I. Purpose

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

Effective October 1, 2015 the Arizona Health Cost Containment System (AHCCCS) is implementing a program to integrate physical health and behavioral health service delivery for covered individuals with serious mental illness (SMI) across the state. This is an extension of the program which was implemented in Maricopa County effective April 1, 2014. This memorandum includes a description of the development of capitation rates for the physical health component of this program and a description of the development of behavioral health capitation rates for the Arizona Department of Health Services (ADHS), Division of Behavioral Health Services (DBHS) for Contract Year Ending September 30, 2016 (CYE 16).

The Affordable Care Act (ACA) places an annual fee on the health insurance industry nationwide including most Medicaid health plans effective January 1, 2014. The CYE 16 capitation rates do not include the fee at this time; that adjustment will be addressed in a retroactive capitation rate adjustment once the fees are known. Historical actuarial certifications for health insurer fee adjustment can be found on the AHCCCS website: http://www.azahcccs.gov/commercial/ContractorResources/capitation/capitation.aspx#HIF.

II. Overview of Integrated SMI Physical Health Rate Setting Methodology

These capitation rates cover the twelve month period of October 1, 2015 through September 30, 2016 (CYE 16). There are three geographical service areas (GSAs) in this filing – North, South and Maricopa County. This physical health capitation rate development covers the North and South GSAs. For the Maricopa County GSA, the physical and behavioral health data are commingled since 4/1/14 and it is not possible to accurately separate the physical and behavioral health costs; for that reason the physical health data is unsuitable for use as a basis for capitation rate setting. For this reason, the physical health portion of existing capitation rates in Maricopa County is being updated by applying a trend increase to the existing capitation rates for CYE 16.

Historical Medicaid managed care encounter data was used as the primary data source in developing base period experience. This encounter data was made available to AHCCCS’ actuaries via an extract that provides utilization data, cost data and member month information, referred to as the “databook”. The databook included both encounter and member month data only for those individuals who would have met the criteria used for enrollment in the SMI integrated population effective October 1, 2015. The contract
between AHCCCS and ADHS/DBHS specifies that the ADHS/DBHS may cover additional services not covered by Medicaid. Non-covered services were removed from the databook and excluded from the rate development.

Actuarially sound capitation rates were developed utilizing the steps outlined as follows:

1. Develop base period data
   a. AHCCCS historical Medicaid managed care encounter and member month data for the population covered by these capitation rates were used as the primary basis for developing capitation rates.
   b. Apply completion factors and adjust base period data for programmatic and provider fee schedule changes effective prior to the CYE16 rating period.

2. Develop actuarially sound capitation rates
   a. Apply a trend factor to bring base period claim costs forward from the midpoint of the base period to the midpoint of the rating period (24 months).
   b. Adjust claims costs for prospective provider fee schedule and programmatic changes.
   c. Add provision for administration and risk contingency.

III. Integrated SMI Physical Health Base Period Experience

AHCCCS used historical encounter data for the time period from October 1, 2013 through September 30, 2014 as base period data. Encounters were combined into the two GSAs for which new capitation rates were developed – North and South. The base period data were completed using a standard actuarial completion model and adjusted for programmatic and fee schedule changes effective prior to CYE 16.

Included in the base period data is funding for "in lieu of" services, substituting cost-effective alternative inpatient settings in place of more costly inpatient non-specialty hospital placements. State approved FFS rates at inpatient non-specialty hospitals are approximately 93.5% more expensive than those provided in alternative inpatient settings. The proposed capitation rates allow for the provision of services in alternative inpatient settings that are licensed by ADHS/Arizona Licensing Services/Office of Behavioral Health License, in lieu of services in an inpatient non-specialty hospital, thus no increase to capitation rates is included.

Coordination of Benefits/Third Party Liability

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, the Contractors submit encounters for these amounts. Thus, the encounters that are submitted and used in capitation rate development are net of any payments made by commercial insurance or Medicare. The
medical costs reported on the financial statements are also net of any payments made by commercial insurance or Medicare.

