

# Acute Care Updated Actuarial Memorandum for CYE 2011

## **I. Purpose**

This memorandum presents a discussion of the revision to the acute capitation rates for the period of April 1, 2011 to September 30, 2011. This update to the rates is required as a result of changes to provider reimbursement via rate reductions effective April 1, 2011. In addition, AHCCCS analyzed recent data to determine the appropriateness of all CYE11 capitation rates. Upon review of the data, it appears that the Acute PPC rates and the prospective non-MED rates continue to remain higher than the resulting encounters (including trend and completion factors). Given these two populations are reconciled, AHCCCS feels it acceptable and appropriate to make a mid year adjustment to these rates to reflect the differential between the capitation rate and the actual experience.

The purpose of this actuarial memorandum is to demonstrate that the updated capitation rates were developed in compliance with 42 CFR 438.6(c). It is not intended for any other purpose.

## **II. Overview of Changes**

In response to significant fiscal challenges facing the State of Arizona, AHCCCS is reducing inpatient and outpatient hospital reimbursement and other provider type fee schedules effective April 1, 2011. The provider rates impacted, and their reductions, include:

Reduced 5%:

- Inpatient hospital rates
- Cost to Charge ratios used to qualify and pay inpatient outliers
- Outpatient hospital rates
- Dental rates
- Physician fee schedule rates
  - excluding the Physician Drug Schedule
- Dialysis center composite rates
- ADHS Transportation rates
- Non-ADHS Transportation rates
- Behavioral Health rates (including AHCCCS inpatient psychiatric tiered per diem rates and bed holds) with the exception of:
  - 1) All other Acute Care Hospital/Level 1 Hospitalization
  - 2) All Level 1 Sub Acute Facilities
  - 3) All Level 1 Residential Treatment Centers

Reduced 2.5%:

- In-Home service rates, including Adult Day Health

The overall impact to the Acute program of these changes is approximately \$87.5 million.

Additionally, AHCCCS is reducing PPC and prospective non-MED rates based on six more months of encounter and financial data going through 09/30/2010. The overall impact of this change is approximately \$35.8 million.

### III. Proposed Revised Capitation Rates and Their Impact

Table I below summarizes the changes from the current approved CYE11 capitation rates and the estimated budget impact, effective for the period April 1, 2011 through September 30, 2011 on a statewide basis. Table I and Appendix I also includes the impact of administration, risk contingency and premium tax. The impact to contractors ranges from -4.4% to -5.9%. Individual health plan capitation rates will be impacted as shown in Section B of the contracts.

Appendix I shows a more detailed budget impact by risk group on a statewide basis.

**Table I: Proposed Statewide Capitation Rates and Budget Impact**

| Rate Cell   | CYE11<br>Projected MMs<br>(04/01/11 -<br>09/30/11) | Current<br>CYE11<br>Rate | Proposed<br>CYE11<br>Rate | Based on CYE11 Projected Member<br>Months (4/1/11 - 9/30/11) |  | Dollar Impact on<br>CYE11 estimated<br>current capitation | Percentage Impact<br>on CYE11<br>estimated current<br>capitation |
|-------------|--|--------------------------|---------------------------|--|--|---|--|
|             |  |                          |                           | Estimated Current<br>CYE11 Capitation                        | Estimated Proposed<br>CYE11 Capitation |   |  |
| Prospective | 7,418,850  | \$ 292.43                | \$ 277.42                 | \$ 2,169,477,834   | \$ 2,058,157,726                       | \$ (111,320,109)  | -5.1%  |
| PPC         | 423,128  | \$ 561.33                | \$ 497.82                 | \$ 237,514,934   | \$ 210,641,203                         | \$ (26,873,731)   | -11.3%   |
| Total       |  |                          |                           | \$ 2,406,992,768   | \$ 2,268,798,929                       | \$ (138,193,840)  | -5.7%  |

