Contract Year Ending 2018
Children's Rehabilitative Services
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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AHCCCS
Arizona Health Care Cost Containment System

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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 October 1, 2017 through September 30, 2018 (Contract Year Ending 2018 or CYE 18) actuarially sound capitation rates for the Children's Rehabilitative Services (CRS) 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 CRS Program are effective for the twelve month time period from October 1, 2017 through September 30, 2018.

ii. Rate Certification Documentation

This rate certification includes the following items and information:

(a) Letter from Certifying Actuary

The actuarial certification letter for the CYE 18 capitation rates for the CRS 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 CRS 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 2a and Appendix 2b. Appendix 2a contains the rates without the Access to Professional Services Initiative (APSI), identified below in Section I.1.A.ii.(d)(i)(C)(v). Appendix 2b contains the rates including the APSI. The capitation rates are separated in that manner because the APSI awaits approval from CMS, and because the funding requires an intergovernmental transfer that has not occurred as of the date of this filing. The capitation rates in Appendix 2a will be paid to the Contractor if approval and funding are not secured by October 1, 2017. When approval and funding are secured, a mass adjustment will take place to pay the capitation rates in Appendix 2b retroactive to October 1, 2017. Additionally, the CRS 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 CRS contract uses the term coverage type 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 CRS Program.

(d) Program Information

(i) Summary of Program

(A) Type and Number of Managed Care Plans

The CRS Program contracts with one managed care plan.

(B) Covered Services

The following is a general description of services covered under the CRS Program. Additional information regarding covered services can be found in the Scope of Services section of the CRS contract.

Effective October 1, 2013, AHCCCS integrated all physical and behavioral health services for most Acute Care program children diagnosed with CRS qualifying conditions through one statewide CRS Contractor with the goals of improved member outcomes, reduced member confusion, improved care coordination, and streamlined administration. This model continues to qualify children for CRS based on particular diagnoses. For the purpose of this certification, "specialty care" refers to physical health services related to CRS qualifying conditions, including visits to multi-specialty interdisciplinary clinics (MSICs) established to facilitate care for CRS members. Prior to October 1, 2013, these services were delivered through the non-integrated CRS Program, while CRS member services for behavioral health and physical health unrelated to CRS conditions were delivered through different programs.

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

The CRS Program has operated on a statewide basis in the State of Arizona since the early 1980s.

(ii) Rating Period Covered

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

(iii) Covered Populations

The populations covered under CRS are children with certain medical, handicapping or potentially handicapping conditions. The CRS Program provides a multi-specialty interdisciplinary team approach to care focused on children with special health care needs.

The CRS Program has four rate cells that classify distinct members as follows:

- A Fully Integrated member will receive acute care, behavioral health, and specialty care services for CRS conditions through the sole CRS Contractor.
- A Partially Integrated-BH member will receive behavioral health and specialty care services through the sole CRS Contractor. These members are typically enrolled with the ALTCS Developmentally Disabled (DD) or the Comprehensive Medical and Dental Program (CMDP) for their acute care services.
- A Partially Integrated-Acute member will receive acute care and specialty care services through the sole CRS Contractor. These members are typically American Indians receiving behavioral health services through a Tribal Regional Behavioral Health Authority (TRBHA).
- A CRS Only member will only receive specialty care services through the sole CRS Contractor. These members are typically enrolled in the American Indian Health Plan (AIHP), receiving acute care services in a fee-for-service environment, and receiving behavioral health services through a TRBHA.

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

(iv) Eligibility or Enrollment Criteria Impacts

AHCCCS determines eligibility for CRS services through diagnosis codes that identify a list of specified health conditions. The list is available at https://www.azahcccs.gov/Members/Downloads/CRS/QualifyingMedicalConditions.pdf.

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 CRS 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 – Performance Based Payments (Incentive Arrangement) (42 CFR § 438.6(b)(2) at 81 FR 27859)
- AHCCCS Targeted Investments Program (42 CFR § 438.6(c)(1)(ii) at 81 FR 27860)
- AHCCCS Differential Adjusted Payments (DAP) (42 CFR § 438.6(c)(1)(iii)(B) at 81 FR 27860)
- Access to Professional Services Initiative (APSI) (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 CRS 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 CRS 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 of other rate cells.

v. Effective Dates of Changes

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

viii. Rate Certification Procedures

(a) CMS Rate Certification Requirement for Rate Change

This is a new rate certification that documents the CRS Program capitation rates that will be changing effective October 1, 2017.

(b) CMS Rate Certification Requirement for No Rate Change

Not Applicable. This rate certification will change the CRS 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

A contract amendment will be submitted to CMS to reflect the CRS Program capitation rates changing effective October 1, 2017.

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 CRS 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 relevant section numbers from the 2018 Guide. 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.

iii. Differences in Federal Medical Assistance Percentage

The CRS Program includes populations for which the State receives a different Federal Medical Assistance Percentage (FMAP). The populations, FMAPs, and the percentage of costs for October 1, 2015 through September 30, 2016 (CYE 16) are provided below in Table 1. The FMAPs shown below are for the time period of January 1, 2017 through September 30, 2017.

