

Acute Care Actuarial Memorandum

I. Purpose

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

The Affordable Care Act (ACA) placed an annual fee on the health insurance industry nationwide including most Medicaid health plans effective January 1, 2014. The fee (hereafter identified as the Health Insurer Fee, or HIF) was allocated to health insurers based on their respective market share of premium revenue in the previous year. Arizona Health Care Cost Containment System (AHCCCS) intends to update capitation rates annually on a retroactive basis after the Treasury Department notifies each entity of its HIF amount due. Certain Contractors will be excluded from the HIF as determined by the Contractor and approved by the Internal Revenue Service (IRS).

This memorandum presents a discussion of a revision to the already approved Contract Year Ending 2013 (CYE 13) Acute Care capitation rates. The revision reflects the adjustment associated with the HIF. These capitation rates are updated retroactively for a period of one month, from September 1, 2013 to September 30, 2013.

II. Overview of Changes

The amounts certified in this memorandum represent ranges of revised capitation rates. Each range is defined as follows:

- The minimum of the range equals currently approved capitation rates for September 2013 plus the HIF plus premium tax (these amounts are all known)
- The maximum of the range equals currently approved capitation rates for September 2013 plus the HIF plus the maximum federal and state income tax plus premium tax (the amount of the federal and state income tax are currently unknown)

The capitation adjustments to Contractors are subject to federal and state income taxes. However, the exact amount of income tax liabilities incurred by each Contractor will not be known until Contractors file their income tax returns for 2014. Thus AHCCCS will perform mass adjustments to capitation in two steps. The first step will be a mass adjustment of the capitation rates to apply the minimum of the rate ranges. The second step will be a mass adjustment of the capitation rates to apply adjustments up to the maximum of the rate ranges, and will occur sometime in the late spring approximately 6 months after the first mass adjustment. If there is no income tax liability a second mass adjustment will not occur.

The capitation adjustment for each Contractor is allocated by Geographical Service Area (GSA) and risk group using the prospective member months for September 2013, with the exception of one Contractor who had not yet been awarded contracting status with the Acute Care program at that point. The prior period coverage (PPC) member months for September 2013 are used for allocating payments to that Contractor. Although the fees due from the Contractors in 2014 are based on applicable revenue received during 2013, CMS authorized AHCCCS to make retroactive capitation adjustments to just one month in order to limit the administrative burden.

III. Methodology for Calculating Capitation Adjustments

HIF Adjustments

The Acute Care per member per month (PMPM) capitation ranges were developed separately for each Contractor based on the fee liability reported to AHCCCS. Each Contractor was notified of the fee liability for the entire entity by the Treasury Department. Contractors who received multiple streams of revenue applicable to the HIF calculation were responsible for allocating an appropriate portion of their fee liability to AHCCCS, which was verified by AHCCCS for reasonableness and appropriateness. The ranges of PMPM adjustments were developed based on each Contractor's actual member months by GSA and risk group. AHCCCS will apply the HIF adjustment to the previously approved capitation rates to develop the revised capitation rates. This adjustment will be retroactive for the period of September 1, 2013 through September 30, 2013. The estimated impact to the Acute Care program of this retroactive capitation rate adjustment is a statewide increase of approximately \$27.8 million to \$45.9 million.

Administration/Risk Contingency/Premium Tax Components

The administration and risk contingency components were not impacted by the above changes. The premium tax component was impacted by the above changes.

IV. Proposed Revised Capitation Rates and Their Impacts

Appendix I includes the net capitation rate ranges on a statewide basis as well as the estimated budget impact of payments at the minimum and maximum of each range. The impact to the September 2013 capitation rates for the Contractors range from 15.1% to 34.4%. Appendix II contains the rate ranges displayed by risk group, GSA and contractor.

V. 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 capitation rate ranges were developed using generally accepted actuarial principles and practices and are considered to be actuarially sound. The capitation rate ranges 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 rate ranges are appropriate for the Medicaid populations covered and Medicaid services to be furnished under the contract. The capitation rate ranges 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 one-month period September 1, 2013 to September 30, 2013.

In developing the actuarially sound September 2013 capitation rates and the actuarially sound methodology for the HIF capitation adjustments, 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 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.

