

Regional Behavioral Health Authorities
(Formerly Arizona Department of Health Services, Division of Behavioral
Health Services)
Actuarial Memorandum

I. Purpose

This actuarial memorandum is a revision to the capitation rates from the approved rate certifications for April 1, 2015 through September 30, 2015 (Contract Year Ending 2015 or CYE 15) dated February 12, 2015 and for October 1, 2015 through September 30, 2016 (Contract Year Ending 2016 or CYE 16) dated August 13, 2015 for the Regional Behavioral Health Authorities (RBHA) Program. Specifically, this memorandum will address revisions made to the CYE 15 and CYE 16 capitation rates to reflect adjustments associated with the Health Insurance Providers Fee (HIPF) for 2016 which was based off of Calendar Year 2015 revenue. The purpose of this actuarial memorandum is to demonstrate compliance with the applicable provisions of 42 CFR Part 438 of 81 FR 27497 (published May 6, 2016 and effective July 5, 2016). It is not intended for any other purpose.

II. General Information

The Affordable Care Act (ACA) placed an annual fee on the health insurance industry nationwide including most Medicaid health plans effective January 1, 2014. The HIPF is allocated to health insurers based on their respective market share of premium revenue in the previous year. Arizona Health Care Cost Containment System (AHCCCS) updates capitation rates annually on a retrospective basis after the Treasury Department notifies each entity of its HIPF amount due. Certain Contractors will be excluded from the HIPF as determined by the Contractor and approved by the Internal Revenue Service (IRS).

Two sets of capitation amounts will be impacted to reflect the HIPF that was paid in 2016; one for September 2015 and one for October 2015. This is due to a Request for Proposal that was effective October 1, 2015 for Greater Arizona (all counties except Maricopa County) which resulted in exiting and entering RBHAs with varying HIPF liability obligations as follows:

Exiting the RBHA Program effective September 30, 2015:

- Cenpatico with HIPF liabilities
- CPSA5 and NARBHA without HIPF liabilities

Entering the RBHA Program effective October 1, 2015:

- Cenpatico Integrated Care (CIC) and Health Choice Integrated Care (HCIC)) with HIPF liabilities

Mercy Maricopa Integrated Care (MMIC), the RBHA for Maricopa County, does not have a HIPF liability, so no capitation rate adjustment is required for this RBHA.

When CIC and HCIC entered the program as integrated RBHA contractors on October 1, 2015, the Integrated SMI risk group was added to their new contracts. This is why the rates below do not reflect

a change to the Integrated SMI risk group for September 2015, but do reflect a change for that risk group for October 2015.

Prior to July 1, 2016, services for behavioral health were administered by the Arizona Department of Health Services (ADHS), Division of Behavioral Health Services (DBHS). AHCCCS developed and paid capitation rates to ADHS/DBHS. These capitation rates were developed on a statewide basis and included provisions for ADHS/DBHS administration, SMI Determination, Tribal FFS Claims and Premium Tax. ADHS/DBHS then paid capitation rates through subcontracts to each of the RBHAs and also distributed the amounts for ADHS/DBHS administration, SMI Determination, Tribal FFS claims and Premium Tax. When capitation rates were adjusted for the HIPF prior to July 1, 2016, AHCCCS revised the capitation rates that were paid to ADHS/DBHS and then ADHS/DBHS ensured that the RBHAs were reimbursed for the HIPF. Effective July 1, 2016, the RBHAs were moved under AHCCCS' direct regulatory responsibility along with all other MCOs. Due to this change, AHCCCS will ensure that the RBHAs are reimbursed for the HIPF. The capitation rates that are being adjusted to reflect the HIPF are the statewide capitation rates that were paid to ADHS/DBHS. However, the capitation rates both before and after the HIPF adjustment will also be shown by RBHA for illustration purposes.

III. Overview of Changes

Although the HIPF liability amount paid in 2016 is known, the 2016 income tax rates are not known until the spring of 2017. If an extension is requested, then those 2016 income tax rates are not known until the fall of 2017. Thus, AHCCCS will use assumed 2016 income tax rates to develop the revised capitation rates. The assumed 2016 income tax rates are based upon the reported amounts that the Contractors provide to AHCCCS.

