

# **Acute Care Updated Actuarial Memorandum for Contract Year Ending 2014 (CYE 14)**

## **I. Purpose**

This memorandum presents a discussion of the revision to the already approved CYE 14 acute care capitation rates. This update is required as a result of the integration of members who are seriously mentally ill (SMI) in Maricopa County effective April 1, 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.

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, Arizona Health Cost Containment System (AHCCCS) will not be adjusting the capitation rates for this fee at this time, but intends to make a revision once the impacts are known.

## **II. Overview of Changes**

AHCCCS contracts with the Arizona Department of Health Services/Division of Behavioral Health Services (ADHS/DBHS) for the provision of behavioral health services to AHCCCS Acute Care members. ADHS/DBHS sub-contracts with Regional Behavioral Health Authorities (RBHAs). In Maricopa County, the RBHA will be responsible for the integration of physical health and behavioral health service delivery for members who are SMI. The integration initiative was originally planned to be implemented on October 1, 2013. However, due to a challenge received by ADHS/DBHS related to their award of the integrated RBHA, the move to integrate services for members with SMI residing in Maricopa County was delayed until April 1, 2014. The Acute Care capitation rates were appropriately adjusted to reflect the change in acuity of the Acute Care membership after members with SMI are shifted from the Acute Care program to the integrated RBHA. This change only impacts the Maricopa County capitation rates and ranges by risk group from -1.65% to 2.57% impact. The six month impact of removing the SMI physical health costs and membership results in a shift of approximately \$47 million from the Acute program to ADHS/DBHS. This certification represents the Acute program effective April 1, 2014, after the members with SMI in Maricopa County, and related costs, are shifted to ADHS/DBHS. For this reason, the tables displayed in Section III and Appendix I will not reflect the cost of this shift and will only reflect the acuity changes.

Table I below is an illustration of the shifting costs for members with SMI. This table is only for Maricopa County and will not match the numbers in Appendix I which are displayed on a Statewide basis. This table only includes the risk groups impacted by this shift.

**Table I: Maricopa County**

GSA 12 Maricopa County	Projected CYE 14 MMs (04/01/14 - 09/30/14)		Capitation Rates			Projected Dollars		
	With SMI Integrated MMs	Without SMI Integrated MMs	Current	Proposed	% Chg Proposed over Current	Current Cap * Proj MMs w SMI Int	Proposed Cap * Proj MMs wo SMI Int	Dollar Diff Proposed Less Current
<b>Prospective TXIX</b>								
TANF 14-44F	934,784	928,639	\$ 305.82	\$ 304.11	-0.56%	\$ 285,874,644	\$ 282,407,499	\$ (3,467,145)
TANF 14-44M	442,762	441,334	\$ 147.67	\$ 147.35	-0.22%	\$ 65,384,625	\$ 65,031,570	\$ (353,055)
TANF 45+	149,244	147,354	\$ 408.78	\$ 408.74	-0.01%	\$ 61,008,480	\$ 60,229,297	\$ (779,183)
SSI w/ Medicare	272,016	230,044	\$ 155.84	\$ 159.85	2.57%	\$ 42,391,700	\$ 36,771,773	\$ (5,619,928)
SSI w/o Medicare	241,143	196,711	\$ 754.02	\$ 760.12	0.81%	\$ 181,826,837	\$ 149,523,718	\$ (32,303,119)
AHCCCS Care	534,222	529,393	\$ 428.55	\$ 425.54	-0.70%	\$ 228,938,199	\$ 225,277,952	\$ (3,660,248)
Newly Eligible Adults	139,378	139,137	\$ 303.31	\$ 302.67	-0.21%	\$ 42,274,186	\$ 42,112,775	\$ (161,411)
<b>Total Prospective TXIX</b>	<b>2,713,549</b>	<b>2,612,613</b>				<b>\$ 907,698,671</b>	<b>\$ 861,354,584</b>	<b>\$ (46,344,087)</b>
<b>PPC</b>								
TANF 14-44F	45,769	45,585	\$ 191.92	\$ 191.32	-0.31%	\$ 8,783,874	\$ 8,721,428	\$ (62,446)
TANF 14-44M	19,405	19,380	\$ 163.21	\$ 163.29	0.05%	\$ 3,167,131	\$ 3,164,488	\$ (2,643)
TANF 45+	5,564	5,525	\$ 438.47	\$ 438.29	-0.04%	\$ 2,439,705	\$ 2,421,560	\$ (18,145)
SSI w/ Medicare	5,043	4,538	\$ 102.69	\$ 100.99	-1.65%	\$ 517,850	\$ 458,261	\$ (59,589)
SSI w/o Medicare	9,376	8,569	\$ 516.06	\$ 529.22	2.55%	\$ 4,838,535	\$ 4,534,967	\$ (303,568)
AHCCCS Care	32,463	31,655	\$ 683.56	\$ 682.99	-0.08%	\$ 22,190,356	\$ 21,619,960	\$ (570,396)
Newly Eligible Adults	6,794	6,710	\$ 336.78	\$ 336.68	-0.03%	\$ 2,288,087	\$ 2,259,247	\$ (28,840)
<b>Total PPC TXIX</b>	<b>124,414</b>	<b>121,962</b>				<b>\$ 44,225,539</b>	<b>\$ 43,179,911</b>	<b>\$ (1,045,627)</b>
<b>Total Title XIX</b>	<b>2,837,963</b>	<b>2,734,574</b>				<b>\$ 951,924,210</b>	<b>\$ 904,534,495</b>	<b>\$ (47,389,715)</b>

