Arizona Department of Health Services  
Division of Behavioral Health Services  
Actuarial Memorandum

I. Purpose

Arizona Health Cost Containment System (AHCCCS) is implementing a program in Maricopa County to integrate physical health and behavioral health service delivery for seriously mentally ill (SMI) recipients. This memorandum includes a description of the development of rates for the physical health component of the program and a revision to the previously approved Arizona Department of Health Services (ADHS), Division of Behavioral Health Services (BHS) Contract Year Ending 2014 (CYE 14) behavioral health capitation rates for Maricopa County (GSA 6) and the Greater Arizona Regional Behavioral Health Authorities (RBHA) in Arizona.

The RBHA contract for integrated behavioral and physical health services was originally planned to be implemented on October 1, 2013. However, due to a challenge received by ADHS/BHS related to their award of the Maricopa County Integrated Contractor, the move to integrate services for SMI members residing in Maricopa County was delayed until April 1, 2014.

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.

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 fee will be allocated to health insurers based on their respective market share of premium revenue in the previous year. Due to the uncertainty of the actual fees and other unknowns, AHCCCS will not be adjusting the capitation rates for this fee at this time, but intends to make a revision once the impacts are known.

II. Overview of SMI Physical Health Rate Setting Methodology

These rates cover the six month period of April 1, 2014 through September 30, 2014.

Because the provision of integrated services for SMI members is a new program and capitation rates associated with this program have not been previously developed, CYE 14 is classified as a rate development year rather than a rate update to previously approved capitation rates. 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 members who would have met the criteria used for enrollment in the SMI integrated population effective April 1, 2014. The contract between AHCCCS and ADHS/BHS specifies that the ADHS/BHS may cover additional services not covered by Medicaid. Non-covered services were removed from the database 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 data for the population covered by these rates was used as the primary basis for developing capitation rates.
   b. Apply completion factors and adjust base data for programmatic and AHCCCS provider fee schedule changes occurring during the base period.

2. Develop actuarially sound rates
   a. Apply a trend factor to bring base period claim costs forward to the midpoint of the rating period of April 1, 2014 through September 30, 2014.
   b. Adjust base claims costs for programmatic and provider fee schedule changes occurring after the end of the base period.
   c. Add provision for administration and risk contingency.

III. SMI Physical Health Base Period Experience

AHCCCS used historical encounter data for the time period from October 1, 2009 through September 30, 2012. The base data was adjusted by application of completion factors and historical programmatic and provider rate change factors. Weights were then applied to the adjusted base data for the three periods of CYE 10 (10/01/09 – 09/30/10), CYE 11 (10/01/10 – 09/30/11) and CYE 12 (10/01/11 – 09/30/12), with higher weights applied to more recent periods.

IV. SMI Physical Health Projected Trend Adjustments

Historical trend rates by major category of service were developed from the adjusted base data. Due to the small population size the historical trend rates for the SMI integrated population were not reliable for projecting future experience. Thus, the trend rates used in the approved Acute capitation rate development for CYE14 for similar populations were reviewed and deemed to be reasonable for use in this rate development and thus were utilized. Composite prospective PMPM trends are shown below in Table I.
Table I: Composite Annual PMPM Trends

<table>
<thead>
<tr>
<th>Category of Service</th>
<th>PMPM Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hospital Inpatient</td>
<td>0.4%</td>
</tr>
<tr>
<td>Outpatient facility</td>
<td>0.5%</td>
</tr>
<tr>
<td>Emergency--facility</td>
<td>5.0%</td>
</tr>
<tr>
<td>Physician</td>
<td>2.5%</td>
</tr>
<tr>
<td>Other Professional</td>
<td>8.4%</td>
</tr>
<tr>
<td>Pharmacy</td>
<td>2.7%</td>
</tr>
<tr>
<td>Other</td>
<td>3.0%</td>
</tr>
<tr>
<td>Total</td>
<td>2.4%</td>
</tr>
</tbody>
</table>

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

The changes in this section describe changes that occurred after the end of the base period September 30, 2012. Estimated impacts are for the April 1, 2014 through September 30, 2014 rating period.

