



Rate Development Documentation

For the Contract Year Ending (CYE) 25 (10/1/2024 – 9/30/2025) capitation rate setting process, AHCCCS will utilize historical encounter, member month, member placement, reinsurance, and share of cost (SOC) data similar to information provided in the Bidders' Library, Data Supplement sections:

- Section C – Data Book Information
- Section G – Enrollment, Member Months, and Placement Information
- Section J – Reinsurance and Share of Cost Information

It is anticipated that AHCCCS will utilize CYE 23 (10/1/2022 – 9/30/2023) data as the base period.

When setting the CYE 25 capitation rates, AHCCCS will apply completion factors to the encounter and reinsurance data, along with any other adjustments (e.g., repricing IMD stays, removal of IMD stays in excess of 15 cumulative days in a month, programmatic adjustments, fee schedule impacts) necessary to the development of actuarially sound capitation rates. Unit cost and utilization trend assumptions will be applied from the mid-point of the base period to the mid-point of the rating period.

When developing the nursing facility (NF), home and community based services (HCBS), and acute components of the medical portion of the capitation rates, AHCCCS will group medical expenses into the three main rate setting categories shown in Appendix I. AHCCCS will also analyze the data based on additional subcategory groupings under the main rate setting categories.

The Bidders' Library, Data Supplement, Section G contains member placement information. For additional information on member placement, see Chapter 1200 of [AHCCCS Medical Policy Manual](#).

Member placement is not used to group medical service utilization and costs into the main rate setting categories as a member can be in an HCBS or Institutional placement setting and still have costs related to acute services. "Acute Services Only" placements indicate members who are not receiving Long Term Services and Support (LTSS). "Not placed" placements indicate members who are receiving LTSS but have not been identified as having an HCBS or Institutional placement.

Member placement information is used to develop the projected HCBS mix percentage. The current ALTCS-EPD capitation rate development process calculates the HCBS mix percentage as the sum of members in HCBS Home and HCBS Community placements over the sum of members in HCBS Home, HCBS Community, and Institutional (i.e., NF) placements.

AHCCCS is continually reviewing the data and may make changes to the above methodologies, if deemed appropriate.



Risk Groups, Reinsurance, Share of Cost (SOC), Risk Corridors, and Risk Adjustment

For CYE 25, the ALTCS-EPD specific risk groups are:

- Dual (i.e., members who are dually eligible for Medicare and Medicaid)
- Non-Dual (i.e., members who are not eligible for Medicare)

For regular reinsurance cases, the deductible amount is not anticipated to differ from the deductible in place for the ALTCS-EPD contract for CYE 24. The reinsurance stop loss limit is also anticipated to be the same \$1,000,000 that is in place for CYE 24. All risk groups under ALTCS-EPD are subject to the same deductibles. High-Cost Behavioral Health reinsurance will be discontinued effective October 1, 2024. Medical expenses which have historically qualified for reinsurance under High-Cost Behavioral Health reinsurance may qualify for reinsurance under another reinsurance case type after October 1, 2024.

SOC applies only to ALTCS-EPD members who receive LTSS. The NF and HCBS expenses in the Data Book Information files are net of SOC. Historical SOC payments by contract year, Geographical Service Area (GSA), and risk group are provided in the Bidders’ Library, Data Supplement, Section J.

AHCCCS intends to have two risk corridor type arrangements for the ALTCS-EPD Program. One is a reconciliation of costs to reimbursement (tiered reconciliation) and the other is a reconciliation of actual SOC payments to the assumed SOC offsets in the certified capitation rates.

The tiered risk corridor will reconcile the Contractor’s medical cost expenses to the medical revenue paid to the Contractor. Refer to AHCCCS Contractor Operations Manual (ACOM) Policy 301. In the first year of the contract, this reconciliation is anticipated to limit the Contractor’s profits and losses as shown in the table below. It is the intent of AHCCCS to add a tiered loss segment and expand the tiered profit segment in a future year of the ALTCS-EPD RFP contract.

Profit	Contractor Share	State Share	Max Contractor Profit	Cumulative Contractor Profit
<= 2%	100%	0%	2%	2%
> 2% and <= 6 %	50%	50%	2%	4%
> 6%	0%	100%	0%	4%
Loss	Contractor Share	State Share	Max Contractor Loss	Cumulative Contractor Loss
<= 2%	100%	0%	2%	2%
> 2%	0%	100%	0%	2%



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The SOC risk corridor will reconcile the actual member SOC payments received by each Contractor during each federal fiscal year against the SOC Per Member Per Month (PMPM) amounts assumed in the capitation rates for that year. The SOC payments are reconciled to zero; that is, payments to, or recoupments from, each Contractor are the arithmetic difference between the actual and assumed amounts, grossed up by 2% for premium tax.

