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Ms. Cynthia Layne
Chief Financial Officer
Arizona Department of Health Services
Division of Behavioral Health Services
150 N. 18th Avenue, Suite 200
Phoenix, AZ 85007

March 11, 2013

Subject: Revised Contract Period 2013 Behavioral Health Services capitation rates for the Title XIX Program – for rates effective April 1, 2013 through September 30, 2013

Dear Ms. Layne:

The State of Arizona Department of Health Services (ADHS), Division of Behavioral Health Services (BHS), has worked closely with Mercer Government Human Services Consulting (Mercer) to develop revisions to the actuarially sound capitation rates for each of its Regional Behavioral Health Authorities (RBHAs) for the last two quarters of the contract period 2013 (CP13) rating period. The CP13 rating period began on July 1, 2012 and ends on September 30, 2013. The revised rates will be in effect from April 1, 2013 through September 30, 2013.

Purpose

Updated rates for the last two quarters of CP13 have been developed to reflect two changes to the program:

- A. Implementation of a provider fee schedule (rate) increase effective April 1, 2013.
- B. Effective January 1, 2013, the RBHAs are no longer responsible to cover benzodiazepines for any condition and barbiturates used for the treatment of epilepsy, cancer, or chronic mental health conditions for dual eligible recipients.

This certification letter revision is a supplement to the prior CP13 letter issued on June 6, 2012 and includes the adjustments for the development of the last two quarters of CP13 actuarially sound capitation rates.

Overview of the Changes/Updated Analyses

- A. BHS is implementing a provider rate increase effective April 1, 2013 for multiple services, but excluding inpatient, residential, sub acute facility, transportation, laboratory and radiology, pharmacy, and electro-convulsive therapy services. The revised rate ranges effective for the last two quarters of CP13 reflect this provider fee schedule increase.

The per-member-per-month (PMPM) increases applied to the Title XIX populations for this adjustment are as follows:

Population	Cenpatico 3	CPSA	Cenpatico 2	NARBHA	Cenpatico 4	MHS	Statewide
Non-CMDP	\$0.50	\$0.77	\$0.70	\$0.65	\$0.67	\$0.46	\$0.55
CMDP	\$14.50	\$11.39	\$6.47	\$19.23	\$8.18	\$6.10	\$8.68
SMI	\$0.55	\$0.87	\$0.48	\$0.47	\$0.60	\$1.35	\$1.00
GMH/SA	\$0.53	\$0.70	\$0.93	\$0.51	\$0.99	\$0.53	\$0.60

The statewide impact to the program for the April 1, 2013 provider rate increase adjustment is an increase of approximately \$7,275,234 for the last two quarters of CP13.

- B. Effective January 1, 2013, for dual eligible members, Medicare will cover benzodiazepines for any condition and barbiturates used for the treatment of epilepsy, cancer, or chronic mental health conditions. Therefore, the RBHAs will no longer be required to reimburse prescription claims for these services as they relate to mental health conditions, and thus, the capitation rates need to be adjusted. Since this change was effective January 1, 2013, an appropriate factor was developed to incorporate the nine-month impact into the six-month time period for which the revised rates are effective.

The PMPM decreases applied to the Title XIX populations for this adjustment are as follows:

Population	Cenpatico 3	CPSA	Cenpatico 2	NARBHA	Cenpatico 4	MHS	Statewide
SMI	(\$0.11)	(\$0.16)	(\$0.11)	(\$0.13)	(\$0.13)	(\$0.10)	(\$0.11)
GMH/SA	(\$0.08)	(\$0.04)	(\$0.08)	(\$0.03)	(\$0.11)	(\$0.03)	(\$0.04)

The statewide impact to the program for this January 1, 2013 pharmacy benefit change is a decrease of approximately \$456,984 for the last two quarters of CP13.

In addition, because of the multiplicative nature of many of the capitation rate components (for example, administration), the change in assumed claim dollars due to these two updates impacts total administrative dollars paid to the RBHAs and also the BHS administration amount paid to BHS for administering the program. The RBHA administration percentage and BHS administration percentage did not change as a result of this update.



Page 3
March 11, 2013
Ms. Cynthia Layne
Arizona Department of Health Services

Proposed Revised Capitation Rates

The end result of this capitation rate development update, completed jointly by BHS and Mercer, is actuarially sound capitation rates for the last two quarters of CP13.

Actuarially sound capitation rates were developed for each of the following populations and RBHA combinations, shown in the next table:

Population	Cenpatico 3	CPSA	Cenpatico 2	NARBHA	Cenpatico 4	MHS	Statewide
Children — Non-CMDP	\$40.12	\$49.15	\$42.38	\$36.59	\$49.84	\$29.42	\$35.21
Children — CMDP	\$1,651.65	\$1,316.53	\$1,104.38	\$1,607.08	\$730.73	\$622.34	\$902.72
SMI	\$45.81	\$74.68	\$35.35	\$45.88	\$45.57	\$90.75	\$73.42
GMH/SA	\$32.23	\$54.27	\$50.24	\$29.99	\$57.77	\$36.37	\$39.95

The rate development schedules are shown in Attachment A.

Certification of Final Rates

In preparing the rates shown above and in the attached exhibit, Mercer has used and relied upon enrollment, eligibility, claim, reimbursement level, benefit design and financial data, and information supplied by BHS and the RBHAs. BHS and the RBHAs are responsible for the validity and completeness of this supplied data and information. We have reviewed the data and information for internal consistency and reasonableness, but we did not audit it. In our opinion, it is appropriate for the intended purposes. If the data and information are incomplete or inaccurate, the values shown in this report may need to be revised accordingly.

Mercer certifies that the revised rate ranges effective for the final six months of CP13, April 1, 2013 through September 30, 2013, including risk-sharing mechanisms, incentive arrangements, or other payments, were developed in accordance with generally accepted actuarial practices and principles and are appropriate for the Medicaid covered populations and services under the managed care contract. The undersigned actuary is a member of the American Academy of Actuaries and meets its qualification standards to certify to the actuarial soundness of Medicaid managed care capitation rates.



Page 4
March 11, 2013
Ms. Cynthia Layne
Arizona Department of Health Services

Rates developed by Mercer are actuarial projections of future contingent events. Actual RBHA costs will differ from these projections. Mercer has developed these rates on behalf of BHS to demonstrate compliance with the Centers for Medicare & Medicaid Services (CMS) requirements under 42 CFR 438.6(c) and in accordance with applicable laws and regulations. Use of these rates for any purpose beyond that stated may not be appropriate.

RBHAs are advised that the use of these rates may not be appropriate for their particular circumstance, and Mercer disclaims any responsibility for the use of these rates by the RBHAs for any purpose. Mercer recommends that any RBHA considering contracting with BHS should analyze its own projected medical expense, administrative expense, and any other premium needs for comparison to these rates before deciding whether to contract with BHS.

This certification letter assumes the reader is familiar with the BHS program, Medicaid eligibility rules, and actuarial rating techniques. It is intended for BHS 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.

If you have any questions concerning our rate setting methodology, please feel free to contact me at +1 602 522 6510 or at mike.nordstrom@mercer.com.

Sincerely,

A handwritten signature in blue ink that reads "Michael E. Nordstrom" followed by "ASA, MAAA" in a smaller, less legible script.

Michael E. Nordstrom, ASA, MAAA
Partner

MEN/ad

Enclosures

Copy:
Sundee Easter, Mercer
Mike Miner, Mercer
Rob O'Brien, Mercer