Acute Care Actuarial Memorandum

I. Purpose

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

Arizona Health Cost Containment System (AHCCCS) intends to update these capitation rates for January 1, 2013 to include changes in cost sharing and benefits resulting from mandated Affordable Care Act (ACA) requirements and any other necessary changes.

AHCCCS will be applying risk adjustment factors with an anticipated implementation date of April 1, 2015 retroactive to October 1, 2013. This adjustment will be budget neutral to AHCCCS.

ACA places an annual fee on the health insurance industry nationwide including most Medicaid health plans effective January 1, 2014. The fee will be allocated to health insurers based on their respective market share of premium revenue in the previous year. Due to the uncertainty of the actual fees and other unknowns, AHCCCS will not be adjusting the capitation rates for this fee at this time, but intends to make a revision once the impacts are known.

II. Overview of Bid and Rate Setting Methodology

Contract year ending 2014 (CYE 14) is the first year of a new cycle for the Acute contract. Therefore, the CYE 14 rates were developed using one of the following methods:

- For the risk groups that were bid: the medical and administrative rates were awarded as part of the competitive bid process for the CYE 14 Request for Proposal (RFP). The awarded medical rates were then updated for any programmatic and/or AHCCCS Fee-For-Service (FFS) provider rate changes that were not known at the time of the bid process. Other adjustments to the rates included a reinsurance offset (developed by AHCCCS actuaries), risk contingency, premium tax and payment withhold.
- For the non-bid risk groups: AHCCCS' actuaries developed actuarially sound capitation rates.

These rates represent the twelve month contract period October 1, 2013 through September 30, 2014.

For the bid process, prospective Offerors were required to submit two separate rate components for each risk group and Geographical Service Area (GSA) bid: one for medical and one for administrative.

- For the medical component, AHCCCS' actuaries developed actuarially sound rate ranges for the CYE 14 contract year to be used in the evaluation of the bids submitted. The rate ranges were published for use by the prospective

Offerors and represented the lower half, or midpoint to minimum, of the actuarially sound rate range. AHCCCS' actuaries set the ranges based on average expenditures. The medical rate ranges excluded reinsurance offsets and did not reflect any withheld amounts for payment reform initiatives.

- An 8% maximum limit was imposed for the administrative component bid.
- For those risk groups for which the Offerors were not required to bid (Prior Period Coverage (PPC), SOBRA Family Planning Extension Program (SFPEP), Newly Eligible Adults and State Only Transplants), AHCCCS' actuaries developed actuarially sound capitation rates.

Because CYE 14 is classified as a rate development year rather than a rate update to the previously approved CYE 13 capitation rates, AHCCCS' actuaries developed a new base time period to compute CYE 14 rates and ranges. Historical Medicaid managed care encounter data was used as the primary data source in development of the base time period. This encounter data was made available to AHCCCS' actuaries and Offerors via an extract that provides utilization and cost data, referred to as the "databook". The databook also includes member month information.

Due to integration efforts at AHCCCS, the databook excludes both encounter and member month data associated with those members who would be enrolled with an integrated Contractor effective October 1, 2013. This includes members eligible for the Children's Rehabilitative Services (CRS) program as well as adult members in Maricopa County with Serious Mental Illness (SMI). The capitation rate ranges and the Offerors' bids were built upon these assumptions. However, due to a challenge received by the Arizona Department of Health Services (ADHS) related to their award of the Maricopa County integrated Contractor, the move to integrate services for members with SMI residing in Maricopa County will be delayed. The capitation rates were appropriately adjusted to reflect this change.

The contract between AHCCCS and the Contractors specifies that the Contractors may cover additional services not covered by Medicaid. Non-covered services were removed from the databook and excluded from rate development.

Other data sources used in setting the actuarially sound rates and ranges include Contractors' financial statements, programmatic changes, AHCCCS FFS provider rate changes, anticipated ADHS transportation rate changes, Center for Medicare and Medicaid Services (CMS) National Health Expenditure (NHE) Report estimates and Global Insight Prospective Hospital Market Basket Inflation Index (GI) information.

AHCCCS posted the encounter databook, other supplemental resources noted above, and enrollment information to its website in order to provide all prospective Offerors with the data necessary to submit appropriate bids for CYE 14.

Trend rates were calculated from the databook and other sources on a unit cost and/or utilization basis by category of service (COS) and a cap was applied to limit the negative and positive trends to a reasonable level. Unit cost trends were further refined by actual changes in AHCCCS FFS provider rates. These adjustments also include state mandates, court ordered programs and other programmatic changes, if necessary. Additional analysis was performed on all prospective populations due to shifts in the economy and policy impacts that have caused deviations from the

historical encounter data costs and trends. These historical trends were then applied to the base data. Additional trends were applied for anticipated changes in AHCCCS FFS rates and programmatic changes. For more information on trends see Section IV Projected Trend Adjustments.

