Contract Year Ending 2025
Capitation Rate Certification Amendment
Arizona Long Term Care System
Developmental Disabilities Program

October 1, 2024 through March 31, 2025 and April 1, 2025 through September 30, 2025

Prepared for:
The Centers for Medicare & Medicaid Services

Prepared by:
AHCCCS Division of Business and Finance

May 5, 2025

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Introduction and Limitations

The purpose of this rate certification amendment is to provide documentation for compliance with the applicable provisions of 42 CFR Part 438. This rate certification amendment provides documentation for revisions to the capitation rates for the Arizona Long Term Care System (ALTCS) Developmental Disabilities (ALTCS-DD) Program contracted under the Arizona Department of Economic Security/Division of Developmental Disabilities (DES/DDD) for the six-month period covering April 1, 2025, through September 30, 2025. The original rate certification, signed August 2, 2024, provides further documentation on the development of the original capitation rates. The revised capitation rate documented herein incorporates increased projected spending for a few categories of service with greater utilization growth than what was anticipated when developing the original capitation rate. The AHCCCS Division of Business and Finance (DBF) Actuarial Team is updating the trend assumptions associated with these categories of service using encounter data incurred after the base data period that was used in the development of the original capitation rates. There are no other changes to data, assumptions, or methodologies used and provided in the previous actuarial rate certification besides the ones listed in this amendment.

This rate certification amendment 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 amendment 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 amendment 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 amendment is made available to third parties, then this rate certification amendment should be provided in its entirety. Any third party reviewing this rate certification amendment should be familiar with the AHCCCS Medicaid managed care program, the provisions of 42 CFR Part 438 applicable to this rate certification amendment, the 2024-2025 Medicaid Managed Care Rate Development Guide (2025 Guide), Actuarial Standards of Practice, and generally accepted actuarial principles and practices.

The 2025 Guide describes the rate development standards and appropriate documentation to be included within Medicaid managed care rate certifications. This rate certification amendment has been organized to follow the 2025 Guide to help facilitate the review of this rate certification amendment by CMS. This amendment only addresses changes from the original certification; it does not purport to address all subsections of the 2025 Guide as most subsections are unchanged.

Section I Medicaid Managed Care Rates

The capitation rates included with this rate certification amendment are considered actuarially sound according to the following criteria from 42 CFR § 438.4(a) and 42 CFR § 438.4(b). The state did not opt to develop capitation rate ranges, therefore adherence to 42 CFR § 438.4(c) is not required.

- § 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 differences in the assumptions, methodologies, or factors used to develop capitation rates for covered populations must be based on valid rate development standards that represent actual cost differences in providing covered services to the covered populations. Any differences in the assumptions, methodologies, or factors used to develop capitation rates must not vary with the rate of Federal financial participation (FFP) associated with the covered populations in a manner that increases Federal costs. The determination that differences in the assumptions, methodologies, or factors used to develop capitation rates for MCOs, PIHPs, and PAHPs increase Federal costs and vary with the rate of FFP associated with the covered populations must be evaluated for the entire managed care program and include all managed care contracts for all covered populations. CMS may require a State to provide written documentation and justification that any differences in the assumptions, methodologies, or factors used to develop capitation rates for covered populations or contracts represent actual cost differences based on the characteristics and mix of the covered services or 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)(3) Be adequate to meet the requirements on MCOs, PIHPs, and PAHPs in §§ 438.206, 438.207, and 438.208.
- § 438.4(b)(4) Be specific to payments for each rate cell 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.

- § 438.4(b)(9) Be developed in such a way that the MCO, PIHP, or PAHP would reasonably achieve a medical loss ratio standard, as calculated under § 438.8, of at least 85 percent for the rate year. The capitation rates may be developed in such a way that the MCO, PIHP, or PAHP would reasonably achieve a medical loss ratio standard greater than 85 percent, as calculated under § 438.8, as long as the capitation rates are adequate for reasonable, appropriate, and attainable non-benefit costs.