Table 1: FMAP and Percentage of Costs by Population

Population	FMAP	CYE 16 Percentage of Costs
Adult Expansion	95.00%	0.19%
Child Expansion	100.00%	4.91%
Childless Adult Restoration	89.85%	1.67%
KidsCare (Title XXI)	100.00%	0.05%
Populations not listed above	69.24%	93.18%

iv. Rate Ranges

Not Applicable. Rate ranges were not developed for the CYE 18 capitation rates for the CRS Program.

v. Rate Range Development

Not Applicable. Rate ranges were not developed for the CYE 18 capitation rates for the CRS 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 CRS Program were:

- Adjudicated and approved encounter data submitted by the CRS Contractor;
- Reinsurance payments made to the CRS Contractor;
- Historical and projected enrollment data for CRS members;
- Quarterly and annual financial statements submitted by the CRS Contractor;
- The Contractor's competitively bid and awarded administrative expenses per member per month (PMPM)
- Historical and Future Fee For Service (FFS) schedules developed by DHCM Rates & Reimbursement Team; and
- Data from DHCM Rates & Reimbursement Team related to Differential Adjusted Payment (DAP), see section I.4.D.

(ii) Age of Data

The encounter data serving as the base experience in the capitation rate development process was incurred during federal fiscal year 2016 (October 1, 2015 to September 30, 2016) (FFY 16) and paid through July 2017. For the purposes of trend development and analyzing historical experience, AHCCCS

also reviewed encounter data from FFY 14 (October 1, 2014 through September 30, 2015, paid through July 2017), FFY 15 (October 1, 2014 through September 30, 2015, paid through July 2017) and the first half of FFY 17 (October 1, 2016 through March 31, 2017, paid through July 2017).

The historical enrollment data for CRS members aligned with the encounter data time periods of FFY 14, FFY 15, FFY 16, and the first half of FFY 17.

The financial statement data reviewed as part of the rate development process included financial statements for the FFY 14, FFY 15, FFY 16, and the first half of FFY 17.

(iii) Sources of Data

The enrollment and encounter data were provided from the AHCCCS PMMIS mainframe. The financial statement data were provided by the AHCCCS DHCM Finance & Reinsurance Team. The projected enrollment data for CYE 18 was provided by the AHCCCS Division of Business and Finance (DBF) Budget Team. The AHCCCS DHCM Rates & Reimbursement Team provided the AHCCCS DHCM Actuarial Team with data for the impact of FFS changes as described in Section I.2.B.ii.(a).(i), and for the impact of the DAP as described in Section I.4.D.ii.(a).

(iv) Sub-capitated Arrangements

The CRS Contractor uses a sub-capitated/block purchasing arrangement for some professional and dental services. During FFY 16, the CRS contractor paid approximately 2.73% of total medical expenditures through sub-capitated arrangements. The sub-capitated arrangements between the CRS Contractor and its 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 subcapitated 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. subcapitated)) encounters to estimate a health plan valued amount for these encounters. The units of service data from the encounters and the estimated health plan valued amounts were used for the basis of calculating utilization and unit cost.

(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 viewing encounter data by form type by date of service.

(A) Completeness of the Data

The AHCCCS DHCM Data & Research Team performs encounter data validation studies, as required to meet the Special Terms and Conditions of AHCCCS' 1115 Waiver from CMS, to evaluate the completeness, accuracy, and timeliness of the collected encounter data on at least an annual basis.

(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 AHCCCS 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 CRS Program. Additionally, we ensured that only services covered under the state plan were included in the base year data.

(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 certain data and information provided by the CRS Contractor. The values presented in this letter are dependent upon this reliance.

AHCCCS has determined the FFY 16 encounter data to be appropriate for the purposes of developing the CYE 18 capitation rates for the CRS Program. Additionally, the FFY 14, FFY 15, and first half of FFY 17 encounter data was deemed appropriate for use in trends once manual smoothing had been applied to estimate completion for encounter submissions in FFY 16.

(iii) Data Concerns

There are no concerns with the data used.

(c) Appropriate Data for Rate Development

The FFY 16 encounter data was appropriate to use as the base data for developing the CYE 18 capitation rates for the CRS Program.

(d) Use of a Data Book

Not applicable. The AHCCCS DHCM Actuarial Team did not rely on a data book to develop the CYE 18 capitation rates for the CRS program.

iii. Adjustments to the Data

The encounter data was adjusted as described in Section I.2.B.ii.(a).(iv) for sub-capitated arrangements for categories of service, Professional and Dental. Additionally, the encounter experience and reinsurance payments associated with one Partially Integrated-Acute member who received millions of dollars in services during FFY 14 and FFY 15, but was no longer enrolled in CRS as of October 1, 2015, were removed from the data in order to improve the reliability of the trend estimates.

(a) Credibility of the Data

No credibility adjustment was necessary.

(b) Completion Factors

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, 2013 through March 31, 2017, paid through July 2017. The monthly completion factors were applied to the encounter data on a monthly basis. The aggregated FFY 14, FFY 15 and FFY 16 completion factors applied to each category of service (COS) are shown in Table 2. The FFY 16 factors applied to each rate cell shown in the Appendix 4 rate build up result from each rate cell's distinct service mix.

Table 2: Annual Completion Factors by Category of Service and FFY

Category of Service	FFY 14	FFY 15	FFY 16
Professional	1.0000	0.9984	0.9869
Prescription Drugs	1.0000	1.0000	0.9906
Dental Services	1.0000	0.9983	0.9868
Inpatient	1.0000	0.9996	0.9319
Nursing Facility	1.0000	0.9997	0.9612
Outpatient Hospital	1.0000	0.9992	0.9864

(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 historical changes applied to the FFY 16 base data period are provided in Appendix 5.

