

# **Arizona Long Term Care System (ALTCS), Elderly and Physical Disability (EPD) Actuarial Memorandum**

## **I. Purpose**

The purpose of this actuarial memorandum is to demonstrate that the Arizona Long Term Care System (ALTCS) Elderly and Physical Disability (EPD) capitation rates for contract year ending 2016 (CYE 16: October 1, 2015 through September 30, 2016) were developed in compliance with 42 CFR 438.6(c). It is not intended for any other purpose.

Arizona Health Care Cost Containment System (AHCCCS) intends to update these capitation rates quarterly on a retroactive basis to reflect enhanced payments to nursing facilities.

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 CYE 16 capitation rates do not include the fee at this time; that adjustment will be addressed in a retroactive capitation rate adjustment once the fees are known. Historical actuarial certifications for health insurer fee adjustment can be found on the AHCCCS website:

<http://www.azahcccs.gov/commercial/ContractorResources/capitation/capitationrates.aspx#HIF>

## **II. General Program Information**

This certification covers the ALTCS/EPD program. This program delivers long-term, acute, behavioral health and case management services to eligible members who are either elderly and/or have physical disabilities.

The CYE 16 capitation rates were developed as a rate update from the previously submitted CYE 15 capitation rates. These capitation rates represent the twelve month contract period from October 1, 2015, through September 30, 2016. Due to one programmatic change (high acuity pediatric adjustor) that will be implemented with an effective date of January 1, 2016, this certification will cover two sets of capitation rates. One set will apply for the time frame from October 1, 2015 through December 31, 2015, and another set will apply from January 1, 2016 through September 30, 2016. The rate development process is the same for both sets of capitation rates except the latter set includes the impact of the high acuity pediatric adjustor.

The experience used in the development of these rates only includes ALTCS/EPD Medicaid eligible expenses for ALTCS/EPD Medicaid eligible individuals.

Ideally, the experience data should be analyzed by different rate cells which are comprised of members with similar risk characteristics. However, segregating the ALTCS/EPD population into different rate cells would lead to a statistical credibility

problem due to the statewide dispersion of the relatively small membership base. The ALTCS/EPD program has four rate cells: a prospective dual rate, a prospective non-dual rate, a prior period coverage (PPC) rate and an Acute Care Only rate. Capitation rates for the ALTCS/EPD population do not differ by gender and/or age, but do differ by Geographical Service Area (GSA). Prospective capitation rates differentiate between members who are dually eligible for Medicare and Medicaid (“duals”) and members who are not eligible for Medicare (“non-duals”).

### **III. Overview of Rate Setting Methodology**

CYE 16 actuarially sound capitation rates were developed utilizing the steps outlined as follows:

1. Develop base period data (Section IV)
2. Develop trend factors from the base period data (Section V)
3. Apply trend factors and rebalancing to prior year gross cost estimates for Nursing Facility (NF), Home and Community-Based Services (HCBS) and Acute Care components (Section VI)
4. Apply projected HCBS mix percentage (Section VII)
5. Apply projected share of cost and reinsurance offsets (Section IX)
6. Adjust CYE 16 claims costs for programmatic and provider fee schedule changes, if applicable (Section VIII)
7. Add provisions for non-benefit costs (Section X)
8. Combine for final capitation rates (Section XI)

There are also separate sections describing the PPC population and the Acute Care Only population.

### **IV. Base Period Data**

Since this is a capitation rate update rather than a rebase, the base period data is the prior capitation rates. Updated data was used in order to develop trends and experience adjustments. This data consisted of historical fully adjudicated and approved Medicaid encounter and member month data for this population for the time period October 1, 2011 through September 30, 2014. The data was reviewed for accuracy, timeliness and completeness through encounter validation studies, as required per AHCCCS’ Centers for Medicare and Medicaid Services (CMS) Waiver, as well as studies comparing the encounter data to the Contractors’ financial statements. The encounter data was deemed accurate for use in developing the trend rates to apply within the capitation rates.