Note: TANF 14-44 F rate includes the delivery supplemental costs

Effective April 1, 2014, AHCCCS Contractors must develop a process to assign all children ages 0 to 21 years of age (Early and Periodic Screening, Diagnostic and Treatment (EPSDT) members) to a dental home by one year of age or upon assignment to the Contractor, and to communicate the assignment to the member. The Contractor must regularly notify the oral health professional which members have been assigned to the provider's dental home for routine preventative care. This provides a "panel" of patients for outreach purposes so that the oral health professional can deliver services, send reminder notifications, etc. The goal of this program is to increase utilization of EPSDT oral health services to a level/rate mandated by CMS. Due to the complexity of this initiative it will take several months before increases in utilization are realized, thus capitation rates are not being adjusted for this change at this time. AHCCCS will continue to monitor the utilization due to this change and will adjust future capitation rates, if necessary.

Effective April 1, 2014, AHCCCS is allowing PCPs (physicians, physician's assistants or nurse practitioners) to apply fluoride varnish during EPSDT visits beginning at first

tooth eruption up to age two. The frequency is limited to no more than one every six months. There is an additional payment outside the EPSDT visit fee for this application. This increase includes the PCP education and discussion with the parents of the need of oral health care referral to a dental home. AHCCCS anticipates an immaterial impact to the capitation rates, thus capitation rates are not being adjusted for this change. AHCCCS will continue to monitor the utilization due to this change and will adjust future capitation rates, if necessary.

Effective January 1, 2014, AHCCCS Contractors must provide physical therapy benefits to get and keep a level of function for members twenty one years of age and older, limited to fifteen visits per year. AHCCCS anticipates an immaterial impact to the capitation rates, thus capitation rates are not being adjusted for this change. AHCCCS will continue to monitor the utilization due to this change and will adjust future capitation rates, if necessary.

### **III. Proposed Revised Capitation Rates and Their Impact**

Table II below summarizes the changes from the current approved CYE 14 capitation rates and the estimated budget impact, effective for the period April 1, 2014 through September 30, 2014 on a statewide basis. The impact includes the changes from Section II as well as any changes to administration, risk contingency and premium tax as a result of those changes.

The impact to Contractors' rates ranges from -0.3% to 0.0%. Individual Contractor capitation rates will be impacted as shown in Section B of the contracts.

Appendix I shows a detailed statewide budget impact by risk group.