This certification letter assumes the reader is familiar with the Acute Care 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.



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11/14/14

Date

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**Appendix I
Proposed Capitation Rates and Budget Impact**

Rate Cell	TANF <1	TANF 1-13	TANF 14-44 F	TANF 14-44 M	TANF 45+	SSIW	SSIWO	Adult Group <= 106%	Total
September 2013 Member Months	29,460	276,479	140,588	68,088	23,548	52,249	42,010	39,405	671,826
Currently Approved Rate	\$487.04	\$103.20	\$224.40	\$143.21	\$369.48	\$132.58	\$730.32	\$394.38	\$217.36
Currently Approved Estimated Capitation	\$14,348,204	\$28,532,680	\$31,547,477	\$9,750,812	\$8,700,771	\$6,927,285	\$30,680,627	\$15,540,298	\$146,028,155
Minimum of Range for Revised Rate	\$579.56	\$122.83	\$267.06	\$170.36	\$440.05	\$158.09	\$868.91	\$469.19	\$258.69
Minimum of Range for Revised Estimated Capitation	\$17,073,784	\$33,960,767	\$37,546,082	\$11,599,172	\$10,362,368	\$8,259,839	\$36,502,568	\$18,488,280	\$173,792,859
Minimum of Range for Dollar Impact	\$2,725,580	\$5,428,087	\$5,998,605	\$1,848,359	\$1,661,597	\$1,332,553	\$5,821,941	\$2,947,982	\$27,764,704
Minimum of Range for Percentage Impact	19.0%	19.0%	19.0%	19.0%	19.1%	19.2%	19.0%	19.0%	19.0%
Maximum of Range for Revised Rate	\$640.04	\$135.67	\$294.96	\$188.10	\$486.17	\$174.76	\$959.50	\$518.10	\$285.70
Maximum of Range for Revised Estimated Capitation	\$18,855,470	\$37,509,057	\$41,467,314	\$12,807,427	\$11,448,539	\$9,130,917	\$40,308,316	\$20,415,348	\$191,942,388
Maximum of Range for Dollar Impact	\$4,507,266	\$8,976,377	\$9,919,837	\$3,056,615	\$2,747,767	\$2,203,631	\$9,627,689	\$4,875,051	\$45,914,233
Maximum of Range for Percentage Impact	31.4%	31.5%	31.4%	31.3%	31.6%	31.8%	31.4%	31.4%	31.4%

Note: Member months and capitation estimates are shown only for the Contractor(s) receiving a revision for HIF.

* This group was known as Non-MED for the September 2013 capitation rate-setting; this is now referred to as Adult Group at or below 106% Federal Poverty Level (Adults <= 106%).

Appendix II

Minimum of Ranges for Capitation Rates Revised for HIF

GSA	County	Contractor	TANF <1	TANF 1-13	TANF 14-44 F	TANF 14-44 M	TANF 45+	SSIW	SSIWO	Adult Group <=106%
02	LaPaz/Yuma	UHC	\$487.60	\$112.50	\$237.31	\$142.14	\$384.21	\$209.32	\$1,008.85	\$438.63
02	LaPaz/Yuma	Health Choice	\$511.12	\$103.23	\$211.37	\$139.84	\$320.26	\$142.40	\$840.85	\$418.61
04	Apache/Coconino/Mohave/Navajo	PHP	\$598.60	\$124.29	\$282.17	\$192.96	\$448.16	\$115.51	\$899.18	\$485.80
04	Apache/Coconino/Mohave/Navajo	Health Choice	\$565.34	\$129.23	\$304.60	\$211.57	\$495.01	\$123.76	\$1,071.81	\$535.08
06	Yavapai	Bridgeway	\$587.09	\$138.52	\$326.80	\$208.41	\$517.70	\$126.09	\$1,052.35	\$566.62
06	Yavapai	PHP	\$525.94	\$135.87	\$329.31	\$207.93	\$468.15	\$122.38	\$1,015.13	\$539.13
08	Gila/Pinal	PHP	\$560.06	\$121.43	\$306.65	\$187.99	\$502.32	\$135.54	\$819.75	\$527.84
10	Pima/Santa Cruz	UHC	\$574.34	\$112.46	\$246.35	\$139.33	\$420.99	\$139.96	\$852.24	\$412.52
10	Pima/Santa Cruz	PHP	\$527.63	\$100.78	\$222.46	\$135.52	\$343.34	\$109.25	\$778.09	\$378.55
10	Pima/Santa Cruz	Health Choice	\$540.74	\$109.02	\$234.95	\$140.97	\$372.21	\$130.01	\$766.83	\$392.65
12	Maricopa	UHC	\$591.54	\$131.82	\$284.54	\$183.40	\$474.27	\$200.00	\$878.04	\$500.80
12	Maricopa	Care 1st	\$589.11	\$124.38	\$258.03	\$172.87	\$455.21	\$172.26	\$770.97	\$465.51
12	Maricopa	PHP	\$591.14	\$124.19	\$255.19	\$163.77	\$442.41	\$169.34	\$810.26	\$450.87
12	Maricopa	HealthNet	\$1,119.51	\$67.68	\$221.82	\$191.83	\$321.29	\$142.30	\$429.94	NA
12	Maricopa	Health Choice	\$647.63	\$120.87	\$256.50	\$159.32	\$424.32	\$155.27	\$814.49	\$454.05