Adjustments were made to the data for completion factors, historical programmatic changes and historical provider fee for service rate schedule changes to arrive at the adjusted data that will be used in trend and experience adjustment analysis. Standard actuarial models were used to develop the completion factors. Documentation about historical programmatic and provider fee for service rate schedule changes can be found in past actuarial certifications which are posted here:

<http://www.azahcccs.gov/commercial/ContractorResources/capitation/capitationrates.aspx>

Other data sources used in setting the actuarially sound capitation rates include Contractors’ financial statements, projected changes in the HCBS placement, and cost of living adjustment (COLA) figures from the Social Security Administration for use in updating the share of cost (SOC) projection for members placed in nursing facilities.

**V. Projected Trend Rates**

The trend analysis used the adjusted base period data to compute claim cost per member per month (PMPM) on an annualized basis and calculate trend factors. Trend factors are built up separately for dual, non-dual, and PPC rate cells. Trend factors also vary by category of service (COS) and Contractor. The trend rates developed were used to bring the gross cost projections from the previous rating year to the effective midpoint of the current rating year.

The trend rates used in projecting the claim costs by Contractor, rate cell, and category of service are identified in Table I. The trend rates shown below in Table I do not reflect the impact of any future programmatic changes or provider fee schedule changes.

**Table I: Average Annual Trend Rate before Mix and SOC**

	Bridgeway	UHC LTC	Mercy Care
Prospective Dual NF	0.2%	0.0%	3.3%
Prospective Dual HCBS	0.7%	0.0%	4.2%
Prospective Dual Acute Care	0.9%	-5.1%	-3.8%
Prospective NonDual NF	-3.1%	0.1%	4.0%
Prospective NonDual HCBS	2.8%	-2.8%	5.8%
Prospective NonDual Acute Care	3.6%	0.1%	7.5%
PPC NF	-1.5%	0.0%	3.6%
PPC HCBS	1.7%	-1.4%	5.0%
PPC Acute Care	2.3%	-2.5%	1.9%

**VI. Gross Costs PMPM by Category of Service and Rebalancing**

AHCCCS used the gross costs PMPM for the NF, HCBS, and Acute Care components from the CYE 15 capitation rates and trended forward one year to develop the CYE 16 projected gross costs. The CYE 16 projected gross costs by COS for the Prospective dual and non-dual rate cells were then rebalanced to reflect

the same relativities to each other as observed in the base period encounter data while remaining net-neutral to the combined trended gross cost PMPM.

## **VII. HCBS Mix Percentage**

The CYE 16 dual and non-dual HCBS mix percentages are set using a combination of current placement percentages, program growth/saturation and the number of ALTCS/EPD members. These sources were reviewed by Contractor and by county. The capitation development formula applies the HCBS mix percentage to the HCBS gross cost PMPM and applies the complement of the mix percentage to the NF gross cost PMPM. The HCBS mix percentages can be found in Table II.

**Table II: HCBS Mix Percentages (Dual and Non-Dual)**

GSA	County	Plan	CYE15 HCBS Mix		CYE16 HCBS Mix	
			Dual	Non-Dual	Dual	Non-Dual
40	Pinal/Gila	Bridgeway	75.71%	81.56%	77.39%	79.48%
42	LaPaz/Yuma	UHC LTC	65.24%	75.36%	66.68%	75.25%
44	Apache/Coconino/Mohave/Navajo	UHC LTC	68.07%	77.27%	70.86%	72.51%
46	Cochise/Graham/Greenlee	Bridgeway	58.83%	74.99%	57.12%	77.22%
48	Yavapai	UHC LTC	64.50%	79.37%	66.32%	78.61%
50	Pima/Santa Cruz	UHC LTC	75.19%	83.36%	78.90%	80.54%
50	Pima	Mercy Care	65.63%	69.65%	66.82%	71.85%
52	Maricopa	Bridgeway	78.52%	77.72%	79.31%	78.24%
52	Maricopa	UHC LTC	72.17%	79.37%	77.96%	80.34%
52	Maricopa	Mercy Care	73.67%	79.92%	73.80%	78.79%
Statewide Total			72.41%	78.71%	73.88%	78.01%

