Regional Behavioral Health Authorities (RBHAs)
Actuarial Memorandum

I. Purpose/General Information

The purpose of this actuarial memorandum is to demonstrate that the capitation rates covered by this memorandum were developed in compliance with the provisions of 42 CFR 438 applicable to the actuarial certification of capitation rates for Medicaid managed care organizations. It is not intended for any other purpose.

This certification covers the Regional Behavioral Health Authorities (RBHAs) program which provides financing for the delivery of behavioral health services to most Arizona Health Care Cost Containment System (AHCCCS) members who are Title XIX or Title XXI eligible. RBHAs also manage integrated physical and behavioral health delivery for members with Serious Mental Illness. The AHCCCS managed care program has been in effect since 1982.

Effective October 1, 2015, AHCCCS implemented a program to integrate physical health and behavioral health service delivery for covered individuals with serious mental illness (SMI) in the North and South geographical service areas (GSAs). This is an extension of the program which was implemented in Maricopa County effective April 1, 2014. This memorandum includes descriptions of the development of capitation rates for the physical health component of this program in the North and South GSAs, behavioral health capitation rates in all GSAs, and Maricopa County integrated SMI health capitation rates for the Contract Year Ending September 30, 2017 (CYE 17).

Effective July 1, 2016, the Arizona Department of Health Services (ADHS), Division of Behavioral Health Services (DBHS) was integrated into AHCCCS. At the present time, work to complete the conversion from the ADHS/DBHS to the AHCCCS administrative system is in process. There are ramifications of the systems conversion that result in a significant change in the way behavioral health capitation rates are developed and paid. This issue is addressed in the capitation rate development.

The Affordable Care Act (ACA) places an annual fee on the health insurance industry nationwide including most Medicaid health plans effective January 1, 2014. The CYE 17 capitation rates do not include the fee at this time; that adjustment will be addressed in a retroactive capitation rate adjustment once the fees are known. Historical actuarial certifications for health insurer fee adjustment can be found on the AHCCCS website:

https://www.azahcccs.gov/PlansProviders/RatesAndBilling/ManagedCare/capitationrates.html

II. Overview of North/South Integrated SMI Physical Health Rate Setting Methodology

These capitation rates cover the twelve month period of October 1, 2016 through September 30, 2017 (CYE 17). There are three geographical service areas (GSAs) in this filing – North, South and Maricopa County. This physical health capitation rate development covers the North and South GSAs. The base period physical health data for the North and South GSAs is discrete and is suitable as a basis for capitation rate development. For the Maricopa County GSA, the

physical and behavioral health data are commingled since 4/1/14 and it is not possible to accurately separate the base period physical and behavioral health costs. For that reason the Maricopa County GSA data is unsuitable for use as a basis for a discrete physical health capitation rate.

Historical Medicaid managed care encounter data was used as the data source in developing base period experience. This encounter data was made available to AHCCCS' actuaries via an extract that provides utilization data, cost data and member month information, referred to as the "databook". The databook included both encounter and member month data only for those individuals who would have met the criteria used for enrollment in the SMI integrated population effective October 1, 2016. Services not covered by Medicaid were removed from the databook and excluded from the rate development.

Actuarially sound capitation rates were developed utilizing the steps outlined as follows:

1. Develop base period data

    a. AHCCCS historical Medicaid managed care encounter and member month data for the population covered by these capitation rates were used as base period data for developing capitation rates.

    b. Apply completion factors and adjust base period data for programmatic and provider fee schedule changes effective prior to the CYE 17 rating period.

2. Develop actuarially sound capitation rates

    a. Apply a trend factor to bring base period claim costs forward from the midpoint of the base period to the midpoint of the rating period (24 months).

    b. Adjust claims costs for prospective provider fee schedule and programmatic changes.

    c. Add provision for administration and risk contingency.

III. North/South Integrated SMI Physical Health Base Period Experience

AHCCCS used historical encounter data for the time period from October 1, 2014 through September 30, 2015 (CYE 15) as base period data. Encounters were combined into the two GSAs for which capitation rates were developed – North and South. The base period data were completed using lag factors developed with a standard actuarial completion model and adjusted for programmatic and fee schedule changes effective prior to CYE 17.

IV. North/South Integrated SMI Physical Health Projected Trend Adjustments

Utilization, cost/unit and PMPM trends were compiled by category of service for the integrated SMI population in the North and South GSAs for the period CYE13-CYE 15. The combined average trends from CYE13-CYE 15 were used to trend base period costs for the 24 month period from the base period (CYE 15) to the rating period (CYE 17). Composite PMPM trends are shown in Table I.

