

# **Comprehensive Medical and Dental Program (CMDP) Actuarial Memorandum**

## **I. Purpose**

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.

This memorandum presents a discussion of the revision to the CMDP capitation rates which were developed as a rate rebase. These capitation rates represent the twelve month contract period from July 1, 2016 through June 30, 2017 (SFY 17). CMDP is a division of the state's Department of Child Safety (DCS) and thus operates on the state fiscal year period.

## **II. General Program Information**

CMDP is a program within DCS that is responsible for managing the health care needs for children who are: a) placed in a foster home; b) in the custody of DCS and placed with a relative, in a certified adoptive home prior to the final order of adoption, or in an independent living program as provided in A.R.S. §8-512; and c) in the custody of the Arizona Department of Juvenile Corrections (ADJC) or the Administrative Office of the Courts/Juvenile Probation Office (AOC/JPO) and placed in foster care. CMDP has been operating in this capacity since July 1970.

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

SFY 17 actuarially sound capitation rates were developed utilizing the steps outlined as follows:

1. Develop base period data (Section IV)
2. Adjust base period data for subsequent changes to the program benefits and the provider fee schedule, if applicable (Section IV)
3. Develop trend factors (Section V)
4. Apply trend factors to bring base period data forward (Section VI)
5. Adjust trended data for program and provider fee schedule changes, if applicable (Section VII)
6. Add provision for reinsurance and third party liability (Section VIII)
7. Add provision for non-benefit costs (Section IX)
8. Combine for final capitation rates (Section X)

## **IV. Base Period Experience**

CMDP has a relatively small membership base which is located statewide. Ideally, the experience should be analyzed by different rate cells, which are comprised of members with similar risk characteristics; however, segregating the CMDP population into different rate cells would lead to a statistical credibility problem. Therefore, Arizona Health Care Cost Containment System (AHCCCS) believes that having only two rate cells, Prospective and Prior Period Coverage (PPC), is more actuarially sound than creating more rate cells.

Since CMDP has a relatively small membership base, multiple years and sources of data were used to increase the statistical credibility. For SFY 17 rate development, CMDP’s adjudicated and approved encounter data was combined with pending encounter data to get a complete base data set. CMDP had encounter issues in the dental category of service for SFY 15 (the most recent year of data) and is working together with AHCCCS on a corrective plan of action to ensure this does not occur again. The base year experience is the 2013 state fiscal year (SFY 13), 2014 state fiscal year (SFY 14), and 2015 state fiscal year (SFY 15) encounter data for both Prospective and Prior Period Coverage (PPC) CMDP members. The PMPM claim costs observed for all categories of service were completed as appropriate and then adjusted to reflect program and reimbursement changes that were effective subsequent to the experience periods used. The actuary determined the base data to be credible for use after the previously described adjustments.

The experience only includes CMDP Medicaid eligible expenses for CMDP Medicaid eligible individuals. In addition, the experience includes reinsurance amounts. PPC rates are reconciled to a maximum of 2% profit or loss. There are no other incentives or risk sharing arrangements.

## V. Projected Trend Rates

The trend analysis includes adjudicated and pending encounter experience from July 2012 through June 2015 (state fiscal years 13-15). The trend analysis considered historical changes in AHCCCS’ Professional and Outpatient Fee Schedules, Dental Fee Schedule, Transportation Schedule, and estimates of the impact of various changes to benefits and reimbursement levels. AHCCCS developed utilization and unit cost trend estimates by category of service (COS) using the encounter data. The hospital inpatient category of service is the only category of service where this method was not employed. While the implementation of Diagnosis-Related Groups (DRGs) for inpatient stays was estimated to be budget-neutral at the state-wide level for Arizona Medicaid services, CMDP experienced an overall decrease in their hospital inpatient service costs. With the rebase, it is deemed appropriate to hold the trend flat for this singular category of service until there are multiple years of DRG experience to draw from.