IV. **Integrated SMI Physical Health Projected Trend Adjustments**

Due to the fact that this is a new program and the number of SMI recipients is relatively small, it was considered appropriate to utilize trend rates from a larger, similar population. The trend rates for the capitation rate development for CYE 16 for the Acute Care program Supplemental Security Income (SSI) populations were reviewed and deemed to be the most similar and reasonable for use in this rate development. Composite prospective PMPM trends are shown below in Table I.

<table>
<thead>
<tr>
<th>Category of Service</th>
<th>PMPM Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hospital Inpatient</td>
<td>-1.1%</td>
</tr>
<tr>
<td>Outpatient facility</td>
<td>7.7%</td>
</tr>
<tr>
<td>Emergency facility</td>
<td>2.3%</td>
</tr>
<tr>
<td>Physician</td>
<td>2.4%</td>
</tr>
<tr>
<td>Pharmacy</td>
<td>10.9%</td>
</tr>
<tr>
<td>Other</td>
<td>0.7%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3.8%</strong></td>
</tr>
</tbody>
</table>

The composite total trend of 3.8% was used to update the physical health portion of the integrated SMI capitation rates for Maricopa County for CYE 16.

V. **Integrated SMI Physical Health Programmatic and Fee Schedule Changes – Prospective Adjustments**

The changes in this section describe changes not reflected in the adjusted base period claims costs that will occur in the CYE 16 rating period.

**AHCCCS Provider Fee Schedule Changes**

Effective October 1, 2015, AHCCCS is changing Fee For Service (FFS) provider rates for certain providers based either on access to care needs, Medicare/ADHS fee schedule rate changes, and/or legislative mandates. Because Contractors tend to base their fee schedules on the AHCCCS Fee Schedule, and/or adopt the same adjustments to their fee schedules, capitation rates were adjusted accordingly. The estimated impact to CYE 16 medical costs is an increase of approximately $160,000.

**ADHS Ambulance Rates**

In accordance with A.R.S. §36-2239, AHCCCS is required to pay ambulance providers rates equal to a prescribed percentage of the amounts approved by ADHS. Currently AHCCCS’ rates are equal to 74.74% of the ADHS rates per Laws 2013, First Special Session, Chapter 10. AHCCCS is required by Laws 2015, First Regular Session, Chapter
14 to decrease this percentage to 68.59% of the ADHS rates effective for dates of service on or after October 1, 2015. The estimated impact to CYE 16 medical costs is a decrease of approximately $400,000.

**Medically Preferred Treatment Options**

Effective August 1, 2015, AHCCCS expanded the coverage of orthotics for members age 21 and over. More specifically, AHCCCS will allow orthotics when the use of orthotics is medically necessary as the preferred treatment option and consistent with Medicare guidelines; the orthotic is less expensive than all other treatment options or surgical procedures to treat the same diagnosed condition; and the orthotic is ordered by a physician or a primary care practitioner. There is no impact to capitation rates as orthotics are offered in place of more costly interventions.

**VI. Integrated SMI Physical Health Administration and Risk Contingency**

The capitation rates include provision for administration of 8% and risk contingency of 1%, calculated as a percentage of the capitation rate.

The resulting physical health capitation rates are combined with behavioral health capitation rates for the Integrated SMI program. Combined capitation rates are shown in the tables provided in Section XV.

**VII. Overview of Behavioral Health Rate Setting Methodology**

The contract year ending 2016 (CYE 16) capitation rates cover the twelve month contract period of October 1, 2015 through September 30, 2016.

Actuarially sound capitation rates were developed utilizing the steps outlined as follows:

1. Develop base period data
   a) Regional Behavioral Health Authority (RBHA) financial statement data covering the period of 10/1/13 through 9/30/14 and corresponding member month data provided by ADHS/DBHS were used as the primary basis for developing capitation rates for each rate category.
   b) Adjust base period data for programmatic and ADHS/DBHS provider fee schedule changes effective prior to CYE16.
   c) Combine adjusted base period costs for the current RBHA’s into the new geographical service areas of North, South and Maricopa County.

2. Develop CYE 16 actuarially sound capitation rates
   a) Apply a trend factor to bring base period claim costs from the midpoint of the base period forward to the midpoint of the CYE 16 rating period (24 months).
b) Adjust CYE 16 claims costs for prospective programmatic and fee schedule changes.

