Arizona Long Term Care System (ALTCS), Elderly and Physical Disability (EPD) Actuarial Memorandum

I. Purpose

The purpose of this actuarial memorandum is to demonstrate that the Arizona Long Term Care System (ALTCS) Elderly and Physical Disability (EPD) capitation rates for contract year ending 2017 (CYE 17: October 1, 2016 through September 30, 2017) were developed in compliance with 42 CFR 438.6(c). It is not intended for any other purpose.

Arizona Health Care Cost Containment System (AHCCCS) intends to update these capitation rates quarterly on a retroactive basis to reflect enhanced payments to nursing facilities.

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. General Program Information

This certification covers the ALTCS/EPD program. This program delivers long-term, acute, behavioral health and case management services to eligible members who are elderly and/or have physical disabilities.

The CYE 17 capitation rates were developed as a rebase from the previously submitted CYE 16 capitation rates. These capitation rates represent the twelve month contract period from October 1, 2016, through September 30, 2017. Due to one programmatic change (high acuity pediatric adjustor) that will be implemented with an effective date of January 1, 2017, this certification will cover two sets of capitation rates. One set will apply for the time frame from October 1, 2016 through December 31, 2016, and another set will apply from January 1, 2017 through September 30, 2017. The rate development process is the same for both sets of capitation rates except the latter set includes the impact of the high acuity pediatric adjustor.

The experience used in the development of these rates only includes ALTCS/EPD Medicaid eligible expenses for ALTCS/EPD Medicaid eligible individuals.

Ideally, the experience data should be analyzed by different rate cells which are comprised of members with similar risk characteristics. However, segregating the

ALTCS/EPD population into different rate cells would lead to a statistical credibility problem due to the statewide dispersion of the relatively small membership base. The ALTCS/EPD program has four rate cells: a prospective dual rate, a prospective non-dual rate, a prior period coverage (PPC) rate and an Acute Care Only rate. Capitation rates for the ALTCS/EPD population do not differ by gender and/or age, but do differ by Geographical Service Area (GSA). Prospective capitation rates differentiate between members who are dually eligible for Medicare and Medicaid ("duals") and members who are not eligible for Medicare ("non-duals").

III. Overview of Rate Setting Methodology

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

1. Develop base period data (Section IV)
2. Develop trend factors from the base period data (Section V)
3. Apply trend factors to base period gross cost estimates for Nursing Facility (NF), Home and Community-Based Services (HCBS) and Acute Care components (Section VI)
4. Apply projected HCBS mix percentage (Section VII)
5. Apply projected share of cost and reinsurance offsets (Section IX)
6. Adjust CYE 17 claims costs for programmatic and provider fee schedule changes, if applicable (Section VIII)
7. Add provisions for non-benefit costs (Section X)
8. Combine for final capitation rates (Section XI)

There are also separate sections describing the PPC population and the Acute Care Only population.

IV. Base Period Data

The CYE 17 capitation rates were developed as a rebase of the previously submitted CYE 16 capitation rates. The base data consisted of historical fully adjudicated and approved Medicaid encounter and member month data for this population for the time period October 1, 2012 through September 30, 2015. The data was reviewed for accuracy, timeliness and completeness through encounter validation studies, as required per AHCCCS' Centers for Medicare and Medicaid Services (CMS) Waiver. The encounter data was deemed accurate for use in developing the base period assumptions and trend rates to apply within the capitation rates.

Adjustments were made to the data for completion factors, historical programmatic changes and historical provider fee for service rate schedule changes to arrive at the

adjusted data. Documentation about historical programmatic and provider fee for service rate schedule changes can be found in past actuarial certifications which are posted here:
https://www.azahcccs.gov/PlansProviders/RatesAndBilling/ManagedCare/capitationrates.html

Other data sources used in setting the actuarially sound capitation rates include Contractors' financial statements and projected changes in the HCBS placement.

V. Projected Trend Rates

The trend analysis used the adjusted base period data to compute claim cost per member per month (PMPM) nd calculate trend factors. Trend factors are built up separately for dual, non-dual, and PPC rate cells. Trend factors also vary by category of service (COS). The trend rates developed were used to bring the gross cost projections from the midpoint of the base period to the midpoint of the current rating year.

The trend rates used in projecting the claim costs by Contractor, rate cell, and category of service are identified in Table I. The trend rates shown below in Table I do not reflect the impact of any future programmatic changes or provider fee schedule changes.