(e) Exclusions of Payments or Services

Payments for one high-cost member in Partially Integrated-Acute were excluded from the data, as the member transitioned to another AHCCCS program effective October 1, 2015. This amounted to approximately $6.30 million removed from the encounters, and $5.96 million removed from reinsurance payments, for FFY 14 and FFY 15.

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 27856.

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) at 81 FR 27856, were not used in developing the CYE 18 capitation rates for the CRS Program. The CRS 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) at 81 FR 27861 are for enrollees aged 21 to 64. No adjustment was made to encounter data or capitation rates for the CRS 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 21st Century Cures Act (P.L. 114-255)

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

(a) Number of Enrollees

Two CRS members between the ages of ages 21 and 64 received treatments in an IMD in the FFY 16 base data time period.

(b) Length of Stay

The two enrollees received a combined 23 days of care in an IMD during FFY 16, with one stay including 19 days and one stay including 4 days.

(c) Impact on Rates

No adjustment was made to the encounter data or CYE 18 capitation rates for repricing of these stays, as the utilization was judged to be immaterial (PMPM impact of less than $0.01).

B. Appropriate Documentation

i. Projected Benefit Costs

The projected CYE 18 gross medical expenses by rate cell and COS can be found in Appendix 7a.

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 are 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 Section I.2.B.ii.(a).(ii), data from FFY 16 served as the base for projections to CYE 18 for the capitation rate, while data from FFY 14, FFY 15, and the first half of FFY 17 was used in development of trends and completion factors. The historical encounter data was summarized by FFY and COS.

Exondys 51

During the rate setting process, the CRS Contractor notified AHCCCS that one CRS member had been approved to receive Exondys 51, a high-cost biologic that did not appear in any of the base data. This biologic was also approved by AHCCCS to be eligible for reinsurance. The estimated impact to medical expenses, net of reinsurance, is an increase of approximately $86,000.

Enteral Services

The CRS Contractor also notified AHCCCS that some CRS Partially Integrated-BH members concurrently enrolled with the ALTCS DES/DDD program had been receiving enteral services through their ALTCS DES/DDD acute care subcontractor. The services relate to a CRS qualifying condition, and the CRS Contractor established a subcapitated contract to provide the services for all affected members through the CRS Program. AHCCCS relied on a payment report from the CRS Contractor to develop the PMPM estimate to build into the capitation rate for the Partially Integrated-BH rate cell. The estimated impact to medical expenses is an increase of approximately $1.4 million.

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 Team regarding their fee schedules.

Additionally, the CRS Contract requires that the Contractor 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 estimated impact to medical expenses is an increase of approximately $150,000.

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

The methodology for developing the capitation rate has changed since the CYE 17 rate development process. The CYE 18 rate development is the first year in which three prior years of encounter data for the integrated CRS Program are available and used for trend development. In previous years, the trend development relied on assumptions of utilization and unit cost trend rates from the Acute Program, since the available encounter data for the integrated CRS Program did not cover a long enough period of time to establish a reliable trend rate.

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

(A) Description of Data and Assumptions

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 CRS Program.

(B) Basis of Trend Development

All data used was specific to the CRS population, but comparisons were made to other AHCCCS populations for reasonableness of observed trends.

(ii) Projected Benefit Cost Trends Methodologies

Historical utilization, unit cost and PMPM encounter data incurred between October 1, 2013 and March 31, 2017 was organized by incurred month and category of service. The 42 months of data were adjusted for completion and normalized for historical program and fee schedule changes. Trend rates were developed to adjust the base data (midpoint of April 1, 2016) forward 24 months to the midpoint of the contract period (April 1, 2018). Moving averages over 12-month periods were calculated to identify changes in the underlying patterns over time, for each of the three types of trend (utilization, unit cost, and PMPM). 24-month trends were utilized to smooth out fluctuations from year to year. 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 CRS Program, as well as in conjunction with knowledge of other AHCCCS programs.

(iii) Projected Benefit Cost Trends Comparisons

Trends were compared to the trends being observed by category of service in other AHCCCS programs. Trends were not compared to historical trends assumed since prior to this rate setting period, the CRS trend relied on assumptions of utilization and unit cost trends from the Acute Program.

(b) Projected Benefit Cost Trends by Component

(i) Changes in Price and Utilization

The trend assumptions were developed by unit cost and utilization. Table 3 shows the components of the projected benefit cost trend by category of service.

Table 3: Prospective Projected Trends by Category of Service

Category of Service	Prospective Trend		
	Utilization	Unit Cost	PMPM
Professional	3.00%	-1.00%	1.97%
Prescription Drugs	0.00%	8.00%	8.00%
Dental Services	0.00%	1.00%	1.00%
Inpatient	-1.00%	2.00%	0.98%
Nursing Facility	-1.00%	2.00%	0.98%
Outpatient Hospital	-1.00%	4.00%	2.96%

(ii) Alternative Methods

Not applicable.

(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 category of service.

(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) at 81 FR 27856, were not used in developing the CYE 18 capitation rates for CRS Program. The CRS 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

AHCCCS provides prior period coverage for the period of time prior to the member's enrollment in the CRS Program during which the member is eligible for covered services. Prior period coverage refers to the time frame from the effective date of

eligibility (usually the first day of the month of application) until the date the member is enrolled with the CRS Contractor. The CRS Contractor receives notification from AHCCCS of the member's enrollment. The CRS Contractor is responsible for payment of all claims for medically necessary services covered by the CRS Program and provided to members during prior period coverage.