**Table II: Proposed Statewide Capitation Rates and Budget Impact**

Rate Cell	CYE 14 Projected MMs without SMI Integrated MMs (4/1/14 - 9/30/14)	Based on CYE 14 (4/1/14 - 9/30/14) Projected Member Months without SMI Integrated MMs			Net Impact (after withhold)	
		Proposed CYE 14 (4/1/14 - 9/30/14) Gross Capitation (before withhold)	Current CYE 14 Net Capitation (after withhold)	Proposed CYE 14 (4/1/14 - 9/30/14) Net Capitation (after withhold)	Difference Proposed CYE 14 Dollars and Current CYE 14 Dollars	% Change Proposed CYE 14 over Current CYE 14
Prospective	8,098,062	\$ 1,967,861,080	\$ 1,951,009,057	\$ 1,949,272,906	\$ (1,736,152)	-0.09%
PPC	332,548	\$ 88,775,747	\$ 88,716,012	\$ 88,775,747	\$ 59,735	0.07%
State Only	36	\$ 594	\$ 594	\$ 594	\$ -	0.00%
<b>Total</b>	<b>8,430,646</b>	<b>\$ 2,056,637,420</b>	<b>\$ 2,039,725,663</b>	<b>\$ 2,038,049,246</b>	<b>\$ (1,676,417)</b>	<b>-0.08%</b>

### APPENDIX I: Detail Statewide Budget

		Projected CYE 14 MMs (04/01/14 - 09/30/14) <sup>1</sup>	Current Cap Rate (after withhold) based on Proj CYE 14 MMs <sup>2</sup>	Total Dollars CYE 14 before 4/1/14 changes	Upd CYE 14 Net Cap Rate (after withhold) based on Proj CYE 14 MMs <sup>2</sup>	Total Dollars Upd CYE 14 (after withhold) based on CYE 14 Proj MMs	Difference	% Increase
<b>TXIX</b>								
<b>Prospective</b>								
TANF < 1 <sup>3</sup>		334,455 \$	456.64 \$	152,725,938 \$	456.64 \$	152,725,938 \$	-	0.00%
TANF 1-13 <sup>3</sup>		3,110,205 \$	98.07 \$	305,033,024 \$	98.07 \$	305,033,024 \$	-	0.00%
TANF 14-44F <sup>3</sup>		1,555,020 \$	231.25 \$	359,599,918 \$	230.29 \$	358,106,520 \$	(1,493,397)	-0.42%
TANF 14-44M <sup>3</sup>		755,422 \$	145.42 \$	109,854,766 \$	145.23 \$	109,712,577 \$	(142,190)	-0.13%
TANF 45+ <sup>3</sup>		266,727 \$	390.87 \$	104,254,830 \$	390.84 \$	104,248,089 \$	(6,741)	-0.01%
SSI w/ Medicare		480,616 \$	140.07 \$	67,319,334 \$	141.99 \$	68,240,294 \$	920,960	1.37%
SSI w/o Medicare		372,947 \$	760.00 \$	283,440,598 \$	763.22 \$	284,640,229 \$	1,199,631	0.42%
AHCCCS Care		974,230 \$	402.09 \$	391,726,571 \$	400.46 \$	390,135,678 \$	(1,590,892)	-0.41%
Newly Eligible Adults		229,755 \$	293.68 \$	67,475,188 \$	293.30 \$	67,386,866 \$	(88,323)	-0.13%
SFPEP		0 \$	- \$	- \$	- \$	- \$	-	0.00%
Delivery Supplemental Payment <sup>4</sup>		18,098 \$	5,925.72 \$	107,246,213 \$	5,896.28 \$	106,713,446 \$	(532,767)	-0.50%
<b>Total Prospective TXIX <sup>5</sup></b>		<b>8,079,378</b>		<b>\$ 1,948,676,380</b>		<b>\$ 1,946,942,661</b>	<b>\$ (1,733,719)</b>	<b>-0.09%</b>
<b>PPC</b>								
TANF < 1 <sup>3</sup>		7,144 \$	1,059.33 \$	7,568,352 \$	1,059.33 \$	7,568,352 \$	-	0.00%
TANF 1-13 <sup>3</sup>		114,449 \$	56.17 \$	6,428,154 \$	56.17 \$	6,428,154 \$	-	0.00%
TANF 14-44F <sup>3</sup>		74,422 \$	194.66 \$	14,486,979 \$	194.30 \$	14,459,860 \$	(27,119)	-0.19%
TANF 14-44M <sup>3</sup>		32,992 \$	165.65 \$	5,465,298 \$	165.70 \$	5,466,856 \$	1,557	0.03%
TANF 45+ <sup>3</sup>		9,749 \$	405.73 \$	3,955,274 \$	405.63 \$	3,954,294 \$	(980)	-0.02%
SSI w/ Medicare		8,283 \$	92.77 \$	768,387 \$	91.84 \$	760,688 \$	(7,699)	-1.00%
SSI w/o Medicare		15,869 \$	469.54 \$	7,451,289 \$	476.64 \$	7,564,028 \$	112,739	1.51%
AHCCCS Care		58,686 \$	664.18 \$	38,978,083 \$	663.87 \$	38,959,977 \$	(18,106)	-0.05%
Newly Eligible Adults		10,953 \$	329.99 \$	3,614,195 \$	329.93 \$	3,613,538 \$	(657)	-0.02%
<b>Total PPC TXIX</b>		<b>332,548</b>		<b>\$ 88,716,012</b>		<b>\$ 88,775,747</b>	<b>\$ 59,735</b>	<b>0.07%</b>
<b>Total Title XIX</b>		<b>8,411,926</b>		<b>\$ 2,037,392,392</b>		<b>\$ 2,035,718,408</b>	<b>\$ (1,673,984)</b>	<b>-0.08%</b>
<b>TXXI</b>								
KidsCare <1		273 \$	461.25 \$	125,780 \$	461.25 \$	125,780 \$	-	0.00%
KidsCare 1-13		14,175 \$	99.07 \$	1,404,284 \$	99.07 \$	1,404,284 \$	-	0.00%
KidsCare 14-18 F		2,079 \$	233.60 \$	485,692 \$	232.63 \$	483,670 \$	(2,022)	-0.42%
KidsCare 14-18 M		2,157 \$	146.89 \$	316,921 \$	146.70 \$	316,510 \$	(411)	-0.13%
<b>Total TXXI</b>		<b>18,685</b>		<b>\$ 2,332,677</b>		<b>\$ 2,330,244</b>	<b>\$ (2,433)</b>	<b>-0.10%</b>
<b>State Only</b>								
Transplants		36	\$16.50	594	\$16.50	594	-	0.00%
<b>Grand Total Capitation <sup>5</sup></b>		<b>8,430,646</b>		<b>\$ 2,039,725,663</b>		<b>\$ 2,038,049,246</b>	<b>\$ (1,676,417)</b>	<b>-0.08%</b>