The trend rates used in projecting the claim costs are as follows:

**Table I :Prospective and PPC Average Annual Trend Rate**

Service Category	Average Annual Trend	
	Prospective	PPC
Hospital Inpatient	0.00%	0.00%
Physician	1.47%	-3.20%
Emergency Services	6.28%	n/a
Pharmacy	4.03%	n/a
Lab, X-ray, & med image	0.96%	n/a
Outpatient Facility	0.81%	n/a
Durable Med Equip	-1.07%	n/a
Dental	-1.40%	n/a
FQHC/RHC	0.00%	n/a
Transportation	-4.11%	n/a
NF, Home HC	-3.05%	n/a
PT, Other Prof, Misc Med	-1.43%	-9.38%

## **VI. Projected Gross Claim PMPM**

The claims PMPMs were trended from the weighted midpoint of the base claims period to the midpoint of the projected claims period. The midpoint of the projected claims period is January 1, 2017. In developing the average claims PMPM for the base period, more weight was given to the PMPM for state fiscal year 2015 and less weight was given to the PMPM for state fiscal year 2013. Thus the weighted midpoint of the base claims period is May 1, 2014.

## **VII. Programmatic Changes**

No program changes will take effect at this time. AHCCCS intends to review and possibly update the CMDP capitation rates effective October 1, 2016 to include changes to various acute care categories of service. This capitation rate update for July 1, 2016 does not include adjustments for anticipated reimbursement changes or program changes with effective dates after July 1, 2016. If appropriate, AHCCCS will include these adjustments in the capitation rates updated effective October 1, 2016.

## **VIII. Projected Net Claim PMPM**

The projected gross claim PMPMs were adjusted for the reinsurance offset and third party liability to obtain the net claim PMPM. For PPC, all categories of service other than Physician and Hospital Inpatient are rolled up into one line for credibility purposes. There is no reinsurance offset or third party liability for PPC. For Prospective, the estimated reinsurance offset and third party liability is \$4.31 PMPM. The projected net claim PMPMs are as follows:

**Table II: Projected Net Claim PMPM**

Service Category	Projected SFY 17 Claim Cost PMPM	
	Prospective	PPC
Hospital Inpatient	\$21.86	\$158.17
Physician	\$44.62	\$57.81
Emergency Services	\$14.88	\$0.00
Pharmacy	\$26.99	\$0.00
Lab, X-ray, & med image	\$5.25	\$0.00
Outpatient Facility	\$30.90	\$0.00
Durable Med Equip	\$12.52	\$0.00
Dental	\$29.40	\$0.00
FQHC/RHC	\$7.05	\$0.00
Transportation	\$2.95	\$0.00
NF, Home HC	\$0.19	\$0.00
PT, Other Prof, Misc Med	\$0.70	\$50.06
Total	\$197.32	\$266.05
Less Reinsurance & TPL	(\$4.31)	\$0.00
<b>Net Claim Cost</b>	<b>\$193.01</b>	<b>\$266.05</b>

## **IX. Administrative Expenses**

The PMPM administrative expense decreased from \$32.46 to \$32.41. The proposed administrative expense is based on actual and projected administrative expense data provided by CMDP.

## **X. Proposed Capitation Rates and Their Impacts**

The proposed capitation rates equal the sum of the projected net claim PMPM (in Section VIII) and the projected administrative expenses PMPM (in section IX), divided by one minus the two percent premium tax. Table III below shows the current and proposed capitation rates and the budget impact from SFY 16 (01/01/16 capitation rate) to SFY 17 using the same projected membership base.

**Table III: Proposed Capitation Rates and Budget Impact**

Rate Cell	Prospective	PPC	Total
Projected SFY 17 Member Months	221,514	6,743	
SFY 16 Rate (1/1/16 - 6/30/16)	\$253.64	\$401.18	
SFY 17 Rate	\$230.02	\$304.55	
Estimated SFY 16 Capitation	\$56,184,760	\$2,704,961	\$58,889,721
Estimated SFY 17 Capitation	\$50,952,604	\$2,053,432	\$53,006,036
Dollar Impact	(\$5,232,156)	(\$651,529)	(\$5,883,685)
Percentage Impact	-9.31%	-24.09%	-9.99%

## **XI. Coordination of Benefits**

While this section does not directly impact the capitation rate development it is important to note the efforts made by the State and the Contractors when it comes to coordination of benefits. 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, the Contractors submit encounters for these amounts. From state fiscal year (SFY) 2008 through SFY 2015, encounter-reported Coordination of Benefits (COB) cost avoidance grew from \$7,500 to \$274,000. AHCCCS continues to emphasize the importance of COB activities with the Contractor.

## **XII. 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 actuarially sound capitation rates that are associated with this certification are effective for the twelve month period beginning July 1, 2016.

In developing the actuarially sound capitation rates, I have relied upon data and information provided by CMDP and the AHCCCS internal databases. I have accepted the data without audit and have relied upon the CMDP 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.

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

May 16, 2016

Date

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