



**Mike Nordstrom**

Partner

Government Human Services Consulting  
2325 East Camelback Road, Suite 600  
Phoenix, AZ 85016  
+1 602 522 6500  
mike.nordstrom@mercer.com  
www.mercer.com

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

**Subject:** Revised Behavioral Health Services fourth quarter State fiscal year 2011 capitation rates for the Title XXI 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 October 28, 2010, and includes background and adjustments for the development of the 4Q SFY11 actuarially sound capitation rates.

## **II. Overview of change**

The April 1, 2011, provider fee schedule (rate) reduction impact on the Title XIX (TXIX) RBHA capitation rates is described in our certification letter dated February 7, 2011. An update to the TXXI capitation rates is necessary due to the use of TXIX capitation rates as a base for TXXI capitation rate development.

The statewide impact to the program is a decrease of approximately \$64,645 for 4Q SFY11.

### III. Proposed revised capitation rates

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

**Title XXI**

Cenpatico 3	CPSA	Cenpatico 2	NARBHA	Cenpatico 4	MHS	Statewide
\$ 20.66	\$ 32.95	\$ 17.11	\$ 20.09	\$ 28.91	\$ 18.11	\$ 20.71

The rate development schedules are shown in Attachment A.

### IV. 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 in accordance with applicable law and regulations. Use of these rates for any purpose beyond that stated may not be appropriate.

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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.

Sincerely,



Michael E. Nordstrom, ASA, MAAA  
Partner

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

Enclosures