Provider Rate Changes
Effective October 1, 2013, AHCCCS adjusted FFS provider rates for certain providers based either on access to care needs, Medicare or ADHS fee schedule rates, legislative mandates, or cost of living adjustments. PMPM costs were adjusted for these changes. The estimated six month Maricopa County (GSA 6) impact is an increase of approximately $78,000.

Medicare Coverage of Benzodiazepine and Barbiturate Medications
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. The estimated six month Maricopa County (GSA 6) impact is a decrease of approximately $7,500.

Medical Management Changes
The State of Arizona’s 2013 Health and Welfare Budget Reconciliation Bill (BRB) reinstated well visits, which were previously eliminated October 1, 2010, as a covered service for enrolled adults for federal fiscal year 2014. The estimated six month Maricopa County (GSA 6) impact is an increase of approximately $173,000.

Human Papillomavirus (HPV) vaccine
AHCCCS is expanding the coverage for the Human Papillomavirus (HPV) vaccine to include coverage for all adults (females and males) aged 21-26. AHCCCS has covered females aged 11-20 since December 2006 and has covered males aged 11-20 since July 1, 2010. The estimated six month Maricopa County (GSA 6) impact to expand the coverage of both the vaccine and the administrative expense for all males and females aged 21-26 is an increase of approximately $12,000.
Primary Care Provider (PCP) Payment Increase

Section 1902(a)(13)(C) of the Social Security Act, as amended by the Affordable Care Act, requires minimum levels of Medicaid payment for certain primary care services, provided by certain physicians. The AHCCCS managed care model, with strict requirements regarding actuarially-sound capitation rates, necessitates that Contractors be funded for expected cost increases due to primary care rate parity. AHCCCS proposes to provide Contractors the necessary funds to increase primary care payments by using Model 3: Non-risk Reconciled Payments for Enhanced Rates as referenced in the Medicaid Managed Care Payment for PCP Services in 2013 and 2014, Technical Guidance and Rate Setting Practices (Technical Guidance) document released by CMS.

In summary, under Model 3, prospective capitation rates would not be adjusted for the enhanced primary care payments. Rather, AHCCCS would query actual encounter data on a quarterly basis to calculate the total payments that eligible providers were paid for eligible services in order to reach the mandated enhanced payment rates. Once the data on this report is verified, AHCCCS would pay the Contractors the calculated additional payment amounts. A more detail explanation of the process and methodology can be found in the Actuarial Certification submitted to CMS for approval of AHCCCS methodology. There is no impact to the CYE 14 capitation rates.

In-Lieu of Services

Included in the base rates 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 cap rates is included.

VI. SMI Physical Health Administration and Risk Contingency

The capitation rates include a provision for administration and risk contingency of 9% which is calculated as a percentage of the final capitation rate.

VII. Risk Corridors and Performance Incentive

A risk corridor arrangement is utilized between ADHS/BHS and the RBHAs that provides motivation to operate efficiently and generate net income, but also provides for the return of any excessive profit to the State. The risk corridor provides for gain/loss risk sharing symmetry around the service revenue portion of the capitation rates. This risk corridor model is designed to be cost neutral, with no net aggregate assumed impact across all payments. Also, as in prior years, the RBHAs' contracts provide for a potential 1% performance incentive.
VIII. Overview of Behavioral Health Rate Setting Methodology

This section presents a discussion of the revision to the already approved CYE 14 behavioral health care capitation rates. Revisions are needed to reflect a change in the method for paying residential facility providers and for the elimination of mandatory copayments. These changes apply to RBHAs in all geographical areas.

Additional revisions that only apply in Maricopa County (GSA 6) are needed to reflect changes resulting from a court decision and changes in the rating period. In addition, there is a capitation payment method change that is due to the SMI integration and impacts how the capitation rates are paid to ADHS.

IX. Behavioral Health Programmatic Changes

Residential Facility Change
Effective October 1, 2013, the Arizona Department of Health Services, Division of Licensing changed their licensing rules to facilitate licensure of integrated health programs, to provide consistency for all Health Care Institutions, to streamline the regulatory process and to focus on health and safety. These rule changes impacted behavioral health residential settings. The level two behavioral health residential facility setting was collapsed with the level three behavioral health residential facility setting from a licensing perspective as the requirements for the level three setting were expanded commensurate with the level two requirements.

The estimated six month statewide impact is an increase of approximately $543,000.

