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

## I. Purpose

The purpose of this actuarial memorandum is to demonstrate that the Children's Rehabilitative Services (CRS) 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.

The Affordable Care Act (ACA) places an annual fee on the health insurance industry nationwide including most Medicaid health plans effective January 1, 2014. 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://azahcccs.gov/PlansProviders/Downloads/CapitationRates/HIF/CRS_HIF_Cert.pdf

## II. General Program Information

This certification covers the integrated CRS program. Effective October 1, 2013, AHCCCS integrated all services for most Acute Care program children with CRS conditions through one statewide CRS Contractor with the goals of improved member outcomes, reduced member confusion, improved care coordination, and streamlined administration. This model continues to qualify children for CRS based on particular diagnoses. At the same time, children with CRS conditions who are enrolled in the elderly and physically disabled long term care program, and who today have integrated acute, behavioral health and long term care services, began to receive their CRS related services through the Arizona Long Term Care System (ALTCS) Contractors.

There are four permutations of the program enrollment, hereafter called "coverage types" described below:

- A Fully Integrated member will receive acute care, behavioral health, and specialty care services for CRS conditions through the sole CRS Contractor.

- A Partially Integrated-BH member will receive behavioral health and specialty care services through the sole CRS Contractor. These members are typically enrolled with the ALTCS Developmentally Disabled (DD) or the Comprehensive Medical and Dental Program (CMDP) for their acute care services.

- A Partially Integrated-Acute member will receive acute care and specialty care services through the sole CRS Contractor. These members are typically American Indians receiving behavioral health services through a Tribal Regional Behavioral Health Authority (TRBHA).

- A CRS Only member will only receive specialty care services through the sole CRS Contractor. These members are typically enrolled in the American Indian Health Plan (AIHP), receiving acute care services in a fee-for-service environment, and receiving behavioral health services through a TRBHA.

The CYE 17 capitation rates were developed as a rebase of 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.

## 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 (Section V)
3. Project CYE 17 gross medical expense estimates by coverage type (Section VI)
4. Adjust CYE 17 projected gross medical expense estimates for programmatic and provider fee schedule changes as applicable (Section VII)
5. Apply reinsurance offsets by coverage type (Section VIII)
6. Add provisions for non-benefit costs (Section IX)
7. Combine for final capitation rates (Section X)

## IV. Base Period Data

The base period data consisted of historical CRS Integrated encounter and member month data by coverage type for the time period of October 1, 2014 through September 30, 2015. The data was reviewed for accuracy, timeliness and completeness through encounter validation studies, as required by AHCCCS' Centers for Medicare and Medicaid Services (CMS) Waiver. The encounter data was deemed accurate for use in developing a gross medical expense estimate to apply within the CYE 17 capitation rate for each coverage type.

Adjustments were made to the data for completion, historical programmatic changes and historical provider fee for service rate schedule changes to arrive at the adjusted data that will be used in trend and experience adjustment analysis. Documentation about historical programmatic and provider fee for service rate schedule changes can be found in past actuarial certifications which are posted here: https://azahcccs.gov/PlansProviders/RatesAndBilling/ManagedCare/capitationrates.html

Many other data sources were used in setting the actuarially sound capitation rates for the CRS program. The Contractor's financial statements were used for reasonableness testing. Further cost trend assumptions from the proposed CYE 17 capitation rates for AHCCCS' Acute Care and Regional Behavioral Health Authority (RBHA) programs were used for application to the Acute and Behavioral Health components of the CRS Integrated medical expenses. The CRS Specialty Care component of the gross medical expense assumption included an adjustment for annualized PMPM cost increases

observed at CRS Specialty Care clinics over the time period from October 1, 2013 through March 31, 2016.