## **VIII. Projected Programmatic Changes and Provider Fee Schedule Changes**

All impacts listed below unless specifically stated otherwise exclude the additional impact of non-benefit cost changes (i.e. admin, risk contingency, premium tax, etc.)

### **HCBS Provider Fee Schedule Change**

Effective October 1, 2015 a 1.5% rate increase for HCBS service providers was included in the capitation development due to a variety of factors impacting HCBS providers. As the economy continues to improve, HCBS providers will have increased challenges attracting and keeping individuals to work in direct care, which is more demanding both from a training and day-to-day work basis than jobs that pay comparable salaries. These rate increases will help to continue the availability of HCBS services for AHCCCS members by supporting the HCBS provider network; these services are less expensive than the institutional services that would otherwise be required.

The estimated statewide impact to the ALTCS/EPD program is an increase of approximately \$5.6 million for twelve months.

### **Arizona Department of Health Services (ADHS) Ambulance Rates**

In accordance with A.R.S. §36-2239, AHCCCS is required to pay ambulance providers rates equal to a prescribed percentage of the amounts approved by ADHS. Currently AHCCCS' rates are equal to 74.74% of the ADHS rates per Laws 2013, First Special Session, Chapter 10. AHCCCS is required by Laws 2015, First Regular Session, Chapter 14 to decrease this percentage to 68.59% of the ADHS rates effective for dates of service on or after October 1, 2015. The estimated statewide impact to the ALTCS/EPD program is a decrease of approximately \$390,000 for twelve months.

### **Other Provider Fee Schedule Changes**

Effective October 1, 2015, AHCCCS is changing Fee For Service (FFS) provider rates for certain providers based either on access to care needs, Medicare/ADHS fee schedule rate changes, and/or legislative mandates. Because Contractors tend to base their fee schedules on the AHCCCS Fee Schedule, and/or adopt the same adjustments to their fee schedules, the estimated statewide impact to the ALTCS/EPD program is an increase of approximately \$41,000 for twelve months.

### **High Acuity Pediatric Adjustor**

The AHCCCS All Patient Refined Diagnosis Related Group (APR-DRG) payment system includes several policy adjustors. One such adjustor applies a factor of 1.25 to the reimbursement amount that would otherwise apply for "claims for members under age 19," as long as the claim is not subject to one of the other policy adjustors.

Beginning January 1, 2016, AHCCCS will address the costs associated with high-acuity pediatric cases by using an adjustment factor of 1.60 in place of the above pediatric policy adjustor in the following instances only: for inpatient stays, where an APR-DRG assignment of level 3 or 4 Severity of Illness is indicated. The estimated statewide impact to the ALTCS/EPD program is an increase of approximately \$300,000 for nine months.

### **Medically Preferred Treatment Options**

Effective August 1, 2015, AHCCCS expanded the coverage of orthotics for members age 21 and over. More specifically, AHCCCS will allow orthotics when the use of orthotics is medically necessary as the preferred treatment option and consistent with Medicare guidelines; the orthotic is less expensive than all other treatment options or surgical procedures to treat the same diagnosed condition; and the orthotic is ordered by a physician or a primary care practitioner. There is no impact to capitation rates as orthotics are offered in place of more costly interventions.

### **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 Arizona Department of Health Services/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.

