

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

I. Purpose

The purpose of this actuarial memorandum is to demonstrate compliance with the applicable provisions of 42 CFR Part 438. It is not intended for any other purpose.

This actuarial memorandum is a revision to the already submitted rate certification for the July 1, 2017 through September 30, 2017 (Contract Year Ending 2017 (CYE 17)) capitation rates for the EPD Program as signed by Matthew C. Varitek dated September 29, 2017. This revision to the capitation rates is required as a result of increase labor costs resulting from Arizona minimum wage increase effective July 1, 2017. The CYE 17 actuarial memorandum for capitation rates as signed by Matthew C. Varitek dated August 21, 2016 will detail the original rate build up.

II. Overview of Changes

Effective July 1, 2017, AHCCCS and its Contractors' fee schedules increased for select Home and Community Based Setting (HCBS) codes, all Nursing Facility (NF) codes, and all alternative living facility services codes. AHCCCS adjusted rates to address the increased labor costs resulting from the Arizona minimum wage increase as approved by voters as Proposition 206 on November 8, 2016, and the City of Flagstaff minimum wage increase as approved by voters as Proposition 414 on November 8, 2016. The adjustments assure that payments are consistent with efficiency, economy, and quality of care and are sufficient to enlist enough providers so that care and services are available at least to the extent that such care and services are available to the general population in the geographic area.

III. Capitation Rate Adjustments and Budget Impact

AHCCCS will be adjusting CYE 17 capitation rates retroactive to July 1, 2017 for the increases to the state and local minimum wages. AHCCCS pulled encounter data for the specific procedure codes impacted by the wage increase with dates of service (DOS) from October 1, 2014 through September 30, 2015. This data was assumed to require no adjustment for completion. The actuary then applied the appropriate increases by code (3.3% increase for select HCBS codes and 1.0% increase for NF codes for all providers located in Flagstaff; 1.7% increase for select HCBS codes and 0.3% increase for NF codes for all other Arizona providers) to the encounter data to determine loading factors to apply to projected NF and HCBS medical expenses for the rating period. Table 1 contains the loading factors applied by GSA and COS.

Table 1: Loading Factors Applied to GSAs Gross Medical Expenses by COS

COS	Percentage of GSA 44 Encounter Costs Serviced in Flagstaff	Proposition 206 and Proposition 414 Fee Schedule Increases: Flagstaff	Proposition 206 Fee Schedule Increases: Non-Flagstaff	GSA 44 Loading Factor	All GSAs (except GSA 44) Loading Factor
NF	4.10%	1.0%	0.3%	1.0033	1.0030
HCBS	12.98%	3.3%	1.7%	1.0191	1.0170

Table 2 summarizes the projected member months, revised capitation rates, and estimated total capitation by rate cell and in total on a statewide basis. Appendix 1 contains the most recently submitted capitation rates effective July 1, 2017, and the revised rates effective July 1, 2017. The statewide estimated three month impact to the EPD program is an increase of approximately \$2.2 million.

Table 2: Budget Impact of Revised Capitation Rates Effective 7/1/2017

Rate Cell	EPD Prospective - Dual	EPD Prospective - Non-Dual	PPC	Acute Only	Total
Q4 CYE 17 (7/1/17 - 9/30/17) Projected MMs	66,289	12,533	2,753	1,178	
Q4 CYE 17 Rate (Most Recently Submitted)	\$3,366.07	\$6,126.17	\$1,034.26	\$614.69	
Q4 CYE 17 Rate (Revised)	\$3,392.75	\$6,160.55	\$1,034.26	\$614.69	
Estimated CYE 17 Capitation (Most Recently Submitted Q4 CYE 17 Rates)	\$223,131,799	\$76,779,534	\$2,847,305	\$723,968	\$303,482,606
Estimated CYE 17 Capitation (Revised Q4 CYE 17 Rates)	\$224,900,376	\$77,210,420	\$2,847,305	\$723,968	\$305,682,069
Dollar Impact on estimated capitation	\$1,768,578	\$430,886	\$0	\$0	\$2,199,464
Percentage Impact on estimated capitation	0.8%	0.6%	0.0%	0.0%	0.7%

IV. 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. The capitation rates were developed to demonstrate compliance with the applicable provisions of 42 CFR Part 438. The program for which the capitation rates were developed is administered in accordance with applicable state and federal 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 proposed actuarially sound capitation rates that are associated with this certification are effective for the three-month period beginning July 1, 2017.

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

10/11/2017

Date

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

Appendix 1

Capitation Rates by Contract Type, Eligibility Status, Contractor and GSA; Effective 7/1/2017 (Most Recently Submitted)

GSA	County	Contractor	EPD Dual	EPD Non-Dual	Acute Only	PPC
40	Pinal/Gila	Bridgeway	\$3,191.36	\$5,228.78	\$579.10	\$1,207.64
42	LaPaz/Yuma	UHC LTC	\$3,102.76	\$5,824.83	\$515.15	\$1,207.64
44	Apache/Coconino/Mohave/Navajo	UHC LTC	\$2,812.52	\$5,639.85	\$532.06	\$1,207.64
46	Cochise/Graham/Greenlee	Bridgeway	\$3,663.64	\$4,951.90	\$516.42	\$1,207.64
48	Yavapai	UHC LTC	\$3,228.30	\$5,025.74	\$447.65	\$1,207.64
50	Pima/Santa Cruz	UHC LTC	\$3,095.61	\$5,581.69	\$481.62	\$843.32
50	Pima	Mercy Care	\$3,882.75	\$6,381.37	\$606.13	\$843.32
52	Maricopa	Bridgeway	\$3,170.95	\$5,966.91	\$585.21	\$1,013.56
52	Maricopa	UHC LTC	\$2,888.11	\$5,846.28	\$523.29	\$1,013.56
52	Maricopa	Mercy Care	\$3,742.13	\$6,644.00	\$715.02	\$1,013.56

Capitation Rates by Contract Type, Eligibility Status, Contractor and GSA; Effective 7/1/2017 (Revised)

GSA	County	Contractor	EPD Dual	EPD Non-Dual	Acute Only	PPC
40	Pinal/Gila	Bridgeway	\$3,217.43	\$5,258.09	\$579.10	\$1,207.64
42	LaPaz/Yuma	UHC LTC	\$3,123.15	\$5,847.95	\$515.15	\$1,207.64
44	Apache/Coconino/Mohave/Navajo	UHC LTC	\$2,834.12	\$5,668.49	\$532.06	\$1,207.64
46	Cochise/Graham/Greenlee	Bridgeway	\$3,684.73	\$4,975.05	\$516.42	\$1,207.64
48	Yavapai	UHC LTC	\$3,250.76	\$5,051.89	\$447.65	\$1,207.64
50	Pima/Santa Cruz	UHC LTC	\$3,122.71	\$5,613.09	\$481.62	\$843.32
50	Pima	Mercy Care	\$3,910.16	\$6,417.19	\$606.13	\$843.32
52	Maricopa	Bridgeway	\$3,196.82	\$5,999.53	\$585.21	\$1,013.56
52	Maricopa	UHC LTC	\$2,913.71	\$5,878.98	\$523.29	\$1,013.56
52	Maricopa	Mercy Care	\$3,771.96	\$6,682.77	\$715.02	\$1,013.56