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Mr. David Reese
Chief Financial Officer
Arizona Department of Health Services
Division of Behavioral Health Services
150 N. 18th Avenue, Suite 200
Phoenix, AZ 85007

February 7, 2011

FINAL

Subject: Revised Behavioral Health Services fourth quarter State fiscal year 2011 capitation rates for the Title XIX Program

Dear Mr. Reese:

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 fourth quarter (4Q) State fiscal year 2011 (SFY11).

I. Purpose

Updated rates for 4Q SFY11 have been developed to reflect a provider fee schedule (rate) reduction effective April 1, 2011. The following certification letter is a supplement to the prior SFY11 letter issued on November 17, 2010, and includes the adjustments for the development of the 4Q SFY11 actuarially sound capitation rates.

II. Overview of change

BHS is implementing a 5% provider rate decrease effective April 1, 2011, for all provider types, excluding inpatient and pharmacy. The updated 4Q SFY11 rates reflect these provider fee schedule (rate) decreases. The adjustments for the SFY10 High Needs Children and Transition Age Youth service utilization changes that were impacted by this provider fee schedule (rate) decrease are included in the adjustment below.

The per member per month (PMPM) decreases applied to the Title XIX populations for this unit cost adjustment are as follows.

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Population	Cenpatico 3	CPSA	Cenpatico 2	NARBHA	Cenpatico 4	MHS	Statewide
Non-CMDP	(\$1.55)	(\$1.70)	(\$2.04)	(\$1.38)	(\$2.18)	(\$1.15)	(\$1.38)
CMDP	(\$66.76)	(\$54.09)	(\$37.76)	(\$60.46)	(\$21.36)	(\$26.52)	(\$37.19)
SMI	(\$1.39)	(\$2.01)	(\$1.29)	(\$1.23)	(\$1.50)	(\$3.84)	(\$2.65)
GMH/SA	(\$1.05)	(\$1.75)	(\$2.10)	(\$0.98)	(\$2.11)	(\$1.07)	(\$1.28)

The statewide impact to the program for the Provider Rate Reduction adjustment is a decrease of approximately \$10,823,974 for 4Q SFY11.

In addition, the adjustment impacts the statewide RBHA administration with a decrease of approximately \$1,312,972 for 4Q SFY11. The RBHA administration percentage did not change.

III. Overview of methodology for rate impact

In order to develop the rate impact for the provider rate decrease, Mercer applied a 5% unit cost reduction to the base data, excluding inpatient and pharmacy costs. In addition, as mentioned previously, two of the SFY10 base data service utilization increases are impacted by the provider rate decrease, and were adjusted accordingly.

IV. 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 4Q SFY11.

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	\$34.38	\$43.45	\$40.52	\$33.62	\$50.06	\$29.85	\$34.08
Children – CMDP	\$1,606.68	\$1,142.06	\$1,053.91	\$1,466.89	\$661.15	\$782.76	\$946.80
SMI	\$40.42	\$65.33	\$32.23	\$39.73	\$39.37	\$86.84	\$66.56
GMH/SA	\$26.50	\$48.81	\$48.37	\$27.38	\$58.53	\$35.72	\$37.96

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The rate development schedules are shown in Attachment A.

V. Certification of final rates

In preparing the rates shown above and attached, 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 above and attached rates, 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.

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 CMS requirements under 42 CFR 438.6(c) and accordance with applicable law 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.

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

Sincerely,

A handwritten signature in blue ink that reads "Michael E. Nordstrom ASA, MAAA". The signature is written in a cursive style.

Michael E. Nordstrom, ASA, MAAA
Partner

MEN:SE:lgm

Enclosures

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