## **IX. Projected Share of Cost and Reinsurance Offsets**

### **Share of Cost**

For each prospective dual and non-dual rate cell, the projected NF claim cost PMPMs net of the mix percentage as described in Section VII were discounted for the recipients' projected SOC. The SOC represents the amount a member is required to pay monthly toward the cost of long term care services. The SOC component was developed using actual data for SOC amounts assigned to members from October 2014 through July 2015. The actual data reflects the 2015 COLA increase of 1.7%, less a dampening effect caused in part by growing enrollment in a new dental and audiology program offered by an insurer outside the AHCCCS system. This data was then used to project the CYE 16 SOC component, trended forward at an annualized rate of 0.9%. The SOC component is fully reconciled with each Contractor. For additional information on the SOC reconciliation, please refer to Section D, Paragraph 56, Compensation, of the ALTCS/EPD program contract.

### **Reinsurance Offset**

All Contractors participate in the reinsurance program which is a stop-loss program provided by AHCCCS to the Contractor for the partial reimbursement of covered medical services incurred for a member beyond an annual deductible level. AHCCCS is self-insured for the reinsurance program which is characterized by an initial deductible level and a subsequent coinsurance percentage. The coinsurance percentage is the rate at which AHCCCS will reimburse the Contractor for covered services incurred above the deductible. The deductible is the responsibility of the Contractor. The capitation rates are adjusted by subtracting the reinsurance offset from the gross medical since the Contractors will receive payment from AHCCCS for reinsurance cases. For additional information on the reinsurance program refer to Section D, Paragraph 58, Reinsurance, of the ALTCS/EPD program contract.

The reinsurance offset is developed for each rate cell and applied against the appropriate projected Acute Care claim cost PMPM. To develop the reinsurance offset PMPM AHCCCS used actual completed CYE 14 reinsurance payment data and trended forward two years using the trend assumption from the acute component of the capitation rates. Appropriate adjustments to the reinsurance offsets were made to accommodate this as well as the impact of implementing the DRG provider reimbursement method. The calculation of the reinsurance offset PMPM was performed separately for dual and non-dual members.

## **X. Projected Non-Benefit Costs**

The Case Management (i.e. Care Management) rates represent the amounts built into the CYE 15 rates, adjusted for changes in the expected HCBS mix, and further adjusted to reflect hiring of additional case managers to reduce caseloads. This caseload adjustment reflects a more appropriate staffing assignment for the needs of the existing membership than the current requirements which were established over 20 years ago. The administrative expenses built into the prospective rates represent rates awarded as part of the Request for Proposal (RFP) process. The PPC and Acute

Only rate cells develop administrative costs as percentages of projected medical expenses. The risk contingency percentage remains the same at 1%.

## **XI. Proposed Capitation Rates**

The proposed capitation rates for the EPD population equal the sum of the projected net claim costs PMPM – described as the gross costs PMPM by category of service in Section VI, adjusted for the mix percentages as described in Section VII, programmatic and provider fee schedule changes as described in Section VIII, net of SOC and reinsurance offsets from Section IX, plus the projected non-benefit costs PMPM (in section X) – divided by one minus the two percent premium tax. Tables IIIa, IIIb and IIIc show the proposed dual and non-dual capitation rates for the EPD population statewide. The change to the high-acuity pediatric adjustor as described in Section VIII affects only the Prospective Non-Dual and Acute Only rate cells from January 1, 2016 to September 30, 2016.

**Table IIIa: Statewide Projected Net Capitation PMPM EPD - Dual Effective 10/1/2015 through 12/31/2015**

Service Category	Gross CYE15		Net CYE15 Rate (4/1/15)	Pct Gross Change	Pct Net Change	Gross CYE16 Rate		Net CYE16 Rate (10/1/15)
	Rate (4/1/15)	Mix				(10/1/15)	Mix	
Nursing Facility (NF)	\$5,957.98	27.59%	\$1,643.79	1.5%	-3.9%	\$6,046.01	26.12%	\$1,579.37
Share of Cost			(\$254.53)		-8.7%			(\$232.40)
Net Nursing Facility			\$1,389.26		-3.0%			\$1,346.97
Home/Community (HCBS)	\$1,409.23	72.41%	\$1,020.43	4.2%	6.3%	\$1,468.29	73.88%	\$1,084.73
Case Management			\$120.78		6.2%			\$128.23
Acute Care net of Reinsurance			\$176.80		-19.8%			\$141.77
Administration			\$165.88		-0.6%			\$164.95
Risk Contingency			\$29.44		-1.0%			\$29.15
Premium Tax			\$59.24		-0.2%			\$59.10
Net Capitation PMPM			\$2,961.83		-0.2%			\$2,954.90

