



**Contract Year Ending 2018
Arizona Long Term Care System
Department of Economic
Security/Division of Developmental
Disabilities Capitation Rate Certification**

**October 1, 2017 through October 31,
2017**

**Prepared for:
The Centers for Medicare & Medicaid
Services**

**Prepared by:
AHCCCS Division of Health Care**

December 21, 2018

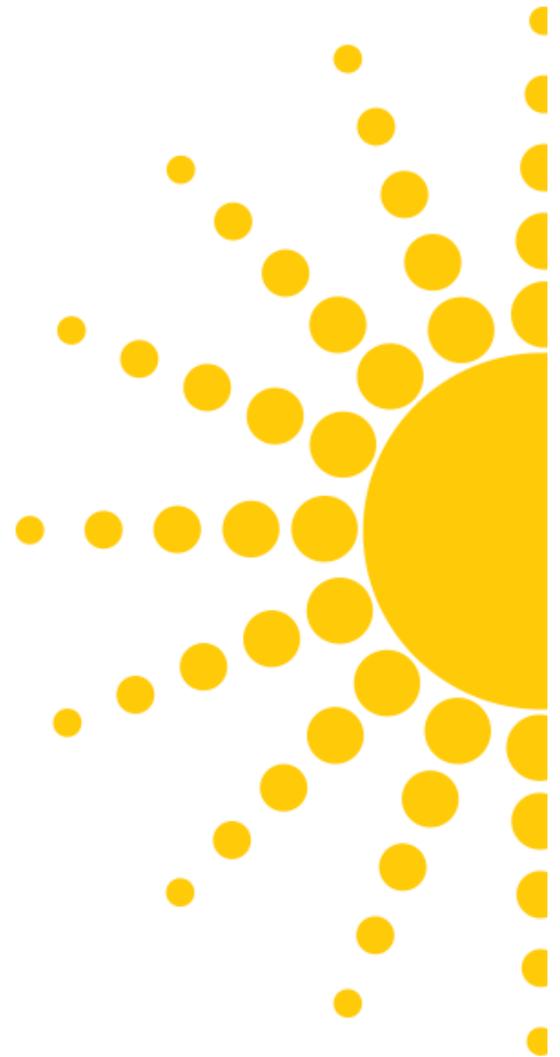


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Introduction and Limitations

The purpose of this rate certification is to provide documentation, including the data, assumptions, and methodologies, used in a revision to the previously submitted October 1, 2017 through October 31, 2017 actuarially sound capitation rates for the Arizona Long Term Care System (ALTCS) Department of Economic Security/Division of Developmental Disabilities (DES/DDD) Program for compliance with the applicable provisions of 42 CFR Part 438 of 81 FR 27497 (published May 6, 2016 and effective July 5, 2016). The revision reflects a retroactive adjustment to capitation rates that covers the Acute Subcontractors' Health Insurance Provider Fee (HIPF). This rate certification 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 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 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 is made available to third parties, then this rate certification should be provided in its entirety. Any third party reviewing this rate certification should be familiar with the AHCCCS Medicaid managed care program, the provisions of 42 CFR Part 438 of 81 FR 27497 applicable to this rate certification, the 2018 Medicaid Managed Care Rate Development Guide, Actuarial Standards of Practice, and generally accepted actuarial principles and practices.

As of the date of signature of this certification, an uncertainty exists regarding the legal status of the HIPF, specifically to the liability of MCOs contracted with Medicaid programs. The certification, the methodology of development for the revision to the rates, and the actuarial soundness of the revised rates rely on AHCCCS' current understanding of the law. The capitation rates may, at some point in the future, be further revised as appropriate to reflect final clarification of the legality of the HIPF and its impact to AHCCCS Contractors.

The 2018 Medicaid Managed Care Rate Development Guide (2018 Guide) describes the rate development standards and appropriate documentation to be included within Medicaid managed care rate certifications. This rate certification has been organized to follow the 2018 Guide to help facilitate the review of this rate certification by CMS. Sections of the 2018 Guide that do not apply will be marked as "Not Applicable" and will be included in this rate certification as requested by CMS.

