

# **Regional Behavioral Health Authorities - Developmental Disabilities Actuarial Memorandum**

## **I. Purpose**

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

Prior to July 1, 2016, behavioral health capitation rates for the Arizona Department of Economic Security / Division of Developmental Disabilities (ADES/DDD) were included as a component of the single statewide rate described in the actuarial memorandum entitled "Arizona Department of Economic Security / Division of Developmental Disabilities (ADES/DDD) Actuarial Memorandum" signed by Windy J, Marks, dated August 13, 2015.

The ADES/DDD program covers Medicaid eligible members with intellectual and developmental disabilities. The program offers long-term care services, acute physical health services, and behavioral health services. This certification applies only to behavioral health services.

The behavioral health component included in the ADES/DDD above-referenced capitation rates was developed based on financial statement data submitted by the Regional Behavioral Health Authorities (RBHAs) to the Arizona Department of Health Services (ADHS), Division of Behavioral Health Services (DBHS) and member month information provided by ADHS/DBHS.

Effective July 1, 2016, the Arizona Health Cost Containment System (AHCCCS) will contract with and pay the RBHAs directly for behavioral health services for developmentally disabled (DD) members. Therefore, language regarding the provision of behavioral health services to DD members will be removed from the contract between AHCCCS and ADES/DDD. Because of this change it is necessary to certify RBHA-specific capitation rates by risk group for the period July 1, 2016 through September 30, 2016.

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

## **II. Overview of RBHA - DD Behavioral Health Rate Setting Methodology**

Capitation rates for the rating period of July 1, 2016 through September 30, 2016 were developed using the data/methodology used in calculating the behavioral health component rates provided to Windy J. Marks which were included in the ADES/DDD capitation rates described in the memorandum dated August 13, 2015 and then applying a provision for premium tax. The behavioral health rates included in the August 13, 2015 memorandum were calculated to cover the rating period of October 1, 2015 to September 30, 2016.

Actuarially sound capitation rates for October 1, 2015 to September 30, 2016 were developed utilizing the steps outlined as follows:

1. Develop base period data
  - a) RBHA financial statement data covering the period of 10/1/13 through 9/30/14 and corresponding member month data provided by ADHS/DBHS were used as base period data.
  - b) Adjust base period data for programmatic and ADHS/DBHS provider fee schedule changes effective prior to the rating period.
  - c) Combine adjusted base period costs for the current RBHAs into the new geographical service areas of North, South and Maricopa County.
2. Develop actuarially sound capitation rates
  - a) Apply a trend factor to bring base period claim costs from the midpoint of the base period forward to the midpoint of the October 1, 2015 – September 30, 2016 rating period (24 months).
  - b) Add provision for administration and risk contingency and premium tax (premium tax is only applicable for the July 1, 2016 – September 30, 2016 period).

### **III. Behavioral Health Base Period Experience**

The base period data consisted of financial statement and member month data for all RBHAs for the October 1, 2013 through September 30, 2014 time period. It would be preferable to use encounter data for base period data; however, due to incomplete reporting of encounter data and/or values, it is not possible to use encounter data as base period data. AHCCCS is working with the RBHAs to implement procedures to achieve complete and accurate data reporting.

ADHS/DBHS has periodically performed reviews of the RBHA-submitted data and has determined that the data does not include any non-covered services.

Adjustments were made to the base period data for fee schedule and programmatic changes effective prior to the rating period.

#### **In lieu of Services**

Included in the base period data is funding for "in lieu of" services, substituting cost-effective alternative inpatient settings in place of more costly inpatient non-specialty hospital placements. The proposed capitation rates allow for the provision of services in alternative inpatient settings that are licensed by ADHS/Arizona Licensing Services/Office of Behavioral Health License, in lieu of services in an inpatient non-specialty hospital. There has been no change in this program from the base period to the rating period, so no adjustment to base period experience was made for these services.

#### **Coordination of Benefits/Third Party Liability**

AHCCCS provides Contractors with verified commercial and Medicare coverage information for their members which Contractors utilize to ensure payments are not made for medical services that are covered by the other carriers. When Contractors make a payment to cover members' coinsurance, deductibles, or Medicaid-covered services that

are not covered by the other carriers, the Contractors submit encounters for these amounts. The medical costs reported on the financial statements are also net of any payments made by commercial insurance or Medicare.

#### **IV. Behavioral Health Projected Trend Rates**

A trend analysis was performed using service expenses from RBHA audited financial statements for July 2011 through September 2014. The RBHA service expense trend analysis was adjusted for fee schedule and programmatic changes made during the respective periods. The resulting overall average "residual" trend rate of 2.6% for the observation period for all RBHAs and behavioral health categories was deemed to be a reasonable estimate of future trend since it was specific to the behavioral health population base and represented a large enough volume of experience to provide a reliable statistic.

Claim costs PMPM were trended from the midpoint of the base period to the midpoint of the rating period.

#### **V. Behavioral Health Programmatic and Fee Schedule Changes**

##### **ADHS Ambulance Rates**

In accordance with A.R.S. §36-2239, AHCCCS is required to pay ambulance providers rates equal to a prescribed percentage of the amounts approved by ADHS. Currently AHCCCS' rates are equal to 74.74% of the ADHS rates per Laws 2013, First Special Session, Chapter 10. AHCCCS is required by Laws 2015, First Regular Session, Chapter 14 to decrease this percentage to 68.59% of the ADHS rates effective for dates of service on or after October 1, 2015. The estimated impact to July 1, 2016 – September 30, 2016 medical costs is a decrease of approximately \$ 4,000.

