual Historical Trend Rates**

High Level COS	Data Source	Detail COS	Annual PMPM Trend Rate
Institutional	Encounters	Institutional	5.6%
Institutional	DDD Supplemental Information	ATPC, ICF/IID	-5.8%
HCBS	Encounters	Attendant Care	8.7%
HCBS	Encounters	Respite	2.2%
HCBS	Encounters	Hab Res Per Diem	0.8%
HCBS	Encounters	Hab Rest Per 15 mins	1.7%
HCBS	Encounters	Day Treatment	3.4%
HCBS	Encounters	Self Care Home	-10.0%
HCBS	Encounters	Therapy and Evals	3.4%
HCBS	Encounters	Transportation	4.2%
HCBS	Encounters	Nursing	6.3%
HCBS	Encounters	Employment	5.4%
HCBS	Encounters	Misc	-1.3%
HCBS	DDD Supplemental Information	SOGH	-4.2%

## VI. Projected Claim Costs

Base period claim costs PMPM were trended 24 months using the trend rates shown in Table II from the midpoint of the base period claim costs to the midpoint of the projected claims period. The midpoint of the projected claims period is January 1, 2017. The midpoint of the base claims period is January 1, 2015.

The projected claims cost PMPM by COS are identified in Table III.

**Table III: Projected Claims Costs PMPM**

High Level COS	Data Source	Detail COS	Proj Claim Cost PMPM
Institutional	Encounters	Institutional	\$ 56.07
Institutional	DDD Supplemental Information	ATPC, ICF/IID	\$ 55.85
Institutional	Total	Total	\$ 111.92
HCBS	Encounters	Attendant Care	\$ 270.02
HCBS	Encounters	Respite	\$ 287.01
HCBS	Encounters	Hab Res Per Diem	\$ 939.34
HCBS	Encounters	Hab Rest Per 15 mins	\$ 292.59
HCBS	Encounters	Day Treatment	\$ 349.69
HCBS	Encounters	Self Care Home	\$ 6.08
HCBS	Encounters	Therapy and Evals	\$ 128.54
HCBS	Encounters	Transportation	\$ 45.40
HCBS	Encounters	Nursing	\$ 138.64
HCBS	Encounters	Employment	\$ 89.84
HCBS	Encounters	Misc	\$ 1.02
HCBS	DDD Supplemental Information	SOGH	\$ 12.47
HCBS	Total	Total	\$2,560.62

## **VII. Projected Programmatic and Reimbursement Changes**

### **HCBS Provider Fee Schedule Change**

Effective July 1, 2016, the capitation development includes a 1.0% reimbursement rate adjustment for HCBS providers to DD members.

The estimated statewide impact to the DDD program is an increase of approximately \$9.2 million for SFY 17.

### **Cost Effectiveness Study Rates**

The Special Terms and Conditions of Arizona's 1115 Waiver permit DD member placement in an HCBS setting if the HCBS services will meet the individual member's needs and the HCBS costs for the specific member do not exceed 100 percent of the net cost of institutional care for that member. This determination is done through a Cost Effectiveness Study (CES). DDD is currently rebasing the institutional care costs used in the CES. While this is not expected to materially impact the capitation rates, AHCCCS and DES will monitor this situation and, if it is determined there was a material impact, the capitation rates will be adjusted.

## **VIII. Projected Share of Cost**

The CYE 17 capitation rates include a provision for the recipients' share of cost (SOC). The share of cost was estimated based on the DD member SOC data, and was rebased for CYE 17 using actual SOC amounts from CYE 15. This is a similar method to previously approved rates. The CYE 17 SOC PMPM for the DD population is \$5.35.

## **IX. Non-Benefit Costs**

### **Case Management**

For DD members the CYE 17 case management PMPM was developed by reviewing supplemental case management cost reports provided by the Contractor, the AHCCCS case management model, and the Contractor financials. This is a similar methodology to previously approved rates. The CYE 17 case management PMPM includes an adjustment for a salary action for case managers and direct care workers. The CYE 17 case management PMPM for the DD population is \$175.75.

The targeted case management (TCM) PMPM was developed by reviewing supplemental TCM cost information for the TCM population provided by the Contractor and the AHCCCS TCM model. The supplemental TCM cost information reflected a decrease in costs PMPM from CYE 15 to YTD CYE 16. Those costs are not expected to decrease further. The CYE 17 TCM PMPM also includes the salary action for case managers described in the previous paragraph. The CYE 17 TCM PMPM with premium tax for the TCM population is \$151.59.

**Administrative Costs, Risk Contingency and Premium Tax**

The administrative cost component was developed by reviewing the Contractor’s administrative expense report which includes historical and projected administrative costs, and financial statements. The CYE 17 administrative expense PMPM for the Contractor for the DD population is \$203.68. The risk contingency for the Contractor is 1.00% and the premium tax is 2.00%.

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

The proposed capitation rates equal the sum of projected claim costs (Section VI), projected programmatic and provider fee schedule changes (Section VII), projected SOC (Section VIII) and provision for non-benefit costs (Section IX), divided by one minus the two percent premium tax.

Appendix I shows the current and proposed capitation rate build-up by rate component. As noted above the Acute component (including the Acute reinsurance offset) of the regular DDD capitation rate has not been rebased or updated. Thus the table will show no impact over the current Acute component of the capitation rate. It will be reviewed for a possible October 1, 2016 capitation rate rebase/update.

Table IV shows the current and proposed capitation rates and the budget impact from CYE 16 (01/01/16 capitation rate) to CYE 17 using CYE 17 projected members.

