

Comprehensive Medical and Dental Program (CMDP) Updated Actuarial Memorandum

I. Purpose

The purpose of this actuarial memorandum is to demonstrate that the capitation rates for contract year ending 2016 (CYE 16: July 1, 2015 through June 30, 2016) are updated for the period of October 1, 2015 through June 30, 2016, and were developed in compliance with 42 CFR 438.6(c). It is not intended for any other purpose.

This memorandum presents a revision to the previously-proposed CYE 16 CMDP capitation rates for programmatic and provider fee schedule changes. 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 June 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.

Prior actuarial certifications can be found on the Arizona Health Care Cost Containment System (AHCCCS) website, including the CMDP July 1, 2015 certification which details the original capitation rate buildup:

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

II. Overview of Changes

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 CMDP program is a decrease of approximately \$34,000 for nine 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 CMDP is mandated by state law to pay the AHCCCS Fee Schedule, the estimated statewide impact to the CMDP program is a decrease of approximately \$4,000 for nine 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 CMDP program is an increase of approximately \$230,000 over six 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.

III. Proposed Revised Capitation Rates and Their Impacts

Tables Ia, Ib and Ic below summarize the projected member months, proposed capitation rates, and estimated total capitation by coverage type and in total on a statewide basis.

Table Ia - Rates Effective 10/1/2015 through 12/31/2015

Rate Cell	Projected Member Months 10/1/15 - 12/31/15	CYE 16 Rate (7/1/15 - 9/30/15)	CYE 16 Rate (10/1/15 - 12/31/15)	Estimated Capitation using 7/1 rates	Estimated Capitation using 10/1 rates	Dollar Impact	Percentage Impact
Prospective	50,247	\$251.59	\$251.34	\$12,641,639	\$12,629,077	(\$12,562)	-0.1%
PPC	1,498	\$401.43	\$401.18	\$601,328	\$600,953	(\$375)	-0.1%
Total				\$13,242,967	\$13,230,030	(\$12,937)	-0.1%

Table Ib - Rates Effective 1/1/2016 through 6/30/2016

Rate Cell	Projected Member Months 1/1/16 - 6/30/16	CYE 16 Rate (10/1/15 - 12/31/15)	CYE 16 Rate (1/1/16 - 6/30/16)	Estimated Capitation using 10/1 rates	Estimated Capitation using 1/1 rates	Dollar Impact	Percentage Impact
Prospective	103,801	\$251.34	\$253.64	\$26,089,259	\$26,328,000	\$238,741	0.9%
PPC	3,160	\$401.18	\$401.18	\$1,267,536	\$1,267,536	\$0	0.0%
Total				\$27,356,795	\$27,595,536	\$238,741	0.9%

Table Ic - Blended Rates and Combined Budget Impact of Both Rate Revisions

Rate Cell	Projected Member Months 10/1/15 - 6/30/16	CYE 16 Rate (10/1/15 - 12/31/15)	Weighted CYE 16 Rate (10/1/15 - 6/30/16)	Estimated Capitation using 7/1/15 rates	Estimated Capitation using Weighted CYE 16 rates	Dollar Impact	Percentage Impact
Prospective	154,048	\$251.59	\$252.89	\$38,756,848	\$38,957,078	\$200,230	0.5%
PPC	4,657	\$401.43	\$401.18	\$1,869,654	\$1,868,490	(\$1,164)	-0.1%
Total				\$40,626,502	\$40,825,568	\$199,066	0.5%

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 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 proposed actuarially sound capitation rates that are associated with this certification are effective for the nine-month period beginning October 1, 2015.

In developing the actuarially sound capitation rates, I have relied upon data and information provided by CMDP and the AHCCCS internal databases. In addition, I have relied upon the CMDP 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 CMDP program, Medicare and Medicaid eligibility rules and actuarial rating techniques. It is intended for AHCCCS, CMDP 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

08/12/2015

Date

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