The actuaries have followed generally accepted actuarial practices and regulatory requirements, including published guidance from the American Academy of Actuaries (AAA), the Actuarial Standards Board (ASB), CMS, and federal regulations. In particular, the actuaries referenced the below during the development of the actuarially sound capitation rates:

- Actuarial Standards of Practice (ASOPs) applicable to Medicaid managed care rate setting which were effective before the start date of the rating period:
  - ASOP No. 1 - Introductory Actuarial Standard of Practice,
  - ASOP No. 5 - Incurred Health and Disability Claims,
  - ASOP No. 12 - Risk Classification (for All Practice Areas),
  - ASOP No. 23 - Data Quality,
  - ASOP No. 25 - Credibility Procedures,
  - ASOP No. 41 - Actuarial Communications,
  - ASOP No. 45 - The Use of Health Status Based Risk Adjustment Methodologies,
  - ASOP No. 49 - Medicaid Managed Care Capitation Rate Development and Certification, and
  - ASOP No. 56 - Modeling.
- The 2016, 2020, and 2024 Medicaid and CHIP Managed Care Final Rules (CMS-2390-F, CMS-2408-F, and CMS-2408-F)
- FAQs related to payments to MCOs and PIHPs for IMD stays
- The 2024-2025 Medicaid Managed Care Rate Development Guide (2025 Guide) and the Addendum to 2024-2025 Medicaid Managed Care Rate Development Guide (Addendum) published by CMS

Throughout this actuarial certification amendment, the term "actuarially sound" will be defined as in ASOP 49 (consistent with the definition at 42 CFR § 438.4(a)):

> "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 4 of the 2025 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.

I.1. General Information

The certified capitation rates for the ALTCS-DD Program are effective for the 12-month time period from October 1, 2024, through September 30, 2025 (CYE 25), with one set of capitation rates being effective for the 6-month time period from October 1, 2024, through March 31, 2025, and the second set of capitation rates being effective for the 6-month time period from April 1, 2025, through September 30, 2025. The CYE 25 capitation rates effective for the first half of the year are unchanged from the original CYE 25 capitation rate certification signed August 2, 2024. This rate certification amendment addresses and accounts for all differences from the previously certified rates, i.e., changes to the trend assumptions based on data not available at the time of the initial capitation rate development. Documentation of these changes can be found in Sections I.2. Data and I.3. Projected Benefit Costs and Trend. The capitation rates effective for the second half of the year were developed in the same way as the original capitation rates except for the revisions documented herein. Please see the original rate certification for additional information about the ALTCS-DD Program. The state has not made any previous adjustment to rates in the rating period by a *de minimis* amount or otherwise.

The actuarial certification letter for the revised CYE 25 capitation rates for the ALTCS-DD Program, signed by Ethan Sheffield, ASA, MAAA, and Erica Johnson, ASA, MAAA, is in Appendix 1. Mr. Sheffield and Ms. Johnson meet the requirements for the definition of an Actuary described at 42 CFR § 438.2.

Mr. Sheffield and Ms. Johnson certify that the CYE 25 capitation rates for the ALTCS-DD Program contained in this rate certification amendment are actuarially sound and meet the standards within the applicable provisions of 42 CFR Part 438.

The final and certified capitation rates by rate cell are located in Appendix 2. Additionally, the ALTCS-DD Program contract includes the final and certified capitation rates by rate cell in accordance with 42 CFR § 438.3(c)(1)(i). The ALTCS-DD Program contract uses the term risk group instead of rate cell. Appendix 3 compares the CYE 25 revised certified capitation rates for the period April 1, 2025, through September 30, 2025, to the CYE 25 original certified capitation rates which are for the period October 1, 2024, through March 31, 2025.

Proposed differences among the CYE 25 capitation rates for the ALTCS-DD Program are based on valid rate development standards and are not based on the rate of FFP for the populations covered under the ALTCS-DD Program. The CYE 25 capitation rates were developed at the rate cell level. Payments from rate cells do not cross-subsidize payments from other rate cells. The effective dates of changes to the ALTCS-DD Program are consistent with the assumptions used to develop the CYE 24 capitation rates for the ALTCS-DD Program. The capitation rates were developed such that DES/DDD would reasonably achieve a medical loss ratio, as calculated under 42 CFR § 438.8, of at least 85 percent for CYE 25.

In the actuaries' judgement, all adjustments to the capitation rates or to any portion of the capitation rates reflect reasonable, appropriate, and attainable costs. To the actuaries' knowledge, there are no reasonable, appropriate, and attainable costs which have not been included in the rate certification amendment. There have been no adjustments to the rates performed outside of the rate setting process described in the rate certification amendment. The amended CYE 25 capitation rates certified in this report represent the contracted rates by rate cell. The state will submit a contract amendment to CMS.