The Acute Care program has a large membership base, which allows for the experience data to be analyzed by different rate cells. These rate cells are comprised of members with similar risk characteristics. The rate cells were analyzed by major categories of aid (COA), i.e. risk groups, and COS. In addition, AHCCCS develops rates by GSA.

The experience data includes only Acute Care Medicaid eligible expenses for Acute Care Medicaid eligible individuals, as well as reinsurance amounts. The PPC rates are reconciled to a maximum 2% profit or loss. The prospective risk groups are reconciled based on a tiered methodology (see Section XIX CMS Rate Setting Checklist for additional information). Additional payments are made for members giving birth via a Delivery Supplemental Payment.

The general process in developing the prospective rates and rate ranges involves trending the base data, adjusted for programmatic and AHCCCS FFS provider rate changes, to the midpoint of the effective period, which is April 1, 2014. The next step involves the deduction of the reinsurance offsets. Following this calculation, the projected administrative expenses, risk/contingency margin and premium tax are added to the projected claim PMPMs to obtain the capitation rates. New for this contract year, AHCCCS will be implementing a payment reform initiative (PRI) which involves withholding 1% of the Contractors' capitation rate. Each step is described in the sections below.

In addition there are sections dedicated to the development of other rates including, but not limited to, the SFPEP, Newly Eligible Adults and PPC rates.

III. Base Period Experience

AHCCCS used historical yearly encounter data for the time period from October 1, 2008 through March 31, 2012. The data was reviewed for accuracy, timeliness and completeness through encounter validation studies as well as studies comparing the encounter data to the Contractors' financial statements. One adjustment to the base data was the removal of the encounters associated with a birth event since these costs are paid for in the Delivery Supplemental rate. The encounters that were removed from the base data were used to develop this Supplemental rate. Other adjustments to the base data included, but were not limited to the following: completion factors, seasonality factors, historical programmatic changes and historical AHCCCS FFS provider rate changes. The final result was the adjusted base data for CYE 09 (10/01/08 – 09/30/10), CYE 10 (10/01/09 – 09/30/10), CYE 11 (10/01/10 – 09/30/11) and CYE 12 (10/01/11 – 03/31/12). The base data was computed by averaging all four time periods.

IV. Projected Trend Adjustments

Historical trend rates were developed from the adjusted base data. These trends were developed by major COA and COS, with a cap on the percentage increase and decrease to smooth out exceptional trends. Once these trends were developed they were analyzed by comparing the results to Contractor financial statements and data and trends in the marketplace such as NHEs.

Effective October 1, 2013, AHCCCS is increasing FFS provider rates for certain providers based either on access to care needs, Medicare or ADHS fee schedule rates, legislative mandates, or cost of living adjustments. The unit cost (inflation) trends were adjusted appropriately for these changes. The estimated statewide impact is an increase of approximately $12.6 million.

The utilization and unit cost trend rates (which reflect the AHCCCS FFS provider rate changes) used in projecting the claim costs are summarized in Appendix I. The prospective PMPM trends are shown below in Table I. These trends do not reflect the impact of any programmatic changes.

Table I: Prospective Average Annual PMPM Trends

	PMPM Trends			
Categories of Service	TANF & KidsCare Combined	SSI With Medicare	SSI without Medicare	AHCCCS Care
Hospital Inpatient	1.4%	3.5%	1.0%	0.4%
Outpatient Facility	4.5%	2.2%	2.9%	4.4%
Emergency Room	4.3%	1.1%	5.7%	0.5%
Physician	3.9%	0.2%	4.1%	0.7%
Other Professional	6.3%	3.7%	6.5%	1.8%
Pharmacy	4.6%	2.3%	4.2%	3.4%
Other	0.7%	1.0%	2.0%	-1.0%

V. State Mandates, Court Ordered Programs, Programmatic Changes and Other Changes

The changes in this section describe other changes that were not included in the adjusted base data.

Medicare Coverage of Benzodiazepine and Barbiturate Medications
Effective January 1, 2013 for dual eligible members, Medicare will cover benzodiazepines for any condition and barbiturates used for the treatment of epilepsy, cancer or chronic mental health conditions. Therefore, Contractors will no longer be permitted to reimburse prescription claims for these services. The Offerors' bid rates and rate ranges do not reflect this change thus they need to be adjusted. The estimated statewide impact to the Acute program is a decrease of approximately $1.4 million.

Medical Management Changes
The State of Arizona's 2013 Health and Welfare Budget Reconciliation Bill (BRB) reinstated well visits, which were previously eliminated October 1, 2010, as a covered service for enrolled adults for federal fiscal year 2014. The estimated statewide impact is an increase of approximately $16.1 million.

