

March 1, 2019

The Honorable Regina Cobb
Chairman, Joint Legislative Budget Committee
1700 W Washington
Phoenix, Arizona 85007

Dear Representative Cobb:

Pursuant to a footnote in the General Appropriation Act, the Arizona Health Care Cost Containment System (AHCCCS) is required to report to the Joint Legislative Budget Committee (JLBC) by March 1 annually “on the preliminary actuarial estimates of the capitation rate changes for the following fiscal year along with the reasons for the estimated changes.”

AHCCCS is Arizona’s single state Medicaid agency; however, the Arizona Medicaid system includes state agency subcontractors including the Department of Economic Security (DES) and the Department of Child Safety (DCS).

This preliminary review of capitation rates for contract year ending (CYE) 2020 allows for the following:

- Funding utilization increases and unit cost trends
- Provider rate increases for select providers if access to care analysis merits such increases, and other provider rate considerations

This letter is designed to provide policymakers with information to inform funding-related discussions during the legislative session, given that capitation rate calculations will occur in the early summer months. For FY 2020, the recommendations in the Executive Budget and of the JLBC staff both increase capitation rates by 3.0%, with the exception that the Executive Budget funds capitation for the Arizona Long Term Care System (ALTCS) program at 5.0%, including Proposition 206 adjustments. Please note that Federal law requires that capitation rates are actuarially sound, meaning that all expected expenses must be covered by the rates.

Over the past nine years, AHCCCS capitation rates have grown by 13.2% in total, at an average annual rate of 1.4%. Nationally, the average Medicaid per enrollee cost has increased by 18.6% in total over the same time period, at an average annual rate of 1.9%, and is projected to grow at an average annual rate of 5.0% through 2026. In comparison, per capita national health expenditures for all payers during this same period increased by 38.7%, at an average annual rate of 3.7%, and are projected to grow at an average annual rate of 4.8% through 2026.

It is clear that AHCCCS has employed a variety of levers to keep growth in program spending low and far below national figures. AHCCCS continues to develop initiatives such as integration, value-based purchasing, and care coordination projects designed to reduce the overall growth in the cost of care for its members, with the goal of improving care for those members at the same

time. Increasing pharmacy rebates have also offered program savings over the last several years; AHCCCS continues its efforts to negotiate rebates to the benefit of the state.

Despite these positive trends and cost containment efforts, there are cost pressures that will need to be recognized in order to assure ongoing access to care for AHCCCS members.

The issues that are outlined below will all be incorporated into the rates effective October 1, 2019.

Utilization and Unit Cost Trends

AHCCCS' actuaries have not had an opportunity to update the comprehensive review of historical utilization or unit cost trend data based on the most recent dates of service. System programming to extract recent data is in process and such a review shall commence this spring. The actuaries will ascertain how utilization and unit cost trends should impact capitation rates for CYE 2020 across all programs so that policy decisions can be finalized to develop the capitation rates in accordance with budgetary expectations.

Please note that unit cost increases can occur for a variety of reasons, even when provider reimbursement levels are flat or decreasing. Unit cost trends increase when the mix of the services utilized by members shift to more costly services. Pharmacy costs also contribute to increasing trends as AHCCCS cannot influence gross pharmaceutical pricing.

Provider Rates

Provider Rate Adjustments to Ensure Access to Care

The AHCCCS Administration and its contracted Managed Care Organizations (MCOs) are responsible for ensuring an adequate network of providers to secure members' access to needed care. AHCCCS has extensive tools in place to monitor network adequacy among various provider types. As part of this process, AHCCCS conducts regular reviews of how rate reductions, and conversely rate increases, impact access to care. Past studies have been published on the AHCCCS website, are made available for public comment, and can be found at:

<https://www.azahcccs.gov/PlansProviders/RatesAndBilling/FFS/> and at:

<https://www.azahcccs.gov/AHCCCS/PublicNotices/#AccesstoCare>.

The provider reimbursement rate review considers, among other things, factors such as the economy and market trends (including employment trends and wage pressures for providers), access and network adequacy, and potential opportunities for efficiencies. AHCCCS will complete an updated access to care analysis to inform its provider rate decisions for CYE 2020.

In addition to these standard reviews, the Centers for Medicare and Medicaid Services (CMS) has implemented heightened scrutiny on rate changes, including establishing additional reporting requirements regarding fee-for-service (FFS) rate changes and the implications of those changes on access to care. These requirements include both a periodic monitoring report as well as a specific analysis when provider rate reductions are implemented that are likely to result in diminished access to care. The analysis is required for access to care for primary care services,

specialist services, behavioral health services, obstetrics and home health. Arizona must consider the availability of Medicaid providers, utilization of Medicaid services and the extent to which Medicaid beneficiaries' healthcare needs are fully met and demonstrate that Medicaid beneficiaries have access to healthcare that is similar to that of the general population. In accordance with this mandate, AHCCCS' current Access Monitoring Review plan is available here, <https://www.azahcccs.gov/AHCCCS/PublicNotices/> under the Access Monitoring Review heading, at: <https://www.azahcccs.gov/AHCCCS/PublicNotices/#AccesstoCare>. The next access to care report is anticipated to be published by June 28, 2019 and will further inform the need for rate adjustments.

