

Comprehensive Medical and Dental Program (CMDP) Updated Actuarial Memorandum for CYE 2011

I. Purpose

This memorandum presents a discussion of the revision to the capitation rates for the Comprehensive Medical and Dental Program (CMDP) program, for the period October 1, 2011 to December 31, 2011. This update to the rates is required primarily due to changes effective October 1, 2011 resulting from the Governor's Medicaid Reform Plan. The purpose of this actuarial memorandum is to demonstrate that the updated capitation rates were developed in compliance with 42 CFR 438.6(c). It is not intended for any other purpose.

II. Overview of Changes

Provider Reductions and OPFS Rebase

As part of the Governor's Medicaid reform plan, and pursuant to Laws 2011, Chapter 31, AHCCCS is given the authority to reduce fee schedule rates for all providers up to 5%. Therefore, effective October 1, 2011, AHCCCS will reduce all provider reimbursement, with few exceptions, by 5%, including all payment ratios utilized for provider reimbursement (e.g., all Cost-to-Charge Ratios (CCRs), By Report Percentages (BR), etc.). The decreases are included in the trend assumptions by category of service and total approximately \$269,340 statewide.

The Hospital Outpatient and Emergency Room trend rate was then adjusted for the rebase of the Outpatient Fee Schedule (OPFS) rates required by the Arizona Administrative Code. This rebase is required every five years and will be effective October 1, 2011. The rebase results in a decrease of approximately \$19,600.

Hospital Outliers

As part of the Governor's Medicaid reform plan, and pursuant to Laws 2011, Chapter 31, language authorizing inpatient outlier payments was eliminated and AHCCCS was provided the authority to establish reimbursement methodologies "notwithstanding any other law." AHCCCS chose to maintain an outlier payment methodology for one year – with modifications – effective October 1, 2011. Those modifications include:

- Increasing cost thresholds by 5 percent; and
- Reducing CCRs by a percentage equal to a hospital's increase to its charge master based on any/all increases since April 1, 2011.

The impact of these changes is a savings of approximately \$9,200.

Transition of Pediatric Costs

Effective June 1, 2011, St. Joseph's Hospital and Phoenix Children's Hospital (PCH) united the two organizations' pediatric programs at PCH for patients through age 14. AHCCCS' outpatient hospital Fee-For-Service rates for PCH are, in aggregate, higher

than the payment rates for St. Joseph's Hospital. AHCCCS used historical encounter data to determine the fiscal impact of this alliance by extracting cost and utilization data for pediatric services at St. Joseph's and repricing them at the PCH rates. Because many of the services may be performed at other Phoenix-area hospitals, AHCCCS included only fifty percent of the increase in the capitation rates. The impact is an increase of approximately \$3,300.

Transportation

Reductions to transportation rates effective October 1, 2011, are included in the Governor's Medicaid reform plan and authorized in Laws 2011, Chapter 31. This brings the AHCCCS reimbursement of ADHS-regulated ambulance rates to 68.59% of the approved rates. In accordance with this legislation, ambulance rate increases approved by ADHS after July 1 annually will not be included in AHCCCS' October-1 fee schedule until the following year in order to provide AHCCCS predictability in expenditures. Since ADHS approved ambulance rate increases (as requested by providers) through July 1, 2011, the impact of this reduction is less than the full 5%, at 4.8%.

Coordination of Benefits

Inherent in the encounter and financial data are unit cost trends which incorporate Contractors' Coordination of Benefits (COB) activities. AHCCCS provides Contractors with verified commercial and Medicare coverage information for their members which Contractors utilize to ensure payments are not made for medical services that are covered by the other carriers. When Contractors 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. From state fiscal year (SFY) 2008 through SFY 2010, encounter-reported COB cost avoidance grew from \$7,500 in SFY 2008 to \$575,000 in SFY 10. Additionally, CMDP cost-avoided more than \$208,000 in additional claims for which the Contractor 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 and Their Impact

Table I below summarizes the changes from the current approved CYE11 capitation rates and the estimated budget impact, effective for the period October 1, 2011 through December 31, 2011 on a statewide basis.

Table I: Proposed Statewide Capitation Rates and Budget Impact

| Rate Cell | Projected Member Months | CYE11 Current Rate | CYE11 Updated Rate | Estimated CYE11 Current Capitation | Estimated CYE11 Updated Capitation | Dollar Impact | Percentage Impact |
|-------------|-------------------------|--------------------|--------------------|------------------------------------|------------------------------------|---------------|-------------------|
| Prospective | 30,043 | \$227.46 | \$218.60 | \$6,833,543 | \$6,567,363 | (\$266,180) | -3.9% |
| PPC | 735 | \$421.03 | \$401.87 | \$309,389 | \$295,309 | (\$14,080) | -4.6% |
| Total | | | | \$7,142,932 | \$6,862,672 | (\$280,260) | -3.9% |

IV. Actuarial Certification of the Capitation Rates

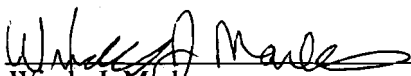
I, Windy J. Marks, am an employee of Arizona Health Care Cost Containment System (AHCCCS). I am a Member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. I meet the qualification standards established by the American Academy of Actuaries and have followed the practice standards established from time-to-time by the Actuarial Standards Board.

The rates were developed using generally accepted actuarial principles and practices and are considered to be actuarially sound. The 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 rates are appropriate for the Medicaid populations covered and Medicaid services to be furnished under the contract. The 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 three month period beginning October 1, 2011.

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 rates.

In developing the actuarially sound capitation rates, I have relied upon data and information provided by CMDP and AHCCCS internal database. I have accepted the data without audit and have relied upon the CMDP auditors and other AHCCCS employees for the accuracy of the data.

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.


Windy J. Marks

09-01-11
Date

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