Make an adjustment for a change in expected claims costs due to the shift of costs associated with General Mental Health and Substance Abuse (GMH/SA) services administered to dually eligible (Medicare/Medicaid) covered individuals to the Acute Care program in CYE 16. Another adjustment was made to the capitation rates for the integrated SMI program to reflect the change to pay capitation rates for individuals in this program based on specifically-identified individuals rather than over the entire adult population.

c) Add provision for administration and risk contingency.

VIII. Behavioral Health Base Period Experience

The base period data consisted of financial statement and member month data for all RBHAs for the October 1, 2013 through September 30, 2014 time period. It would be preferable to use encounter data for base period data; however, due to incomplete reporting of encounter data it is not possible to use encounter data as base period data for CYE 16. ADHS/DBHS has been working with the RBHA's to implement procedures to achieve complete data reporting.

Adjustments were made to the base period data for fee schedule and programmatic changes effective prior to CYE16.

Included in the base period data is funding for "in lieu of" services, substituting cost-effective alternative inpatient settings in place of more costly inpatient non-specialty hospital placements. State approved FFS rates at inpatient non-specialty hospitals are approximately 93.5% more expensive than those provided in alternative inpatient settings. The proposed capitation rates allow for the provision of services in alternative inpatient settings that are licensed by ADHS/Arizona Licensing Services/Office of Behavioral Health License, in lieu of services in an inpatient non-specialty hospital, thus no increase to capitation rates is included.

Coordination of Benefits/Third Party Liability

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, the Contractors submit encounters for these amounts. Thus, the encounters that are submitted and used in capitation rate development are net of any payments made by commercial insurance or Medicare. The medical costs reported on the financial statements are also net of any payments made by commercial insurance or Medicare.

ADHS/DBHS has periodically performed reviews of the RBHA-submitted data and has determined that the data does not include any non-covered services.
IX. Behavioral Health Projected Trend Rates

A trend analysis was performed using service expenses from RBHA audited financial statements for July, 2011 through September, 2014. The RBHA service expense trend analysis was adjusted for fee schedule and programmatic changes made during the respective periods. The resulting overall average "residual" trend rate of 2.6% for the observation period for all RBHAs and behavioral health categories was deemed to be a reasonable estimate of future trend since it was specific to the behavioral health population base and represented a large enough volume of experience to provide a reliable statistic.

Claim costs PMPM were trended from the midpoint of the base period to the midpoint of the rating period (24 months).

X. Behavioral Health Programmatic and Fee Schedule Changes – Prospective Adjustments

The changes in this section describe changes that will occur in the CYE 16 rating period.

ADHS Ambulance Rates

Estimated statewide impact to CYE 16 behavioral health costs due to the change in ADHS ambulance rates described above is a decrease of approximately 790,000.

Copayments

Due to the requirements of federal regulation 42 CFR 447.56(d), AHCCCS has now included consideration of nominal copayments for outpatient physical, occupational and speech therapies, and physician or other provider outpatient office visits for evaluation and management as specified in the State Plan in the calculation of capitation rates to Managed Care Organizations (MCO), regardless of whether or not the nominal copayment is actually imposed on MCO members or collected by the MCO (or its providers). Thus, the MCO capitation rates have been reduced by the dollar amount of nominal copayments that could be collected by MCO members, consistent with the State Plan, who are not otherwise exempt from copayments. Effective October 1, 2015, capitation payments have been reduced by the dollar amount of nominal copayments specified for the particular population and service- even if the copayment is not collected by the provider. The estimated impact to CYE 16 behavioral health costs is a decrease of approximately $180,000.

SMI Integrated Capitation Payment Method Change

Prior to October 1, 2015 for the North and South GSA and April 1, 2014 for the Maricopa County GSA, behavioral health capitation rates for covered individuals with SMI, and for those eligible for GMH/SA services, were calculated and paid over the entire eligible adult population. Beginning on October 1, 2015 capitation rates for the Integrated SMI population for all GSAs will be calculated and paid on individuals specifically identified as eligible for the Integrated SMI program. An adjustment to
capitation rates was made to reflect this change. The change is calculated to be budget neutral.

