

Arizona Long Term Care System (ALTCS), Elderly and Physically Disabled (EPD) Actuarial Memorandum

I. Purpose

The purpose of this actuarial memorandum is to demonstrate that the Arizona Long Term Care System (ALTCS) Elderly and Physically Disabled (EPD) capitation rates were developed in compliance with 42 CFR 438.6(c). It is not intended for any other purpose.

This memorandum presents a revision to the already approved Contract Year Ending 2015 (CYE 15) EPD capitation rates. The revision reflects enhanced payments to nursing facilities (NFs). These rates are updated retroactively for the second quarter of CYE 15, from January 1, 2015 through March 31, 2015.

Historical approved actuarial certifications and rates can be found here:

<http://www.azahcccs.gov/commercial/ContractorResources/capitation/capitationrates.aspx>

II. Overview of Changes

For CYE 15, NFs are eligible for enhanced payments. Within each Geographic Service Area (GSA), the enhanced payments are allocated among the NFs and Contractors using claims and encounter data incurred between October 2012 and September 2013.

III. Methodology for Calculating Capitation Adjustments

NF Enhanced Payments

EPD Long Term Care per-member-per-month (PMPM) capitation adjustments were developed based on historical bed day utilization. The PMPM adjustments were developed based on each Contractor's historical proportion of bed days and actual/projected member months by GSA. AHCCCS excluded Fee For Service (FFS) utilization from the capitation adjustments. Bed day data for Contractors whose utilization of a particular NF was less than 10% of total bed days for that facility was added to the data for the Contractor with the highest volume of utilization at that facility. Funding for these enhanced payments will be added to the already approved EPD Contractors' capitation rates effective for the period of January 1, 2015 through March 31, 2015. The estimated impact of this retroactive capitation rate adjustment is a statewide increase of approximately \$12.8 million.

State law restricts AHCCCS from making adjustments to capitation for NF enhanced payments that exceed the monies available from the NF enhanced payment funding source. Thus when AHCCCS developed the capitation adjustment, a hold back of 20% was applied. AHCCCS will perform a reconciliation (with a risk corridor of 0%) on the NF enhanced payment component of the capitation rate. This reconciliation will be completed after the end of the contract year and will reconcile the NF

enhanced payment component paid to Contractors with the actual NF enhanced payment funds available.

Administration/Risk Contingency/Premium Tax Components

The administration and risk contingency components were not impacted by the above changes. The premium tax component was impacted by the above changes.

IV. Proposed Revised Capitation Rates and Their Impacts

Table I below includes the net capitation rates on a statewide basis for all rate cells as well as the estimated budget impact based off of actual EPD Prospective Dual, Non-Dual, and Acute Only member months for January 2015 through March 2015. Due to lag time in processing PPC enrollment, Table I contains projected PPC member months. Tables IIa and IIb below summarize the adjustments made to the already approved CYE 15 EPD Prospective Dual and Non-Dual capitation rates on a statewide basis. The impact to Contractors ranges from 4.5% to 5.2%. Appendix I displays EPD rates by geographical service area and Contractor.

Table I: Proposed Capitation Rates and Budget Impact

Rate Cell	2Q15 (1/1/15 - 3/31/15) MMs	Approved 2Q15 Rate	Proposed 2Q15 Rate	Previous Estimated 2Q15 Capitation	Revised Estimated 2Q15 Capitation	Dollar impact on 2Q15 estimated current capitation	Pct impact on 2Q15 estimated capitation
EPD (Prospective Dual)	65,529	\$2,922.95	\$3,087.71	\$ 191,537,932	\$ 202,334,549	\$ 10,796,616	5.6%
EPD (Prospective Non-Dual)	12,377	\$4,666.42	\$4,832.00	\$ 57,756,301	\$ 59,805,664	\$ 2,049,363	3.5%
PPC	2,839	\$956.48	\$956.48	\$ 2,715,447	\$ 2,715,447	\$ -	0.0%
Acute Only	1,128	\$503.79	\$503.79	\$ 568,275	\$ 568,275	\$ -	0.0%
Total				\$ 252,577,955	\$ 265,423,934	\$ 12,845,980	5.1%