(b) Claims Data Included in Base Data

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

(c) Enrollment Data Included in Base Data

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

(d) Adjustments, Assumptions, and Methodology

Due to limited number of members in the PPC time frame, a separate PPC capitation rate was not developed and all covered expenses and member months are included in the regular CRS capitation rate cells.

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

There are no new covered benefits implemented by this certification.

(b) Recoveries of Overpayments

There were no adjustments made to reflect recoveries of overpayments made to providers by health plans in accordance with 42 CFR at §438.608(d) at 27892. The AHCCCS DHCM Actuarial Team will be working with the AHCCCS Office of Inspector General (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) at 81 FR 27861, 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

The CYE 18 capitation rates for the CRS Program include an incentive arrangement, as described under 42 CFR § 438.6(b)(2) at 81 FR 27589, called the Alternative Payment Model (APM) Initiative – Performance Based Payments. The APM Initiative – Performance Based Payments incentive arrangement is a special provision for payment where the CRS Contractor may receive additional funds over and above the capitation rates for implementing APM arrangements with providers who successfully meet targets established by CRS that are aimed at quality improvement, such as reducing costs, improving health outcomes or improving access to care. The incentive arrangement 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 $380,000, or 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 arrangement coincides with the rating period.

(ii) Enrollees, Services, and Providers Covered

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 CRS Contractor is 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.

Their provider contracts must include performance measures for quality and/or cost efficiency.

(iii) Purpose

The purpose of the APM Initiative – Performance Based Payments incentive arrangement is to align incentives between the Contractor 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

Incentive payments for the APM Initiative – Performance Based Payments incentive arrangement are not included in the CYE 18 capitation rates for the CRS 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 CRS Program. The anticipated incentive payment amount of at least $380,000 will be paid by AHCCCS to the CRS Contractor 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

This is not applicable because withhold arrangements, as defined in 42 CFR § 438.6(a) at 81 FR 27859, were not developed for the CYE 18 capitation rates for CRS.

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 CRS Program will include a risk corridor.

(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 a risk corridor. This rate certification will use the term risk corridor to be consistent with the 2018 Guide. The CRS Contract refers to the risk corridor as reconciliation.

(ii) Description of Risk-Sharing Mechanisms

AHCCCS will reconcile the Contractor's medical cost expenses to the net capitation and reinsurance paid to the Contractor and limit the Contractor's profit or loss outside the risk corridor. Net capitation is equal to the capitation rates paid less the premium tax, the health insurer fee (if applicable) 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.

Initial reconciliations are typically performed no sooner than 6 months after the end of the contract year and final reconciliations are typically computed no sooner than 15 months after the contract year.

Additional information regarding the risk corridor can be found in the Compensation section of the CRS Contract.

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

The risk corridor did not have any effect on the development of the CYE 18 capitation rates for the CRS Program.

(iv) Risk-Sharing Mechanisms Documentation

The predetermined threshold amount for the risk corridor was set using actuarial judgment with consideration of conversations between the AHCCCS DHCM Actuarial Team, the AHCCCS DHCM Finance and 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 CRS 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 CRS 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 CRS for covered services incurred above the deductible. The deductible is the responsibility of CRS. There has been no change to the deductible or coinsurance factors since the last rate setting period.

The actual reinsurance case amounts are paid to CRS whether the actual amount is above or below the reinsurance offset in the capitation rates. This can result in a loss or gain by CRS 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 4 below includes the projected reinsurance offsets assumed in the CYE 18 capitation rates and the percentage that these reinsurance offsets represent of the capitation rate from Appendix 2a for each rate cell.

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

Table 4: CYE 18 Projected Reinsurance Offsets

Rate Cell	Reinsurance Offset PMPM	Percent of Capitation for Rate Cell
Fully Integrated	-$140.04	14.9%
Partially Integrated-Acute	-$124.14	13.9%
Partially Integrated-BH	-$24.03	2.6%
CRS Only	-$43.96	7.7%

(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 expense 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 CRS for FFY 16. The historical payments were turned into PMPMs using FFY 16 member months, adjusted for completion, and trended to midpoint of the rating period using the same trend factors applied to the gross medical capitation rates by category of service (provided in Section I.3.B.iii.(b).(i)). Estimated impacts of historical and current program and reimbursement changes were then applied. The development of the reinsurance offset by rate cell is shown in Appendix 6a and 6b.

D. Delivery System and Provider Payment Initiatives

i. Rate Development Standards

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

ii. Appropriate Documentation

(a) Description of Delivery System and Provider Payment Initiatives

(i) Description

AHCCCS Targeted Investment Program

The Targeted Investments Program is designed to provide a uniform dollar increase to eligible AHCCCS providers to develop systems for integrated care and support ongoing efforts to improve care coordination, increase efficiencies in service delivery, and reduce fragmentation between behavioral health and physical health care.

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.