**Dually-eligible GMH/SA Integration into Acute Care program**

In order to facilitate efficient coordination of care and improve member outcomes, AHCCCS has integrated all services except crisis intervention services for dually-eligible (Medicare/Medicaid) covered individuals utilizing GMH/SA services into the Acute Care program effective October 1, 2015. All corresponding behavioral health costs for these individuals as well as the associated member months have been removed from base period data. This results in a shift of CYE 16 behavioral health costs to the Acute Care program of an estimated $23.4 million.

**XI. Behavioral Health Administration and Risk Contingency**

The CYE 16 capitation rates include a provision for RBHA administration and risk contingency. The component for administration and risk contingency is calculated as a percentage of the final capitation rate. A 9% load (8% administration, 1% contingency) was added across all populations, which is the same as was applied to current capitation rates.

**XII. Risk Corridor**

ADHS/DBHS has a risk corridor on RBHA financial experience. Financial results are reconciled to a maximum 4% profit or loss. This reconciliation does not have an impact on capitation rate development.

**XIII. Tribal FFS Claims Estimate**

Tribal claims data was reviewed and an amount of $67.5 million was projected for CYE 16. This amount was included in the final capitation amount to be paid to ADHS/DBHS. Payments for Tribal services are paid to providers by ADHS/DBHS on a FFS basis.

**XIV. ADHS/DBHS Administration and Premium Tax**

AHCCCS has placed ADHS/DBHS Administration at financial risk for the provision of behavioral health covered services and limited physical health covered services for CYE 16. Accordingly, the capitation rates were developed to include compensation to ADHS/DBHS for the cost of ensuring the delivery of all covered services. The capitation rates paid to ADHS/DBHS include provision for ADHS/DBHS administrative services and services of determining whether individuals qualify for SMI classification (SMI determination). Amounts of $18.7 million for ADHS/DBHS administration and $2.9 million for SMI determination for CYE 16 were included in the capitation rates payable to ADHS/DBHS. A 2% load for premium tax was also included.

**XV. Proposed Revised Capitation Rates and Projection of Expenditure**

Tables II and III below summarize the changes from the currently approved capitation rates and the expenditure projection, effective for the contract period on a statewide basis.
Table II shows the total projected expenditures based on current capitation rates and member months for October 1, 2013 through September 30, 2014.

Table III shows the projected expenditure based on the October 1, 2015 capitation rates and projected member months for October 1, 2015 through September 30, 2016 and the percentage changes from the data in Table II. Data for some of the rate categories are not comparable due to shifts in membership. The table shows the total expenditure increases and the increases due to member months and capitation rate changes.

Capitation rates that will be paid to the RBHA's are shown in Table IV.

### Table II - Expenditures Based FFY14 Member Months and Current Capitation Rates

<table>
<thead>
<tr>
<th>Rate Category</th>
<th>4/1/15 Rates</th>
<th>FFY14 Member Months</th>
<th>Total Projected Expenditures</th>
<th>FFY14 Member Months - non-duplicated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not Integrated</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TXIX and TXXI non-CMDP Children</td>
<td>$37.55</td>
<td>7,259,162</td>
<td>272,556,489</td>
<td>7,259,162</td>
</tr>
<tr>
<td>CMDP Children</td>
<td>$928.82</td>
<td>168,295</td>
<td>156,315,564</td>
<td>168,295</td>
</tr>
<tr>
<td>TXIX GMH/SA and TXXI Adult</td>
<td>$45.83</td>
<td>7,202,864</td>
<td>330,123,128</td>
<td>7,202,864</td>
</tr>
<tr>
<td>non-integrated SMI</td>
<td>$34.07</td>
<td>7,195,176</td>
<td>245,124,658</td>
<td>7,195,176</td>
</tr>
<tr>
<td>Integrated</td>
<td>$2,426.39</td>
<td>201,502</td>
<td>488,922,018</td>
<td>201,502</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>1,493,041,857</td>
<td>14,831,823</td>
</tr>
</tbody>
</table>