Capitation rate ranges were developed in the event that the final 2016 income tax filing for a Contractor reflects a material difference between the actual 2016 income tax rates and the assumed 2016 income tax rates. If a Contractor's 2016 income tax filing reflects a material difference between their actual 2016 income tax rate and the assumed 2016 income tax rate a second adjustment may occur. The capitation rate ranges were developed based on the actual member months by risk group for September 2015 and October 2015 respectively.

Each capitation rate range, as well as the revised capitation rate, is defined as follows:

- The minimum of the range equals the approved capitation rates for CYE 15 and CYE 16 plus the HIPF plus premium tax.
- The maximum of the range equals the approved capitation rates for CYE 15 and CYE 16 plus the HIPF plus the maximum federal and state income tax plus premium tax.
- The revised capitation rates within the range equals the approved capitation rates for CYE 15 and CYE 16 plus the HIPF plus the assumed 2016 income tax rates (or premium tax in lieu of state income tax as applicable) as reported by the Contractors.

IV. Capitation Rate Adjustments

The capitation rates and capitation rate ranges were developed separately for each Contractor based on the HIPF liability amount paid in 2016 and reported to AHCCCS. Each Contractor was notified of the HIPF liability for the entire corporate entity by the Treasury Department.

Contractors who received multiple streams of revenue applicable to the HIPF calculation were responsible for allocating an appropriate portion of their revenue as well as their HIPF liability to AHCCCS.

The data provided to AHCCCS from each Contractor included:

- The total revenue reported to and the total HIPF liability from the IRS Form 8963.
- The revenue and HIPF liability allocated to the State of Arizona.
- The revenue and HIPF liability allocated to AHCCCS.
- The revenue and HIPF liability allocated to each AHCCCS program.

To determine if the reported revenue and the HIPF liability allocations to AHCCCS from the Contractors was reasonable and appropriate, AHCCCS reviewed for each Contractor the HIPF liability allocated to AHCCCS as a percentage of the total HIPF liability from the IRS, and the revenue allocated to AHCCCS as a percentage of the total revenue reported to the IRS. Additionally, AHCCCS compared the revenue allocated to each AHCCCS program from each Contractor against paid capitation data and determined that the revenue allocated by Contractor to each AHCCCS program was reasonable and appropriate. The HIPF liability amounts allocated to AHCCCS were then grossed up to reflect 2016 income tax rates as reported by the contractors (or premium tax in lieu of state income tax as applicable).

For purposes of reporting, AHCCCS will apply the HIPF adjustment to the approved CYE 15 and CYE 16 capitation rates to develop the revised capitation rates. This adjustment will be retroactive for the time period of September 1, 2015 through September 30, 2015 and for the time period of October 1, 2015 through October 31, 2015.

Administration, Risk Contingency, and Premium Tax

The administration, risk contingency, and premium tax component percentages were not impacted by the above changes. In revising the capitation rates for the HIPF, the administration and risk contingency components were not applied to the HIPF.

V. Revised Capitation Rates and Budget Impact

Table I and Table II contain the revised capitation rates and capitation rate ranges by risk group for September 2015 and October 2015, respectively. The impact of the HIPF to the September 2015 capitation rates is 4.0% and for the October 2015 capitation rates the impact is 3.2%.

Table I: Revised ADHS/DBHS Statewide Capitation Rates and Capitation Rate Ranges September 2015

Risk Group	Original Rate	Revised Rate	Impact	Minimum Range	Maximum Range
Non-CMDP Children (Title XIX + XXI)	\$37.55	\$39.06	4.0%	\$38.49	\$39.11
CMDP Children	\$928.82	\$966.18	4.0%	\$952.24	\$967.55
Title XIX GMH/SA + Title XXI Adult	\$45.83	\$47.68	4.0%	\$46.99	\$47.74
Non-Integrated SMI	\$34.07	\$35.44	4.0%	\$34.93	\$35.49
Integrated SMI	N/A	N/A	N/A	N/A	N/A

Table II: Revised ADHS/DBHS Statewide Capitation Rates and Capitation Rate Ranges October 2015

Risk Group	Original Rate	Revised Rate	Impact	Minimum Range	Maximum Range
Non-CMDP Children (Title XIX + XXI)	\$41.42	\$42.77	3.2%	\$42.28	\$42.85
CMDP Children	\$1,009.13	\$1,041.91	3.2%	\$1,030.15	\$1,043.89
Title XIX GMH/SA + Title XXI Adult	\$56.70	\$58.54	3.2%	\$57.88	\$58.65
Non-Integrated SMI	\$3.16	\$3.26	3.2%	\$3.23	\$3.27
Integrated SMI	\$1,899.58	\$1,961.28	3.2%	\$1,939.15	\$1,965.01

Table III and Table IV include the estimated original and revised capitation amounts by risk group as well as the budget impact of the revised payments for September 2015 and October 2015, respectively. The member months by risk group are the actual member months for September 2015 and October 2015.