Table I: Composite Annual PMPM Trends	
Category of Service	PMPM Trend
Hospital Inpatient	2.0%
Outpatient facility	3.5%
Emergency facility	3.9%
Physician	-1.1%
Pharmacy	4.3%
Other	3.4%
Total	2.7%

V. North/South Integrated SMI Physical Health Programmatic and Fee Schedule Changes – Prospective Adjustments

The changes in this section describe changes not reflected in the adjusted base period claims costs that will occur in the CYE 17 rating period. Capitation rates have been adjusted to account for these changes. The estimated impact on statewide CYE 17 capitation costs is included in Section X below.

Provider Fee Schedule Changes
Effective October 1, 2016, 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. It is assumed that the RBHAs will adjust provider rate schedules accordingly.

Hepatitis C
Effective October 1, 2016, AHCCCS is amending clinical criteria for members utilizing Hepatitis C drugs including, but not limited to, lowering the liver fibrosis/cirrhosis of Metavir stage (i.e. fibrosis level) from F3 to F2. This action will increase utilization of direct-acting antiviral medications including Epclusa, Harvoni, Zepatier, Technivie, Viekira, and their successors. In addition, AHCCCS has seen a marked increase in utilization of these drugs based on current clinical criteria. These two factors combine to impact base period costs.

Value-Based Purchasing Differential
AHCCCS has proposed Value-Based Purchasing (VBP) Differential Adjusted Fee Schedule rates to distinguish providers who have committed to supporting designated actions that improve the patient care experience, improve member health, and reduce cost of care growth. The proposed VBP differential rates are applicable for dates of service from October 1, 2016 through September 30, 2017. FFS rates for select providers meeting specific criteria will be increased 1% for qualified AHCCCS-registered Arizona Nursing Facility providers, 0.5% for qualified AHCCCS-registered Arizona Hospital providers for inpatient and outpatient services, and 10% for qualified AHCCCS-registered Integrated Clinics for selected physical health services. Contractors are required to adopt the VBP Differential payment adjustments for qualified providers meeting the specific criteria.

Podiatry
During the 2016 legislative session, services provided by a podiatrist were reinstated. Effective October 1, 2016 AHCCCS will restore this covered service.

VI. North/South Integrated SMI Physical Health Administration and Risk Contingency

The capitation rates include provision for administration of 8%, premium tax of 2%, and risk contingency of 1%, calculated as a percentage of the capitation rate. The RBHA administration and risk contingency amounts have historically been adequate and agreed-upon by the Contractors and state agencies.

The resulting physical health capitation rates are combined with behavioral health capitation rates for the Integrated SMI program.

VII. Overview of Behavioral Health and Maricopa Integrated SMI Rate Setting Methodology

The contract year ending 2017 (CYE 17) capitation rates cover the twelve month contract period of October 1, 2016 through September 30, 2017.

Actuarially sound capitation rates were developed utilizing the steps outlined as follows:

1. Develop base period data

    a) RBHA financial statement data covering the period of 10/1/14 through 9/30/15 and member month data from the databook were used as base period data for developing capitation rates for each rate category.

    b) Adjust base period data for programmatic and provider fee schedule changes effective prior to CYE 17.

    c) Combine adjusted base period costs for the current RBHAs into the geographical service areas of North, South and Maricopa County. Segment costs associated with SMI services into integrated and non-integrated categories and costs associated with General Mental Health and Substance Abuse (GMH/SA) services into Medicare/Medicaid dually-eligible and non-dually-eligible categories. Costs associated with the dually-eligible services were shifted to the Acute Care program effective October 1, 2015.

2. Develop CYE 17 actuarially sound capitation rates

    a) Apply a trend factor to bring base period claim costs from the midpoint of the base period forward to the midpoint of the CYE 17 rating period (24 months).

    b) Adjust CYE 17 claims costs for prospective programmatic and fee schedule changes.

    c) Add provision for administration and risk contingency.

VIII. Behavioral Health and Maricopa Integrated SMI Base Period Experience

The base period data consisted of financial statement and member month data for all RBHAs for the October 1, 2014 through September 30, 2015 time period. It would be preferable to use encounter data for base period data; however, due to incomplete reporting of encounter data and issues with respect to encounter valuation it is not possible to use encounter data as base period data for CYE 17.

Adjustments were made to the base period data for fee schedule and programmatic changes effective prior to CYE 17.

AHCCCS has periodically performed reviews of the RBHA-submitted data and has determined that the data does not include any non-covered services.