CRS Integration
In order to facilitate efficient coordination of care and improve member outcomes, AHCCCS has integrated the services for children with special health care needs effective October 1, 2013. Members with diagnoses who qualify for Children's Rehabilitative Services will now receive care related to their CRS services, unrelated physical health services, and behavioral health care through a single CRS Contractor. All physical health costs for these members have been removed from the base data as well as the associated member months. This resulted in a shift of approximately $61.9 million.

Primary Care Provider (PCP) Payment Increase
Section 1902(a)(13)(C) of the Social Security Act, as amended by the Affordable Care Act, requires minimum levels of Medicaid payment for certain primary care services, provided by certain physicians. The AHCCCS managed care model, with strict requirements regarding actuarially-sound capitation rates, necessitates that Contractors be funded for expected cost increases due to primary care rate parity. AHCCCS proposes to provide Contractors the necessary funds to increase primary care payments by using Model 3: Non-risk Reconciled Payments for Enhanced Rates as referenced in the *Medicaid Managed Care Payment for PCP Services in 2013 and 2014, Technical Guidance and Rate Setting Practices* (Technical Guidance) document released by CMS.

In summary, under Model 3, prospective capitation rates would not be adjusted for the enhanced primary care payments. Rather, AHCCCS would query actual encounter data on a quarterly basis to calculate the total payments that eligible providers were paid for eligible services in order to reach the mandated enhanced payment rates. Once the data on this report is verified, AHCCCS would pay the Contractors the calculated additional payment amounts. A more detail explanation of the process and methodology can be found in the Actuarial Certification submitted to CMS for approval of AHCCCS methodology. There is no impact to the CYE 14 capitation rates.

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 ADHS/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.

VI. Prospective Projected Net Claim PMPM

The base utilization, unit costs and net claims PMPMs are trended forward and adjusted for state mandates, court ordered programs and programmatic changes to arrive at the CYE 14 utilization, unit costs and net claims PMPMs for each COS and COA.

VII. Prospective Reinsurance Offsets

The reinsurance offsets were reviewed by AHCCCS for appropriateness and reasonableness using reinsurance encounter and payment information. As a result of this review, AHCCCS rebased the reinsurance offsets using data from October 2010 through September 2012. The data was adjusted to account for:

- the shift of members with CRS conditions to the CRS Integrated Contractor
- a change in deductible levels from the current levels of $20,000 and $35,000 to one deductible level for all Contractors of $25,000, effective October 1, 2013

Completion factors and programmatic changes were added to the data and these results were trended forward. These changes to the reinsurance offsets impact the overall capitation rates by 2%.

VIII. Coordination of Benefits

Inherent in the encounter and financial data are unit cost trends which incorporate Contractors' Coordination of Benefits (COB) activities. AHCCCS provides Contractors with verified commercial and Medicare coverage information for their members which Contractors utilize 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, they submit encounters containing these reduced amounts. From state fiscal year (SFY) 2008 to SFY 2013, encounter-reported COB cost avoidance grew by greater than 51%, from $391 million to $590 million. Additionally, in CYE 2013 Acute Contractors cost-avoided $159 million in additional claims in the nine months ending March 31, 2013 for which the Contractor had no financial obligation after the private insurance or Medicare payment was made. Consequently no encounters were submitted to AHCCCS and therefore those services are excluded completely from capitation expenditure projections. AHCCCS continues to emphasize the importance of COB activities with the Acute Contractors.

IX. Prospective Administrative Expenses and Risk Contingency

The administrative expense represents those rates awarded as part of the CYE 14 RFP process, which resulted in a reduction of administrative expense by approximately 1%. The risk contingency load remains the same for all risk groups at 1%.

X. Payment Reform Initiative

AHCCCS has mandated a payment reform initiative that all Contractors must implement effective October 1, 2013. The purpose of this initiative is to improve members' health outcomes while reducing costs. One percent (1%) of the actuarially sound prospective capitation rates will be withheld from payment to Contractors and used to fund a quality improvement withhold pool exclusive of Delivery Supplement, SFPEP, KidsCare and State Only Transplant payments. Quality improvement metrics have been established and Contractors' performance will be measured against these measures. The entire incentive pool amount will be distributed back to the Contractors based on the results of this measurement. Some Contractors may receive greater than a 1% payment and some may receive less than a 1% payment. Results will be analyzed after completion of the contract year to ensure the use of complete encounter data.

XI. Prospective Proposed Capitation Rates and Their Impacts

The proposed capitation rates equal the sum of the projected net claim PMPM (in Section VI) less the reinsurance offsets (in Section VII) and the projected administrative expenses and risk contingency PMPM (in Section IX), divided by 1 minus the 2% premium tax. For those risk groups involved in the PRI an additional 1% is removed to fund the quality improvement withhold pool. Appendix II contains the proposed capitation rates and the budget impact for all capitation rates using projected CYE 14 member months and actual Contractor reinsurance deductible levels.

