

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

I. Purpose

The purpose of this actuarial memorandum is to demonstrate compliance with the applicable provisions of 42 CFR Part 438. It is not intended for any other purpose.

This actuarial memorandum is a revision to the already submitted rate certifications for the July 1, 2016 through June 30, 2017 (Contract Year Ending 2017 (CYE 17)) capitation rates for the DES/DDD Program. The CYE 17 actuarial memoranda for capitation rates as signed by Matthew C. Varitek dated May 17, 2016 and August 21, 2016 will detail the original rate build up for the long-term care (LTC) and acute care portions of the capitation rates.

This revision to the capitation rates is required as a result of fee schedule changes effective January 1, 2017. The most recently submitted capitation rates effective July 1, 2016 and October 1, 2016, will not be impacted.

II. Overview of Changes

Effective January 1, 2017, AHCCCS and its Contractors' fee schedules increased for select Home and Community Based Setting (HCBS) codes, all Nursing Facility codes, and all alternative living facility services codes. AHCCCS adjusted rates to address the increased labor costs resulting from the Arizona minimum wage increase as approved by voters as Proposition 206 on November 8, 2016, and to assure that payments are consistent with efficiency, economy, and quality of care and are sufficient to enlist enough providers so that care and services are available at least to the extent that such care and services are available to the general population in the geographic area.

III. Capitation Rate Adjustments and Budget Impact

AHCCCS will be adjusting CYE 17 capitation rates back to January 1, 2017 for the increase to the state minimum wage. AHCCCS received projections from DES/DDD of increases to NF and HCBS medical expenses for the portion of the rating period affected by the minimum wage increase. The increases in projected expenses were provided by HCPCS code, which AHCCCS mapped to different rating categories of service (COS), expressed as per-member-per-month (PMPM) increases, and applied to the projections in the most recently submitted capitation rates.

Table I contains the projected claims cost PMPM by COS. Table II summarizes the projected member months, revised capitation rates, and estimated total capitation by rate cell and in total on a statewide basis. Appendix I contains the most recently submitted capitation rates effective January 1, 2017, and the revised rates effective January 1, 2017. The statewide estimated six month impact to the DES/DDD program is an increase of approximately \$25.7 million.

Table I: Projected Claims Costs PMPM

High Level COS	Data Source	Detail COS	Most Recently Submitted Proj Claim Cost PMPM	Revised Proj Claim Cost PMPM
Institutional	Encounters	Inst	\$ 56.63	\$ 58.06
Institutional	DDD Supplemental Information	ATPC, ICF/IID	\$ 55.85	\$ 55.85
Institutional	Total	Total	\$ 112.48	\$ 113.91
HCBS	Encounters	Attendant Care	\$ 270.02	\$ 287.68
HCBS	Encounters	Respite	\$ 287.01	\$ 307.59
HCBS	Encounters	Hab Res Per Diem	\$ 939.34	\$ 993.52
HCBS	Encounters	Hab Rest Per 15 mins	\$ 292.59	\$ 333.08
HCBS	Encounters	Day Treatment	\$ 349.69	\$ 349.69
HCBS	Encounters	Self Care Home	\$ 6.08	\$ 6.08
HCBS	Encounters	Therapy and Evals	\$ 128.54	\$ 128.54
HCBS	Encounters	Transportation	\$ 45.40	\$ 48.65
HCBS	Encounters	Nursing	\$ 138.64	\$ 138.64
HCBS	Encounters	Employment	\$ 89.84	\$ 89.84
HCBS	Encounters	Misc	\$ 1.02	\$ 1.03
HCBS	DDD Supplemental Information	SOGH	\$ 12.47	\$ 12.47
HCBS	Total	Total	\$ 2,560.62	\$ 2,696.80