**Table IIIb: Statewide Projected Net Capitation PMPM EPD - NonDual Effective 10/1/2015 through 12/31/2015**

Service Category	Gross CYE15		Net CYE15 Rate (4/1/15)	Pct Gross Change	Pct Net Change	Gross CYE16 Rate		Net CYE16 Rate (10/1/15)
	Rate (4/1/15)	Mix				(10/1/15)	Mix	
Nursing Facility (NF)	\$7,378.48	21.29%	\$1,570.76	4.3%	7.7%	\$7,692.39	21.99%	\$1,691.22
Share of Cost			(\$32.75)		-10.5%			(\$29.30)
Net Nursing Facility			\$1,538.02		8.1%			\$1,661.92
Home/Community (HCBS)	\$1,829.48	78.71%	\$1,440.01	2.7%	1.8%	\$1,879.76	78.01%	\$1,466.48
Case Management			\$121.30		6.2%			\$128.82
Acute Care net of Reinsurance			\$1,289.36		20.1%			\$1,548.80
Administration			\$163.08		-0.2%			\$162.80
Risk Contingency			\$52.19		8.5%			\$56.62
Premium Tax			\$93.96		9.2%			\$102.56
Net Capitation PMPM			\$4,697.93		9.2%			\$5,128.01

**Table IIIc: Statewide Projected Net Capitation PMPM EPD - NonDual Effective 1/1/2016 through 9/30/2016**

Service Category	Gross CYE16		Net CYE16		Pct Gross Change	Pct Net Change	Gross		Net CYE16 Rate (1/1/16)
	Rate (10/1/15)	Mix	Rate (10/1/15)				CYE16 Rate (1/1/16)	Mix	
Nursing Facility (NF)	\$7,692.39	21.99%	\$1,691.22		0.0%	0.0%	\$7,692.39	21.99%	\$1,691.22
Share of Cost			(\$29.30)			0.0%			(\$29.30)
Net Nursing Facility			\$1,661.92			0.0%			\$1,661.92
Home/Community (HCBS)	\$1,879.76	78.01%	\$1,466.48		0.0%	0.0%	\$1,879.76	78.01%	\$1,466.48
Case Management			\$128.82			0.0%			\$128.82
Acute Care net of Reinsurance			\$1,548.80			0.5%			\$1,556.85
Administration			\$162.80			0.0%			\$162.80
Risk Contingency			\$56.62			0.1%			\$56.70
Premium Tax			\$102.56			0.2%			\$102.73
Net Capitation PMPM			\$5,128.01			0.2%			\$5,136.29

Note: The product of the gross NF or HCBS rate and mix percentages as shown may not equal the net rate due to rounding.

## **XII. Acute Care Only Members**

As in prior years, for members who are only eligible for acute care services in the ALTCS program, Contractors will be paid the combined acute care component plus the case management and administrative components, as described above. Since the reinsurance policy is the same for these members as for the other ALTCS members, the same reinsurance offset is appropriate. For additional information on Acute Care Only capitation payments, please refer to Section D, Paragraph 56, Compensation, of the ALTCS/EPD program contract.

