

**Arizona Department of Health Services  
Division of Behavioral Health Services  
Actuarial Memorandum**

**I. Purpose**

The purpose of this actuarial memorandum is to demonstrate that the capitation rates for the Arizona Department of Health Services (ADHS), Behavioral Health Services (BHS) were developed in compliance with 42 CFR 438.6(c). It is not intended for any other purpose.

The Affordable Care Act (ACA) placed an annual fee on the health insurance industry nationwide including most Medicaid health plans effective January 1, 2014. The fee (hereafter identified as the Health Insurer Fee, or HIF) was allocated to health insurers based on their respective market share of premium revenue in the previous year. Arizona Health Care Cost Containment System (AHCCCS) intends to update capitation rates annually on a retroactive basis after the Treasury Department notifies each entity of its HIF amount due. Certain Contractors will be excluded from the HIF as determined by the Contractor and approved by the Internal Revenue Service (IRS).

This memorandum presents a discussion of a revision to the already approved Contract Year Ending 2015 (CYE 15) Acute Care capitation rates. The revision reflects the adjustment associated with the HIF. These capitation rates are updated retroactively for a period of one month, from October 1, 2014 to October 31, 2014.

**II. Overview of Changes**

The capitation rates and rate ranges in this memorandum equal the approved capitation rates for October 2014 plus the HIF liability plus the associated taxes.

Although the HIF liability amount is known, the 2015 income tax rates are not known until Spring of 2016 and if an extension is requested those income tax rates are not known until Fall of 2016. Thus, AHCCCS will be using assumed income tax rates to develop the revised capitation rates. This memorandum will also include a capitation rate range in case the Contractor's final 2015 income tax filing reflects a material difference between the actual tax rates and the assumed tax rates. Each range, as well as the revised capitation rate, is defined as follows:

- The minimum of the range equals the currently approved capitation rates for October 2014 plus the HIF plus premium tax (these amounts are all known)
- The maximum of the range equals the currently approved capitation rates for October 2014 plus the HIF plus the maximum federal and state income tax plus premium tax (the amount of the federal and state income tax are currently unknown)
- The certified capitation rate within the range equals the currently approved capitation rates for October 2014 plus the HIF plus the assumed federal and state income tax rates (or premium tax in lieu of state income tax as applicable) as reported by the Contractors

AHCCCS will perform a retroactive mass adjustment to the current approved capitation rates using the revised capitation rates certified in this memorandum. If a Contractor's 2015 income tax filing reflects a material difference between the actual tax rates and the assumed tax rates a second mass adjustment may occur.

Although the fees due from the Contractors in 2015 are based on applicable revenue received during 2014, CMS authorized AHCCCS to make retroactive capitation adjustments to just one month in order to limit the administrative burden.

### **III. Methodology for Calculating Capitation Adjustments**

#### **HIF Adjustments**

The BHS per member per month (PMPM) capitation ranges were developed separately for each Contractor based on the fee liability reported to AHCCCS. Each Contractor was notified of the fee liability for the entire entity by the Treasury Department. Contractors who received multiple streams of revenue applicable to the HIF calculation were responsible for allocating an appropriate portion of their fee liability to AHCCCS, which was verified by AHCCCS for reasonableness and appropriateness. The ranges of PMPM adjustments were developed based on the actual BHS member months by risk group during October 2014. AHCCCS will apply the HIF adjustment to the previously approved capitation rates to develop the revised capitation rates. This adjustment will be retroactive for the period of October 1, 2014 through October 31, 2014. The estimated impact to the BHS program of this retroactive capitation rate adjustment is a statewide increase of approximately \$11.0 million.

#### **Administration/Risk Contingency/Premium Tax Components**

The administration and risk contingency components were not impacted by the above changes. The premium tax component was impacted by the above changes.

### **IV. Proposed Revised Capitation Rates and Their Impacts**

Table I includes the net capitation rate ranges on a statewide basis as well as the estimated budget impact of the proposed revised payments. Table II contains the proposed revised rates and ranges displayed by risk group.

**Table I****Proposed Capitation Rates and Budget Impact**

Rate Cell	Non-CMDP Children (Title XIX + XXI)	CMDP Children	Title XIX GMH/SA + Title XXI Adult	Non-Integrated SMI	Total
October 2014 Member Months	645,707	15,100	749,392	749,235	2,159,434
Currently Approved Rate	\$37.14	\$924.13	\$44.13	\$33.92	
Currently Approved Estimated Capitation	\$23,981,558	\$13,954,363	\$33,070,669	\$25,414,051	\$96,420,641
Proposed Revised Rate	\$41.38	\$1,029.72	\$49.17	\$37.80	
Proposed Revised Estimated Capitation	\$26,721,551	\$15,548,707	\$36,849,131	\$28,317,712	\$107,437,101
Proposed Revised Dollar Impact	\$2,739,993	\$1,594,344	\$3,778,462	\$2,903,661	\$11,016,460
Proposed Revised Percentage Impact	11.4%	11.4%	11.4%	11.4%	11.4%

**Table II****Minimum and Maximum of Ranges for Revised Capitation Rates**

Rate Cell	Non-CMDP Children (Title XIX + XXI)	CMDP Children	Title XIX GMH/SA + Title XXI Adult	Non-Integrated SMI
Proposed Revised Rate	\$41.38	\$1,029.72	\$49.17	\$37.80
Minimum of Range for Revised Rate	\$39.73	\$988.47	\$47.20	\$36.28
Maximum of Range for Revised Rate	\$41.42	\$1,030.52	\$49.21	\$37.83

## V. 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 rate ranges were developed using generally accepted actuarial principles and practices and are considered to be actuarially sound. The capitation rate ranges 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 rate ranges are appropriate for the Medicaid populations covered and Medicaid services to be furnished under the contract. The capitation rate ranges may not be appropriate for any other purpose. The documentation has been included with this certification. The proposed actuarially sound capitation rates that are associated with this certification are effective for the one-month period October 1, 2014 to October 31, 2014.

In developing the actuarially sound October 2014 capitation rates and the actuarially sound methodology for the HIF capitation adjustments, I have relied upon data and information provided by ADHS/DBHS, the Contractors' and the AHCCCS internal databases. I have accepted the data without audit and have relied upon ADHS/DBHS and the Contractors' auditors and other AHCCCS employees for the accuracy of the data. Checks for consistency and reasonableness to the extent possible and practical were applied.

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 ADHS/DBHS program, Medicaid eligibility rules and actuarial rating techniques. It is intended for AHCCCS, ADHS/DBHS 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

11/12/2015

Date

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