XII. Risk Adjustment Factor

AHCCCS implemented the current risk adjustment methodology effective October 1, 2008. It is AHCCCS' intent to use a similar risk adjustment process for CYE 14 with a few changes as discussed below.

Due to the transition of members resulting from unsuccessful Contractors leaving particular GSAs as a result of the RFP, enhanced auto-assignment activity dictated by the RFP, and anticipated membership changes expected to occur due to restoration of the childless adult population and Medicaid expansion, enrollment by Contractor may be volatile in CYE 14. As such, risk adjustment should not be performed until such time that membership changes have stabilized. AHCCCS anticipates applying risk adjustment risk factors for CYE 14 as follows, subject to changes at AHCCCS' discretion: encounter data with dates of service from October 1, 2013 to September 30, 2014 will be processed in January 2015 using retrospective weighting with the resulting risk factors applied by April 2015, retroactive to October 1, 2013.

XIII. Delivery Supplemental Payment

The methodology followed in developing the Delivery Supplemental Payment is similar to the methodology used in the development of the prospective capitation rates where the Offerors bid the rate based on rate ranges that were developed by AHCCCS using the same methodology discussed above. When developing this PMPM, the number of Delivery Supplement payments becomes the denominator rather than total member months. No reinsurance offset applies to this rate, nor does the PRI withhold. The impact is a 2.6% decrease over the CYE 13 Delivery Supplemental Payment.

XIV. SOBRA Family Planning Extension Program (SFPEP)

The methodology followed in developing the SFPEP rate is similar to the methodology used in the development of the prospective capitation rates. This methodology involves rebasing the rates using the same base period discussed in Section III, applying similar trends as discussed in Section IV and programmatic changes (if appropriate) as discussed in Section V. This rate was not bid, and the administrative expense was set at the same percent as the CYE 13 rates which was 8% of medical expense. Risk contingency also remains unchanged at 1%. The SFPEP rates do not qualify for reinsurance and thus will not have a reinsurance offset. They also do not qualify for the PRI so they do not have a withhold amount applied. The impact is an 8.1% decrease over the CYE 13 capitation rate.

XV. KidsCare Rates

Continuing with the methodology of previous years, Contractors will be paid one blended capitation rate that includes experience from both the traditional TANF Medicaid population and the Title XXI SCHIP population. For CYE 14, the Title XXI population includes those children enrolled in KidsCare II as well as those members in the traditional KidsCare program. Traditional KidsCare provides coverage to children who have income levels between 100-200% of the FPL. This program was frozen on January 1, 2010. At that time, all KidsCare applicants were placed on a waiting list in the event that enrollment could be re-opened. On April 6, 2012, CMS approved a new 2012 Waiver Amendment, which included funding for KidsCare II. Enrollment was reopened on May 1, 2012 through the funding made available by the Waiver Amendment. KidsCare II provides coverage to children who have income levels up to 175% of the federal poverty level (FPL) and meet other eligibility requirements. KidsCare II is temporary and will end December 31, 2013.

The rate cohorts whose experience is blended together are detailed as follows (more information on Child Expansion can be found in Section XVI):

- TANF < 1 and KidsCare < 1
- TANF 1– 13 M&F, KidsCare 1 – 13 M&F, and Child Expansion 6-13 M&F
- TANF 14 – 44 F, KidsCare 14 – 18 F, and Child Expansion 14-18 F
- TANF 14 – 44 M, KidsCare 14 – 18 M, and Child Expansion 14-18 M

Because quality measures for KidsCare members are excluded from the PRI, capitation rates for these members will not include the PRI withhold and thus will differ by 1% from the TANF capitation rates.

The related member month, capitation rate and dollar information is as follows:

KidsCare Info	CYE 14 Projected Member Months	CYE 14 Proj Cap Rate	Total Annual Dollars CYE 14 (before withhold) based on CYE 14 Proj MMs
KC <1	1,634	$ 461.25	$ 753,533
KC 1-13	125,921	$ 99.07	$ 12,474,421
KC 14-44F	23,806	$ 233.46	$ 5,557,775
KC 14-44M	24,575	$ 146.75	$ 3,606,462

XVI. Expansion Rates (Child and Newly Eligible Adults)

The Supreme Court ruling on the ACA provides states multiple and complex opportunities with respect to the future of their Medicaid programs. With these opportunities in mind, Governor Brewer signed into law the Medicaid Restoration Plan which restores coverage to thousands of Childless Adults (i.e. AHCCCS Care) and provides coverage for Newly Eligible Adults between 100-133% of the Federal Poverty Level (FPL), beginning January 1, 2014. In addition, ACA mandates the expansion of the child population. AHCCCS anticipates approximately 45% of the KidsCare II population will move to child expansion beginning January 1, 2014.

It is AHCCCS' expectation that the child expansion population will utilize services in the same manner as the KidsCare and TANF populations, thus no separate capitation rates were developed for this population and their capitation rate will be the respective TANF capitation rates.

