

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

### **I. Purpose**

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

This memorandum presents a discussion of the adjustment to the capitation rates effective from July 1, 2013 through June 30, 2014 (CYE 14).

AHCCCS intends to review and possibly update these capitation rates effective October 1, 2013 to include changes to the acute care and behavioral health services categories of the capitation rates. This rate update for July 1, 2013 does not include adjustments for anticipated reimbursement changes or program changes with effective dates after July 1, 2013. If appropriate, AHCCCS will include these adjustments in the rates updated effective October 1, 2013.

### **II. Overview of Rate Setting Methodology**

The contract year ending 2014 (CYE 14) rates were developed as a rate update from the previously approved contract year ending 2013 (CYE 13) capitation rates.

Historical Medicaid managed care encounter data was used as the primary data source in development of the trends. Other data sources used in setting the actuarially sound rates include financial statements, supplemental information from DDD, Center for Medicare and Medicaid Services (CMS) National Health Expenditure (NHE) Report estimates and AHCCCS case management model.

Trend rates were calculated from the databook and other sources on a unit cost and/or utilization basis by category of service (COS) and a cap was applied to limit the negative and positive trends to a reasonable level. These adjustments also include state mandates, court ordered programs and other program changes, if necessary.

Ideally, the experience data should be analyzed by different rate cells which are comprised of members with similar risk characteristics. However, segregating the DDD population into different rate cells would lead to a statistical credibility problem due to the statewide disbursement of the relatively small membership base. DDD will have two separate rates – a regular DDD rate and a Behavioral Health rate.

The experience only includes DDD Medicaid eligible expenses for DDD Medicaid eligible individuals. In addition, the experience includes reinsurance amounts and share of cost.

The contract between AHCCCS and DDD specifies that DDD may cover services for members which are not covered under the State Plan; however those services are not included when setting capitation rates. AHCCCS will not include uncovered services in the DDD rates.

The general process in developing the rates involves trending the base data to the midpoint of the effective period, which is January 1, 2014. The next step involves the deduction of the reinsurance offsets and share of cost offset. Following this calculation, the projected case management, administrative expenses, risk contingency margin and premium tax are added to the projected claim per member per month (PMPM) to obtain the capitation rates. Each step is described in the sections below.

### **III. Projected Trend Rates**

The trend analysis includes both the financial data experience and the encounter data experience. Financial data experience is from July 2008 through December 2012. Encounter data experience is from July 2009 through September 2012. The financial data trends were examined using both year over year and quarterly regression analysis. The encounter data trends were examined using monthly regression analysis, quarterly regression analysis and year over year data. The resulting trend rates were compared with trend rates from sources such as the CMS National Health Expenditures Trend Forecast, the AHCCCS Acute Care trend rates and the AHCCCS ALTCS EPD trend rates. The final utilization trends and historical unit cost trends were selected based on a methodological blend of actuarial judgment and empirical methods. The projected unit cost trends were selected based on changes to provider rates which for most part were assumed to remain flat. The base rates reflect the two percent increase for developmental disabilities providers that was included in the DDD appropriation with an effective date of April 1, 2013. Thus no additional trends are needed to capture this provider rate increase.

Inherent in the encounter and financial data are unit cost trends which incorporate Contractors' Coordination of Benefits (COB) activities. 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, they submit encounters containing these reduced amounts. From state fiscal year (SFY) 2008 through SFY 2012, encounter-reported COB cost avoidance grew by greater than 123%, from \$16 million to \$36 million. Additionally, DDD cost-avoided more than \$8 million in SFY 2012 in additional claims for which the Contractor had no financial obligation after the private insurance or Medicare payment was made. Consequently, no encounters were submitted to AHCCCS and therefore those services are excluded completely from capitation expenditure projections. AHCCCS continues to emphasize the importance of COB activities with DDD.