Table I: Average Annual Trend Rate before Mix and SOC

	Utilization	Unit Cost	PMPM
Prospective Dual NF	2.7%	0.6%	3.3%
Prospective Dual HCBS	1.5%	0.3%	1.8%
Prospective Dual Acute Care	12.3%	-10.5%	0.5%
Prospective NonDual NF	2.3%	1.5%	3.8%
Prospective NonDual HCBS	2.1%	-0.1%	1.9%
Prospective NonDual Acute Care	6.1%	-1.0%	5.1%
PPC NF	2.6%	1.3%	3.9%
PPC HCBS	1.5%	0.3%	1.8%
PPC Acute Care	11.7%	-9.6%	1.0%

VI. Gross Costs PMPM by Category of Service

AHCCCS used the gross costs PMPM for the NF, HCBS, and Acute Care components for each rate cell from the base period data and applied trends provided in Table I to develop the CYE 17 projected gross costs.

VII. HCBS Mix Percentage

The CYE 17 dual and non-dual HCBS mix percentages are set using a combination of current placement percentages, program growth/saturation and the number of ALTCS/EPD members. These sources were reviewed by Contractor and by county.

The capitation development formula applies the HCBS mix percentage to the HCBS gross cost PMPM and applies the complement of the mix percentage to the NF gross cost PMPM. The HCBS mix percentages can be found in Table II.

Table II: HCBS Mix Percentages (Dual and Non-Dual)

			CYE16 HCBS Mix		CYE17 HCBS Mix	
GSA	County	Plan	Dual	Non-Dual	Dual	Non-Dual
40	Pinal/Gila	Bridgeway	77.39%	79.48%	77.90%	81.65%
42	LaPaz/Yuma	UHC LTC	66.68%	75.25%	68.49%	71.75%
44	Apache/Coconino/Mohave/Navajo	UHC LTC	70.86%	72.51%	72.07%	72.43%
46	Cochise/Graham/Greenlee	Bridgeway	57.12%	77.22%	58.97%	78.68%
48	Yavapai	UHC LTC	66.32%	78.61%	67.43%	81.42%
50	Pima/Santa Cruz	UHC LTC	78.90%	80.54%	79.13%	78.31%
50	Pima	Mercy Care	66.82%	71.85%	68.18%	72.45%
52	Maricopa	Bridgeway	79.31%	78.24%	78.36%	76.24%
52	Maricopa	UHC LTC	77.96%	80.34%	79.51%	77.72%
52	Maricopa	Mercy Care	73.80%	78.79%	74.24%	76.75%
Statewide Total			73.88%	78.01%	74.59%	76.72%

VIII. Projected Programmatic Changes and Provider Fee Schedule Changes

All impacts listed below unless specifically stated otherwise exclude the additional impact of non-benefit cost changes (i.e. admin, risk contingency, premium tax, etc.)

HCBS Provider Fee Schedule Change

Effective October 1, 2016, a 2% rate increase for HCBS service providers was included in the capitation development to address federally-mandated cost increases and improvements in the Arizona economy leading to challenges in hiring and retaining direct care staff. Direct care is more demanding both from a training and day-to-day work basis than jobs that pay comparable salaries. These rate increases will help to continue the availability of HCBS services for AHCCCS members by supporting the HCBS provider network; these services are less expensive than the institutional services that would otherwise be required.

The estimated statewide impact to the ALTCS/EPD program is an increase of approximately $7.8 million.

NF Provider Fee Schedule Change

Effective October 1, 2016, AHCCCS has increased the Nursing Facility Fee Schedule rates by 1%, uniformly applied to the current rates, to address improvements in the Arizona economy leading to challenges in hiring and retaining direct care staff and to ensure access to care. The estimated impact to the EPD program is an increase of approximately $5.2 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/ADHS fee schedule rate changes, and/or legislative mandates. The estimated statewide impact to the ALTCS/EPD program is an increase of approximately $48,000.

VBP 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 and 0.5% for qualified AHCCCS-registered Arizona Hospital providers for inpatient and outpatient services. Contractors are required to adopt the VBP Differential payment adjustments for qualified providers meeting the specific criteria. The estimated impact to the EPD program is an increase of approximately $3.6 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) to F2 from F3 for members with Hepatitis B or HIV. This action will increase utilization of direct-acting antiviral medications including Daklinza, Epclusa, Harvoni, Sovaldi, 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 the EPD program by an estimated increase of $0.6 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 impact to the ALTCS EPD program is an increase of approximately $160,000.