AHCCCS anticipates the utilization of the Newly Eligible Adult population to differ from the current risk groups, thus AHCCCS established a new risk group and capitation rate for this population. This population includes adults aged 19-64, without Medicare and between 100-133% of the FPL. The methodology followed in developing this capitation rate is similar to the methodology used in the development of the prospective capitation rates. However, since this population does not have actual historical experience, AHCCCS used the projected FFY 14 medical midpoint of the published ranges for the AHCCCS Care, TANF 14-44 F, TANF 14-44 M and TANF 45+ populations. AHCCCS then adjusted the data to appropriately reflect the makeup of this population, i.e. adults aged 19-64 without Medicare. This rate was not bid under the RFP and the administrative expense was set at the same percentage as the other non-bid rates which was 8% of medical expense. Risk contingency is at 1%. This risk group qualifies for reinsurance and the reinsurance offset was set using a similar methodology as described above. This risk group also qualifies for the PRI so they do have a withhold amount.

XVII. Prior Period Coverage Rates (PPC)

PPC rates cover the period of time from the effective date of eligibility to the day a member is enrolled with the Contractor. PPC rates are established using a similar methodology that was followed in developing the prospective capitation rates. This methodology involves rebasing the rates using the same base period discussed in Section III, applying similar trends as discussed in Section IV and programmatic changes (if appropriate) as discussed in Section V. This rate was not bid under the RFP and the administrative expense was set at the same percent as the CYE 13 rates which was 8% of medical expense. Risk contingency also remains unchanged at 1%. The PPC rates do not qualify for reinsurance and thus will not have a reinsurance offset. They also do not qualify for the PRI so they do not have a withhold amount. The overall statewide impact is an increase of 2.4%. The PPC rates are reconciled to a maximum 2.0% profit or loss in CYE 14.

XVIII. Final Capitation Rates and Their Impact

Table II below summarizes overall statewide changes from the CYE 13 rates. Since this was a bid year and the mix of Contractors by GSA has changed, the CYE 13 rates by Contractor do not provide an appropriate comparison. Likewise, AHCCCS cannot provide a range describing the capitation impacts by Contractor. However the GSA impact does provide an appropriate comparison, and ranges from -2.5% to 3.3%. Individual Contractor capitation rates are provided in Section B of each contract.

Table II: Changes from the CYE 13 Rates

AHCCCS Medicaid Managed Care Summary			
	Prospective	PPC	Weighted Average
Trend:			
1. Utilization	0.48%	1.41%	0.52%
2. Inflation	2.05%	2.68%	2.08%
Other Base Adjustments			
1. Rebase	-3.33%	-1.78%	-3.27%
2. SMI Acuity Adjustments	0.04%	-0.09%	0.04%
Program Changes			
1. Part D Adjustments	-0.04%	0.00%	-0.04%
2. Medical Management Adjustments	0.44%	0.00%	0.43%
Misc			
1. Reinsurance Offset Change	2.07%	0.00%	2.00%
2. Other Changes (ie Admin, Risk, Prem Tax)	-0.98%	0.24%	-0.93%
Total Percentage Change Before Withhold	0.75%	2.45%	0.82%
Withhold Impact	-0.94%	0.00%	-0.91%
Total Percentage Change Post Withhold	-0.19%	2.45%	-0.09%

XIX. CMS Rate Setting Checklist

1. Overview of rate setting methodology

A.A.1.0: Overview of rate setting methodology

AHCCCS is performing a rebase from the previously approved contract year ending 2013 (CYE 13) rates under 42 CFR 438.6(c). Please refer to Section II.

AA.1.1: Actuarial certification

Please refer to Section XX.

AA.1.2: Projection of expenditure

Please refer to Appendix II.

AA.1.3: Procurement, prior approval and rate setting

AHCCCS is operating under the Competitive Procurement contracting method.

AA.1.5: Risk contract

AHCCCS limits risk for the PPC risk groups to 2% profit or loss. All of the prospective risk groups are reconciled as follows:

Profit	MCO Share	State Share	Maximum Contractor Profit
<=3%	100%	0%	3.0%
>3% and <=6%	50%	50%	1.5%
>6%	0%	100%	0%
Total			4.5%

Loss	MCO Share	State Share	Maximum Contractor Loss
<=3%	100%	0%	3.0%
>3%	0%	100%	0%
Total			3.0%

AA.1.6: Limit on payment to other providers

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

AA.1.7: Rate modification

Please refer to Sections II through V, VII through X, and XII through XVII.

2. Base Year Utilization and Cost Data

AA.2.0: Base year utilization and cost data

Please refer to Sections III and IV.

AA.2.1: Medicaid eligibles under the contract

The data includes only those members eligible for managed care.

AA.2.2: Dual Eligibles (DE)

There are dual eligibles.

AA.2.3: Spenddown

Not applicable, not covered under this contract.