Maximum of Ranges for Capitation Rates Revised for HIF

GSA	County	Contractor	TANF <1	TANF 1-13	TANF 14-44 F	TANF 14-44 M	TANF 45+	SSIW	SSIWO	Adult Group <=106%
02	LaPaz/Yuma	UHC	\$542.53	\$125.17	\$264.05	\$158.15	\$427.49	\$232.90	\$1,122.51	\$488.05
02	LaPaz/Yuma	Health Choice	\$564.59	\$114.03	\$233.48	\$154.47	\$353.76	\$157.29	\$928.82	\$462.41
04	Apache/Coconino/Mohave/Navajo	PHP	\$654.50	\$135.90	\$308.52	\$210.98	\$490.01	\$126.30	\$983.14	\$531.17
04	Apache/Coconino/Mohave/Navajo	Health Choice	\$624.49	\$142.75	\$336.47	\$233.70	\$546.80	\$136.71	\$1,183.95	\$591.06
06	Yavapai	Bridgeway	\$637.31	\$150.37	\$354.75	\$226.24	\$561.98	\$136.87	\$1,142.37	\$615.09
06	Yavapai	PHP	\$575.04	\$148.56	\$360.06	\$227.35	\$511.86	\$133.81	\$1,109.92	\$589.47
08	Gila/Pinal	PHP	\$612.35	\$132.77	\$335.29	\$205.55	\$549.22	\$148.19	\$896.30	\$577.13
10	Pima/Santa Cruz	UHC	\$639.04	\$125.13	\$274.10	\$155.03	\$468.43	\$155.73	\$948.26	\$459.00
10	Pima/Santa Cruz	PHP	\$576.89	\$110.19	\$243.23	\$148.17	\$375.40	\$119.46	\$850.74	\$413.90
10	Pima/Santa Cruz	Health Choice	\$597.32	\$120.43	\$259.54	\$155.72	\$411.16	\$143.61	\$847.05	\$433.73
12	Maricopa	UHC	\$658.18	\$146.67	\$316.60	\$204.06	\$527.70	\$222.54	\$976.96	\$557.22
12	Maricopa	Care 1st	\$654.34	\$138.15	\$286.60	\$192.02	\$505.61	\$191.33	\$856.33	\$517.05
12	Maricopa	PHP	\$646.33	\$135.79	\$279.02	\$179.06	\$483.71	\$185.15	\$885.91	\$492.97
12	Maricopa	HealthNet	\$1,228.06	\$74.25	\$243.33	\$210.43	\$352.44	\$156.09	\$471.63	NA
12	Maricopa	Health Choice	\$715.39	\$133.51	\$283.34	\$175.99	\$468.71	\$171.52	\$899.71	\$501.55

Note: HealthNet began contracting with AHCCCS on October 1, 2013. As such, they did not have Prospective rates for September 2013 and their HIF adjustments are therefore applied to their PPC rates for that month.

Because the Adult Group <= 106% was frozen through December 31, 2013 HealthNet should not have received any members for this risk group during calendar year 2013 and thus no HIF fees are associated with 2013 revenues for this risk group.