Access to Professional Services Initiative

The Access to Professional Services Initiative (APSI) seeks to provide enhanced support to certain professionals in order to (1) preserve and enhance access to these professionals who deliver essential services to Medicaid recipients in Arizona and (2) support professionals who are critical to professional training and education efforts. APSI is a program to preserve and promote access to medical services through a uniform percentage increase to the Contractors' rates for professional services provided by qualified physicians and non-physician professionals affiliated with designated hospitals who meet the following definition:

- A hospital facility with an ACGME-accredited teaching program and which is operated pursuant to the authority in Arizona Statute Title 48, Chapter 31; or,
- A hospital facility with:
  - An ACGME-accredited teaching program with a state university, and
  - AHCCCS inpatient discharge utilization volume greater than or equal to 30 percent as calculated by the Arizona Department of Health Services for calendar year 2014; or,
- A freestanding children's hospital or a pediatric unit of a general acute care hospital with greater than one hundred (100) licensed pediatric beds, excluding nursery beds.

The APSI provides a uniform percentage increase of 40% to otherwise contracted rates for qualified practitioners for all claims for which AHCCCS is the primary payer. The rate increase is intended to supplement, not supplant, payments to eligible providers.

(ii) Amount

AHCCCS Targeted Investment Program

Anticipated payments for Targeted Investments are approximately $850,000. AHCCCS will adjust capitation rates in the form of an annual lump sum payment to the Contractors after the completion of the contract year.

AHCCCS Differential Adjusted Payments

The total amount of DAP payments before premium tax or underwriting gain included as an adjustment to the capitation rates is approximately $59,000 or $0.20 PMPM.

Access to Professional Services Initiative

The total amount of APSI payments before premium tax included as an adjustment to the capitation rates is approximately $10.4 million or $35.31 PMPM.

(iii) Providers Receiving Payment

AHCCCS Targeted Investment Program

The providers receiving the payments include primary care physicians, Integrated Clinic providers, Behavioral Health Outpatient Clinics, and hospitals which qualify for the Targeted Investments program and who demonstrate performance improvement by meeting certain benchmarks for integrating and coordinating physical and behavioral health care.

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.

Access to Professional Services Initiative

The qualifying providers receiving the payment increase include Physicians, including doctors of medicine and doctors of osteopathic medicine; Certified Registered Nurse Anesthetists; Certified Registered Nurse Practitioners; Physician Assistants; Certified Nurse Midwives; Clinical Social Workers; Clinical Psychologists; Dentists; and Optometrists.

(iv) Effect on Capitation Rate Development

AHCCCS Targeted Investment Program

Funding for Targeted Investments is not included in the certified capitation rates. AHCCCS will be submitting several 438.6(c) pre-prints with the methodology, data and assumptions related to Targeted Investments.

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.

Access to Professional Services Initiative

Funding for the APSI is included in the certified capitation rates. The AHCCCS DHCM Actuarial Team relied upon information provided by the APSI Hospital Coalition and their consultants. The information provided by the APSI Hospital Coalition and their consultants was the Billing Provider Tax IDs, which were used to identify the hospital provider groups within the CYE 16 encounter data, and also with the Average Commercial Rates (ACR) for these hospital provider groups. The AHCCCS DHCM Actuarial Team was unable to determine the reasonableness of the ACR data provided without performing a substantial amount of work and has relied upon the APSI Hospital Coalition and their consultants for the reasonability of the ACR data.

The methodology to determine the 40% fee schedule increase followed the upper payment limit calculation using an ACR. The data used for this analysis was the CYE 16 encounter data for the hospital provider groups to be included in the initiative. The CYE 16 encounter data was repriced with both the ACRs and with the AHCCCS fee schedule. Under this repriced comparison, the ACR amounts were approximately 53% higher than the AHCCCS fee schedule amounts. The 40% increase for the APSI was then determined through collaborative meetings with the AHCCCS Office of the Director and subsequent meetings with the Hospital Coalition. This 40% increase was then applied to the CYE 16 encounter data for rate setting and was applied to the amounts the health plans had paid.

E. Pass-Through Payments

Not applicable. There are no pass-through payments in the CYE 18 capitation rates for the CRS Program.

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 administrative expense PMPM assumed in the CYE 18 capitation rates is equal to the PMPM amount awarded to the CRS Contractor during the last RFP for the CRS Program.

(b) Material Changes

There were no material changes since the last rate certification and no other material changes.

(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

(a) Administrative Costs

The administrative component of the CYE 18 capitation rates by rate cell for the CRS Program is provided in Appendix 7b.

(b) Taxes and Other Fees

The CYE 18 capitation rates for the CRS 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 CRS 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 CRS Program.

iii. Health Insurance Provider's Fee

(a) Address if in Rates

The CYE 18 capitation rates for the CRS Program reflected in this rate certification do not incorporate the Health Insurance Providers Fee (HIPF). AHCCCS will follow

previous CRS 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 CRS 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 CRS Program.

(c) Description of how Fee was Determined

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

(d) Address if not in Rates

The CYE 18 CRS capitation rates do not include the fee at this time; the impact to the CRS 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. CRS is 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 HIPF liability allocations to AHCCCS from the Contractors is reasonable and appropriate, AHCCCS will review for each Contractor the HIPF liability allocated to AHCCCS as a percentage of the total HIPF 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 CRS Program of this adjustment is a statewide increase of approximately $8.9 million.

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

The portion of the CYE 18 capitation rates for the CRS Program attributable to nursing facility services, and related home and community based services, are shown below in Table 5.

