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Ms. Cynthia Layne
Interim Chief Financial Officer
Arizona Department of Health Services
Division of Behavioral Health Services
150 N. 18th Avenue, Suite 200
Phoenix, AZ 85007

September 1, 2011

FINAL

Subject: Revised Behavioral Health Services last three quarters of State fiscal year 2012 capitation rates for the Title XIX Program

Dear Ms. Layne:

The State of Arizona Department of Health Services (ADHS), Division of Behavioral Health Services (BHS), has worked closely with Mercer Government Human Services Consulting (Mercer) to develop revisions to the actuarially-sound capitation rates for each of its Regional Behavioral Health Authorities (RBHAs) for the last three quarters of State fiscal year 2012 (SFY12). These rates will be in effect from October 1, 2011 through June 30, 2012.

I. Purpose

Updated rates for the last three quarters of SFY12 have been developed to reflect four changes/updated analyses to the program:

- A. Implementation of a provider fee schedule (rate) reduction effective October 1, 2011.
- B. Reduction in the number of covered hours for respite care effective October 1, 2011.
- C. Change in the penetration rate (comparison of BHS members who are enrolled as defined by having an open episode of care, to those who are Arizona Health Care Cost Containment System (AHCCCS) eligible) for the Seriously Mentally Ill (SMI) and General Mental Health/Substance Abuse (GMH/SA) populations, given the Childless Adults (CA) program changes and enrollment freeze, and the Medical Expense Deduction (MED) program phase-out.
- D. Change in the underlying acuity (risk) mix for the last three quarters of SFY12 for the GMH/SA population given the CA and MED changes.

The following certification letter is a supplement to the prior SFY12 letter issued on April 15, 2011, and includes the adjustments for the development of the last three quarters of SFY12 actuarially-sound capitation rates.

II. Overview of the changes/updated analyses

- A. BHS is implementing a 5% provider rate decrease effective October 1, 2011, for all provider types, excluding pharmacy. The updated last three quarters of SFY12 rates reflect these provider fee schedule decreases.

The per member per month (PMPM) decreases applied to the Title XIX populations for this unit cost adjustment are as follows.

Population	Cenpatico 3	CPSA	Cenpatico 2	NARBHA	Cenpatico 4	MHS	Statewide
Non-CMDP	(\$1.35)	(\$1.89)	(\$1.80)	(\$1.55)	(\$1.81)	(\$1.16)	(\$1.38)
CMDP	(\$68.63)	(\$54.64)	(\$63.77)	(\$65.15)	(\$29.79)	(\$30.37)	(\$40.41)
SMI	(\$1.80)	(\$2.27)	(\$1.25)	(\$1.40)	(\$1.68)	(\$3.60)	(\$2.69)
GMH/SA	(\$1.07)	(\$1.86)	(\$1.67)	(\$0.99)	(\$1.92)	(\$1.20)	(\$1.33)

The statewide impact to the program for the October 1, 2011 provider rate reduction adjustment is a decrease of approximately \$31,808,458 for the last three quarters of SFY12.

In addition, because of the multiplicative nature of many of the capitation rate components (for example RBHA administration), the reduction in assumed claim dollars impacts total administrative dollars to the RBHAs. The RBHA administration percentage did not change.

- B. As part of the Governor's Medicaid reform plan, effective October 1, 2011, the number of respite hours for adults and children receiving BHS Services will be reduced from 720 to 600 hours per twelve month period October 1 through September 30 each year.

The PMPM decreases applied to the Title XIX populations for this utilization adjustment are as follows.

Population	Cenpatico 3	CPSA	Cenpatico 2	NARBHA	Cenpatico 4	MHS	Statewide
Non-CMDP	(\$0.02)	(\$0.07)	(\$0.07)	(\$0.05)	(\$0.04)	(\$0.01)	(\$0.03)
CMDP	(\$1.10)	(\$0.54)	(\$1.17)	(\$1.64)	(\$0.35)	(\$0.11)	(\$0.38)
SMI	(\$0.00)	(\$0.00)	(\$0.00)	(\$0.00)	(\$0.02)	(\$0.00)	(\$0.00)
GMH/SA	(\$0.00)	(\$0.00)	(\$0.01)	(\$0.00)	(\$0.00)	(\$0.00)	(\$0.00)

The statewide impact to the program for the October 1, 2011 respite hour reduction adjustment is a decrease of approximately \$194,610 for the last three quarters of SFY12.

In addition, because of the multiplicative nature of many of the capitation rate components (for example RBHA administration), the reduction in assumed claim dollars impacts total administrative dollars to the RBHAs. The RBHA administration percentage did not change.

- C. For the SMI and GMH/SA populations, an update to the penetration rate (in prior certifications, also referred to as the acuity adjustment or acuity factor, but we have now reserved “acuity” for the fourth change under “D” below) was required, given the Childless Adults (CA) program changes and enrollment freeze (approved by the Centers for Medicare and Medicaid Services (CMS) on July 1, 2011), and the MED program phase-out (CMS approval received on April 29, 2011). BHS and the RBHAs are reimbursed by AHCCCS based on AHCCCS eligibles. So while the reductions in AHCCCS eligibles from these two changes will reduce revenue, it is believed that significant and varying percentages of these SMI or GMH/SA individuals will actually be redetermined to be eligible via another aid category, and hence, the underlying risk and costs will not decrease nearly as much as the revenue. Therefore, an adjustment, incorporating the most recently available data, is required.

The penetration factors that were applied to the Title XIX populations for this utilization adjustment are as follows.