The Annual Trend Rates used in projecting the claim costs are identified in Table I. The only adjustment to the Acute Care and Behavioral Health service categories were due to a Part D adjustment. These two categories will be reviewed for a possible October 1, 2013 capitation rate adjustment.

**Table I: Annual Trend Rate**

Service Category	DDD Rate	Behavioral Health
Institutional	-1.00%	N/A
HCBS	-1.00%	N/A
Acute Care	0.00%	N/A
Behavioral Health	N/A	0.00%

**IV. State Mandates, Court Ordered Programs, Program Changes and Other Changes**

No new program changes are included in the rates at this time. Since this is a rate update from the previously approved CYE 13 capitation rates, which were adjusted at April 1, 2013 to include a reduction for new Medicare coverage of benzodiazepine and barbiturate medications effective January 1, 2013, it is necessary to annualize the impacts of this coverage change. Additionally, because six months of savings were spread over three months of membership in the CYE 13 update, the resulting PMPM was artificially low, thus this adjustment needs to be updated in order to appropriately align the expenses and members. This resulted in a slight upward adjustment to the acute and behavioral health component of the capitation rates. The PMPMs for this adjustment are included in Table II.

**Table II: Impact of Benzodiazepine and Barbiturate Medications PMPM**

Benzodiazepine and Barbiturate Medications Impact	Current Rate	Proposed Rate
Acute	\$ (3.52)	\$ (1.75)
Behavioral Health	\$ (0.28)	\$ (0.14)

**V. Projected Gross Claim PMPM**

The CYE 13 utilization, unit costs and net claims PMPMs are trended forward and adjusted for experience trends, state mandates, court ordered programs and program changes to arrive at the CYE 14 utilization, unit costs and net claims PMPMs for each component.

## **VI. Projected Net Claim PMPM**

The projected gross claim PMPMs were adjusted for the recipients' share of cost (SOC) to obtain the net claim PMPM. The share of cost is \$5.24 for CYE 14. The share of cost was estimated based off of actual DDD SOC data, and was rebased for CYE 14. NOTE: the Reinsurance offset is included in the acute care component of the DDD rates. Other than noted above, the acute component, reinsurance offset and behavioral health components are not being adjusted at this time due to the anticipated changes to be implemented later in CYE 14. The projected net claim PMPMs are included in Table III.

**Table III: Projected Net Claim PMPM**

Service Category	Projected CYE 14 Claim Cost PMPM	
	DDD Rate	Behavioral Health
Institutional	\$ 105.10	N/A
HCBS	\$ 2,222.92	N/A
Acute Care	\$ 371.17	N/A
Program Changes	\$ (1.75)	\$ (0.14)
Behavioral Health	N/A	\$ 111.50
Total	\$ 2,697.44	\$ 111.36
Less Share of Cost	\$ (5.24)	N/A
<b>Net Claim Cost</b>	<b>\$ 2,692.20</b>	<b>\$ 111.36</b>

## **VII. Case Management**

For DDD members the CYE 14 case management PMPM was developed using the AHCCCS case management model as well as looking at financials and supplemental case management cost reports from DDD. This is a similar methodology to previous years. The CYE 14 case management PMPM for the DDD population is \$145.84.

For the targeted case management (TCM) PMPM the AHCCCS case management model was used as well as actual cost information for this population provided by DDD. The assumptions in the model were refined by using data specific to this population. The CYE 14 TCM PMPM is \$115.86.

## **VIII. Administrative Expenses and Risk Contingency**

For CYE 14 administrative expense AHCCCS analyzed DDD's financial statements as well as supplemental information provided by DDD. The CYE 14 administrative expense for DDD is increasing slightly to \$180.50. The risk contingency for DDD is 1.00%.

The Behavioral Health administrative expense percentages are remaining the same and will be reviewed as part of a possible October 1, 2013 rate adjustment. The Behavioral Health administrative rate is \$8.36. The Behavioral Health risk contingency is 1.00%.