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

Rate Cell	Projected CYE 17 Member Months			Costs Based on Projected CYE 17 Member Months		Dollar Impact	Pctg Impact
		CYE 16 Rate	CYE 17 Rate	Estimated CYE 16 Capitation	Estimated CYE 17 Capitation		
DDD Targeted Case Management	357,992	\$ 3,438.92	\$ 3,530.13	\$ 1,231,103,536	\$ 1,263,758,821	\$ 32,655,285	2.65%
	51,469	\$ 145.92	\$ 151.59	\$ 7,510,333	\$ 7,802,432	\$ 292,098	3.89%
<b>Total</b>				<b>\$ 1,238,613,870</b>	<b>\$ 1,271,561,253</b>	<b>\$ 32,947,383</b>	<b>2.66%</b>

*The CYE16 rate shown here is adjusted to remove premium tax for BH services covered through DDD prior to 7/1/2016.*

## **XI. Coordination of Benefits and Other Service Information**

While this section does not directly impact the capitation rate development it is important to note the efforts made by the State and the Contractors when it comes to coordination of benefits. AHCCCS provides Contractors with verified commercial and Medicare coverage information for their members which Contractors utilize to ensure payments are not made for medical services that are covered by the other carriers. When Contractors make a payment to cover members' coinsurance, deductibles, or Medicaid-covered services that are not covered by the other carriers, the Contractors submit encounters for these amounts. From state fiscal year (SFY) 2008 through SFY 2015, encounter-reported Coordination of Benefits (COB) cost avoidance grew by greater than 162.5%, from \$16 million to \$42 million. Additionally, DDD cost-avoided more than \$8.6 million in SFY ending 2015 in additional claims for which the Contractor had no financial obligation after the private insurance or Medicare payment was made. Consequently, no encounters were submitted to AHCCCS and therefore those services are excluded completely from capitation expenditure projections. AHCCCS continues to emphasize the importance of COB activities with the Contractor.

### **In-Lieu-of Services**

No funds are included in the capitation rates for "in-lieu-of" services, which substitute cost-effective alternative inpatient settings in place of more costly inpatient non-specialty hospital placements. Within the DDD program, in-lieu-of services were only utilized for the Behavioral Health category of service, which will no longer be provided through DDD as noted in Section II of this certification.

### **Minimum Expense Ratio (MER) Requirements**

All entities involved in administration of DDD services must comply with AHCCCS established financial viability standards. On a quarterly basis, AHCCCS will review the MER for the purpose of monitoring the financial health of the DDD program. The MER is calculated as (total medical expense minus TPL) divided by (total payments received from AHCCCS minus premium tax). AHCCCS will take into account the Contractors' unique programs for managing care and improving the health status of members when analyzing MER results. The MER standard of 85% must be met by all entities involved in administration of DDD services. If the standard is not met by any relevant entity, sanctions may be imposed and additional monitoring, such as monthly reporting, may be required.



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

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

The 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, 2016.

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

In developing the actuarially sound capitation rates, I have relied upon data and information provided by DES/DDD and the AHCCCS internal databases. I have accepted the data without audit and have relied upon the DES/DDD auditors 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.

SIGNATURE ON FILE

Matthew C. Varitek

05/17/16

Date

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

**APPENDIX I: Capitation Rates by Rate Component**

<b>DES/DDD Capitation Rate</b>	<b>CYE16 Capitation Rate PMPM</b>	<b>CYE17 Capitation Rate PMPM</b>	<b>Effective Percentage Change from Current Rate</b>	<b>Certification Sections</b>
<b>Claim Costs</b>				
Institutional Services	\$ 111.83	\$ 111.92	0.08%	Section IV-VI
Home and Community Based Services	\$ 2,504.07	\$ 2,560.62	2.26%	Section IV-VII
Acute Services	\$ 392.57	\$ 392.57	0.00%	Section II
<b>Total Claim Costs</b>	<b>\$ 3,008.46</b>	<b>\$ 3,065.10</b>	<b>1.88%</b>	
Share of Cost	\$ (5.18)	\$ (5.35)	3.30%	Section VIII
Acute Services Reinsurance	\$ (12.05)	\$ (12.05)	0.00%	Section II
<b>Total Net Claim Costs</b>	<b>\$ 2,991.23</b>	<b>\$ 3,047.70</b>	<b>1.89%</b>	
<b>Non-Benefit Costs</b>				
Case Management	\$ 154.13	\$ 175.75	14.03%	Section IX
Administration	\$ 193.15	\$ 203.68	5.45%	Section IX
Risk Contingency	\$ 31.63	\$ 32.41	2.47%	Section IX
Premium Tax	\$ 68.78	\$ 70.60	2.65%	Section IX
<b>Total Non-Benefit Costs</b>	<b>\$ 447.69</b>	<b>\$ 482.44</b>	<b>7.76%</b>	
<b>DES/DDD Capitation Rate (includes Premium Tax)</b>	<b>\$ 3,438.92</b>	<b>\$ 3,530.13</b>	<b>2.65%</b>	

<b>Targeted Case Management (TCM)</b>	<b>CYE16 Capitation Rate PMPM</b>	<b>CYE17 Capitation Rate PMPM</b>	<b>Effective Percentage Change from Current Rate</b>	<b>Certification Sections</b>
<b>Non-Benefit Costs</b>				
Case Management	\$ 143.00	\$ 148.56	3.89%	Section IX
Premium Tax	\$ 2.92	\$ 3.03	3.89%	Section IX
<b>Targeted Case Management Rate</b>	<b>\$ 145.92</b>	<b>\$ 151.59</b>	<b>3.89%</b>	