### Table III - Expenditures Based on Projected FFY16 Member Months and Capitation Rates Effective October 1, 2015

<table>
<thead>
<tr>
<th>Rate Category</th>
<th>10/1/15 Rates</th>
<th>Projected FFY16 Member Months</th>
<th>Total Projected Expenditures</th>
<th>FFY16 Member Months - non-duplicated</th>
<th>% increase in Total Expenditures</th>
<th>% increase in Member Months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not Integrated</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TXIX and TXXI non-CMDP Children</td>
<td>$41.42</td>
<td>8,561,282</td>
<td>354,607,912</td>
<td>8,561,282</td>
<td>30.1%</td>
<td>17.9%</td>
</tr>
<tr>
<td>CMDP Children</td>
<td>$1,009.13</td>
<td>201,537</td>
<td>203,377,797</td>
<td>201,537</td>
<td>30.1%</td>
<td>19.8%</td>
</tr>
<tr>
<td>TXIX GMH/SA and TXXI Adult - non-dual</td>
<td>$56.70</td>
<td>8,128,371</td>
<td>460,862,996</td>
<td>8,128,371</td>
<td></td>
<td></td>
</tr>
<tr>
<td>non-integrated SMI</td>
<td>$3.16</td>
<td>8,127,109</td>
<td>25,686,396</td>
<td>8,127,109</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Integrated</td>
<td>$1,899.58</td>
<td>472,936</td>
<td>898,380,523</td>
<td>472,936</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>1,942,915,623</td>
<td>17,364,126</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TXIX GMH/SA and TXXI Adult Dual Eligibles</td>
<td></td>
<td></td>
<td>1,436,665</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Integrated SMI Physical Health</td>
<td></td>
<td></td>
<td>23,419,894</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>expenditures integrated from Acute program</td>
<td></td>
<td></td>
<td>1,436,665</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>into North and South GSA's</td>
<td></td>
<td></td>
<td>125,808,768</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>1,840,526,749</td>
<td>18,800,791</td>
<td>23.3%</td>
<td>26.8%</td>
</tr>
</tbody>
</table>

### Table IV - Capitation Rates Paid to Regional Behavioral Health Authorities

Effective October 1, 2015 through September 30, 2016

<table>
<thead>
<tr>
<th>CYE16 Capitation</th>
<th>Regional Behavioral Health Authorities</th>
<th>South</th>
<th>North</th>
<th>Maricopa</th>
</tr>
</thead>
<tbody>
<tr>
<td>T19 + T21 Non-CMDP Children</td>
<td>$54.27</td>
<td>$39.14</td>
<td>$30.08</td>
<td></td>
</tr>
<tr>
<td>CMDP Children</td>
<td>$1,049.17</td>
<td>$1,273.31</td>
<td>$814.46</td>
<td></td>
</tr>
<tr>
<td>Integrated SMI</td>
<td>$1,491.31</td>
<td>$1,467.89</td>
<td>$2,168.50</td>
<td></td>
</tr>
<tr>
<td>non-Integrated SMI</td>
<td>$2.22</td>
<td>$2.92</td>
<td>$3.16</td>
<td></td>
</tr>
<tr>
<td>GMH/SA and T21 Adult - non-dual</td>
<td>$60.55</td>
<td>$39.42</td>
<td>$50.32</td>
<td></td>
</tr>
</tbody>
</table>
XVI. Actuarial Certification of the Capitation Rates

I, Anthony Wittmann, 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 CMS requirements under 42 CFR 438.6(c) and are in accordance with applicable 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 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 October 1, 2015.

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 ADHS/DBHS, the Contractors and the AHCCCS internal databases. I have accepted the data without audit and have relied upon the ADHS/DBHS and Contractors' auditors and other AHCCCS employees for the accuracy of the data. Checks for consistency and reasonableness to the extent possible and practical were applied.

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.

RBHAs are advised that the use of these capitation rates may not be appropriate for their particular circumstance. RBHAs should analyze their own projected medical expense, administrative expense and other premium needs.