AA.2.4: State plan services only

The contract between AHCCCS and its Contractors specifies that the Contractors may cover additional services. Non-covered services were removed from the encounter data used to set the rates.

AA.2.5: Services that can be covered by a capitated entity out of contract savings.

Same as AA.2.4

3. Adjustments to the Base Year Data

AA.3.0 Adjustments to base year data

Please refer to Sections III, IV, V and VII.

AA.3.1 Benefit differences

Please refer to Section V for benefit changes to reinstate well visits for all adult members.

AA.3.2 Administrative cost allowance calculation

Please refer to Section IX.

AA.3.3 Special populations' adjustment

Please refer to Section XVI.

AA.3.4 Eligibility Adjustments

Besides CRS members shifting to the CRS Integrated Contractor, which was handled by adjusting the encounter and member month data as detailed in Section II and V, it is anticipated that the risk characteristics of this population will not change materially from the base period to the effective period of the capitation rates. Therefore, no adjustment was made.

AA.3.5 DSH Payments

No DSH payment was included in the capitation development.

AA.3.6 Third party Liability (TPL)

This is a contractual arrangement between AHCCCS and its Contractors.

AA.3.7 Copayments, coinsurance and deductible in the capitated rates

In general, most Acute members do not pay any copays, coinsurance or deductibles, though there are some copays that apply. The encounter data is net of copays. Further adjustments may be necessary due to the recent publication of Federal regulations related to the cost sharing requirements in the ACA.

AA.3.8 Graduate Medical Education (GME)

The experience excludes any payment for GME.

AA.3.9 FQHC and RHC reimbursement

The experience excludes any additional payments that FQHCs may receive from the state.

AA.3.10 Medical cost/ trend inflation

Please refer to Section IV.

AA.3.11 Utilization adjustment

Other than trend, no specific adjustment was made to utilization.

AA.3.12 Utilization and cost assumptions

Not applicable since actual experience was used.

AA.3.13 Post-eligibility treatment of income (PETI)

Not applicable, not required to consider PETI.

AA.3.14 Incomplete data adjustment.

The encounter data was not fully complete. AHCCCS applied completion factors by form type, geographical area and contract year to the encounter data.

4. Establish Rate Category Groupings

AA.4.0: Establish rate category groupings

Please refer to Section II.

AA.4.1: Age

Please refer to Section II.

AA.4.2: Gender

Please refer to Section II.

AA.4.2: Locality/region

Please refer to Section II.

AA.4.2: Eligibility category

Please refer to Section II.

5. Data Smoothing, Special Populations and Catastrophic Claims

AA.5.0: Data smoothing

Please refer to Sections II, III, IV and V.

AA.5.1: Special populations and assessment of the data for distortions

Data was not adjusted for special populations.

AA.5.2: Cost-neutral data smoothing adjustments

AHCCCS has a reinsurance program; please refer to Section VII. AHCCCS also has a delivery supplemental payment program; please refer to Section XIII.

AA.5.3: Risk-adjustment

Please refer to Section XII.

6. Stop Loss, Reinsurance, or Risk-Sharing arrangements

AA.6.1: Commercial reinsurance

There is no commercial reinsurance.

AA.6.2: Simple stop loss program

Please refer to Section VII.

AA.6.3: Risk corridor program

There is the stop loss program (i.e. Reinsurance), and PPC and prospective reconciliations.

7. Incentive Arrangements

A quality improvement incentive withhold pool equal to 1% of actuarially sound capitation rates will be established and paid to Contractors at the time of reconciliation. Please refer to Section X.

XX. 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 twelve-month period beginning October 1, 2013.

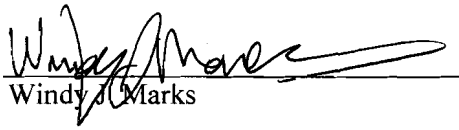
The actuarially sound capitation rates are a projection of future events. It may be expected that actual experience will vary from the values in the rates.

In developing the actuarially sound capitation rates, 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 Contractor's auditors and other AHCCCS employees for the accuracy of the data.

1% of the actuarially sound capitation rates will be withheld from monthly capitation payments to Contractors to fund a quality improvement incentive withhold pool. All of the withhold pool amounts will be distributed to Contractors at the time of reconciliation.

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 Acute program, 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.