## **IX. Proposed Capitation Rates and Their Impacts**

The proposed capitation rates equal the sum of the projected net claim PMPM (in Section VII), the projected case management (in Section VII) and administrative expenses and risk contingency PMPM (in section VIII), divided by one minus the two percent premium tax. The premium tax for the behavioral health component is included in the DDD capitation rate. Table IV shows the current and proposed capitation rates and the budget impact from CYE 13 (04/01/13 capitation rate) to CYE 14 using CYE 14 projected members.

**Table IV: Proposed Capitation Rates and Budget Impact**

Rate Cell	Projected CYE14 Member Months			Based on Projected CYE14 Member Months		Dollar Impact	Percentage Impact
		CYE13 (4/1/13) Rate	CYE14 Rate	Estimated CYE13 (4/1/13) Capitation	Estimated CYE14 Capitation		
DDD	313,632	\$ 3,125.69	\$ 3,112.04	\$ 980,316,589	\$ 976,035,170	\$ (4,281,418)	-0.44%
Behavioral Health	313,632	\$ 120.67	\$ 120.82	\$ 37,846,919	\$ 37,894,151	\$ 47,232	0.12%
Targeted Case Management	54,176	\$ 113.18	\$115.86	\$ 6,131,406	\$ 6,276,903	\$ 145,497	2.37%
<b>Total</b>				<b>\$ 1,024,294,913</b>	<b>\$ 1,020,206,224</b>	<b>\$ (4,088,689)</b>	<b>-0.40%</b>
<i>BH does not reflect premium tax</i>							

## **X. CMS Rate Setting Checklist**

### **1. Overview of rate setting methodology**

#### **AA.1.0: Overview of rate setting methodology**

AHCCCS is performing a rate update from the previously approved contract year ending 2013 (CYE 13) under 42 CFR 438.6(c). Please refer to Section II.

#### **AA.1.1: Actuarial certification**

Please refer to Section XI.

#### **AA.1.2: Projection of expenditure**

Please refer to Section IX.

#### **AA.1.3: Procurement, prior approval and rate setting**

This is a sole source contracting method, between AHCCCS and DES/DDD.

#### **AA.1.5: Risk contract**

There is no risk sharing between AHCCCS and DES/DDD, in addition to the reinsurance contract. DES/DDD is responsible for all losses, except reinsurance and share of cost.

#### **AA.1.6: Limit on payment to other providers**

AHCCCS makes no additional payments to providers, except supplemental payments to hospitals including Disproportionate Share Hospital (DSH) payments, Graduate Medical Education (GME) payments, and Critical Access Hospital payments. GME is paid in accordance with state plan. DSH and Critical Access are paid in accordance with the Waiver Special Terms and Conditions. None of the additional payments to providers were included in the capitation calculation.

#### **AA.1.7: Rate modification**

Please refer to Sections III, IV, VI, VII and VIII.

**XI. Actuarial Certification of the Capitation Rates:**

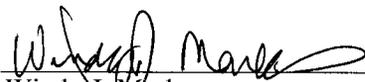
I, Windy J. Marks, am an employee of Arizona Health Care Cost Containment System (AHCCCS). I am a Member of the American Academy of Actuaries. I meet the qualification standards established by the American Academy of Actuaries and have followed the practice standards established from time-to-time by the Actuarial Standards Board.

The rates were developed using generally accepted actuarial principles and practices and are considered to be actuarially sound. The 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 rates are appropriate for the Medicaid populations covered and Medicaid services to be furnished under the contract. The 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 twelve-month period beginning July 1, 2013.

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 rates.

In developing the actuarially sound capitation rates, I have relied upon data and information provided by DES/DDD and the AHCCCS internal databases. I have accepted the data without audit and have relied upon the DES/DDD auditors and other AHCCCS employees for the accuracy of the data.

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.

  
Windy J. Marks

05/09/13  
Date

Fellow of the Society of Actuaries  
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