High Acuity Pediatric Adjustor
The AHCCCS All Patient Refined Diagnosis Related Group (APR-DRG) payment system includes several policy adjustors. One such adjustor applies a factor of 1.25 to the reimbursement amount that would otherwise apply for "claims for members under age 19," as long as the claim is not subject to one of the other policy adjustors.

On January 1, 2016, AHCCCS addressed the costs associated with high-acuity pediatric cases by using an adjustment factor of 1.60 in place of the above pediatric policy adjustor in the following instances only: for inpatient stays, where an APR-DRG assignment of level 3 or 4 Severity of Illness is indicated. Effective January 1, 2017, AHCCCS will change the adjustment factor of 1.60 established January 1, 2016 to 1.945. The estimated statewide impact to the ALTCS/EPD program is an increase of approximately $320,000 for nine months.

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 repriced at the higher State Plan service rate. The estimated impact to the ALTCS/EPD program is immaterial.

ALTCS Adult Dental
During the 2016 legislative session, non-emergency (basic and preventive) dental services were reinstated for ALTCS adults up to a limit of $1,000 annually per elderly and physically disabled (EPD) member. Effective October 1, 2016 AHCCCS will restore this covered service. The statewide impact to the ALTCS/EPD program is an increase of approximately $2.1 million.

IX. Projected Share of Cost and Reinsurance Offsets

Share of Cost
For each prospective dual and non-dual rate cell, the projected NF claim cost PMPMs net of the mix percentage as described in Section VII were discounted for the recipients' projected SOC. The SOC represents the amount a member is required to pay monthly toward the cost of long term care services. The SOC component was developed using actual data for SOC amounts assigned to members from October 2012 through September 2015. This data was used to project the CYE 17 SOC component, trended forward at observed annualized rates of 0.1% for the Prospective dual rate cell and -2.0% for the Prospective non-dual rate cell. The SOC component is fully reconciled with each Contractor. For additional information on the SOC reconciliation, please refer to Section D, Paragraph 56, Compensation, of the ALTCS/EPD program contract.

Reinsurance Offset
All Contractors participate in the reinsurance program which is a stop-loss program provided by AHCCCS to the Contractor for the partial reimbursement of covered medical services incurred for a member beyond an annual deductible level. AHCCCS is self-insured for the reinsurance program which is characterized by an initial deductible level and a subsequent coinsurance percentage. The coinsurance percentage is the rate at which AHCCCS will reimburse the Contractor for covered services incurred above the deductible. The deductible is the responsibility of the Contractor. The capitation rates are adjusted by subtracting the reinsurance offset from the gross medical since the Contractors will receive payment from AHCCCS for reinsurance cases. For additional information on the reinsurance program refer to Section D, Paragraph 58, Reinsurance, of the ALTCS/EPD program contract.

The reinsurance offset is developed for each rate cell and applied against the appropriate projected Acute Care claim cost PMPM. To develop the reinsurance offset PMPM AHCCCS used actual completed CYE 15 reinsurance payment data and trended forward two years using the trend assumption from the acute component of the capitation rates. Appropriate adjustments to the reinsurance offsets were made to accommodate this as well as the impact of implementing the DRG provider

reimbursement method. The calculation of the reinsurance offset PMPM was performed separately for dual and non-dual members.

X. Projected Non-Benefit Costs

The Case Management (i.e. Care Management) rates represent the amounts built into the CYE 16 rates, adjusted for changes in the expected HCBS mix. The administrative expenses built into the prospective rates represent rates awarded as part of the Request for Proposal (RFP) process. The PPC and Acute Only rate cells develop administrative costs as percentages of projected medical expenses. The risk contingency percentage remains the same at 1%.

XI. Proposed Capitation Rates

The proposed capitation rates for the EPD population equal the sum of the projected net claim costs PMPM – described as the gross costs PMPM by category of service in Section VI, adjusted for the mix percentages as described in Section VII, programmatic and provider fee schedule changes as described in Section VIII, net of SOC and reinsurance offsets from Section IX, plus the projected non-benefit costs PMPM (in section X) – divided by one minus the two percent premium tax. Tables IIIa, IIIb and IIIc show the proposed dual and non-dual capitation rates for the EPD population statewide. The change to the high-acuity pediatric adjustor as described in Section VIII affects only the Prospective Non-Dual and Acute Only rate cells from January 1, 2017 to September 30, 2017.