## APPENDIX I: Detail Budget

|                                   | 04-01-11 to<br>09-30-11<br>Projected<br>Member<br>Months <sup>1</sup> | Cap Rate- '11<br>(10/1) based on 4-1<br>to 9-30 Proj<br>Member Months <sup>2</sup> | Total Annual Dollars<br>CYE '11 (10/1) based<br>on 4/1 to 9/30 Proj<br>MMs | Cap Rate-4/1 -<br>9/30 based on<br>4/1 - 9/30 Proj<br>Member Months <sup>3</sup> | Total Annual Dollars<br>4/1 to 9/30 based on<br>4/1 to 9/30 Proj MMs | Difference              | % Increase   |
|-----------------------------------|---|--|--|--|--|-------------------------|--------------|
| <b>Title XIX Waiver Group</b>     |   |  |  |  |  |                         |              |
| Prospective-MED                   | 43,299  | \$ 1,397.12  | \$ 60,494,013  | \$ 1,336.04  | \$ 57,849,305  | \$ (2,644,708)          | -4.4%        |
| PPC-MED                           | 11,364  | \$ 6,547.87  | \$ 74,412,968  | \$ 5,916.84  | \$ 67,241,656  | \$ (7,171,311)          | -9.6%        |
| <b>Total MED</b>                  | <b>54,664</b>   |  | <b>\$ 134,906,981</b>  |  | <b>\$ 125,090,962</b>  | <b>\$ (9,816,019)</b>   | <b>-7.3%</b> |
| Prospective-non-MED               | 1,357,425   | \$ 487.00  | \$ 661,065,954   | \$ 451.34  | \$ 612,660,180   | \$ (48,405,774)         | -7.3%        |
| PPC -non-MED                      | 134,331   | \$ 862.68  | \$ 115,884,950   | \$ 735.05  | \$ 98,740,243  | \$ (17,144,707)         | -14.8%       |
| <b>Total non-MED</b>              | <b>1,491,756</b>  |  | <b>\$ 776,950,904</b>  |  | <b>\$ 711,400,423</b>  | <b>\$ (65,550,481)</b>  | <b>-8.4%</b> |
| <b>Total TWG</b>                  | <b>1,546,420</b>  |  | <b>\$ 911,857,885</b>  |  | <b>\$ 836,491,384</b>  | <b>\$ (75,366,501)</b>  | <b>-8.3%</b> |
| <b>TXIX</b>                       |   |  |  |  |  |                         |              |
| <1                                | 307,455   | \$ 514.00  | \$ 158,031,729   | \$ 490.35  | \$ 150,760,424   | \$ (7,271,304)          | -4.6%        |
| 1-13                              | 2,675,726   | \$ 110.12  | \$ 294,650,995   | \$ 105.47  | \$ 282,208,867   | \$ (12,442,128)         | -4.2%        |
| 14-44F                            | 1,340,143   | \$ 248.08  | \$ 332,462,567   | \$ 237.60  | \$ 318,417,873   | \$ (14,044,694)         | -4.2%        |
| 14-44M                            | 660,655   | \$ 157.92  | \$ 104,330,677   | \$ 151.50  | \$ 100,089,270   | \$ (4,241,407)          | -4.1%        |
| 45+                               | 216,456   | \$ 407.19  | \$ 88,138,777  | \$ 390.94  | \$ 84,621,365  | \$ (3,517,412)          | -4.0%        |
| SSI w/Med                         | 426,928   | \$ 142.81  | \$ 60,969,658  | \$ 136.42  | \$ 58,241,585  | \$ (2,728,073)          | -4.5%        |
| SSI w/o Med                       | 353,824   | \$ 806.81  | \$ 285,468,632   | \$ 778.60  | \$ 275,487,261   | \$ (9,981,371)          | -3.5%        |
| SFP                               | 18,245  | \$ 14.70   | \$ 268,201   | \$ 14.19   | \$ 258,896   | \$ (9,305)              | -3.5%        |
| Delivery Supplemental Payment     | 18,693  | \$ 6,611.90  | \$ 123,596,632   | \$ 6,289.11  | \$ 117,562,700   | \$ (6,033,932)          | -4.9%        |