Status of Practitioner Rates

In the period 2009 through 2011 during the great recession, most AHCCCS provider rates were reduced up to 15%. Of note, physician fee schedule rates were reduced by 14.7% and dental fee schedule rates were reduced by 15.0%, and have remained near those levels since that time. Unlike other provider types, which have received additional appropriations to fund provider rate increases, rates paid to practitioners, including physicians, physician assistants, and registered nurse practitioners, as well as dental providers, have received no such increases. AHCCCS is concerned that, over time, access to care could be negatively impacted if rates are not increased.

Pressures on Home and Community Based Services (HCBS) Rates

Federal law and regulatory changes over the last several years have created compounding pressure on in-home care providers who are critical partners in AHCCCS' cost-saving HCBS model of care and for whom AHCCCS is the predominant source of revenue. These requirements include:

- the Affordable Care Act's "large employer" health insurance coverage mandate for employers with at least 50 full-time employees (or equivalent full- and part-time workers) and their dependents
- the Department of Labor's (DOL) home care final rule which extends minimum wage and overtime protections to home care workers (for weekly hours exceeding 40)
- the DOL ruling that travel time between multiple clients during a workday is considered hours worked under the Fair Labor Standards Act and must be paid and counted toward the 40-hour work week

In addition to these federally-driven rate impacts, the passage of Proposition 206, as well as Flagstaff's Proposition 414, has compounded previously-reported wage pressure and related challenges in recruiting HCBS providers. AHCCCS and DDD increased ALTCS provider rates effective January 1, 2017, July 1, 2017, January 1, 2018, and January 1, 2019, to address increased labor costs associated with the Propositions. In addition to these increased labor costs, wage compression is an additional challenge to retaining direct care providers, particularly when considering that HCBS providers already faced challenges in attracting individuals to work in direct care, which is more demanding both from a training and day-to-day work basis than jobs that pay comparable salaries. Effective January 1, 2020, the next increase to the minimum wage is required.

Differentiated Provider Rates

Value-Based Purchasing (VBP) is a cornerstone of AHCCCS' strategy to bend the upward trajectory of health care costs. AHCCCS continues to implement initiatives to leverage the managed care model toward value based health care systems where members' experience and population health are improved, per-capita health care cost is limited to the rate of general inflation through aligned incentives with managed care organization and provider partners, and there is a commitment to continuous quality improvement and learning. One such initiative which began in CYE 2017, and is modified annually including for CYE 2020, is increased payment rates for select AHCCCS-registered providers which meet established value based performance metrics requirements. For CYE 2020, the types of providers which will tentatively be offered differentiated payments include:

- Hospitals
- Nursing Facilities
- Integrated Clinics
- Behavioral Health Providers
- Physicians, Physician Assistants, and Registered Nurse Practitioners
- Dental Providers
- Home and Community Based Services Providers

The purpose of the differentiated payment is to distinguish providers which have committed to supporting designated actions that improve patients' care experience, improve members' health, and reduce cost of care growth.

Continuation of Mid-Year Funding

Annualize the Provider Rate Adjustment for Minimum Wage

As described previously, AHCCCS adjusted provider rates to reflect the minimum wage increase effective January 1, 2019. Capitation rates for CYE 2019 include additional funding needed by MCOs to pay these higher wages. Annualizing the CYE 2019 adjustment for minimum wage in the CYE 2020 capitation rates will require an estimated \$10.5 million Total Fund.

Other Changes

Health Insurer Provider Fee

Under the Affordable Care Act, beginning on January 1, 2014, health insurers including Medicaid health plans are required to pay a health insurer provider fee (HIPF) due by September 30 each year. Assessments are based on each insurer's market share of the previous year's revenue as calculated by the U.S. Treasury Department, and increase each year. Certain exceptions apply. AHCCCS intends to update capitation rates annually on a retroactive basis after the Treasury Department notifies each entity of its Health Insurer Provider Fee payable – such notification will occur after the capitation rates for the new contract year are already established. Please note, the HIPF for calendar year 2018 was reimbursed by AHCCCS in SFY 2019, however, a moratorium is currently in place for calendar year 2019, and so no payment is anticipated in SFY 2020.

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The actuarial analysis for the rate adjustments will continue throughout the spring, and will be based on the most up-to-date encounter data and contractor financial statements available. Mandated or court-ordered program changes that occur prior to October 1, 2019 may result in changes to these estimates.

Please direct any questions regarding this letter to Shelli Silver at shelli.silver@azahcccs.gov or (602) 417-4647.

Sincerely,



Jami Snyder
Director

Cc: The Honorable David Gowan, Arizona Senate
Matthew Gress, Office of Strategic Planning and Budgeting
Richard Stavneak, Joint Legislative Budget Committee
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