Table 5: Percentage of Capitation Attributable to NF & HCBS Services

Rate Cell	CYE 18 Projected MMs	LTC NF	LTC HCBS	LTC Total
Fully Integrated	200,325	0.11%	0.34%	0.45%
Partially Integrated-Acute	2,281	0.00%	0.02%	0.02%
Partially Integrated-BH	77,418	0.01%	1.05%	1.06%
CRS Only	13,310	0.35%	0.05%	0.40%

6. Risk Adjustment and Acuity Adjustments

This section of the 2018 Guide is not applicable to the CRS Program. The CRS Program does not utilize risk adjustments or acuity adjustments. This is not anticipated to change.

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

Section II of the 2018 Medicaid Managed Care Rate Development Guide is not applicable to the CRS Program. Managed long-term services and supports, as defined at 42 CFR § 438.2 at 81 FR 27855, are not covered services under the CRS Program. The CRS Program does cover nursing facility services, and related home and community based services, for 90 days of short-term convalescent care.

Section III New Adult Group Capitation Rates

Section III of the 2018 Medicaid Managed Care Rate Development Guide is applicable to the CRS Program.

AHCCCS expanded coverage for childless adults up to 100% of the federal poverty level (FPL) in 2000 under Proposition 204. In January 2011, this population was subject to an enrollment freeze. Effective January 1, 2014, AHCCCS opted to expand Medicaid eligibility for all adults up to 133% FPL (Adult Expansion) and restored coverage for the childless adults up to 100% FPL population (Childless Adult Restoration). Collectively, these two populations will be referred to as the new adult group.

The CRS Program does not have separate rate cells for the new adult group nor are their expenditures viewed any different than other members in the CRS Program. The new adult group represents less than 2% of expenditures for CRS. See Section I for the rate development of the CRS Program capitation rates. The new adult group is treated the same as any other CRS member and not viewed separately or monitored separately.

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 CRS Program have been documented according to the guidelines established by CMS in the 2018 Guide. The CYE 18 capitation rates for the CRS Program are effective for the 12-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 the CRS Contractor. I have relied upon AHCCCS and the CRS Contractor 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	September 15, 2017
Matthew C. Varitek	Date

Fellow, Society of Actuaries
Member, American Academy of Actuaries

Appendix 2a: Certified Capitation Rates without APSI

Rate Cell	Projected CYE 18 Member Months	Updated CYE 17 Capitation Rate	CYE 18 Capitation Rate	Percentage Impact
Fully Integrated	200,325	$870.09	$936.89	7.7%
Partially Integrated-Acute	2,281	$546.15	$892.18	63.4%
Partially Integrated-BH	77,418	$863.11	$918.05	6.4%
CRS Only	13,310	$500.09	$572.48	14.5%

Notes:

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

Appendix 2b: Certified Capitation Rates with APSI

Rate Cell	Projected CYE 18 Member Months	Updated CYE 17 Capitation Rate	CYE 18 Capitation Rate	Percentage Impact
Fully Integrated	200,325	$870.09	$973.87	11.9%
Partially Integrated-Acute	2,281	$546.15	$920.11	68.5%
Partially Integrated-BH	77,418	$863.11	$954.88	10.6%
CRS Only	13,310	$500.09	$590.83	18.1%

Notes:

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

Appendix 3a: Fiscal Impact Summary without APSI

Rate Cell	Projected CYE 18 Member Months	Updated CYE 17 Capitation Rate	CYE 18 Capitation Rate	PMPM Change
Fully Integrated	200,325	$870.09	$936.89	$66.80
Partially Integrated-Acute	2,281	$546.15	$892.18	$346.03
Partially Integrated-BH	77,418	$863.11	$918.05	$54.94
CRS Only	13,310	$500.09	$572.48	$72.39
Total	**293,334**	**$848.94**	**$915.03**	**$66.09**

Rate Cell	CYE 17 Projected Expenditures	CYE 18 Projected Expenditures	Dollar Impact	Percentage Impact
Fully Integrated	$174,300,591	$187,681,652	$13,381,061	7.7%
Partially Integrated-Acute	$1,245,531	$2,034,678	$789,147	63.4%
Partially Integrated-BH	$66,819,982	$71,073,129	$4,253,147	6.4%
CRS Only	$6,656,465	$7,620,023	$963,558	14.5%
Total	**$249,022,570**	**$268,409,482**	**$19,386,913**	**7.8%**

Appendix 3b: Fiscal Impact Summary with APSI

Rate Cell	Projected CYE 18 Member Months	Updated CYE 17 Capitation Rate	CYE 18 Capitation Rate	PMPM Change
Fully Integrated	200,325	$870.09	$973.87	$103.79
Partially Integrated-Acute	2,281	$546.15	$920.11	$373.96
Partially Integrated-BH	77,418	$863.11	$954.88	$91.78
CRS Only	13,310	$500.09	$590.83	$90.74
Total	**293,334**	**$848.94**	**$951.06**	**$102.12**

Rate Cell	CYE 17 Projected Expenditures	CYE 18 Projected Expenditures	Dollar Impact	Percentage Impact
Fully Integrated	$174,300,591	$195,091,349	$20,790,758	11.9%
Partially Integrated-Acute	$1,245,531	$2,098,382	$852,850	68.5%
Partially Integrated-BH	$66,819,982	$73,925,090	$7,105,108	10.6%
CRS Only	$6,656,465	$7,864,266	$1,207,801	18.1%
Total	**$249,022,570**	**$278,979,087**	**$29,956,518**	**12.0%**