Table IIa: Statewide Projected Net Capitation PMPM EPD Dual

Service Category	Approved Gross		Approved Net 2Q15 Rate	Pct Gross Change	Pct Net Change	Proposed Gross		Proposed Net 2Q15 Rate
	2Q15 Rate	Mix				2Q15 Rate	Mix	
Nursing Facility (NF)	\$5,957.98	27.59%	\$1,643.79	0.0%	0.0%	\$5,957.98	27.59%	\$1,643.79
Share of Cost			(\$254.53)		0.0%			(\$254.53)
NF Enhanced Payment			\$0.00					\$161.47
Net Nursing Facility			\$1,389.26		11.6%			\$1,550.73
Home/Community (HCBS)	\$1,409.23	72.41%	\$1,020.43	0.0%	0.0%	\$1,409.23	72.41%	\$1,020.43
Acute Care			\$210.08		0.0%			\$210.08
Reinsurance			(\$71.01)		0.0%			(\$71.01)
Case Management			\$120.78		0.0%			\$120.78
Administration			\$165.88		0.0%			\$165.88
Risk Contingency			\$29.06		0.0%			\$29.06
Premium Tax			\$58.46		5.6%			\$61.75
Net Capitation PMPM			\$2,922.95		5.6%			\$3,087.71

Table IIb: Statewide Projected Net Capitation PMPM EPD Non-Dual

Service Category	Approved		Approved Net 2Q15 Rate	Pct Gross Change	Pct Net Change	Proposed		Proposed Net 2Q15 Rate
	Gross 2Q15 Rate	Mix				Gross 2Q15 Rate	Mix	
Nursing Facility (NF)	\$7,378.48	21.29%	\$1,570.76	0.0%	0.0%	\$7,378.48	21.29%	\$1,570.76
Share of Cost			(\$32.75)		0.0%			(\$32.75)
NF Enhanced Payment			\$0.00					\$162.27
Net Nursing Facility			\$1,538.02		10.6%			\$1,700.29
Home/Community (HCBS)	\$1,829.48	78.71%	\$1,440.01	0.0%	0.0%	\$1,829.48	78.71%	\$1,440.01
Acute Care			\$1,925.85		0.0%			\$1,925.85
Reinsurance			(\$667.06)		0.0%			(\$667.06)
Case Management			\$121.30		0.0%			\$121.30
Administration			\$163.08		0.0%			\$163.08
Risk Contingency			\$51.88		0.0%			\$51.88
Premium Tax			\$93.33		3.5%			\$96.64
Net Capitation PMPM			\$4,666.42		3.5%			\$4,832.00

V. 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 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 proposed actuarially sound capitation rates that are associated with this certification are effective for the three-month period January 1, 2015 to March 31, 2015.

In developing the actuarially sound CYE 15 capitation rates and the actuarially sound methodology for the nursing facility enhanced payments, I have relied upon data and information provided by the health plans and the AHCCCS internal databases. I have accepted the data without audit and have relied upon the health plan 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.

This certification letter assumes the reader is familiar with the EPD program, Medicare and 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.

unsigned version for reference

Matthew C. Varitek

Date

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

Appendix I

GSA	County	Contractor	EPD Long Term Care Dual	EPD Long Term Care Non-Dual	Acute Only	PPC
40	Pinal/Gila	Bridgeway	\$3,120.04	\$4,308.84	\$451.39	\$1,049.28
42	LaPaz/Yuma	UHC LTC	\$3,057.52	\$4,425.56	\$468.40	\$1,049.28
44	Apache/Coconino/Mohave/Navajo	UHC LTC	\$2,706.08	\$4,860.90	\$466.02	\$1,049.28
46	Cochise/Graham/Greenlee	Bridgeway	\$3,262.56	\$4,035.32	\$409.20	\$1,049.28
48	Yavapai	UHC LTC	\$3,279.40	\$4,619.69	\$374.05	\$1,049.28
50	Pima/Santa Cruz	UHC LTC	\$2,968.01	\$3,992.29	\$280.67	\$781.05
50	Pima	Mercy Care	\$3,393.18	\$5,160.86	\$462.35	\$781.05
52	Maricopa	Bridgeway	\$2,762.97	\$5,238.35	\$511.31	\$958.39
52	Maricopa	UHC LTC	\$2,994.85	\$4,891.41	\$351.71	\$958.39
52	Maricopa	Mercy Care	\$3,225.12	\$4,953.04	\$575.84	\$958.39