#### **VI. Behavioral Health Administration, Risk Contingency and Premium Tax**

The capitation rates include a provision for RBHA administration, risk contingency, and premium tax. The components for administration, risk contingency, and premium tax are calculated as a percentage of the final capitation rate. A 11% load (8% administration, 1% contingency, 2% premium tax) was added across all populations.

#### **VII. Capitation Rates and Expenditure Projection for the July 1, 2016 – September 30, 2016 Rating Period**

Resulting rates and expenditure projection are included in Table I. There is negligible fiscal impact since the only change to the rates is the addition of premium tax which was previously included in the rates in the August 13, 2015 memorandum.

<b>Table I</b>				
<b>DDD Behavioral Health Capitation Rates Effective July 1, 2016 - September 30, 2016</b>				
	<b>South</b>	<b>North</b>	<b>Maricopa</b>	<b>Statewide</b>
<b>DDD Adult</b>	\$ 157.63	\$ 150.85	\$ 154.31	\$ 154.78
<b>DDD Children</b>	\$ 161.56	\$ 342.23	\$ 96.65	\$ 130.92
<b>Total</b>	\$ 159.45	\$ 224.99	\$ 120.94	\$ 142.17
<b>DDD Projected Member Months July 1, 2016 - September 30, 2016</b>				
	<b>South</b>	<b>North</b>	<b>Maricopa</b>	<b>Statewide</b>
<b>DDD Adult</b>	11,751	5,786	23,028	40,564
<b>DDD Children</b>	10,161	3,659	31,635	45,456
<b>Total</b>	21,912	9,445	54,663	86,020
<b>DDD Projected Expenditures July 1, 2016 - September 30, 2016</b>				
	<b>South</b>	<b>North</b>	<b>Maricopa</b>	<b>Statewide</b>
<b>DDD Adult</b>	\$ 1,852,244	\$ 872,753	\$ 3,553,368	\$ 6,278,365
<b>DDD Children</b>	\$ 1,641,687	\$ 1,252,175	\$ 3,057,421	\$ 5,951,282
<b>Total</b>	\$ 3,493,931	\$ 2,124,928	\$ 6,610,789	\$ 12,229,647

## VIII. Administrative Process Changes

There is an administrative process change which is described below.

There is a difference between the way the AHCCCS administrative system will pay capitation rates to the RBHAs versus the way the ADHS/DBHS administrative system currently pays such rates. ADHS/DBHS pays capitation using an enrollment count taken at a point in time on the first of the month (MM-ADHS) as payment in full with no adjustments. The AHCCCS administrative system will pay capitation based on the portion of the month that a member is enrolled (MM-AHCCCS). AHCCCS is currently working on the system changes needed to accomplish this change. These changes are scheduled to be completed for an October 1, 2016 implementation date with the ability to be retroactively adjusted to July 1, 2016. Because these systems changes will not be completed by July 1, 2016, it will be necessary to initially pay capitation to the RBHAs on an estimated basis for the rating period using the capitation rates in Table I above. The capitation rates in Table I above will then need to be revised based on the difference between MM-ADHS and MM-AHCCCS for the rating period with a retroactive adjustment made to July 1, 2016.

The steps involved in this process will be as follows:

1. Pay capitation to the RBHAs for the rating period according to the revised rates included in the Table 1 and using ADHS-MM. The ADHS/DBHS payment process will be kept operational for the rating period to accomplish this task.
2. Calculate total ADHS-MM by rate cell used to pay the capitation in step 1 above.
3. Calculate total AHCCCS-MM by rate cell for the rating period.
4. Calculate capitation conversion factors (CCF) by rate cell as follows:

$$\text{CCF} = \text{ADHS-MM for rating period} / \text{AHCCCS-MM for rating period.}$$

5. Revised Capitation Rates = Table 1 Capitation Rates x CCF

The revised rates will be submitted in a subsequent actuarial memorandum after October 1, 2016.

## IX. Actuarial Certification of the Capitation Rates

I, Anthony Wittmann, 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 capitation rates were developed using generally accepted actuarial principles and practices and are considered to be actuarially sound. The capitation 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 capitation rates are appropriate for the Medicaid populations covered and Medicaid services to be furnished under the contract. The capitation 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 three month period beginning July 1, 2016.

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

In developing the actuarially sound capitation rates, I have relied upon data and information provided by ADHS/DBHS, the Contractors and the AHCCCS internal databases. I have accepted the data without audit and have relied upon the ADHS/DBHS and Contractors' auditors and other AHCCCS employees for the accuracy of the data. Checks for consistency and reasonableness to the extent possible and practical were applied.

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.

RBHAs are advised that the use of these capitation rates may not be appropriate for their particular circumstance. RBHAs should analyze their own projected medical expense, administrative expense and other premium needs.

This certification letter assumes the reader is familiar with the Regional Behavioral Health Authorities - Developmental Disabilities 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.

*Signature on File*

Anthony Wittmann

May 10, 2016

Date

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