## **XIII. Prior Period Coverage (PPC) Rates**

PPC rates cover the period of time from the effective date of eligibility to the day a member is enrolled with the Contractor. There is no PPC capitation for members enrolled with the Contractor who are initially found eligible for AHCCCS through hospital presumptive eligibility. These members will receive coverage of services during the PPC period through AHCCCS fee for service. AHCCCS developed the CYE 16 PPC rates by applying a trend factor to the CYE 15 rates. The trend calculation is based on the time period from October 1, 2011 through September 30, 2014. Due to the relatively short PPC enrollment period and low member month counts, AHCCCS' actuaries combined geographic regions in order to enhance statistical credibility when needed. Since PPC costs are highly volatile and unable to be managed by the Contractors, AHCCCS limits the magnitude of the rate change for each geographic area. PPC rates are reconciled to a five percent profit/loss corridor. For additional information on the PPC reconciliation, please refer to Section D, Paragraph 56, Compensation, of the ALTCS/EPD program contract.

## **XIV. Budget Impact of Proposed Capitation Rates**

Tables IVa, IVb and IVc include the net capitation rates on a statewide basis for all rate cells as well as the estimated budget impact based off of CYE 16 projected

member months. The adjustments impact Contractors ranging from -1.5% to +4.3%. Appendix I shows EPD rates by geographical service area and Contractor.

**Table IVa: Budget Impact of Proposed Capitation Rates Effective 10/1/2015 Through 12/31/2015**

Rate Cell	EPD Prospective - Dual	EPD Prospective - Non-Dual	PPC	Acute Only	Total
Q1 CYE 16 (10/1/15 - 12/31/15) Projected MMs	66,592	12,485	2,730	1,225	
CYE 15 Rate (4/1/15)	\$2,961.83	\$4,697.93	\$989.48	\$542.68	
CYE 16 Rate (10/1/15)	\$2,954.90	\$5,128.01	\$958.94	\$546.67	
Estimated CYE 15 Capitation (4/1/15 Rates) for Q1 CYE 16	\$197,232,798	\$58,652,330	\$2,700,939	\$664,785	\$259,250,853
Estimated CYE 16 Capitation (10/1/15 Rates) for Q1 CYE 16	\$196,771,732	\$64,021,743	\$2,617,573	\$669,678	\$264,080,725
Dollar Impact on estimated capitation	(\$461,067)	\$5,369,413	(\$83,367)	\$4,892	\$4,829,872
Percentage Impact on estimated capitation	-0.2%	9.2%	-3.1%	0.7%	1.9%

**Table IVb: Budget Impact of Proposed Capitation Rates Effective 1/1/2016 Through 9/30/2016**

Rate Cell	EPD Prospective - Dual	EPD Prospective - Non-Dual	PPC	Acute Only	Total
Q2-Q4 CYE 16 (1/1/16 - 9/30/16) Projected MMs	201,614	37,799	8,264	3,709	
CYE 16 Rate (10/1/15)	\$2,954.90	\$5,128.01	\$958.94	\$546.67	
CYE 16 Rate (1/1/16)	\$2,954.90	\$5,136.29	\$958.94	\$548.27	
Estimated CYE 16 Capitation (10/1/15 Rates) for Q2-Q4 CYE 16	\$595,749,189	\$193,833,235	\$7,925,004	\$2,027,526	\$799,534,954
Estimated CYE 16 Capitation (1/1/16 Rates) for Q2-Q4 CYE 16	\$595,749,189	\$194,146,528	\$7,925,004	\$2,033,431	\$799,854,151
Dollar Impact on estimated capitation	\$0	\$313,293	\$0	\$5,904	\$319,197
Percentage Impact on estimated capitation	0.0%	0.2%	0.0%	0.3%	0.0%

