

Arizona Long Term Care System (ALTCS), Elderly and Physically Disabled (EPD) Actuarial Memorandum

I. Purpose

The purpose of this actuarial memorandum is to demonstrate that the Arizona Long Term Care System (ALTCS) Elderly and Physically Disabled (EPD) capitation rates were developed in compliance with 42 CFR 438.6(c). It is not intended for any other purpose.

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 fee (hereafter identified as the Health Insurer Fee, or HIF) was allocated to health insurers based on their respective market share of premium revenue in the previous year. Arizona Health Care Cost Containment System (AHCCCS) intends to update capitation rates annually on a retroactive basis after the Treasury Department notifies each entity of its HIF amount due. Certain Contractors will be excluded from the HIF as determined by the Contractor and approved by the Internal Revenue Service (IRS).

This memorandum presents a discussion of a revision to the already approved Contract Year Ending 2013 (CYE 13) EPD capitation rates. The approved capitation rates already reflect enhanced payments to nursing facilities (NFs), while this revision reflects the adjustment associated with the HIF. The previously-approved capitation rates are included in Appendix I for your reference. These capitation rates are updated retroactively for a period of one month, from September 1, 2013 to September 30, 2013. The only EPD Contractor impacted by the HIF is United Health Care.

II. Overview of Changes

The amounts certified in this memorandum represent ranges of revised capitation rates. Each range is defined as follows:

- The minimum of the range equals currently approved capitation rates for September 2013 plus the HIF plus premium tax (these amounts are all known)
- The maximum of the range equals currently approved capitation rates for September 2013 plus the HIF plus the maximum federal and state income tax plus premium tax (the amount of the federal and state income tax are currently unknown)

The capitation adjustments to Contractors are subject to federal and state income taxes. However, the exact amount of income tax liabilities incurred by each Contractor will not be known until Contractors file their income tax returns for 2014. Thus AHCCCS will perform mass adjustments to capitation in two steps. The first step will be a mass adjustment of the capitation rates to apply the minimum of the rate ranges. The second step will be a mass adjustment of the capitation rates to apply adjustments up to the maximum of the rate ranges, and will occur sometime in the late spring approximately 6 months after the first mass adjustment. If there is no income tax liability a second mass adjustment will not occur.

The capitation adjustment for each Contractor impacted is allocated by Geographic Service Area (GSA) and risk group using the prospective member months for September 2013. Although the fees due from the Contractors in 2014 are based on applicable revenue received during 2013, CMS authorized AHCCCS to make retroactive capitation adjustments to just one month in order to limit the administrative burden related to performing mass adjustments.

III. Methodology for Calculating Capitation Adjustments

HIF Adjustments

The EPD per member per month (PMPM) capitation ranges were developed separately for each Contractor based on the fee liability reported to AHCCCS. Each Contractor was notified of the fee liability for the entire entity by the Treasury Department. Contractors who received multiple streams of revenue applicable to the HIF calculation were responsible for allocating an appropriate portion of their fee liability to AHCCCS, which was verified by AHCCCS for reasonableness and appropriateness. The ranges of PMPM adjustments were developed based on each Contractor's actual member months by GSA and risk group. AHCCCS will apply the HIF adjustment to the previously approved capitation rates to develop the revised capitation rates. This adjustment will be retroactive for the period of September 1, 2013 through September 30, 2013. The estimated impact to the EPD program of this retroactive capitation rate adjustment is a statewide increase of approximately \$400,000 to \$660,000.

Administration/Risk Contingency/Premium Tax Components

The administration and risk contingency components were not impacted by the above changes. The premium tax component was impacted by the above changes.

IV. Proposed Revised Capitation Rates and Their Impacts

Appendix I includes the net capitation rate ranges on a statewide basis as well as the estimated budget impact of payments at the minimum and maximum of each range. The impact to the one Contractor ranges from 1.6% to 2.6%. Appendix II contains the rate ranges displayed by rate cell, geographical service area and Contractor.

V. 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 CMS requirements under 42 CFR 438.6(c) and are in accordance with applicable 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 documentation has been included with this certification. The proposed actuarially sound capitation rate ranges that are associated with this certification are effective for the one-month period September 1, 2013 to September 30, 2013.

In developing the actuarially sound September 2013 capitation rate ranges and the actuarially sound methodology for the HIF 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 health plan 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.

This certification letter assumes the reader is familiar with the EPD program, Medicare and Medicaid eligibility rules and actuarial rating techniques. It is intended for AHCCCS 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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11.10.2014
Date

Fellow of the Society of Actuaries
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**Appendix I
Proposed Capitation Rates and Budget Impact**

Rate Cell	EPD Prospective - Dual	EPD Prospective - Non-Dual	Acute Only	Total
September 2013 Member Months	6,893	1,170	86	
Currently Approved Rate	\$2,923.27	\$4,384.20	\$404.70	
Currently Approved Estimated Capitation	\$20,151,565	\$5,131,557	\$34,845	\$25,317,967
Minimum of Range for Revised Rate	\$2,942.87	\$4,604.50	\$477.58	
Minimum of Range for Revised Estimated Capitation	\$20,286,643	\$5,389,415	\$41,119	\$25,717,178
Minimum of Range for Dollar Impact	\$135,078	\$257,858	\$6,275	\$399,210
Minimum of Range for Percentage Impact	0.7%	5.0%	18.0%	1.6%
Maximum of Range for Revised Rate	\$2,955.67	\$4,748.51	\$525.21	
Maximum of Range for Revised Estimated Capitation	\$20,374,942	\$5,557,975	\$45,221	\$25,978,138
Maximum of Range for Dollar Impact	\$223,377	\$426,417	\$10,376	\$660,171
Maximum of Range for Percentage Impact	1.1%	8.3%	29.8%	2.6%

Note: Member months and capitation estimates are shown only for the Contractor receiving a revision for HIF.

**Appendix II
Minimum of Ranges for Revised Capitation Rates**

GSA	County	Contractor	EPD Dual	EPD Non-Dual	Acute Only
42	LaPaz/Yuma	UHC LTC	\$3,051.13	\$4,809.38	\$613.30
44	Apache/Coconino/Mohave/Navajo	UHC LTC	\$2,597.00	\$4,388.35	\$573.54
48	Yavapai	UHC LTC	\$3,367.80	\$4,797.79	\$578.21
50	Pima/Santa Cruz	UHC LTC	\$2,949.97	\$4,490.35	\$445.38
52	Maricopa	UHC LTC	\$2,937.13	\$4,717.44	\$349.38

Maximum of Ranges for Revised Capitation Rates

GSA	County	Contractor	EPD Dual	EPD Non-Dual	Acute Only
42	LaPaz/Yuma	UHC LTC	\$3,073.39	\$5,013.39	\$674.47
44	Apache/Coconino/Mohave/Navajo	UHC LTC	\$2,615.56	\$4,561.39	\$630.75
48	Yavapai	UHC LTC	\$3,389.13	\$4,966.07	\$635.89
50	Pima/Santa Cruz	UHC LTC	\$2,958.59	\$4,627.56	\$489.81
52	Maricopa	UHC LTC	\$2,942.47	\$4,822.80	\$384.24