## V. Projected Trend Rates

The trend analysis used a weighted average of trend rates for Acute, Behavioral Health, and CRS Specialty services to develop a unique trend assumption for each of the four coverage types. The Acute services trend for each coverage type incorporated the trend by category of service (COS) as assumed in the CYE 17 capitation rates for the Acute Care program. Similarly, the Behavioral Health trend assumption for each coverage type used the cost trend assumed in the CYE 17 capitation rates for the RBHA program. For CRS Specialty Care services, AHCCCS developed a trend rate for each coverage type using member month data and encounters at CRS Specialty Care clinics, identifiable by a specific HCPCS procedure code, to develop a trend specific to CRS clinics. Then, that trend was weighted with the Acute services trend assumption to develop a trend for the Specialty Care component (as described in Section IV). Within the base period data, the members enrolled in each coverage type receive a distinct distribution of services among the Acute, Behavioral Health, and CRS Specialty Care components. Thus, the trends by component were weighted by the distribution appropriate for each coverage type in order to calculate an overall trend for each coverage type.

The trend rates used to project the gross medical expense per member per month (PMPM) by coverage type from the base period to the midpoint of the current rating year are shown below 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 by Coverage Type**

| Trend by Coverage Type | Fully Integrated | Partially Integrated / Acute | Partially Integrated / BH | CRS Only |
|---|---|---|---|---|
| Acute & Specialty Care Trend | 0.4% | -0.5% | 1.3% | -0.2% |
| Assumed Pct of Svcs that are BH | 3.7% | 0.0% | 15.5% | 0.0% |
| BH Trend from RBHA Rates | 2.3% | 2.3% | 2.3% | 2.3% |
| Pct of Expenses incurred at CRS Clinics | 26.7% | 3.9% | 13.9% | 47.0% |
| Clinic Fee Trend from Analysis | 5.3% | 5.3% | 5.3% | 5.3% |
| **Overall Trend by Coverage Type** | **1.7%** | **-0.2%** | **2.0%** | **2.4%** |

## VI. Gross Medical Expense PMPM by Coverage Type

AHCCCS used the gross medical expense PMPM by coverage type from the CYE 15 base period data, adjusted for subsequent programmatic and provider fee schedule changes, and applied the trend assumptions by coverage type described in Section V to develop the CYE 17 projected gross medical expense PMPM.

## VII. 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.)

**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 CRS program is an increase of approximately $2.0 million for twelve months.

**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 nine month impact to the CRS program is an increase of approximately $4.3 million.

**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, 0.5% for qualified AHCCCS-registered Arizona Hospital providers for inpatient and outpatient services, and 10% for qualified AHCCCS-registered Integrated Clinics for selected physical health services. Contractors are required to adopt the VBP Differential payment adjustments for qualified providers meeting the specific criteria. The estimated impact to the CRS program is an increase of approximately $0.4 million.

**Provider Reimbursement for AzEIP members**
The Arizona Early Intervention Program (AzEIP) is a program that provides services to enhance the capacity of families and caregivers to support infants and toddlers with developmental delays or disabilities in their development. AzEIP members may be AHCCCS enrolled, in which case AHCCCS pays for the services, or non-AHCCCS enrolled, in which case AzEIP pays directly. Effective October 1, 2016, AHCCCS is modifying the speech therapy rate structure for services provided to a member who is a child identified in the AHCCCS system as an AzEIP recipient in order to more closely align the rates with the AzEIP rate structure. This change is intended to assure continued access to care, particularly for rural AzEIP members, where providers often travel to provide services in the natural setting, and should limit the rate differential whether the provider is paid the AHCCCS rates or the AzEIP rates. This will ensure there is not different access to services for AzEIP children based on whether the payer is AHCCCS or AzEIP. The estimated impact to the CRS program is an increase of approximately $0.1 million.

**IMD 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 CRS program is immaterial.

## VIII. Projected Reinsurance Offsets

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 please refer to Section D, Paragraph 57, Reinsurance, of the CRS program contract.

The projected CYE 17 reinsurance offsets were developed using CYE 15 reinsurance payment information. The projected CYE 17 reinsurance offsets were developed using actual completed CYE 15 reinsurance payment data, trended forward two years using the trend assumptions for inpatient and pharmacy services from the Acute component of the capitation rates. The projected CYE 17 reinsurance offsets take into consideration that a single threshold for reinsurance will apply to the total encounters incurred under all of the program components for which each member is enrolled.