AHCCCS will be reviewing and evaluating different LTSS risk adjustment models for implementation during the RFP contract. Some of the options under consideration include risk adjustment using functional assessment data, non-diagnostic-based risk adjustment (i.e., past member utilization repriced at AHCCCS fee schedule rates to determine relative risk of individual members), regional factors (i.e., based on MCO specific mixes across placements (e.g., NF, HCBS)), or some combination of the above. While AHCCCS has not decided upon a methodology at this time, the goal is to align risk with revenue to the extent possible given the data available. The risk adjustment for the first year of the contract (10/1/2024 – 9/30/2025) will be based on initial member assignment and subsequent member choice.

Administration, Case Management, Underwriting (UW) Gain, and Premium Tax

Administrative and case management cost components will be bid by the Offerors. AHCCCS reserves the right to adjust the capitation rates, including the administrative and case management cost components, in order to maintain compliance with the Medicaid Managed Care Rules and Rate Setting Guidelines. See the “Non-Benefit Cost Bid Requirements” document for additional information on administrative and case management cost component bids. UW gain is anticipated to be set at 1.0% and premium tax at 2.0%; AHCCCS will adjust the final capitation rates to account for these percentages.



Appendix I: Anticipated Rate Setting Categories

Service Matrix Level 3 Category Number	Service Matrix Level 3 Category Description	Main Rate Setting Category
1	Assisted Living Home Level 1	HCBS
2	Assisted Living Home Level 2	HCBS
3	Assisted Living Center Level 1	HCBS
4	Assisted Living Center Level 2	HCBS
5	Assisted Living Center Level 3	HCBS
6	Adult Foster Care Level 1	HCBS
7	Adult Foster Care Level 2	HCBS
8	Adult Foster Care Level 3	HCBS
9	Adult Day Care - per 15 mins	HCBS
10	Adult Day Care - per half day	HCBS
11	Adult Day Care - per diem	HCBS
12	Home Delivered Meals	HCBS
13	Home Health Aide	HCBS
14	Home Health Nurse	HCBS
15	Homemaker	HCBS
16	Personal Care	HCBS
17	Respite Care - per 15 mins	HCBS
18	Respite Care - per diem	HCBS
19	Attendant Care	HCBS
20	Self-Directed Attendant Care (SDAC)	HCBS
21	SDAC Training	HCBS
22	SDAC FEA (Fiscal and Employer Agent) Per Event	HCBS
23	Other HCBS	HCBS
24	Day Treatment	HCBS
25	Supported Employment – per 15 mins	HCBS
25	Supported Employment – per diem	HCBS
26	Habilitation – per 15 mins	HCBS
27	Habilitation – per diem	HCBS
28	Other Support Services	Acute
29	Case Management	Acute
30	Crisis Intervention Services – Mobile	Acute
31	Crisis Intervention Services – Stabilization	Acute
32	Crisis Intervention Services – Phone	Acute
33	Alcohol/Drug Rehabilitation Services	Acute
34	Behavioral Health Residential Services	Acute



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35	Clinic (MSIC)	Acute
36	FQHC/RHC – Professional	Acute
37	FQHC/RHC – Dental	Acute
38	FQHC/RHC – Outpatient	Acute
39	Emergency Transportation	Acute
40	Non-Emergency Transportation	Acute
41	DME and Medical Supplies	Acute
42	Pathology and Laboratory Services	Acute
43	Radiology Services	Acute
44	Respiratory Therapy	Acute
45	Occupational Therapy	Acute
46	Physical Therapy	Acute
47	Speech/Hearing Therapy	Acute
48	Physician Administered Drugs	Acute
49	Physician Behavioral Health	Acute
50	Physician Physical Health	Acute
51	Physician Other Professional	Acute
52	Misc. and Other Professional Services	Acute
53	Dental - Form A	Acute
54	Dental - Form D	Acute
55	Pharmacy	Acute
56	Behavioral Health Hospital Inpatient	Acute
57	Physical Health Hospital Inpatient	Acute
58	Nursing Facility Level 1	Nursing Facility
59	Nursing Facility Level 2	Nursing Facility
60	Nursing Facility Level 3	Nursing Facility
61	Nursing Facility Level 4	Nursing Facility
62	Nursing Facility - all Other Levels	Nursing Facility
63	Leave of Absence (LOA) bed hold days	Nursing Facility
64	Nursing Facility Other	Nursing Facility
65	Emergency Facility	Acute
66	Outpatient Facility	Acute