Notes:

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

Appendix 4: Unadjusted and Adjusted Base Data and Projected Benefit Costs by Rate Cell

CYE 16, Fully Integrated				
Category of Service	**Unadjusted Base Data PMPMs**	**Completion Factors**	**Reimbursement Changes**	**Adjusted Base Data**
Professional	$273.02	0.9872	1.0091	$279.09
Prescription Drugs	$176.33	0.9908	0.9871	$175.68
Dental Services	$20.73	0.9868	0.9955	$20.91
Inpatient	$273.59	0.9322	1.1091	$325.50
Nursing Facility	$1.05	0.9744	1.0000	$1.07
Outpatient Hospital	$125.17	0.9865	1.0013	$127.05
Total	**$869.88**	**0.9698**	**1.0360**	**$929.31**

CYE 16, Partially Integrated-Acute				
Category of Service	**Unadjusted Base Data PMPMs**	**Completion Factors**	**Reimbursement Changes**	**Adjusted Base Data**
Professional	$242.03	0.9878	1.0067	$246.67
Prescription Drugs	$37.18	0.9908	1.0000	$37.52
Dental Services	$22.03	0.9870	0.9974	$22.26
Inpatient	$472.98	0.9318	1.0196	$517.51
Nursing Facility	$0.00	1.0000	1.0000	$0.00
Outpatient Hospital	$72.68	0.9853	1.0004	$73.79
Total	**$846.91**	**0.9556**	**1.0130**	**$897.76**

CYE 16, Partially Integrated-BH				
Category of Service	**Unadjusted Base Data PMPMs**	**Completion Factors**	**Reimbursement Changes**	**Adjusted Base Data**
Professional	$353.97	0.9865	1.0069	$361.28
Prescription Drugs	$210.18	0.9902	0.9435	$200.27
Dental Services	$2.75	0.9867	0.9669	$2.70
Inpatient	$129.50	0.9277	1.1802	$164.76
Nursing Facility	$0.07	0.9202	1.0000	$0.07
Outpatient Hospital	$51.95	0.9861	0.9985	$52.61
Total	**$748.42**	**0.9768**	**1.0202**	**$781.68**

CYE 16, CRS Only				
Category of Service	**Unadjusted Base Data PMPMs**	**Completion Factors**	**Reimbursement Changes**	**Adjusted Base Data**
Professional	$191.54	0.9870	1.0083	$195.67
Prescription Drugs	$28.80	0.9901	1.0000	$29.09
Dental Services	$8.83	0.9869	0.9937	$8.89
Inpatient	$211.71	0.9488	1.0817	$241.38
Nursing Facility	$1.59	0.8453	1.0000	$1.88
Outpatient Hospital	$41.28	0.9859	1.0009	$41.91
Total	**$483.75**	**0.9695**	**1.0397**	**$518.81**

Appendix 5: Base Data Program and Reimbursement Changes

Effective Date	Programmatic Change	Fully Integrated PMPM Impact	Partially Integrated-Acute PMPM Impact	Partially Integrated-BH PMPM Impact	CRS Only PMPM Impact	Description
1/1/2016	High Acuity Pediatrics Adjustor	$22.60	$22.60	$17.32	$12.85	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	Provider Fee Schedule (PFS) Changes	$6.65	$4.04	$6.46	$3.96	Effective October 1, 2016, AHCCCS is changing FFS provider rates for certain providers based either on access to care needs, Medicare fee schedule rates, and/or legislative mandates.
10/1/2016	VBP Differential Payments	$1.41	$1.61	$0.74	$0.77	AHCCCS has proposed Value-Based Purchasing (VBP) Differential Adjusted Fee Schedule rates to distinguish providers who have committed to supporting designated actions that improve the patient care experience, improve member health, and reduce cost of care growth. The proposed VBP differential rates are applicable for dates of service from October 1, 2016 through September 30, 2017. FFS rates for select providers meeting specific criteria will be increased 1% for qualified AHCCCS-registered Arizona Nursing Facility providers 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.

Effective Date	Programmatic Change	Fully Integrated PMPM Impact	Partially Integrated-Acute PMPM Impact	Partially Integrated-BH PMPM Impact	CRS Only PMPM Impact	Description
10/1/2016	AzEIP Reimbursement	$0.24	$0.24	$0.24	$0.24	The Arizona Early Intervention Program (AzEIP) is a program that provides services to enhance the capacity of families and caregivers to support infants and toddlers with developmental delays or disabilities in their development. AzEIP members may be AHCCCS enrolled, in which case AHCCCS pays for the services, or non-AHCCCS enrolled, in which case AzEIP pays directly. Effective October 1, 2016, AHCCCS is modifying the speech therapy rate structure for services provided to a member who is a child identified in the AHCCCS system as an AzEIP recipient in order to more closely align the rates with the AzEIP rate structure. This change is intended to assure continued access to care, particularly for rural AzEIP members, where providers often travel to provide services in the natural setting, and should limit the rate differential whether the provider is paid the AHCCCS rates or the AzEIP rates. This will ensure there is not different access to services for AzEIP children based on whether the payer is AHCCCS or AzEIP.
1/1/2017	High Acuity Pediatrics Adjustor	$20.66	$0.00	$15.68	$11.63	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.
4/1/2017	Abilify to Generic	-$2.29	$0.00	-$12.00	$0.00	Effective April 1, 2017, the AHCCCS Pharmaceutical and Therapeutics Committee determined that the generic form of Abilify (aripiprazole) should be prescribed wherever feasible. Capitation rates effective at that time were revised downward to reflect estimated cost savings. Subsequent analysis of actual utilization data and drug pricing information led to a further PMPM decrease than was projected in the 4/1/17 rate change. The combined total PMPM decrease by which the data was adjusted is listed here.