This certification letter assumes the reader is familiar with the ADHS/DBHS program, Medicaid eligibility rules and actuarial rating techniques. It is intended for ADHS/DBHS 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
Anthony Wittmann
Date
August 13, 2015

Fellow of the Society of Actuaries
Member, American Academy of Actuaries
XVII. CMS Rate Setting Checklist

1. Overview of rate setting methodology

A.A.1.0: Overview of rate setting methodology

For all rates except those for the physical health portion of the Integrated SMI program in Maricopa County, AHCCCS performed a rebase from the previously approved contract year ending 2015 (CYE 15) rates under 42 CFR 438.6(c). For the physical health portion of the Integrated SMI program in Maricopa County, an update to the CYE15 rates was performed. Please refer to Sections I-II, IV and VII.

AA.1.1: Actuarial certification

Please refer to Section XVI.

AA.1.2: Projection of expenditure

Please refer to Section XV.

AA.1.3: Procurement, prior approval and rate setting

This is a sole source contracting method, between AHCCCS and ADHS.

AA.1.5: Risk contract

The contract is an at risk contract, however there is a provision for a risk corridor reconciliation. Please refer to Section XII.

AA.1.6: Limit on payment to other providers

AHCCCS makes no additional payment to providers, except for Disproportionate Share Hospital (DSH), Graduate Medical Education (GME) and Critical Access Hospitals (CAH). GME is paid in accordance with state plan. DSH and CAH payments 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-VI, Sections VIII-XI, and Sections XIII-XIV.

2. Base Year Utilization and Cost Data

AA.2.0: Base year utilization and cost data

Please refer to Sections III and VIII.

AA.2.1: Medicaid eligibles under the contract
The data includes only those members eligible for managed care.

**AA.2.2: Dual Eligibles (DE)**

There are dual eligibles. Please refer to section X.

**AA.2.3: Spenddown**

Not applicable, not covered under this contract.

**AA.2.4: State plan services only**

Please refer to Sections II and VIII.

**AA.2.5: Services that can be covered by a capitated entity out of contract savings.**

Same as AA.2.4.

### 3. Adjustments to the Base Year Data

**AA.3.0: Adjustments to base year data**

Please refer to Sections III-V and VIII-X.

**AA.3.1: Benefit differences**

Not applicable.

**AA.3.2: Administrative cost allowance calculation**

Please refer to Sections VI, XI and XIV.

**AA.3.3: Special populations’ adjustment**

Please refer to Sections I, II, VII, and X

**AA.3.4: Eligibility Adjustments**

No adjustment was made.

**AA.3.5: DSH Payments**

No DSH payment was included in the capitation development.

**AA.3.6: Third party Liability (TPL)**

This is a contractual arrangement between AHCCCS and ADHS/DBHS. Please refer to section III and VIII.

**AA.3.7: Copayments, coinsurance and deductible in the capitated rates**
AA.3.8: Graduate Medical Education
The experience excludes any payment for GME.

AA.3.9: FQHC and RHC reimbursement
The experience excludes any additional payments that FQHCs may receive from the state.

AA.3.10: Medical cost/trend inflation
Please refer to Section IV and IX.

AA.3.11: Utilization adjustment
Please refer to Section IV and IX.

AA.3.12: Utilization and cost assumptions
Not applicable since actual experience was used.

AA.3.13: Post-eligibility treatment of income (PETI)
Not applicable, not required to consider PETI.

AA.3.14: Incomplete data adjustment
Please refer to Section III.

4. Establish Rate Category Groupings
AA.4.0: Establish rate category groupings
Please refer to Section XV.

AA.4.1: Age
Please refer to Section XV.

AA.4.2: Gender
Not applicable.

AA.4.3: Locality/region
Not applicable.

AA.4.4: Eligibility category
5. Data Smoothing, Special Populations and Catastrophic Claims

AA.5.0: Data smoothing
Not applicable.

AA.5.1: Special populations and assessment of the data for distortions
Not applicable.

AA.5.2: Cost-neutral data smoothing adjustments
Not applicable.

AA.5.3: Risk-adjustment
Not applicable.

6. Stop Loss, Reinsurance, or Risk-Sharing arrangements

AA.6.1: Commercial reinsurance
There is no commercial reinsurance.

AA.6.2: Simple stop loss program
Not applicable.

AA.6.3: Risk corridor program
Please refer to Section XII.

7. Incentive Arrangements
Not Applicable