Windy J. Marks

08/23/13

Date

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Appendix I

Prospective Trends

Utilization per 1,000 trends				
Categories of Service	TANF & KidsCare Combined	SSI With Medicare	SSI without Medicare	AHCCCS Care
Hospital Inpatient	0.2%	0.0%	0.0%	0.0%
Outpatient Facility	0.3%	-1.5%	0.7%	-0.9%
Emergency Room	0.8%	-1.3%	3.2%	-1.5%
Physician	0.6%	-1.5%	1.4%	-1.5%
Other Professional	3.8%	2.6%	3.3%	-1.3%
Pharmacy	2.4%	-0.1%	1.5%	-1.5%
Other	n/a	n/a	n/a	n/a

Unit Cost Trends				
Categories of Service	TANF & KidsCare Combined	SSI With Medicare	SSI without Medicare	AHCCCS Care
Hospital Inpatient	1.2%	3.5%	1.0%	0.4%
Outpatient Facility	4.2%	3.7%	2.2%	5.3%
Emergency Room	3.4%	2.4%	2.3%	2.0%
Physician	3.2%	1.7%	2.7%	2.2%
Other Professional	2.4%	1.1%	3.2%	3.1%
Pharmacy	2.2%	2.4%	2.7%	5.0%
Other	n/a	n/a	n/a	n/a

PMPM Trends				
Categories of Service	TANF & KidsCare Combined	SSI With Medicare	SSI without Medicare	AHCCCS Care
Hospital Inpatient	1.4%	3.5%	1.0%	0.4%
Outpatient Facility	4.5%	2.2%	2.9%	4.4%
Emergency Room	4.3%	1.1%	5.7%	0.5%
Physician	3.9%	0.2%	4.1%	0.7%
Other Professional	6.3%	3.7%	6.5%	1.8%
Pharmacy	4.6%	2.3%	4.2%	3.4%
Other	0.7%	1.0%	2.0%	-1.0%

APPENDIX II

Acute Capitation Rate Analysis (Renewal Rates - pending approval)