Table III: Budget Impact for September 2015

Risk Group	Member Months	Estimated Original Capitation	Revised Capitation	Difference
Non-CMDP Children (Title XIX + XXI)	683,129	\$25,649,137	\$26,680,888	\$1,031,751
CMDP Children	16,136	\$14,987,421	\$15,590,298	\$602,877
Title XIX GMH/SA + Title XXI Adult	839,325	\$38,468,112	\$40,015,513	\$1,547,401
Non-Integrated SMI	839,209	\$28,590,101	\$29,740,154	\$1,150,053
Integrated SMI	N/A	N/A	N/A	N/A
Total	2,377,799	\$107,694,771	\$112,026,853	\$4,332,081

Table IV: Budget Impact for October 2015

Risk Group	Member Months	Estimated Original Capitation	Revised Capitation	Difference
Non-CMDP Children (Title XIX + XXI)	686,377	\$28,429,704	\$29,353,044	\$923,340
CMDP Children	15,824	\$15,968,533	\$16,487,159	\$518,626
Title XIX GMH/SA + Title XXI Adult	829,892	\$47,053,280	\$48,581,476	\$1,528,197
Non-Integrated SMI	829,783	\$2,622,597	\$2,707,774	\$85,177
Integrated SMI	44,648	\$84,812,457	\$87,566,996	\$2,754,539
Total	2,406,524	\$178,886,571	\$184,696,450	\$5,809,879

The revised payments by RBHA are provided below in Table V.

Table V: Revised Payments by Contractor

Contractor	September 2015	October 2015	Total
Cenpatico	\$4,332,081	\$0	\$4,332,081
Cenpatico Integrated Care (CIC)	\$0	\$4,260,199	\$4,260,199
Health Choice Integrated Care (HCIC)	\$0	\$1,549,680	\$1,549,680
Total	\$4,332,081	\$5,809,879	\$10,141,960

For illustration purposes, Table VI and Table VII contain the original and revised RBHA capitation rates for September 2015 and October 2015, respectively. The impacts for these

capitation rates do not match the impacts in Table I and Table II since these are by RBHA (region) and Table I and Table II are ADHS/DBHS statewide capitation rates. For Table I, the statewide capitation rates had no HIPF payment for three regions (CPSA5, NARBHA and MMIC) and Table II's statewide capitation rates had no HIPF payment for MMIC. This is the reason for the disparity in impact between the respective tables. Also, the ADHS/DBHS capitation rates will have ADHS/DBHS administration, SMI Determination, Tribal FFS claims and Premium Tax added into their capitation rates. The RBHA rates in Table VI and Table VII do not reflect the above additional items.

Table VI: RBHA Capitation Rates September 2015

Original RBHA Capitation Rates	Cenpatico 3	CPSA 5	Cenpatico 2	NARBHA	Cenpatico 4	MMIC
Non-CMDP Children (Title XIX + XXI)	\$ 36.35	\$ 49.91	\$ 49.52	\$ 41.25	\$ 53.63	\$ 27.29
CMDP Children	\$ 1,508.42	\$ 1,021.60	\$ 1,271.73	\$ 1,429.83	\$ 769.49	\$ 720.43
Title XIX GMH/SA + Title XXI Adult	\$ 33.45	\$ 53.78	\$ 52.23	\$ 32.83	\$ 63.88	\$ 39.39
Non-Integrated SMI	\$ 48.78	\$ 75.94	\$ 41.21	\$ 47.66	\$ 52.86	\$ 0.98
Integrated SMI	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,345.17