Settlement Agreement Impact
The Arnold v. Sarn lawsuit was filed in 1981 and sought to enforce the community mental health residential treatment on behalf of persons with a serious mental illness in Maricopa County. In January 2014, Governor Jan Brewer, officials from ADHS, Maricopa County and plaintiffs signed an exit agreement detailing the specific requirements for an end to the 30-plus year old lawsuit. The exit agreement provides extensive health services for the seriously mentally ill of Maricopa County, over two years beginning July 1, 2014, including an increase of: Assertive Community Treatment (ACT) teams (eight teams), Supportive Housing (1,200 units), Supported Employment (750 slots) and Peer and Family Services (1,500 slots). Although Housing is not a Title XIX covered service, Supportive Housing includes supportive services such as living skills training, personal care, health promotion, psychosocial rehabilitation, case management and medication services which are Title XIX covered services.

This change applies only to the SMI population in Maricopa County (GSA 6).

The estimated six month impact is an increase of approximately $209,000.

Elimination of Mandatory Copayments
Effective October 1, 2010, AHCCCS reinstated mandatory copays for adults in the AHCCCS Care population. There were a myriad of exclusions for adult copays related to both specific services and specific members as detailed in contract. Additionally, effective April 1, 2012, AHCCCS Care members in Maricopa and Pima counties became
subject to a $2 mandatory copayment for taxi services per one-way trip. Mandatory copayments permit providers to deny services due to lack of member payment. These AHCCCS Care copays expired December 31, 2013.

The estimated six month statewide impact is an increase of approximately $739,000.

Rating Period Change
The rating period for the previously-approved rates was January 1, 2014 through September 30, 2014 and the rating period for these rates is April 1, 2014 through September 30, 2014. There is a change in RBHA Contractors beginning April 1, 2014 in Maricopa County (GSA 6), so a trend month roll forward of 1.5 months is needed to true up the rates for the new RBHA Contractor. In Greater Arizona, the same RBHA Contractors are in place for the January 1, 2014 through September 30, 2014 period, so no adjustment is needed to the rates for those RBHA Contractors.

The estimated six month impact is an increase of approximately $1.67 million.

Capitation Payment Method Change
Prior to April 1, 2014, behavioral health capitation rates for SMI recipients and GMH/SA recipients were calculated and paid over the entire eligible adult population. Beginning on April 1, 2014 with the implementation of the integrated RBHA contract, capitation rates for the SMI population in Maricopa County will be calculated and paid specifically on the same SMI population. This also impacts how the GMH/SA and SMI non-integrated population will be paid since they will now be paid over the entire eligible adult population less the SMI population in Maricopa County. This method change is expected to be budget neutral.

X. Tribal FFS Claims Estimate

Tribal claims data was reviewed by ADHS/BHS and an amount of approximately $41.2 million was projected for the six month contract period.

XI. ADHS/BHS Administration and Premium Tax

AHCCCS has placed ADHS/BHS Administration at financial risk for the provision of behavioral health covered services for CYE 14. Accordingly, the capitation rates were developed to include compensation to ADHS/BHS for the cost of ensuring the delivery of all behavioral health covered services. The capitation rates paid to ADHS/BHS include an administrative load, which was negotiated between AHCCCS and ADHS/BHS. The load represents a 2% premium tax on all rate categories, a 1.273% administrative load on all non-SMI rate categories and a 1.487% administrative load on all SMI categories for the contract period. The ADHS/BHS administrative costs ensure the efficient delivery of services in a managed care environment.
XII. Proposed Revised Capitation Rates and Projection of Expenditure

Table II below summarizes the changes from the currently approved CYE 14 capitation rates and the expenditure projection, effective for the contract period on a statewide basis.