I.2. Data

Please see the original capitation rate certification for any subsection which has not been included here, as only those subsections where there have been changes are included in this rate certification amendment.

I.2.B.ii.(a) Description of Data

Please see the original rate certification for a description of the data AHCCCS used in the initial capitation rate development. The additional data that AHCCCS relied upon for developing the revision for the second six months of the CYE 25 rating period for the regular DDD capitation rate beyond the data documented in the original rate certification for the ALTCS-DD Program include:

- adjudicated and approved encounter data, submitted by all health plans with responsibility for services provided to ALTCS-DD members, included in the AHCCCS Prepaid Medical Management Information System (PMMIS) mainframe as of the second February 2025 encounter cycle,
- quarterly financial statements submitted by DES/DDD, and its subcontractors for services provided to ALTCS-DD members for January 2024 through December 2024, and
- historical enrollment data through February 2025.

Any additional data used and not identified here will be identified in their applicable sections below.

I.3. Projected Benefit Costs and Trends

Please see the original capitation rate certification for any subsection which has not been included here, as only those subsections where there have been changes are included in this rate certification amendment.

I.3.B.iii. Projected Benefit Cost Trends

As noted in the original rate certification, the AHCCCS DBF Actuarial Team has defined outlier trends as utilization and unit cost trend combinations which resulted in a PMPM trend greater than 7%. The revisions to the projected benefit cost trends for the latter half of the rating period resulted in one additional outlier trend beyond the ones already identified in the original rate certification, for the integrated care services provided by the integrated care subcontractors, driven by increased utilization of applied behavior analysis (ABA) services within the ALTCS-DD population. Additionally, for the two categories of service that had outlier trends in the original capitation rate development, Attendant Care and Habilitation per 15 minute services, the projected utilization trend assumptions for both categories have been increased for the second six months of the rating period. The drivers of the utilization growth within these categories of service are unchanged from the original rate certification, except that the more recent experience revealed a developing seasonal pattern in summer months (correlating with annual school break periods) that resulted in an increased magnitude of annualized utilization growth. This seasonal pattern was not as pronounced historically and the effect was not observable in the data available as of the August 2, 2024, certification. This new pattern bolsters the case for the service supply shortage in school-based services discussed in the original certification: more members have shifted into personal care settings and more personal care hours are needed when schools are not in operation because there is less capacity and/or less demand for after-school and summer school day programs than was the case historically. This additional seasonal utilization increase occurs late in the contract year (June/July), and so had little effect on the first six months, but is expected to have a significant impact on the last six months, hence the increase for the latter half of the year.

The table below shows the change in the utilization component of each of these categories of service and the associated dollar increase for the 6-month period from April 1, 2025, through September 30, 2025.

		10/1/2024-3/31/2025				4/1/2025-9/30/2025		
Rate Segment	Trend COS	Utilization Per 1000	Unit Cost	PMPM		Utilization Per 1000	Unit Cost	PMPM
DDD LTSS	Attendant Care	11.00%	0.00%	11.00%		34.60%	0.00%	34.60%
DDD LTSS	Hab - Per 15 Min	19.00%	0.00%	19.00%		34.60%	0.00%	34.60%
ICS	ICS	4.54%	1.92%	6.55%		9.29%	1.76%	11.22%

Please see the original capitation rate certification for information on all other categories of service.

I.4. Special Contract Provisions Related to Payment

Please see the original capitation rate certification for additional information. There have been no changes to the capitation rate development process in this regard.

I.5. Projected Non-Benefit Costs

Please see the original capitation rate certification for additional information. There have been no changes to the capitation rate development process in this regard.

I.6. Risk Adjustment – Not Applicable

Please see the original capitation rate certification for additional information. There have been no changes to the capitation rate development process in this regard.

I.7. Acuity Adjustments – Not Applicable

Please see the original capitation rate certification for additional information. There have been no changes to the capitation rate development process in this regard.

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

Please see the original capitation rate certification for additional information. There have been no changes to the capitation rate development process in this regard.

Section III New Adult Group Capitation Rates – Not Applicable

Please see the original capitation rate certification for additional information. There have been no changes to the capitation rate development process in this regard.