**Notes**

<sup>1</sup> Population estimates for CYE 14 are taken from DBF projections with SMI Integrated member months excluded.

<sup>2</sup> All plans are at a \$25,000 deductible level for CYE 14 reinsurance levels.

<sup>3</sup> TANF rate cells include SOBRA and Child Expansion groups. Child Expansion are only for those children ages 6-18.

<sup>4</sup> Delivery Supplemental Payment projected member months represents a count of members who are projected to receive a delivery supplemental capitation payment

<sup>5</sup> The Member months total excludes the delivery supplemental payment members

#### **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 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 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 six-month period beginning April 1, 2014.

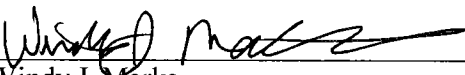
The actuarially sound capitation rates are a projection of future events. It may be expected that actual experience will vary from the values in the rates.

In developing the actuarially sound capitation rates, I have relied upon data and information provided by the Contractors and the AHCCCS internal databases. I have accepted the data without audit and have relied upon the Contractor's auditors and other AHCCCS employees for the accuracy of the data.

1% of the actuarially sound prospective Title XIX capitation rates will be withheld from monthly capitation payments to Contractors to fund a quality improvement incentive withhold pool. All of the withhold pool amounts will be distributed to Contractors at the time of the pool's reconciliation.

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 acute program, Medicaid eligibility rules and actuarial rating techniques. It is intended for AHCCCS 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

03/11/14  
Date

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