

# **Children's Rehabilitative Services (CRS) Actuarial Memorandum**

## **I. Purpose**

The purpose of this actuarial memorandum is to demonstrate compliance with the applicable provisions of 42 CFR Part 438. It is not intended for any other purpose.

This memorandum presents a revision to the previously filed Contract Year Ending 2017 (CYE 17) CRS capitation rates effective October 1, 2016, and January 1, 2017, to reflect updated assumptions regarding utilization and unit costs of Pharmacy services. This certification includes an additional adjustment to rates that will be effective April 1, 2017.

## **II. Overview of Changes**

This certification covers the integrated CRS program. Please refer to the actuarial certification as signed by Matthew C. Varitek dated August 21, 2016, for general program information and description of capitation rate development.

AHCCCS' Pharmacy and Therapeutics (P&T) Committee has made policy changes that impact the utilization and unit costs of Contractors' pharmacy costs. The P&T Committee reviews classes of drugs to determine how the State can minimize the net cost of pharmaceuticals when considering the value of AHCCCS' drug rebates. As a result of the recent policy changes that were finalized after the CYE 17 rates were submitted to CMS, AHCCCS completed a thorough review to ensure that the underlying funding included in the capitation rates accurately reflected the P&T Committee decisions.

In addition to P&T Committee decisions effective up to and including October 1, 2016, effective April 1, 2017, the AHCCCS P&T Committee will allow Contractors to approve the generic drug for Abilify based on the Committee's determination that this option offers the State the best value for an efficacious clinical outcome for members.

The previous certification described the usage of CYE 15 encounter data as the base period for CYE 17 projected expenses. Subsequent encounter experience was reviewed due the recent policy changes incurred during CYE 16 and the first two months of CYE 17 (October and November of 2016) for the Pharmacy category of service (COS). This showed that the expense amount per member per month (PMPM) assumed for that COS in developing the CYE 17 capitation rates would be materially lower than actual expenditures. In particular, growth in unit costs drives most of the observed Pharmacy expense PMPM trend, with the exception of the Partially Integrated/Acute coverage type. In that case, AHCCCS' research into Pharmacy costs associated with these adjustments revealed that one relatively higher-cost member had switched into a different coverage type during CYE 15. Thus the previously submitted rates effective October 1, 2016 and January 1, 2017 are revised, with a decrease to the Pharmacy expense assumption PMPM for Partially Integrated/Acute and increases for the other coverage types. A further adjustment is made for rates effective April 1, 2017, to account for the generic drug savings. This adjustment only impacts the coverage types that include the provision for behavioral health services (i.e. Fully Integrated and Partially Integrated/BH).

## **III. Revised Capitation Rates and Budget Impact**

Table I below contains the originally submitted and revised CYE 17 capitation rates by effective date and coverage type. Table II summarizes the projected member months, revised capitation rates, and

estimated total capitation by coverage type and in total on a statewide basis. The estimated impact to the CRS program is an increase of approximately \$9.2 million.

**Table I: Originally Submitted and Revised Capitation Rates by Effective Date and Coverage Type**

Rate Cell	Fully Integrated	Partially Integrated/ Acute	Partially Integrated/ BH	CRS Only
Originally Submitted CYE 17 Rate (10/1/16)	\$841.21	\$587.16	\$793.20	\$475.31
Originally Submitted CYE 17 Rate (1/1/17)	\$851.82	\$587.16	\$801.25	\$481.28
Revised CYE 17 Rate (10/1/16)	\$860.63	\$546.15	\$860.74	\$494.12
Revised CYE 17 Rate (1/1/17)	\$871.23	\$546.15	\$868.79	\$500.09
Revised CYE 17 Rate (4/1/17)	\$870.09	\$546.15	\$863.11	\$500.09

**Table II: Blended Capitation Rates and Combined Budget Impact of All Rate Revisions**

Rate Cell	Fully Integrated	Partially Integrated/ Acute	Partially Integrated/ BH	CRS Only	Total
CYE 17 Projected MMs	208,650	2,088	79,110	13,840	
Original Blended CYE 17 Rate	\$849.18	\$587.16	\$799.26	\$479.80	
Revised Blended CYE 17 Rate	\$868.03	\$546.15	\$863.94	\$498.61	
Estimated CYE 17 Capitation (Original Blended CYE 17 Rates)	\$177,182,087	\$1,226,264	\$63,228,971	\$6,640,328	\$248,277,650
Estimated CYE 17 Capitation (Revised Blended CYE 17 Rates)	\$181,113,411	\$1,140,618	\$68,346,026	\$6,900,734	\$257,500,789
Dollar Impact on estimated capitation	\$3,931,324	(\$85,646)	\$5,117,055	\$260,406	\$9,223,138
Percentage Impact on estimated capitation	2.2%	-7.0%	8.1%	3.9%	3.7%

#### **IV. 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. The capitation rates were developed to demonstrate compliance with the applicable provisions of 42 CFR Part 438. The program for which the capitation rates were developed is administered in accordance with applicable state and federal 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 proposed 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 CYE 17 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 CRS program, 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

Matthew C. Varitek

03/22/2017

Date

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