Appendix 6a: CYE 16 Base Data for Development of CYE 18 Projected Reinsurance Offsets PMPM by Rate Cell

Rate Cell	RI Paid PMPM Regular Cases CYE 16	RI Paid PMPM Non-Regular Cases CYE 16	Completion Factor	Historical Program and Reimb Chgs PMPM
Fully Integrated	-$54.75	-$45.92	0.8940	-$15.24
Partially Integrated-Acute	-$108.85	$0.00	0.8940	$0.00
Partially Integrated-BH	-$5.58	-$4.84	0.8940	-$11.35
CRS Only	-$31.03	$0.00	0.8940	-$8.57

Appendix 6b: CYE 18 Projected Reinsurance Offsets PMPM by Rate Cell

Rate Cell	PMPM Trend Assumed Regular Cases	PMPM Trend Assumed Non-Regular Cases	PMPM Estimate of New Rx Added to RI	CYE 18 PMPM
Fully Integrated	0.98%	8.00%	-$2.44	-$140.04
Partially Integrated-Acute	0.98%	8.00%	$0.00	-$124.14
Partially Integrated-BH	0.98%	8.00%	$0.00	-$24.03
CRS Only	0.98%	8.00%	$0.00	-$43.96

Appendix 7a: CYE 18 Projected Gross Medical Expenses PMPM by Rate Cell

CYE 18, Fully Integrated				
Category of Service	**Adjusted Base Data CYE 16**	**PMPM Trend**	**Program and Reimbursement Changes**	**CYE 18 PMPM**
Professional	$279.09	2.0%	0.3%	$291.07
Prescription Drugs	$175.68	8.0%	1.4%	$207.78
Dental Services	$20.91	1.0%	0.2%	$21.37
Inpatient	$325.50	1.0%	0.0%	$331.87
Nursing Facility	$1.07	1.0%	0.1%	$1.10
Outpatient Hospital	$127.05	3.0%	0.0%	$134.66
Total	**$929.31**			**$987.85**

CYE 18, Partially Integrated-Acute				
Category of Service	**Adjusted Base Data CYE 16**	**PMPM Trend**	**Program and Reimbursement Changes**	**CYE 18 PMPM**
Professional	$246.67	2.0%	0.0%	$256.40
Prescription Drugs	$37.52	8.0%	0.0%	$43.76
Dental Services	$22.26	1.0%	0.2%	$22.75
Inpatient	$517.51	1.0%	0.0%	$527.60
Nursing Facility	$0.00	1.0%	0.0%	$0.00
Outpatient Hospital	$73.79	3.0%	0.0%	$78.22
Total	**$897.76**			**$928.73**

CYE 18, Partially Integrated-BH				
Category of Service	**Adjusted Base Data CYE 16**	**PMPM Trend**	**Program and Reimbursement Changes**	**CYE 18 PMPM**
Professional	$361.28	2.0%	5.0%	$394.53
Prescription Drugs	$200.27	8.0%	0.0%	$233.60
Dental Services	$2.70	1.0%	0.0%	$2.75
Inpatient	$164.76	1.0%	0.0%	$168.00
Nursing Facility	$0.07	1.0%	0.0%	$0.07
Outpatient Hospital	$52.61	3.0%	0.0%	$55.76
Total	**$781.68**			**$854.71**

CYE 18, CRS Only				
Category of Service	**Adjusted Base Data CYE 16**	**PMPM Trend**	**Program and Reimbursement Changes**	**CYE 18 PMPM**
Professional	$195.67	2.0%	0.1%	$203.70
Prescription Drugs	$29.09	8.0%	0.0%	$33.93
Dental Services	$8.89	1.0%	0.0%	$9.07
Inpatient	$241.38	1.0%	0.0%	$246.13
Nursing Facility	$1.88	1.0%	0.0%	$1.91
Outpatient Hospital	$41.91	3.0%	0.0%	$44.41
Total	**$518.81**			**$539.15**

Appendix 7b: CYE 18 Projected Capitation Rates PMPM by Rate Cell

Rate Cell	Fully Integrated	Partially Integrated-Acute	Partially Integrated-BH	CRS Only
Gross Medical Expense PMPM	$987.85	$928.73	$854.71	$539.15
Less Reinsurance PMPM	-$140.04	-$124.14	-$24.03	-$43.96
Net Claim Cost PMPM	**$847.81**	**$804.59**	**$830.68**	**$495.18**
Admin Expenses PMPM	$60.46	$60.46	$60.46	$60.46
UW Gain PMPM	$9.88	$9.29	$8.55	$5.39
Premium Tax PMPM	$18.74	$17.84	$18.36	$11.45
Effective Capitation PMPM without APSI	**$936.89**	**$892.18**	**$918.05**	**$572.48**
APSI PMPM	$36.25	$27.37	$36.10	$17.98
Premium Tax PMPM	$0.74	$0.56	$0.74	$0.37
Effective Capitation PMPM with APSI	**$973.87**	**$920.11**	**$954.88**	**$590.83**