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

<table>
<thead>
<tr>
<th>Rate Category</th>
<th>1/1/14 Rates</th>
<th>4/1/14 Rates</th>
<th>4/1/14-9/30/14</th>
<th>Projected MMs</th>
<th>1/1/14 Rates</th>
<th>4/1/14 Rates</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>TXIX and TXXI non-CMHP Children</td>
<td>$36.98</td>
<td>$37.20</td>
<td>$3,799,592</td>
<td>$140,508,912</td>
<td>$141,341,841</td>
<td>0.6%</td>
<td></td>
</tr>
<tr>
<td>CMDP Children</td>
<td>$1,126.46</td>
<td>$1,128.01</td>
<td>83,153</td>
<td>$93,668,528</td>
<td>$93,797,796</td>
<td>0.1%</td>
<td></td>
</tr>
<tr>
<td>TXIX GMH/SA and TXXI Adult</td>
<td>$44.99</td>
<td>$45.61</td>
<td>$3,855,451</td>
<td>$173,456,740</td>
<td>$179,688,282</td>
<td>3.6%</td>
<td></td>
</tr>
<tr>
<td>non-integrated SMI</td>
<td>$79.73</td>
<td>$31.89</td>
<td>$3,854,952</td>
<td>$307,355,323</td>
<td>$122,935,817</td>
<td>-60.0%</td>
<td></td>
</tr>
<tr>
<td>Maricopa integrated</td>
<td>$2,425.06</td>
<td>100,936</td>
<td></td>
<td>244,776,170</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Total: $714,989,504 | $782,539,906 | 9.4%

1) 4/1/14-9/30/14 Projected Member Months apply to both 1/1/14 and 4/1/14 Rates
2) Due to the integration of members with SMI in Maricopa County, the method of payment for adults has changed which results in an increased PMPM for GMH/SA population due to a decrease in members that will receive this capitation rate
3) The majority of the SMI behavioral health costs for Maricopa County are now included in the Integrated SMI capitation rate
4) Physical health costs as well as behavioral health costs are included in the Integrated SMI capitation rate
XIII. 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 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 six-month period beginning April 1, 2014.

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 ADHS, the Contractors and the AHCCCS internal databases. I have accepted the data without audit and have relied upon the ADHS and Contractor’s 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.

RBHAs are advised that the use of these rates may not be appropriate for their particular circumstance. RBHAs considering contracting with BHS should analyze their own projected medical expense, administrative expense and 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.

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

Date  
2/27/14
XIV. CMS Rate Setting Checklist

1. Overview of rate setting methodology

A.A.1.0: Overview of rate setting methodology

The RBHA contract for integrated behavioral and physical health services is new, so this is the first time rates have been developed for this program. The physical health portion of the rates was developed from AHCCCS/ADHS encounter data. The behavioral health portion of the rates was developed from previously approved rates with adjustments for programmatic and rating period changes and a denominator adjustment to reflect that these rates will apply only to the SMI-integrated population rather than the total adult population. Please refer to Section II for the physical health portion and to Section VIII for the behavioral health portion.

A.A.1.1: Actuarial certification

Please refer to Section XIII.

A.A.1.2: Projection of expenditure

Please refer to Section XII.

A.A.1.3: Procurement, prior approval and rate setting

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

A.A.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 VII.

A.A.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. GME is paid in accordance with state plan. DSH and Critical Access Hospital 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.

A.A.1.7: Rate modification

Please refer to Sections III through V and Section IX.
2. Base Year Utilization and Cost Data

AA.2.0: Base year utilization and cost data

Please refer to Section III.

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.

AA.2.3: Speddown

Not applicable, not covered under this contract.

AA.2.4: State plan services only

Please refer to Section II.

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 IV, V and IX.

AA.3.1 Benefit differences

Not applicable.

AA.3.2 Administrative cost allowance calculation

Please refer to Sections VI and XI.

AA.3.3 Special populations’ adjustment

Not applicable.

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/BHS.

AA.3.7 Copayments, coinsurance and deductible in the capitated rates

Please refer to Sections V and IX.

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.

AA.3.11 Utilization adjustment

Please refer to Section V 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 XII.

AA.4.1: Age
Please refer to Section XII.

**AA.4.2: Gender**

Not applicable.

**AA.4.3: Locality/region**

Not applicable.

**AA.4.4: Eligibility category**

Please refer to Section XII.

5. **Data Smoothing, Special Populations and Catastrophic Claims**

**AA.5.0: Data smoothing**

Please refer to Section III.

**AA.5.1: Special populations and assessment of the data for distortions**

Data was not adjusted for special populations.

**AA.5.2: Cost-neutral data smoothing adjustments**

Please refer to Section IX.

**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 VII.

7. **Incentive Arrangements**

Not applicable.