Population	Cenpatico 3	CPSA	Cenpatico 2	NARBHA	Cenpatico 4	MHS	Statewide
SMI	1.161	1.158	1.101	1.162	1.156	1.144	1.148
GMH/SA	1.068	1.107	1.076	1.081	1.077	1.067	1.079

The statewide impact to the program for the penetration rate adjustment is approximately \$56,622,255 for the last three quarters of SFY12.

In addition, because of the multiplicative nature of many of the capitation rate components (for example RBHA administration), the change in assumed claim dollars impacts total administrative dollars to the RBHAs. The RBHA administration percentage did not change.

- D. For the GMH/SA population, the distribution of CA, MED and the other aid categories making up the population, changes from the full SFY12 distribution to the last three quarters of SFY12 (October 1, 2011 – June 30, 2012) distribution require analysis. Because the CA, MED and “All Other” costs are different, when distribution changes occur, the underlying risk or acuity changes as well.

The acuity factors that were applied to the Title XIX populations for this adjustment are as follows.

Population	Cenpatico 3	CPSA	Cenpatico 2	NARBHA	Cenpatico 4	MHS	Statewide
GMH/SA	0.988	0.988	0.988	0.988	0.988	0.988	0.988

The statewide impact to the program for the acuity adjustment is a decrease of approximately \$2,064,138 for the last three quarters of SFY12.

In addition, because of the multiplicative nature of many of the capitation rate components (for example RBHA administration), the change in assumed claim dollars impacts total administrative dollars to the RBHAs. The RBHA administration percentage did not change.

Coordination of Benefits

Inherent in the encounter and financial data are unit cost trends which incorporate Contractors' Coordination of Benefits (COB) activities. AHCCCS provides the RBHAs with verified commercial and Medicare coverage information for their members which the RBHAs utilize to ensure payments are not made for medical services that are covered by the other carriers. When the RBHAs make a payment to cover members' coinsurance, deductibles, or Medicaid-covered services that are not covered by the other carriers, they submit encounters containing these reduced amounts. For state fiscal years (SFY) 2009 and 2010, encounter-reported COB cost avoidance averaged approximately \$7 million (Title XIX and Title XXI combined). Additionally, in SFY10, BHS RBHAs cost-avoided more than \$34 million (Title XIX and Title XXI combined) in additional claims for which the RBHA had no financial obligation after the private insurance or Medicare payment was made. Consequently no encounters were submitted to AHCCCS and thus those services are excluded from capitation expenditure projections completely. AHCCCS continues to emphasize the importance of COB activities.

III. Proposed revised capitation rates

The end result of this capitation rate development update, completed jointly by BHS and Mercer, is actuarially-sound capitation rates for the last three quarters of SFY12.

Actuarially-sound capitation rates were developed for each of the following populations and RBHA combinations, shown in the next table.

Population	Cenpatico 3	CPSA	Cenpatico 2	NARBHA	Cenpatico 4	MHS	Statewide
Children – non-CMDP	\$32.47	\$45.38	\$42.10	\$35.18	\$46.81	\$29.09	\$33.81
Children – CMDP	\$1,468.80	\$1,153.57	\$1,099.41	\$1,511.70	\$680.88	\$679.44	\$883.95
SMI	\$48.60	\$65.74	\$33.36	\$42.57	\$47.09	\$94.94	\$73.20
GMH/SA	\$28.34	\$50.19	\$42.90	\$27.80	\$54.47	\$34.14	\$37.03

The rate development schedules are shown in Attachment A.

IV. Certification of final rates

In preparing the rates shown above and in the attached, Mercer has used and relied upon enrollment, eligibility, claim, reimbursement level, benefit design and financial data, and information supplied by BHS and the RBHAs. BHS and the RBHAs are responsible for the validity and completeness of this supplied data and information. We have reviewed the data and information for internal consistency and reasonableness, but we did not audit it. In our opinion, it is appropriate for the intended purposes. If the data and information are incomplete or inaccurate, the values shown in this report may need to be revised accordingly.

Mercer certifies that the above and the attached rates, including risk-sharing mechanisms, incentive arrangements or other payments, were developed in accordance with generally accepted actuarial practices and principles and are appropriate for the Medicaid covered populations and services under the managed care contract. The undersigned actuary is a member of the American Academy of Actuaries and meets its qualification standards to certify to the actuarial soundness of Medicaid managed care capitation rates.

Rates developed by Mercer are actuarial projections of future contingent events. Actual RBHA costs will differ from these projections. Mercer has developed these rates on behalf of BHS to demonstrate compliance with the CMS requirements under 42 CFR 438.6(c) and accordance with applicable law and regulations. Use of these rates for any purpose beyond that stated may not be appropriate.

RBHAs are advised that the use of these rates may not be appropriate for their particular circumstance and Mercer disclaims any responsibility for the use of these rates by the RBHAs for any purpose. Mercer recommends that any RBHA considering contracting with BHS should analyze its own projected medical expense, administrative expense and any other premium needs for comparison to these rates before deciding whether to contract with BHS.

This certification letter assumes the reader is familiar with the BHS program, Medicaid eligibility rules and actuarial rating techniques. It is intended for BHS and CMS and

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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.

If you have any questions concerning our rate setting methodology, please feel free to contact me at +1 602 522 6510 or mike.nordstrom@mercer.com.

Sincerely,

A handwritten signature in blue ink that reads "Michael E. Nordstrom ASA, MAAA". The signature is written in a cursive style.

Michael E. Nordstrom, ASA, MAAA
Partner

MEN/vh

Enclosures

Copy:
Sundee Easter, Mercer
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