**Table IVc: Blended Capitation Rates and Combined Budget Impact of Both Rate Revisions**

Rate Cell	EPD Prospective - Dual	EPD Prospective - Non-Dual	PPC	Acute Only	Total
CYE 16 Projected MMs	268,205	50,284	10,994	4,934	
CYE 15 Rate (4/1/15)	\$2,961.83	\$4,697.93	\$989.48	\$542.68	
Blended CYE 16 Rate	\$2,954.90	\$5,134.24	\$958.94	\$547.87	
Estimated CYE 16 Capitation (4/1/15 Rates)	\$794,377,920	\$236,229,046	\$10,878,346	\$2,677,499	\$1,044,162,811
Estimated CYE 16 Capitation (Blended CYE 16 Rates)	\$792,520,920	\$258,168,270	\$10,542,577	\$2,703,108	\$1,063,934,876
Dollar Impact on estimated capitation	(\$1,857,000)	\$21,939,225	(\$335,769)	\$25,609	\$19,772,065
Percentage Impact on estimated capitation	-0.2%	9.3%	-3.1%	1.0%	1.9%

Note: Capitation estimates are based on CYE 16 projected member months.

## **XV. Coordination of Benefits/Third Party Liability**

Contractors utilize verified commercial and Medicare coverage information for their members to ensure payments are not made for medical services that are covered by the other carriers. When Contractors make a payment to cover members' coinsurance, deductibles, or Medicaid-covered services that are not covered by the other carriers, the Contractors submit encounters for these amounts. Thus, the encounters that are submitted and used in capitation rate development are net of any payments made by commercial insurance or Medicare. The medical costs reported on the financial statements are also net of any payments made by commercial insurance or Medicare.

## **XVI. Value-Based Purchasing (VBP) Initiative**

AHCCCS has continued the VBP Initiative (formerly known as Payment Reform Initiative) first implemented October 1, 2014, with modifications. The purpose of this initiative is to improve members' health outcomes while reducing costs. Similar to CYE 15, AHCCCS will perform a reconciliation to distribute the Contractors' earned contribution. A contribution pool will be established by calculating 1% of prospective capitation rates. There is no withhold for this Initiative, nor any other withhold applied to the EPD capitation rates.

Quality improvement metrics have been established and Contractors' performance will be measured against these metrics. The entire contribution pool amount will be distributed back to the Contractors based on the results of these performance measurements. While the entire contribution pool will be distributed, some Contractors may receive distributions back from the reconciliation and some may not. In addition, AHCCCS will be accounting for the Contractors' VBP payments to providers in the VBP reconciliations. These are payments from Contractors to the providers upon successful completion of contracted goals/measure in accordance with the providers' contracts and represent non-encountered medical expense. The VBP reconciliation will be completed between one and three months after the Quality Management Minimum Performance (QMPM) Report for the contract year has been issued. For additional information on Value-Based Purchasing, refer to Section D, Paragraph 87, Value-Based Purchasing, and Section D, Paragraph 56, Compensation, of the ALTCS/EPD program contract.

## **XVII. CMS Rate Setting Checklist**

### **1. Overview of rate setting methodology**

#### **A.A.1.0: Overview of rate setting methodology**

AHCCCS is performing a rate update from the previously approved CYE 15 capitation as adjusted April 1, 2015 under 42 CFR 438.6(c). Please refer to Sections II through X.

#### **AA.1.1: Actuarial certification**

Please refer to Section XVIII.

#### **AA.1.2: Projection of expenditure**

Please refer to Section XIV.

#### **AA.1.3: Procurement, prior approval and rate setting**

AHCCCS is operating under the Competitive Procurement contracting method.

#### **AA.1.5: Risk contract**

The contract is an at risk contract. AHCCCS limits risk for PPC, SOC, and HCBS. For additional information refer to Section D, Paragraph 56, Compensation, of the ALTCS/EPD program contract.

#### **AA.1.6: Limit on payment to other providers**

AHCCCS makes no additional payment to the providers, except for Disproportionate Share Hospital (DSH), Graduate Medical Education (GME) and Critical Access Hospitals (CAH). GME is paid in accordance with state plan. DSH and CAH payments are paid in accordance with Waiver Special Terms and Conditions. None of the additional payments to the providers were included in the capitation calculation.