Section I Medicaid Managed Care Rates

The capitation rates included with this rate certification are considered actuarially sound according to the following criteria from 42 CFR § 438.4 at 81 FR 27858:

- § 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 proposed differences among capitation rates according to covered populations must be based on valid rate development standards and not based on the rate of Federal financial participation associated with 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)(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.

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.”

As stated on page 2 of the 2018 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

This section provides documentation for the General Information section of the 2018 Guide.

I.1.A. Rate Development Standards

I.1.A.i. Rating Period

The revised capitation rates for the ALTCS DES/DDD Program are effective for the one month time period from October 1, 2017 through October 31, 2017.

I.1.A.ii. Rate Certification Documentation

This rate certification includes the following items and information:

I.1.A.ii.(a) Letter from Certifying Actuary

The actuarial certification letter for the October 2017 capitation rates for the ALTCS DES/DDD Program, signed by Matthew C. Varitek, FSA, MAAA, is in Appendix 1. Mr. Varitek meets the requirements for the definition of an Actuary described at 42 CFR § 438.2 at 81 FR 27854 and is provided below for reference.

Actuary means an individual who meets the qualification standards established by the American Academy of Actuaries for an actuary and follows the practice standards established by the Actuarial Standards Board. In this part, Actuary refers to an individual who is acting on behalf of the State when used in reference to the development and certification of capitation rates.

Mr. Varitek certifies that the October 2017 capitation rates for the ALTCS DES/DDD Program contained in this rate certification are actuarially sound and meet the standards within the applicable provisions of 42 CFR Part 438 of 81 FR 27497.

I.1.A.ii.(b) Final and Certified Capitation Rates

The revised final and certified capitation rates by rate cell are located in Appendix 2. Additionally, the ALTCS DES/DDD Program contract includes the final and certified capitation rates by rate cell in accordance with 42 CFR § 438.3(c)(1)(i) at 81 FR 27856. This rate certification will use the term rate cell to be consistent with the applicable provisions of 42 CFR Part 438 of 81 FR 27497 and the 2018 Guide. AHCCCS will perform a retroactive mass adjustment to the currently approved capitation rates for October 2017 using the revised capitation rates in Appendix 2. Although the fees due from the ALTCS DES/DDD Acute subcontractors in 2018 are based on applicable revenue received during 2017, CMS authorized AHCCCS to make retroactive capitation adjustments to just one month in order to limit the administrative burden.

I.1.A.ii.(c) Final and Certified Capitation Rate Ranges

Not applicable. Rate ranges were not developed for the revised October 2017 capitation rates for the ALTCS DES/DDD Program. As in prior years, AHCCCS uses assumed income tax rates to develop the revised capitation rates. As of the date of this certification, each Program subcontractor knows its HIPF liability amount for 2018, but may not know the income tax rate that will apply for 2018 income. If a subcontractor's final 2018 income tax filing reflects a material difference between the

actual tax rates and the assumed tax rates, AHCCCS will submit a revised certification to reflect any future adjustments to the capitation rates proposed in this certification.

I.1.A.ii.(d) Program Information

For more information, please refer to the Contract Year Ending 2018 ALTCS DES/DDD Rate Certification dated September 9, 2017.

I.1.A.iii. Rate Development Standards and Federal Financial Participation

For more information, please refer to the Contract Year Ending 2018 ALTCS DES/DDD Rate Certification dated September 9, 2017.

I.1.A.iv. Rate Cell Cross-subsidization

For more information, please refer to the Contract Year Ending 2018 ALTCS DES/DDD Rate Certification dated September 9, 2017.

I.1.A.v. Effective Dates of Changes

For more information, please refer to the Contract Year Ending 2018 ALTCS DES/DDD Rate Certification dated September 9, 2017.

I.1.A.vi. Generally Accepted Actuarial Principles and Practices

For more information, please refer to the Contract Year Ending 2018 ALTCS DES/DDD Rate Certification dated September 9, 2017.