Table IIIa: Statewide Projected Net Capitation PMPM EPD - Dual Effective 10/1/2016 through 9/30/2017

Service Category	Gross CYE16 Rate (1/1/16)	Mix	Net CYE16 Rate (1/1/16)	Pct Gross Change	Pct Net Change	Gross CYE17 Rate (10/1/16)	Mix	Net CYE17 Rate (10/1/16)
Nursing Facility (NF)	$6,046.01	26.12%	$1,579.37	1.1%	-1.7%	$6,110.43	25.41%	$1,552.46
Share of Cost			($232.40)		-0.9%			($230.30)
Net Nursing Facility			$1,346.97		-1.8%			$1,322.16
Home/Community (HCBS)	$1,468.29	73.88%	$1,084.73	5.3%	6.3%	$1,545.46	74.59%	$1,152.81
Case Management			$128.23		0.0%			$128.27
Acute Care net of Reinsurance			$141.77		-5.8%			$133.60
Administration			$164.95		-0.2%			$164.58
Risk Contingency			$29.15		1.6%			$29.60
Premium Tax			$59.10		1.2%			$59.82
Net Capitation PMPM			$2,961.83		1.0%			$2,990.84

Table IIIb: Statewide Projected Net Capitation PMPM EPD - NonDual Effective 10/1/2016 through 12/31/2016

Service Category	Gross CYE16 Rate (1/1/16)	Mix	Net CYE16 Rate (1/1/16)	Pct Gross Change	Pct Net Change	Gross CYE17 Rate (10/1/16)	Mix	Net CYE17 Rate (10/1/16)
Nursing Facility (NF)	$7,692.39	21.99%	$1,691.22	3.8%	9.9%	$7,981.38	23.28%	$1,858.46
Share of Cost			($29.30)		7.4%			($31.47)
Net Nursing Facility			$1,661.92		9.9%			$1,826.99
Home/Community (HCBS)	$1,879.76	78.01%	$1,466.48	5.4%	3.7%	$1,981.86	76.72%	$1,520.38
Case Management			$128.82		0.1%			$128.89
Acute Care net of Reinsurance			$1,556.85		21.9%			$1,897.87
Administration			$162.80		0.4%			$163.37
Risk Contingency			$56.70		8.8%			$61.71
Premium Tax			$102.73		11.2%			$114.27
Net Capitation PMPM			$5,136.29		11.2%			$5,713.48

Table IIIc: Statewide Projected Net Capitation PMPM EPD - NonDual Effective 1/1/2017 through 9/30/2017

Service Category	Gross CYE17 Rate (10/1/16)	Mix	Net CYE17 Rate (10/1/16)	Pct Gross Change	Pct Net Change	Gross CYE17 Rate (1/1/17)	Mix	Net CYE17 Rate (1/1/17)
Nursing Facility (NF)	$7,981.38	23.28%	$1,858.46	0.0%	0.0%	$7,981.38	23.28%	$1,858.46
Share of Cost			($31.47)		0.0%			($31.47)
Net Nursing Facility			$1,826.99		0.0%			$1,826.99
Home/Community (HCBS)	$1,981.86	76.72%	$1,520.38	0.0%	0.0%	$1,981.86	76.72%	$1,520.38
Case Management			$128.89		0.0%			$128.89
Acute Care net of Reinsurance			$1,897.87		0.4%			$1,905.49
Administration			$163.37		0.0%			$163.37
Risk Contingency			$61.71		0.1%			$61.78
Premium Tax			$114.27		0.1%			$114.43
Net Capitation PMPM			$5,713.48		0.1%			$5,721.33

Note: The product of the gross NF or HCBS rate and mix percentages as shown may not equal the net rate due to rounding.

XII. Acute Care Only Members

As in prior years, for members who are only eligible for acute care services in the ALTCS program, Contractors will be paid the combined acute care component plus the case management and administrative components, as described above. Since the reinsurance policy is the same for these members as for the other ALTCS members, the same reinsurance offset is appropriate. For additional information on Acute Care Only capitation payments, please refer to Section D, Paragraph 56, Compensation, of the ALTCS/EPD program contract.