#### **AA.1.7: Rate modification**

Please refer to Sections II through XIII.

## **XVIII. 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 rates were developed using generally accepted actuarial principles and practices and are considered to be actuarially sound. This includes consideration for the VBP initiative; while AHCCCS expects all Contractors to receive some of the contribution back, even if one Contractor receives nothing from the VBP contribution pool, the entire pool will be paid out and the capitation rates are still actuarially sound.

The capitation 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 capitation rates are appropriate for the Medicaid populations covered and Medicaid services to be furnished under the contract. The capitation 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 twelve-month period beginning October 1, 2015.

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 capitation rates.

In developing the actuarially sound capitation rates, I have relied upon data and information provided by the Contractors and the AHCCCS internal databases. In addition, I have relied upon the Contractors' auditors and other AHCCCS employees for the accuracy of the data and I have accepted the data without audit, after checking the data for reasonableness.

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 ALTCS/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.

SIGNATURE ON FILE

Matthew C. Varitek

08/14/2015

Date

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

## Appendix I

### Capitation Rates by Contract Type, Eligibility Status, Contractor and GSA; Effective 10/1/2015

GSA	County	Contractor	EPD Dual	EPD Non-Dual	Acute Only	PPC
40	Pinal/Gila	Bridgeway	\$3,054.19	\$4,805.64	\$552.09	\$1,153.16
42	LaPaz/Yuma	UHC LTC	\$2,814.89	\$4,823.64	\$494.86	\$1,153.16
44	Apache/Coconino/Mohave/Navajo	UHC LTC	\$2,473.18	\$5,153.08	\$537.22	\$1,153.16
46	Cochise/Graham/Greenlee	Bridgeway	\$3,166.62	\$4,394.94	\$535.04	\$1,153.16
48	Yavapai	UHC LTC	\$3,117.12	\$4,427.02	\$398.20	\$1,153.16
50	Pima/Santa Cruz	UHC LTC	\$2,725.00	\$4,437.27	\$363.40	\$762.05
50	Pima	Mercy Care	\$3,313.23	\$5,306.13	\$526.09	\$762.05
52	Maricopa	Bridgeway	\$2,680.77	\$5,150.31	\$558.68	\$926.49
52	Maricopa	UHC LTC	\$2,700.60	\$4,925.29	\$427.52	\$926.49
52	Maricopa	Mercy Care	\$3,147.43	\$5,423.09	\$600.79	\$926.49

### Capitation Rates by Contract Type, Eligibility Status, Contractor and GSA; Effective 1/1/2016

GSA	County	Contractor	EPD Dual	EPD Non-Dual	Acute Only	PPC
40	Pinal/Gila	Bridgeway	\$3,054.19	\$4,806.10	\$552.15	\$1,153.16
42	LaPaz/Yuma	UHC LTC	\$2,814.89	\$4,823.64	\$494.86	\$1,153.16
44	Apache/Coconino/Mohave/Navajo	UHC LTC	\$2,473.18	\$5,153.08	\$537.22	\$1,153.16
46	Cochise/Graham/Greenlee	Bridgeway	\$3,166.62	\$4,394.94	\$535.04	\$1,153.16
48	Yavapai	UHC LTC	\$3,117.12	\$4,428.71	\$398.42	\$1,153.16
50	Pima/Santa Cruz	UHC LTC	\$2,725.00	\$4,442.71	\$364.23	\$762.05
50	Pima	Mercy Care	\$3,313.23	\$5,311.56	\$527.08	\$762.05
52	Maricopa	Bridgeway	\$2,680.77	\$5,161.71	\$560.37	\$926.49
52	Maricopa	UHC LTC	\$2,700.60	\$4,936.69	\$429.33	\$926.49
52	Maricopa	Mercy Care	\$3,147.43	\$5,434.49	\$602.95	\$926.49