I.1.A.vii. Rates from Previous Rating Periods

For more information, please refer to the Contract Year Ending 2018 ALTCS DES/DDD Rate Certification dated September 9, 2017.

I.1.A.viii. Rate Certification Procedures

For more information, please refer to the Contract Year Ending 2018 ALTCS DES/DDD Rate Certification dated September 9, 2017.

I.1.B. Appropriate Documentation

For more information, please refer to the Contract Year Ending 2018 ALTCS DES/DDD Rate Certification dated September 9, 2017.

I.2. Data

For more information, please refer to the Contract Year Ending 2018 ALTCS DES/DDD Rate Certification dated September 9, 2017.

I.3. Projected Benefit Costs and Trends

For more information, please refer to the Contract Year Ending 2018 ALTCS DES/DDD Rate Certification dated September 9, 2017.

I.4. Special Contract Provisions Related to Payment

For more information, please refer to the Contract Year Ending 2018 ALTCS DES/DDD Rate Certification dated September 9, 2017.

I.5. Projected Non-Benefit Costs

I.5.A. Rate Development Standards

This section of the 2018 Guide provides information on the non-benefit component of the capitation rates.

I.5.B. Appropriate Documentation

I.5.B.i. Description of the Development of Projected Non-Benefit Costs

For more information, please refer to the Contract Year Ending 2018 ALTCS DES/DDD Rate Certification dated September 9, 2017.

I.5.B.ii. Projected Non-Benefit Costs by Category

For more information, please refer to the Contract Year Ending 2018 ALTCS DES/DDD Rate Certification dated September 9, 2017.

I.5.B.iii. Health Insurance Provider's Fee

I.5.B.iii.(a) Address if in Rates

The CYE 18 capitation rates for the ALTCS DES/DDD Program reflected in this rate certification incorporate the Health Insurance Providers Fee (HIPF). AHCCCS is following previous ALTCS DES/DDD Program capitation rate methodologies for the HIPF, in which capitation rates are amended to reflect the calculated HIPF and related tax impacts. In revising the capitation rate for HIPF, all benefit and non-benefit components remain unchanged and as described in the CYE 18 ALTCS DES/DDD certification dated September 9, 2017, and an additional component is added inclusive of the reported HIPF liability and associated taxes. These discrete rate components are given in appendix 4.

I.5.B.iii.(b) Data Year or Fee Year

The data year is calendar year 2017 for the fee year 2018.

I.5.B.iii.(c) Description of how Fee was Determined

The PMPM capitation adjustments were developed based on the fee liability reported to AHCCCS. AHCCCS Contractors were notified of the fee liability for the entire entity by the Treasury Department. Contractors were responsible for allocating an appropriate portion of their fee liability to AHCCCS within the ALTCS DES/DDD program, which was verified by AHCCCS for reasonableness and appropriateness. To determine if the reported revenue and the HIPF liability allocations to AHCCCS from the Contractors was reasonable and appropriate, AHCCCS reviewed each Contractor's HIPF liability allocated to AHCCCS as a percentage of the total HIPF liability from the IRS, and the revenue allocated to AHCCCS as a percentage of the total revenue reported to the IRS. Additionally, AHCCCS compared the revenue allocated to the ALTCS DES/DDD program from each Contractor

against paid capitation data and determined that the revenue allocated by each Contractor was reasonable and appropriate.

As in previous years, the PMPM adjustments were developed based on total actual member months within the ALTCS DES/DDD rate cell. The estimated impact to the ALTCS DES/DDD Program of this adjustment is a statewide increase of approximately \$2.7 million.

I.5.B.iii.(d) Address if not in Rates

Not applicable. The revised CYE 18 ALTCS DES/DDD capitation rates include the fee.

I.5.B.iii.(e) Summary of Benefits Under 26 CFR § 57.2(h)(2)(ix)

For more information, please refer to the Contract Year Ending 2018 ALTCS DES/DDD Rate Certification dated September 9, 2017.