Table II: Proposed Capitation Rates and Budget Impact

Rate Cell	Projected SFY 17 (1/1/17 - 6/30/17) Member Months			Costs Based on Projected SFY 17 (1/1/17 - 6/30/17) Member Months		Dollar Impact	Pctg Impact
		Most Recently Submitted SFY 17 (1/1) Rate	Revised SFY 17 (1/1) Rate	Most Recently Submitted Projected Expenditures (1/1/17-6/30/17)	Revised Projected Expenditures (1/1/17-6/30/17)		
DDD Targeted Case Management	181,257	\$ 3,560.38	\$ 3,702.20	\$ 645,342,504	\$ 671,048,469	\$ 25,705,965	3.98%
	25,689	\$ 151.59	\$ 151.59	\$ 3,894,223	\$ 3,894,223	\$ -	0.00%
Total				\$ 649,236,727	\$ 674,942,692	\$ 25,705,965	3.96%

IV. Actuarial Certification of the Capitation Rates

I, Matthew C. Varitek, am an employee of Arizona Health Care Cost Containment System (AHCCCS). I am a Member of the American Academy of Actuaries 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 applicable provisions of 42 CFR Part 438. The program for which the capitation rates were developed is administered in accordance with applicable state and federal 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 proposed actuarially sound capitation rates that are associated with this certification are effective for the six-month period beginning January 1, 2017.

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 DES/DDD and the AHCCCS internal databases. In addition, I have relied upon the DES/DDD and MCO auditors and other AHCCCS employees for the accuracy of the data. I have checked the data for consistency and reasonableness to the extent possible and practical.

This actuarial certification has been based on the actuarial methods, considerations, and analyses promulgated from time to time through the Actuarial Standards of Practice by the Actuarial Standards Board.

This certification letter assumes the reader is familiar with the DD program, Medicaid eligibility rules and actuarial rating techniques. It is intended for AHCCCS, DES/DDD and CMS and should not be relied upon by third parties. Other readers should seek the advice of actuaries or other qualified professionals competent in the area of actuarial rate projections to understand the technical nature of these results.

SIGNATURE ON FILE

03/24/2017

Matthew C. Varitek

Date

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

Appendix I: Capitation Rates by Rate Component

DES/DDD Capitation Rate	Most Recently Submitted 1/1/17 Capitation Rate	Revised 1/1/17 Capitation Rate	Effective Percentage Change from Most Recently Submitted Rate	Certification Sections
Claim Costs				
Institutional Services	\$ 112.48	\$ 113.91	1.28%	Section III
Home and Community Based Services	\$ 2,560.62	\$ 2,696.80	5.32%	Section III
Acute Services	\$ 426.21	\$ 426.21	0.00%	
Total Claim Costs	\$ 3,099.31	\$ 3,236.92	4.44%	
Share of Cost	\$ (5.35)	\$ (5.35)	0.00%	
Acute Services Reinsurance	\$ (21.19)	\$ (21.19)	0.00%	
Total Net Claim Costs	\$ 3,072.77	\$ 3,210.38	4.48%	
Non-Benefit Costs				
Case Management	\$ 175.75	\$ 175.75	0.00%	
Administration	\$ 207.90	\$ 207.90	0.00%	
Risk Contingency	\$ 32.75	\$ 34.13	4.20%	
Premium Tax	\$ 71.21	\$ 74.04	3.97%	
Total Non-Benefit Costs	\$ 487.61	\$ 491.81	0.86%	
DES/DDD Capitation Rate (includes Premium Tax)	\$ 3,560.38	\$ 3,702.20	3.98%	

Targeted Case Management (TCM)	Most Recently Submitted 1/1/17 Capitation Rate	Revised 1/1/17 Capitation Rate	Effective Percentage Change from Most Recently Submitted	Certification Sections
Non-Benefit Costs				
Case Management	\$ 148.56	\$ 148.56	0.00%	
Premium Tax	\$ 3.03	\$ 3.03	0.00%	
Targeted Case Management Rate	\$ 151.59	\$ 151.59	0.00%	