IX. Behavioral Health and Maricopa Integrated SMI Projected Trend Rates

Schedules of trend tables by RBHA, behavioral health category and category of service were prepared using service expenses from RBHA financial statements for October 2012 through September 2015. Service expenses were adjusted for fee schedule and programmatic changes made during the respective periods. The resulting overall average "residual" trend rate of 3.1% for the observation period for all RBHAs and behavioral health categories was applied to base period costs since it was specific to the behavioral health population base and represented a large enough volume of experience to provide a reliable statistic.

For Maricopa integrated SMI, the overall trend rate of 2.7% observed for physical health costs for the North/South integrated SMI population was used to trend the costs reported on the financial statement as attributable to physical health costs.

Claim costs PMPM were trended from the midpoint of the base period to the midpoint of the rating period (24 months).

X. Behavioral Health and Maricopa Integrated SMI Programmatic and Fee Schedule Changes – Prospective Adjustments

The changes in this section describe changes that will occur in the CYE 17 rating period. The statewide impact to estimated CYE 17 costs stated below includes the impact from changes listed in Section V.

Capitation Payment Method Change

Prior to October 1, 2016, capitation rates for covered individuals were calculated and paid based on the Prospective member population. Rates for the Prior Period Coverage (PPC) population were $0. Beginning on October 1, 2016, identical capitation rates will be calculated and paid on the Prospective and PPC member population. An adjustment to the capitation rate calculation was made to reflect this change. The change is calculated to be budget neutral.

There is also a difference between the way the AHCCCS administrative system will pay capitation rates to the RBHAs versus the way the ADHS/DBHS administrative system paid such rates. ADHS/DBHS paid capitation using an enrollment count taken at a point in time on the first of the month as payment in full with no adjustments. The AHCCCS administrative system will

pay capitation based on the portion of the month that a member is enrolled. The CYE 17 capitation rates included in this memorandum are calculated based on the AHCCCS member month method.

Prescription Drug Cost Changes
An adjustment was made for a cost per unit change on prescription drugs due to formulary and authorization changes associated with supplemental drug rebate agreements. The statewide estimated CYE 17 impact to the program is a change of approximately $13.8 million.

Provider Fee Schedule Changes
Effective October 1, 2016, AHCCCS is changing Fee For Service (FFS) provider rates for certain providers based either on access to care needs, Medicare/AHCCCS fee schedule rate changes, and/or legislative mandates. It is assumed that the RBHAs will adjust provider rate schedules accordingly. The statewide estimated CYE 17 impact to the program is a change of approximately $3.7 million.

Hepatitis C
Effective October 1, 2016, AHCCCS is amending clinical criteria for members utilizing Hepatitis C drugs including, but not limited to, lowering the liver fibrosis/cirrhosis of Metavir stage (i.e. fibrosis level) from F3 to F2. This action will increase utilization of direct-acting antiviral medications including Epclusa, Harvoni, Zepatier, Technivie, Viekira, and their successors. In addition, AHCCCS has seen a marked increase in utilization of these drugs based on current clinical criteria. These two factors combine to impact CYE 17 costs by a statewide estimated increase of $13.2 million, which includes an offset for prior Hepatitis C drugs that were included in the base data.

Value-Based Purchasing Differential
AHCCCS has proposed Value-Based Purchasing (VBP) Differential Adjusted Fee Schedule rates to distinguish providers who have committed to supporting designated actions that improve the patient care experience, improve member health, and reduce cost of care growth. The proposed VBP differential rates are applicable for dates of service from October 1, 2016 through September 30, 2017. FFS rates for select providers meeting specific criteria will be increased 1% for qualified AHCCCS-registered Arizona Nursing Facility providers, 0.5% for qualified AHCCCS-registered Arizona Hospital providers for inpatient and outpatient services, and 10% for qualified AHCCCS-registered Integrated Clinics for selected physical health services. Contractors are required to adopt the VBP Differential payment adjustments for qualified providers meeting the specific criteria. The statewide estimated CYE 17 impact to the program is a change of approximately $0.4 million.

Podiatry
During the 2016 legislative session, services provided by a podiatrist were reinstated. Effective October 1, 2016 AHCCCS will restore this covered service. The statewide estimated CYE 17 impact to the program is a change of approximately $0.4 million.

In-Lieu of Services
AHCCCS previously permitted funding for "in-lieu of" services, substituting cost-effective alternative inpatient settings in place of more costly inpatient non-specialty hospital placements. In accordance with 438.6(e) in the Medicaid Managed Care Regulations, IMD utilization data for adults aged 21-64 is to be repriced at the higher State Plan service rates. The statewide estimated CYE 17 impact to the program is a change of approximately $1.0 million.