XIII. Prior Period Coverage (PPC) Rates

PPC rates cover the period of time from the effective date of eligibility to the day a member is enrolled with the Contractor. There is no PPC capitation for members enrolled with the Contractor who are initially found eligible for AHCCCS through hospital presumptive eligibility. These members will receive coverage of services during the PPC period through AHCCCS fee for service. AHCCCS developed the CYE 17 PPC rates by applying a trend factor to the CYE 16 rates. The trend calculation is based on the time period from October 1, 2012 through September 30, 2015. Due to the relatively short PPC enrollment period and low member month counts, AHCCCS' actuaries combined geographic regions in order to enhance statistical credibility when needed. Since PPC costs are highly volatile and unable to be managed by the Contractors, AHCCCS limits the magnitude of the rate change for each geographic area. PPC rates are reconciled to a five percent profit/loss corridor. For additional information on the PPC reconciliation, please refer to Section D, Paragraph 56, Compensation, of the ALTCS/EPD program contract.

XIV. Budget Impact of Proposed Capitation Rates

Tables IVa, IVb and IVc include the net capitation rates on a statewide basis for all rate cells as well as the estimated budget impact based off of CYE 17 projected member months. The adjustments impact Contractors ranging from +0.8% to +7.6%. Appendix I shows EPD rates by geographical service area and Contractor.

Table IVa: Budget Impact of Proposed Capitation Rates Effective 10/1/2016

Rate Cell	EPD Prospective - Dual	EPD Prospective - Non-Dual	PPC	Acute Only	Total
Q1 CYE 17 (10/1/16 - 12/31/16) Projected MMs	65,842	13,238	2,732	1,279	
CYE 16 Rate (1/1/16)	$2,954.90	$5,136.29	$958.94	$548.27	
CYE 17 Rate (10/1/16)	$2,990.84	$5,713.48	$995.51	$613.19	
Estimated CYE 16 Capitation (1/1/16 Rates)	$194,557,602	$67,993,076	$2,619,573	$701,134	$265,871,385
Estimated CYE 17 Capitation (10/1/16 Rates)	$196,923,515	$75,633,751	$2,719,472	$784,157	$276,060,895
Dollar Impact on estimated capitation	$2,365,914	$7,640,675	$99,900	$83,023	$10,189,511
Percentage Impact on estimated capitation	1.2%	11.2%	3.8%	11.8%	3.8%

Table IVb: Budget Impact of Proposed Capitation Rates Effective 1/1/2017

Rate Cell	EPD Prospective - Dual	EPD Prospective - Non-Dual	PPC	Acute Only	Total
Q2-Q4 CYE 17 (1/1/17 - 9/30/17) Projected MMs	197,991	39,807	8,215	3,845	
CYE 17 Rate (10/1/16)	$2,990.84	$5,713.48	$995.51	$613.19	
CYE 17 Rate (1/1/17)	$2,990.84	$5,721.33	$995.51	$614.69	
Estimated CYE 16 Capitation (10/1/16 Rates)	$592,159,790	$227,434,828	$8,177,603	$2,358,004	$830,130,225
Estimated CYE 17 Capitation (1/1/17 Rates)	$592,159,790	$227,747,369	$8,177,603	$2,363,799	$830,448,560
Dollar Impact on estimated capitation	$0	$312,540	$0	$5,795	$318,335
Percentage Impact on estimated capitation	0.0%	0.1%	0.0%	0.2%	0.0%

Table IVc: Blended Capitation Rates and Combined Budget Impact of Both Rate Revisions

Rate Cell	EPD Prospective - Dual	EPD Prospective - Non-Dual	PPC	Acute Only	Total
CYE 17 Projected MMs	263,834	53,044	10,946	5,124	
CYE 16 Rate (1/1/16)	$2,954.90	$5,136.29	$958.94	$548.27	
CYE 17 Rate (Blended)	$2,990.84	$5,719.37	$995.51	$614.32	
Estimated CYE 16 Capitation (1/1/16 Rates)	$779,602,960	$272,451,977	$10,496,772	$2,809,484	$1,065,361,193
Estimated CYE 17 Capitation (Blended Rates)	$789,083,305	$303,381,119	$10,897,075	$3,147,957	$1,106,509,456
Dollar Impact on estimated capitation	$9,480,345	$30,929,142	$400,303	$338,473	$41,148,263
Percentage Impact on estimated capitation	1.2%	11.4%	3.8%	12.0%	3.9%

XV. Value-Based Purchasing (VBP) Initiative

AHCCCS has continued the VBP Initiative (formerly known as Payment Reform Initiative) first implemented October 1, 2014, with modifications. The purpose of this initiative is to improve members' health outcomes while reducing costs. Similar to CYE 16, AHCCCS will perform a reconciliation to distribute the Contractors' earned contribution. A contribution pool will be established by calculating 1% of prospective capitation rates. There is no withhold for this Initiative, nor any other withhold applied to the EPD capitation rates.