## IX. Projected Non-Benefit Costs

The administrative expense built into the capitation rates represents the administrative capitation rate PMPM awarded as part of the CYE 14 RFP, and then adjusted by AHCCCS. This component remains the same as CYE 16. The risk contingency load is set at 1% which remains the same as CYE 16.

## X. Proposed Capitation Rates and Budget Impact

The proposed capitation rates equal the sum of the gross medical expense PMPM in Section VI and the non-benefit costs from Section IX, less the reinsurance offset in Section VIII, divided by one minus two percent for premium tax. Tables IIa, IIb and IIc below summarize the projected member months, proposed capitation rates, and estimated total capitation by coverage type and in total on a statewide basis.

**Table IIa: Budget Impact of Proposed Capitation Rates Effective 10/1/2016 through 12/31/2016**

| Rate Cell | Fully Integrated | Partially Integrated/ Acute | Partially Integrated/ BH | CRS Only | Total |
|---|---|---|---|---|---|
| Q1 CYE 17 (10/1/16 - 12/31/16) Projected MMs | 51,805 | 519 | 19,642 | 3,436 | |
| CYE 16 Rate (1/1/16) | $830.84 | $800.81 | $755.20 | $477.12 | |
| CYE 17 Rate (10/1/16) | $841.21 | $587.16 | $793.20 | $475.31 | |
| Estimated Q1 CYE 17 Capitation, using 1/1/16 rates | $43,041,565 | $415,252 | $14,833,512 | $1,639,525 | $59,929,854 |
| Estimated Q1 CYE 17 Capitation, using 10/1/16 rates | $43,578,825 | $304,464 | $15,579,997 | $1,633,278 | $61,096,565 |
| Dollar Impact on estimated capitation | $537,260 | ($110,788) | $746,485 | ($6,247) | $1,166,710 |
| Percentage Impact on estimated capitation | 1.2% | -26.7% | 5.0% | -0.4% | 1.9% |

**Table IIb: Budget Impact of Proposed Capitation Rates Effective 1/1/2017 through 9/30/2017**

| Rate Cell | Fully Integrated | Partially Integrated/ Acute | Partially Integrated/ BH | CRS Only | Total |
|---|---|---|---|---|---|
| Q2-Q4 CYE 17 (1/1/17 - 9/30/17) Projected MMs | 156,845 | 1,570 | 59,468 | 10,404 | |
| CYE 17 Rate (10/1/16) | $841.21 | $587.16 | $793.20 | $475.31 | |
| CYE 17 Rate (1/1/17) | $851.82 | $587.16 | $801.25 | $481.28 | |
| Estimated Q2-Q4 CYE 17 Capitation, using 10/1 rates | $131,939,608 | $921,799 | $47,170,128 | $4,944,926 | $184,976,461 |
| Estimated Q2-Q4 CYE 17 Capitation, using 1/1 rates | $133,603,263 | $921,799 | $47,648,974 | $5,007,050 | $187,181,086 |
| Dollar Impact on estimated capitation | $1,663,655 | $0 | $478,845 | $62,124 | $2,204,625 |
| Percentage Impact on estimated capitation | 1.3% | 0.0% | 1.0% | 1.3% | 1.2% |

**Table IIc: Blended Capitation Rates and Combined Budget Impact of Both 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 | |
| CYE 16 Rate (1/1/16) | $830.84 | $800.81 | $755.20 | $477.12 | |
| Blended CYE 17 Rate | $849.18 | $587.16 | $799.26 | $479.80 | |
| Estimated CYE 17 Capitation (1/1/16 Rates) | $173,354,561 | $1,672,473 | $59,743,576 | $6,603,364 | $241,373,973 |
| Estimated CYE 17 Capitation (Blended CYE 17 Rates) | $177,182,087 | $1,226,264 | $63,228,971 | $6,640,328 | $248,277,650 |
| Dollar Impact on estimated capitation | $3,827,527 | ($446,209) | $3,485,395 | $36,964 | $6,903,677 |
| Percentage Impact on estimated capitation | 2.2% | -26.7% | 5.8% | 0.6% | 2.9% |

# XI. 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 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 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* *08/21/2016*
Matthew C. Varitek Date

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