Department of Economic Security/Division of Developmental Disabilities (DES/DDD) Actuarial Memorandum

I. Purpose

The purpose of this actuarial memorandum is to demonstrate that the capitation rates for the Department of Economic Security (DES) Division of Developmental Disabilities (DDD) 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 subcontractors will be excluded from the HIF as determined by the subcontractor 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) DDD 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 paid from DDD to its acute care subcontractors are subject to federal and state income taxes. However, the exact amount of income tax liabilities incurred by each subcontractor will not be known until subcontractors 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 paid to DDD is developed on a statewide basis using member months for September 2013. Although the fees due from the subcontractors 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 related to performing mass adjustments.

III. Methodology for Calculating Capitation Adjustments

HIF Adjustments

The DDD per member per month (PMPM) capitation ranges were developed on a statewide basis based on the fee liability reported to AHCCCS. Each subcontractor was notified of the fee liability for the entire entity by the Treasury Department. Subcontractors 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 using the actual DDD member months during September 2013. 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 DDD program of this retroactive capitation rate adjustment is a statewide increase of approximately $1.15 million to $1.91 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

Table 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 ranges from 1.4% to 2.3%.

Table I

Proposed Capitation Rates and Budget Impact

Rate Cell	DDD
September 2013 Member Months	26,123
Currently Approved Rate	$3,184.04
Currently Approved Estimated Capitation	$83,176,143
Minimum of Range for Revised Rate	$3,228.23
Minimum of Range for Revised Estimated Capitation	$84,330,465
Minimum of Range for Dollar Impact	$1,154,322
Minimum of Range for Percentage Impact	1.4%
Maximum of Range for Revised Rate	$3,257.11
Maximum of Range for Revised Estimated Capitation	$85,085,034
Maximum of Range for Dollar Impact	$1,908,892
Maximum of Range for Percentage Impact	2.3%

V. 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 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 subcontractors and the AHCCCS internal databases. I have accepted the data without audit and have relied upon the subcontractors 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 DDD program, Medicaid eligibility rules and actuarial rating techniques. It is intended for AHCCCS, DES/DDD 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.

Matthew C Varitek — 11-12-2014

Matthew C. Varitek — Date

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