Quality improvement metrics have been established and Contractors' performance will be measured against these metrics. The entire contribution pool amount will be distributed back to the Contractors based on the results of these performance measurements. While the entire contribution pool will be distributed, some Contractors may receive distributions back from the reconciliation and some may not. In addition, AHCCCS will be accounting for the Contractors' VBP payments to providers in the VBP reconciliations. These are payments from Contractors to the providers upon successful completion of contracted goals/measure in accordance with the providers' contracts and represent non-encountered medical expense. The VBP reconciliation will be completed between one and three months after the Quality Management Minimum Performance (QMPM) Report for the contract year has been issued. For additional information on Value-Based Purchasing, refer to Section D, Paragraph 87, Value-Based Purchasing, and Section D, Paragraph 56, Compensation, of the ALTCS/EPD program contract.

XVI. 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. This includes consideration for the VBP initiative; while AHCCCS expects all Contractors to receive some of the contribution back, even if one Contractor receives nothing from the VBP contribution pool, the entire pool will be paid out and the capitation rates are still 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 October 1, 2016.

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

In developing the actuarially sound capitation rates, I have relied upon data and information provided by the Contractors and the AHCCCS internal databases. In addition, I have relied upon the Contractors' auditors and other AHCCCS employees for the accuracy of the data and I have accepted the data without audit, after checking the data for reasonableness.

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 ALTCS/EPD 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.

SIGNATURE ON FILE	08/21/2016
Matthew C. Varitek	Date

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

Appendix I

Capitation Rates by Contract Type, Eligibility Status, Contractor and GSA; Effective 10/1/2016

GSA	County	Contractor	EPD Dual	EPD Non-Dual	Acute Only	PPC
40	Pinal/Gila	Bridgeway	$2,903.00	$4,936.54	$579.04	$1,163.47
42	LaPaz/Yuma	UHC LTC	$2,714.51	$5,421.60	$515.15	$1,163.47
44	Apache/Coconino/Mohave/Navajo	UHC LTC	$2,451.93	$5,257.46	$532.06	$1,163.47
46	Cochise/Graham/Greenlee	Bridgeway	$3,218.75	$4,524.90	$516.42	$1,163.47
48	Yavapai	UHC LTC	$2,807.73	$4,609.68	$447.47	$1,163.47
50	Pima/Santa Cruz	UHC LTC	$2,751.13	$5,212.44	$480.80	$811.58
50	Pima	Mercy Care	$3,376.90	$5,855.55	$605.25	$811.58
52	Maricopa	Bridgeway	$2,840.88	$5,592.31	$583.47	$975.18
52	Maricopa	UHC LTC	$2,595.69	$5,510.68	$521.49	$975.18
52	Maricopa	Mercy Care	$3,326.60	$6,188.34	$712.85	$975.18

Capitation Rates by Contract Type, Eligibility Status, Contractor and GSA; Effective 1/1/2017

GSA	County	Contractor	EPD Dual	EPD Non-Dual	Acute Only	PPC
40	Pinal/Gila	Bridgeway	$2,903.00	$4,936.99	$579.10	$1,163.47
42	LaPaz/Yuma	UHC LTC	$2,714.51	$5,421.60	$515.15	$1,163.47
44	Apache/Coconino/Mohave/Navajo	UHC LTC	$2,451.93	$5,257.46	$532.06	$1,163.47
46	Cochise/Graham/Greenlee	Bridgeway	$3,218.75	$4,524.90	$516.42	$1,163.47
48	Yavapai	UHC LTC	$2,807.73	$4,611.13	$447.65	$1,163.47
50	Pima/Santa Cruz	UHC LTC	$2,751.13	$5,217.38	$481.62	$811.58
50	Pima	Mercy Care	$3,376.90	$5,860.49	$606.13	$811.58
52	Maricopa	Bridgeway	$2,840.88	$5,602.94	$585.21	$975.18
52	Maricopa	UHC LTC	$2,595.69	$5,521.31	$523.29	$975.18
52	Maricopa	Mercy Care	$3,326.60	$6,198.97	$715.02	$975.18