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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 XXI 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 effective from October 1, 2011 to June 30, 2012.

## I. Purpose

Updated rates for the last three quarters of SFY12 have been developed to reflect 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.

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

## II. Overview of the changes/updated analyses

The changes/updated analyses impact on the Title XIX RBHA capitation rates is described in our certification letter dated September 1, 2011. An update to the Title XXI capitation rates is necessary due to the use of Title XIX capitation rates as a base for Title XXI capitation rate development.

The statewide impact to the program is a decrease of approximately \$120,233 for the last three quarters of SFY12.

### **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**

Actuarially-sound capitation rates were developed for the following population and RBHA combinations, shown in the table below:

Title XXI

<b>Cenpatico 3</b>	<b>CPSA</b>	<b>Cenpatico 2</b>	<b>NARBHA</b>	<b>Cenpatico 4</b>	<b>MHS</b>	<b>Statewide</b>
\$22.02	\$37.22	\$22.81	\$24.14	\$28.13	\$18.69	\$22.58

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 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.

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Ms. Cynthia Layne  
Arizona Department of Health Services

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](mailto: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

MN/vh

Attachments

Copy:  
Sundee Easter, Mercer  
Mike Miner, Mercer  
Rob O'Brien, Mercer