Revised RBHA Capitation Rates	Cenpatico 3	CPSA 5	Cenpatico 2	NARBHA	Cenpatico 4	MMIC
Non-CMDP Children (Title XIX + XXI)	\$ 45.20	\$ 49.91	\$ 61.56	\$ 41.25	\$ 66.67	\$ 27.29
CMDP Children	\$ 1,875.39	\$ 1,021.60	\$ 1,581.12	\$ 1,429.83	\$ 956.69	\$ 720.43
Title XIX GMH/SA + Title XXI Adult	\$ 41.58	\$ 53.78	\$ 64.93	\$ 32.83	\$ 79.42	\$ 39.39
Non-Integrated SMI	\$ 60.64	\$ 75.94	\$ 51.24	\$ 47.66	\$ 65.72	\$ 0.98
Integrated SMI	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,345.17

Impact	Cenpatico 3	CPSA 5	Cenpatico 2	NARBHA	Cenpatico 4	MMIC
Non-CMDP Children (Title XIX + XXI)	24.3%	0.0%	24.3%	0.0%	24.3%	0.0%
CMDP Children	24.3%	0.0%	24.3%	0.0%	24.3%	0.0%
Title XIX GMH/SA + Title XXI Adult	24.3%	0.0%	24.3%	0.0%	24.3%	0.0%
Non-Integrated SMI	24.3%	0.0%	24.3%	0.0%	24.3%	0.0%
Integrated SMI						0.0%

Table VII: RBHA Capitation Rates October 2015

Original RBHA Capitation Rates	CIC (South)	HCIC (North)	MMIC (Maricopa)
Non-CMDP Children (Title XIX + XXI)	\$ 54.27	\$ 39.14	\$ 30.08
CMDP Children	\$ 1,049.17	\$ 1,273.31	\$ 814.46
Title XIX GMH/SA + Title XXI Adult	\$ 60.55	\$ 39.42	\$ 50.32
Non-Integrated SMI	\$ 2.22	\$ 2.92	\$ 3.16
Integrated SMI	\$ 1,491.31	\$ 1,467.89	\$ 2,168.50

Revised RBHA Capitation Rates	CIC (South)	HCIC (North)	MMIC (Maricopa)
Non-CMDP Children (Title XIX + XXI)	\$ 58.65	\$ 42.14	\$ 30.08
CMDP Children	\$ 1,133.82	\$ 1,370.82	\$ 814.46
Title XIX GMH/SA + Title XXI Adult	\$ 65.44	\$ 42.43	\$ 50.32
Non-Integrated SMI	\$ 2.40	\$ 3.14	\$ 3.16
Integrated SMI	\$ 1,611.63	\$ 1,580.30	\$ 2,168.50

Impact	CIC (South)	HCIC (North)	MMIC (Maricopa)
Non-CMDP Children (Title XIX + XXI)	8.1%	7.7%	0.0%
CMDP Children	8.1%	7.7%	0.0%
Title XIX GMH/SA + Title XXI Adult	8.1%	7.7%	0.0%
Non-Integrated SMI	8.1%	7.7%	0.0%
Integrated SMI	8.1%	7.7%	0.0%

VI. Actuarial Certification of the Capitation Rates

I, Matthew C. Varitek, 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 rate ranges were developed using generally accepted actuarial principles and practices and are considered to be actuarially sound. The capitation rate ranges were developed to demonstrate compliance with the applicable provisions of 42 CFR Part 438 of 81 FR 27497. The program for which the capitation rates were developed is administered in accordance with applicable state and federal laws and regulations. The capitation rate ranges are appropriate for the Medicaid populations covered and Medicaid services to be furnished under the contract. The capitation rate ranges may not be appropriate for any other purpose. The proposed actuarially sound capitation rates that are associated with this certification are effective for the one-month period September 1, 2015 to September 30, 2015 and for the one-month period October 1, 2015 to October 31, 2015.

In developing the actuarially sound September 2015 and October 2015 capitation rates and the actuarially sound methodology for the HIPF capitation adjustments, I have relied upon data and information provided by the Contractors' and the AHCCCS internal databases. I have accepted the data without audit and have relied upon the 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.

This certification letter assumes the reader is familiar with the RBHA program, Medicaid eligibility rules and actuarial rating techniques. It is intended for AHCCCS, RBHA 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
Matthew C. Varitek

05/04/2017
Date

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