XI. Behavioral Health and Maricopa SMI Integrated Administration and Risk Contingency

The CYE 17 capitation rates include a provision for RBHA administration, premium tax and risk contingency. The components for administration, premium tax and risk contingency are calculated as a percentage of the final capitation rate. An 11% load (8% administration, 2% premium tax, 1% contingency) was added across all populations.

XII. Reconciliation

AHCCCS performs reconciliation on RBHA experience. This reconciliation does not have an impact on capitation rate development.

XIII. Proposed Revised Capitation Rates and Projection of Expenditure

Tables II and III below summarize the changes from the currently submitted capitation rates and the expenditure projection, effective for the contract period on a statewide basis.

Table II shows the total projected expenditures based on current July 1, 2016 capitation rates and projected member months for October 1, 2016 through September 30, 2017 based on the historical payment methodology.

Table III shows the projected expenditure based on the October 1, 2016 capitation rates and projected member months for October 1, 2016 through September 30, 2017 and the percentage changes from the data in Table II.

Table II - Expenditures Based on Projected FFY17 Member Months under Prior Structure and Capitation Rates Effective July 1, 2016

Statewide Behavioral Health Capitation Rates				
	Rate Category	7/1/16 Rates	Projected FFY17 Member Months based on historical payment methodology	Total Projected Expenditures
Not Integrated	TXIX and TXXI non-CMDP Children	$38.41	8,940,344	$343,433,190
	CMDP Children	$933.59	215,666	$201,344,693
	TXIX GMH/SA and TXXI Adult - non-dual	$52.56	9,260,199	$486,760,625
	non-integrated SMI	$2.90	9,258,291	$26,876,420
	DDD Adult	$154.79	169,448	$26,229,485
	DDD Child	$128.30	194,800	$24,993,596
Integrated	Integrated SMI	$1,875.44	477,072	$894,721,560
Total				$2,004,359,568

Table III - Expenditures Based on Projected FFY17 Member Months and Capitation Rates Effective October 1, 2016

Statewide Behavioral Health Capitation Rates					
	Rate Category	10/1/16 Rates	Projected FFY17 Member Months	Total Projected Expenditures	% increase in Total Expenditures
Not Integrated	TXIX and TXXI non-CMDP Children	$39.49	8,912,573	$351,932,321	2.5%
	CMDP Children	$827.45	221,903	$183,614,043	-8.8%
	TXIX GMH/SA and TXXI Adult - non-dual	$54.50	8,667,171	$472,335,410	-3.0%
	non-integrated SMI	$1,686.07	15,794	$26,630,698	-0.9%
	DDD Adult	$144.72	152,814	$22,114,934	-15.7%
	DDD Child	$209.90	135,788	$28,501,804	14.0%
Integrated	Integrated SMI	$1,975.86	497,085	$982,169,415	9.8%
Total				$2,067,298,625	3.1%

Table IV - Capitation Rates Paid to Regional Behavioral Health Authorities Effective October 1, 2016 through September 30, 2017

	Regional Behavioral Health Authorities		
	South	North	Maricopa
TXIX and TXXI non-CMDP Children	$57.53	$62.59	$28.66
CMDP Children	$934.90	$1,292.51	$724.59
TXIX GMH/SA and TXXI Adult - non-dual	$60.45	$57.84	$50.70
non-integrated SMI	$1,495.75	$2,192.42	$1,644.62
DDD Adult	$192.15	$202.75	$109.12
DDD Child	$262.65	$622.39	$164.55
Integrated SMI	$1,659.78	$1,773.40	$2,257.53

XIV. 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 regarding actuarial soundness under 42 CFR 438 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 capitation rates that are associated with this certification are effective for the twelve-month period beginning October 1, 2016.

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

There have been substantial changes to the RBHA program over the past few years which have affected the reliability of base period data and introduced elevated potential for computational and measurement error. The system changes described above have been completed as of the signature date below. The rates covered under this memorandum should no longer be considered to be tentative and no further modifications to these rates for the system conversion are expected.

In developing the capitation rates, I have relied upon data, information and estimates provided by the Contractors and AHCCCS personnel and databases. I have accepted the data without audit and have relied upon the Contractors' auditors and other AHCCCS employees for the accuracy of the data. Checks for consistency and reasonableness when possible and practical were applied.

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.

RBHAs are advised that the use of these capitation rates may not be appropriate for their particular circumstance. RBHAs should analyze their own projected medical expense, administrative expense and other premium needs.

This certification letter assumes the reader is familiar with the AHCCCS behavioral health 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.

Signature on File	December 22, 2016
Matthew C. Varitek Fellow of the Society of Actuaries Member, American Academy of Actuaries	Date