I.6. Risk Adjustment and Acuity Adjustments

For more information, please refer to the Contract Year Ending 2018 ALTCS DES/DDD Rate Certification dated September 9, 2017.

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

Section II of the 2018 Medicaid Managed Care Rate Development Guide is applicable to the ALTCS DES/DDD Program.

For more information, please refer to the Contract Year Ending 2018 ALTCS DES/DDD Rate Certification dated September 9, 2017.

Section III New Adult Group Capitation Rates

Section III of the 2018 Medicaid Managed Care Rate Development Guide is not applicable to the ALTCS DES/DDD Program.

For more information, please refer to the Contract Year Ending 2018 ALTCS DES/DDD Rate Certification dated September 9, 2017.

Appendix 1: Actuarial Certification

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 the Actuarial Standards Board.

The capitation rates included with this rate certification are considered actuarially sound according to the following criteria from 42 CFR § 438.4 at 81 FR 27858:

- § 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:
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 - § 438.4 (b) (2) Be appropriate for the populations to be covered and the services to be furnished 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.

Additionally, the term actuarially sound is 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 revised CYE 18 capitation rates for the ALTCS DES/DDD Program have been documented according to the guidelines established by CMS in the 2018 Guide. The revised CYE 18 capitation rates for the ALTCS DES/DDD Program are effective for the one-month time period from October 1, 2017 through October 31, 2017.

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

SIGNATURE ON FILE

December 21, 2018

Matthew C. Varitek

Date

Fellow, Society of Actuaries

Member, American Academy of Actuaries

Appendix 2: Certified Capitation Rates with HIPF

Rate Cell	October 2017 Member Months	Submitted Capitation Rate	<i>Revised Capitation Rate</i>	Percentage Impact
DDD	31,345	\$3,765.89	\$3,851.31	2.27%

Notes:

1. The Submitted Capitation Rate represents the most recently submitted rates effective from October 1, 2017 through October 31, 2017, excluding the additional PMPM amount for the HIPF.
2. The *Revised Capitation Rate* represents the most recently submitted rates effective from October 1, 2017 through October 31, 2017, including the additional PMPM amount for the HIPF.

Appendix 3: Fiscal Impact Summary with HIPF

Rate Cell	October 2017 Member Months	Submitted Capitation Rate	<i>Revised Capitation Rate</i>	PMPM Change
DDD	31,345	\$3,765.89	\$3,851.31	\$85.43

Rate Cell	October 2017 Projected Expenditures at Submitted Rates	October 2017 Projected Expenditures at Proposed Rates	Dollar Impact	Percentage Impact
DDD	\$118,042,613	\$120,720,317	\$2,677,704	2.27%

Notes:

1. The Submitted Capitation Rate represents the most recently submitted rates effective from October 1, 2017 through October 31, 2017, excluding the additional PMPM amount for the HIPF.
2. The *Revised Capitation Rate* represents the most recently submitted rates effective from October 1, 2017 through October 31, 2017, including the additional PMPM amount for the HIPF.

Appendix 4: Projected Benefit and Non-Benefit Costs including HIPF

DES/DDD Capitation Rate	October 2017 Capitation Rate PMPM Including HIPF
Claim Costs	
Institutional Services	\$ 113.42
Home and Community Based Services	\$ 2,754.29
Acute Services	\$ 443.67
Total Claim Costs	\$ 3,311.38
Share of Cost	\$ (4.70)
Acute Services Reinsurance	\$ (25.48)
Total Net Claim Costs	\$ 3,281.21
Non-Benefit Costs	
Case Management	\$ 170.74
Administration	\$ 203.80
Risk Contingency	\$ 34.82
Premium Tax	\$ 75.32
Total Non-Benefit Costs	\$ 484.68
DES/DDD Capitation Rate before HIPF	\$ 3,765.89
HIPF Amount including Taxes	\$ 85.43
DES/DDD Capitation Rate including HIPF	\$ 3,851.31