Point in Time Comparison - no member growth factor

CYE 14

		CYE 14 Projected Member Months [1]	CYE 13 Cap Rate based on CYE 14 Proj Member Months [2]	Total Annual Dollars CYE 13 based on CYE 14 Proj MMs	CYE 14 Gross Cap Rate (before withhold) based on CYE 14 Proj Member Months [2]	Total Annual Dollars CYE 14 (before withhold) based on CYE 14 Proj MMs	Difference CYE 14 Dollars (before withhold) and CYE 13 Dollars	% Increase CYE 14 (before withhold) over CYE 13	CYE 14 Net Cap Rate (after withhold) based on CYE 14 Proj Member Months [2]	Total Annual Dollars CYE 14 (after withhold) based on CYE 14 Proj MMs	Difference CYE 14 Dollars (after withhold) and CYE 13 Dollars	% Increase CYE 14 (after withhold) over CYE 13
TXIX												
	Prospective											
	TANF < 1 [3]	634,720	$ 481.98	$ 305,923,689	$ 461.25	$ 292,767,136	$ (13,156,553)	-4.3%	$ 456.64	$ 289,839,464	$ (16,084,224)	-5.3%
	TANF 1-13 [3]	5,798,573	$ 103.07	$ 597,680,397	$ 99.07	$ 574,438,758	$ (23,241,638)	-3.9%	$ 98.07	$ 568,694,371	$ (28,986,026)	-4.8%
	TANF 14-44F [3]	2,962,319	$ 224.63	$ 665,422,569	$ 233.46	$ 691,586,908	$ 26,164,339	3.9%	$ 231.13	$ 684,671,039	$ 19,248,470	2.9%
	TANF 14-44M [3]	1,426,603	$ 142.85	$ 203,791,759	$ 146.75	$ 209,357,816	$ 5,566,057	2.7%	$ 145.29	$ 207,264,237	$ 3,472,479	1.7%
	TANF 45+ [3]	507,976	$ 375.29	$ 190,640,272	$ 394.94	$ 200,621,102	$ 9,980,831	5.2%	$ 390.99	$ 198,614,891	$ 7,974,620	4.2%
	SSI w/ Medicare	1,030,869	$ 140.32	$ 144,647,836	$ 142.76	$ 147,170,406	$ 2,522,570	1.7%	$ 141.34	$ 145,698,702	$ 1,050,866	0.7%
	SSI w/o Medicare	826,961	$ 731.88	$ 605,239,722	$ 767.04	$ 634,308,061	$ 29,068,340	4.8%	$ 759.36	$ 627,964,981	$ 22,725,259	3.8%
	AHCCCS Care	1,456,766	$ 401.01	$ 584,173,036	$ 398.55	$ 580,597,910	$ (3,575,126)	-0.6%	$ 394.57	$ 574,791,930	$ (9,381,106)	-1.6%
	Newly Eligible Adults [4]	266,959	$ 294.06	$ 78,503,075	$ 294.06	$ 78,503,075	$ -	0.0%	$ 291.12	$ 77,718,044	$ (785,031)	-1.0%
	SFPEP	25,025	$ 14.15	$ 354,082	$ 13.01	$ 325,469	$ (28,614)	-8.1%	$ 13.01	$ 325,469	$ (28,614)	-8.1%
	Delivery Supplemental Payment	35,971	$ 6,086.08	$ 218,925,553	$ 5,925.72	$ 213,157,064	$ (5,768,490)	-2.6%	$ 5,925.72	$ 213,157,064	$ (5,768,490)	-2.6%
	Total Prospective TXIX	14,972,742		$ 3,595,301,988		$ 3,622,833,703	$ 27,531,715	0.8%		$ 3,588,740,192	$ (6,561,797)	-0.2%
	PPC											
	TANF < 1 [3]	13,573	$ 955.32	$ 12,966,614	$ 1,059.33	$ 14,378,343	$ 1,411,730	10.9%	$ 1,059.33	$ 14,378,343	$ 1,411,730	10.9%
	TANF 1-13 [3]	212,778	$ 56.40	$ 12,000,138	$ 56.17	$ 11,950,901	$ (49,237)	-0.4%	$ 56.17	$ 11,950,901	$ (49,237)	-0.4%
	TANF 14-44F [3]	141,969	$ 187.22	$ 26,579,180	$ 194.65	$ 27,634,660	$ 1,055,480	4.0%	$ 194.65	$ 27,634,660	$ 1,055,480	4.0%
	TANF 14-44M [3]	62,200	$ 155.38	$ 9,664,337	$ 165.65	$ 10,303,504	$ 639,166	6.6%	$ 165.65	$ 10,303,504	$ 639,166	6.6%
	TANF 45+ [3]	18,495	$ 305.57	$ 5,651,276	$ 405.86	$ 7,506,119	$ 1,854,842	32.8%	$ 405.86	$ 7,506,119	$ 1,854,842	32.8%
	SSI w/ Medicare	17,331	$ 118.81	$ 2,059,089	$ 93.34	$ 1,617,716	$ (441,374)	-21.4%	$ 93.34	$ 1,617,716	$ (441,374)	-21.4%
	SSI w/o Medicare	33,043	$ 365.79	$ 12,087,003	$ 471.79	$ 15,589,541	$ 3,502,539	29.0%	$ 471.79	$ 15,589,541	$ 3,502,539	29.0%
	AHCCCS Care	69,902	$ 730.72	$ 51,079,334	$ 664.44	$ 46,445,832	$ (4,633,501)	-9.1%	$ 664.44	$ 46,445,832	$ (4,633,501)	-9.1%
	Newly Eligible Adults [4]	12,810	$ 330.04	$ 4,227,761	$ 330.04	$ 4,227,761	$ -	0.0%	$ 330.04	$ 4,227,761	$ -	0.0%
	Total PPC TXIX	582,102		$ 136,314,731		$ 139,654,376	$ 3,339,645	2.4%		$ 139,654,376	$ 3,339,645	2.4%
	Total Title XIX	15,554,844		$ 3,731,616,719		$ 3,762,488,080	$ 30,871,360	0.8%		$ 3,728,394,568	$ (3,222,151)	-0.1%
TXXI												
	KidsCare <1	1,634	$ 481.98	$ 787,396	$ 461.25	$ 753,533	$ (33,863)	-4.3%	$ 461.25	$ 753,533	$ (33,863)	-4.3%
	KidsCare 1-13	125,921	$ 103.07	$ 12,979,133	$ 99.07	$ 12,474,421	$ (504,712)	-3.9%	$ 99.07	$ 12,474,421	$ (504,712)	-3.9%
	KidsCare 14-18 F	23,806	$ 224.63	$ 5,347,512	$ 233.46	$ 5,557,775	$ 210,264	3.9%	$ 233.46	$ 5,557,775	$ 210,264	3.9%
	KidsCare 14-18 M	24,575	$ 142.85	$ 3,510,580	$ 146.75	$ 3,606,462	$ 95,883	2.7%	$ 146.75	$ 3,606,462	$ 95,883	2.7%
	Total TXXI	175,936	$ 952.54	$ 22,624,620	$ 940.53	$ 22,392,191	$ (232,428)	-1.0%	$ 940.53	$ 22,392,191	$ (232,428)	-1.0%
State Only												
	Transplants	48	$ 16.50	$ 792	$ 16.50	$ 792	$ -	0.0%	$ 16.50	$ 792	$ -	0.0%
Grand Total Capitation				**$ 3,754,242,131**		**$ 3,784,881,063**	**$ 30,638,932**	0.8%		**$ 3,750,787,551**	**$ (3,454,580)**	-0.1%

Notes

[1] Population estimates for CYE 14 are taken from DBF projections.

[2] Reinsurance levels for CYE 13 include two plans at the $35,000 deductible level and the rest at $20,000. For CYE 14 all plans are at a $25,000 deductible level.

[3] TANF rate cells include SOBRA and Child Expansion groups. Child Expansion are only for those children ages 6-18.

[4] Newly Eligible Adults is a new risk group effective 1/1/2014 thus there was no official rate for that group in CYE 13 and for budget purposes we assume a CYE 13 rate equal to CYE 14 rate.