Appendix 1: Actuarial Certification

We, Ethan Sheffield and Erica Johnson, are employees of AHCCCS. We are Members of the American Academy of Actuaries and are Associates of the Society of Actuaries. We meet the qualification standards established by the American Academy of Actuaries and have followed generally accepted actuarial practices and regulatory requirements, including published guidance from the American Academy of Actuaries, the Actuarial Standards Board, CMS, and federal regulations.

The capitation rates included with this rate certification amendment are considered actuarially sound according to the following criteria from 42 CFR § 438.4(a) and 42 CFR § 438.4(b). The state did not opt to develop capitation rate ranges, therefore adherence to 42 CFR § 438.4(c) is not required.

- § 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 differences in the assumptions, methodologies, or factors used to develop capitation rates for covered populations must be based on valid rate development standards that represent actual cost differences in providing covered services to the covered populations. Any differences in the assumptions, methodologies, or factors used to develop capitation rates must not vary with the rate of Federal financial participation (FFP) associated with the covered populations in a manner that increases Federal costs. The determination that differences in the assumptions, methodologies, or factors used to develop capitation rates for MCOs, PIHPs, and PAHPs increase Federal costs and vary with the rate of FFP associated with the covered populations must be evaluated for the entire managed care program and include all managed care contracts for all covered populations. CMS may require a State to provide written documentation and justification that any differences in the assumptions, methodologies, or factors used to develop capitation rates for covered populations or contracts represent actual cost differences based on the characteristics and mix of the covered services or 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)(3) Be adequate to meet the requirements on MCOs, PIHPs, and PAHPs in §§ 438.206, 438.207, and 438.208.
- § 438.4(b)(4) Be specific to payments for each rate cell 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.
- § 438.4(b)(9) Be developed in such a way that the MCO, PIHP, or PAHP would reasonably achieve a medical loss ratio standard, as calculated under § 438.8, of at least 85 percent for the rate year. The capitation rates may be developed in such a way that the MCO, PIHP, or PAHP would reasonably achieve a medical loss ratio standard greater than 85 percent, as calculated under § 438.8, as long as the capitation rates are adequate for reasonable, appropriate, and attainable non-benefit costs.

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."

The data, assumptions, and methodologies used to develop the CYE 25 capitation rates for the ALTCS-DD Program have been documented according to the guidelines established by CMS in the 2025 Guide. The certified capitation rates for the ALTCS-DD Program are effective for the 12-month time period from October 1, 2024, through September 30, 2025 (CYE 25), with the original Regular DD capitation rate being effective for the 6-month time period from October 1, 2024, through March 31, 2025, and the revised Regular DD capitation rate being effective for the 6-month time period from April 1, 2025, through September 30, 2025. There is no change to the Targeted Case Management capitation rate from the original capitation rate certification.

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, we have relied upon data and information provided by AHCCCS and DES/DDD. We have relied upon AHCCCS and DES/DDD for the accuracy of the data and we have accepted the data without audit, after checking the data for reasonableness and consistency.

SIGNATURE ON FILE	May 5, 2025
Ethan Sheffield Associate, Society of Actuaries Member, American Academy of Actuaries	Date

SIGNATURE ON FILE	May 5, 2025
Erica Johnson Associate, Society of Actuaries Member, American Academy of Actuaries	Date

Appendix 2: Certified Capitation Rates

ALTCS-DD Capitation Rates		
Rate Cell	Effective October 1, 2024, through March 31, 2025	Effective April 1, 2025, through September 30, 2025
Regular DDD	$6,661.80	$7,521.50
Targeted Case Management	$231.13	$231.13

Appendix 3: Fiscal Impact Summary and Comparison to Prior Rates

ALTCS-DD Capitation Rates Effective October 1, 2024, through September 30, 2025						
Rate Cell	Rate Effective 10/1/2024	Rate Effective 4/1/2025	% Change		CYE 25 Projected MMs (4/1/2025 - 9/30/2025)	CYE 25 Projected Expenses (4/1/2025 - 9/30/2025)
Regular DDD	$6,661.80	$7,521.50	12.90%		271,686	$2,043,486,408
Targeted Case Management	$231.13	$231.13	0.00%		46,122	$10,660,294