| <b>Total Prospective-non-TWG</b>  | <b>6,018,126</b>  |  | <b>\$ 1,447,917,867</b>  |  | <b>\$ 1,387,648,241</b>  | <b>\$ (60,269,627)</b>  | <b>-4.2%</b> |
| PPC<1                             | 8,774   | \$ 904.95  | \$ 7,940,231   | \$ 931.21  | \$ 8,170,642   | \$ 230,411              | 2.9%         |
| PPC'1-13                          | 121,158   | \$ 58.14   | \$ 7,044,102   | \$ 54.67   | \$ 6,623,685   | \$ (420,417)            | -6.0%        |
| PPC '14-44F                       | 81,709  | \$ 207.52  | \$ 16,956,336  | \$ 193.80  | \$ 15,835,283  | \$ (1,121,053)          | -6.6%        |
| PPC '14-44M                       | 38,377  | \$ 171.97  | \$ 6,599,717   | \$ 155.79  | \$ 5,978,775   | \$ (620,942)            | -9.4%        |
| PPC '45+                          | 11,409  | \$ 355.17  | \$ 4,052,282   | \$ 319.58  | \$ 3,646,221   | \$ (406,061)            | -10.0%       |
| PPC 'SSI w/Med                    | 5,825   | \$ 153.94  | \$ 896,757   | \$ 130.44  | \$ 759,860   | \$ (136,896)            | -15.3%       |
| PPC 'SSI w/o Med                  | 10,179  | \$ 366.21  | \$ 3,727,592   | \$ 358.08  | \$ 3,644,838   | \$ (82,754)             | -2.2%        |
| <b>PPC All non-TWG rate codes</b> | <b>277,432</b>  |  | <b>\$ 47,217,016</b>   |  | <b>\$ 44,659,304</b>   | <b>\$ (2,557,712)</b>   | <b>-5.4%</b> |
| <b>Total Title XIX-non-TWG</b>    | <b>6,295,557</b>  |  | <b>\$ 1,495,134,883</b>  |  | <b>\$ 1,432,307,544</b>  | <b>\$ (62,827,339)</b>  | <b>-4.2%</b> |
| <b>Grand Total Capitation</b>     |   |  | <b>\$ 2,406,992,768</b>  |  | <b>\$ 2,268,798,929</b>  | <b>\$ (138,193,840)</b> | <b>-5.7%</b> |

**Notes**

- 1) DBF projected MMs from 4-1-11 to 9-30-11
- 2) Risk Adjusted Rates using CYE10 Risk Adjustment factors at 100% effective from 10-1-10 to 3-31-11
- 3) Risk Adjusted Rates using CYE10 Risk Adjustment factors at 100% effective from 4-1-11 to 9-30-11

**IV. Actuarial Certification of the Capitation Rates:**

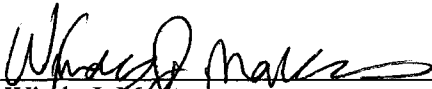
I, Windy J. Marks, am an employee of Arizona Health Care Cost Containment System (AHCCCS). I am a Member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. I meet the qualification standards established by the American Academy of Actuaries and have followed the practice standards established from time-to-time by the Actuarial Standards Board.

The rates were developed using generally accepted actuarial principles and practices and are considered to be actuarially sound. The 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 rates are appropriate for the Medicaid populations covered and Medicaid services to be furnished under the contract. The 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 six month period beginning April 1, 2011.

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 rates.

In developing the actuarially sound current capitation rates, I have relied upon data and information provided by the health plans 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.

  
Windy J. Marks

01/24/11  
Date

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