

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

## **I. Purpose**

The purpose of this actuarial memorandum is to demonstrate that the capitation rates for the Children's Rehabilitative Services (CRS) program 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. The CRS program is administered statewide by a sole Contractor.

This memorandum presents a discussion of a revision to the already approved Contract Year Ending 2014 (CYE 14) CRS capitation rates for the Fully Integrated and Partially Integrated/ Acute coverage types. The revision reflects the adjustment associated with the HIF. These capitation rates are updated retroactively for a period of one month, from October 1, 2013 to October 31, 2013.

## **II. Overview of Changes**

The amounts certified in this memorandum represent ranges of revised capitation rates. Each range is defined as follows:

- The minimum of the range equals currently approved capitation rates for October 2013 plus the HIF plus premium tax (these amounts are all known)
- The maximum of the range equals currently approved capitation rates for October 2013 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 capitation adjustments to the rates for the CRS Integrated coverage types receiving adjustment are subject to federal and state income taxes. However, the exact amount of income tax liabilities incurred by the sole Contractor will not be known until the Contractor files its income tax return for 2014. Thus AHCCCS will perform mass adjustments to capitation in two steps. The first step will be a mass adjustment of the capitation rates to apply the minimum of the rate ranges. The second step will be a mass adjustment of the capitation rates to apply adjustments up to the maximum of the rate ranges, and will occur sometime in the late spring approximately 6 months after the first mass adjustment. If there is no income tax liability a second mass adjustment will not occur.

The capitation adjustment for each coverage type is developed on a statewide basis using member months for October 2013. Although the fee due from the sole Contractor in 2014 is based on applicable revenue received during 2013, CMS authorized AHCCCS to make retroactive capitation adjustments to just one month in order to limit the administrative burden related to performing mass adjustments.

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

#### **HIF Adjustments**

The CRS per member per month (PMPM) capitation ranges were developed on a statewide basis by coverage type based on the fee liability reported to AHCCCS. The sole Contractor was notified of the fee liability for the entire entity by the Treasury Department. The sole Contractor received multiple streams of revenue applicable to the HIF calculation and was 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 using the actual CRS member months by coverage type during October 2013. Due to IT system constraints, the HIF adjustment is being applied only to the Fully Integrated and Partially Integrated/Acute coverage types. 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, 2013 through October 31, 2013. The estimated impact to the CRS program of this retroactive capitation rate adjustment is a statewide increase of approximately \$2.0 million to \$3.3 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 by coverage type on a statewide basis as well as the estimated budget impact of payments at the minimum and maximum of each range. The impact to the October 2013 capitation rates ranges from 15.3% to 25.2%.

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

Coverage Type	Fully Integrated	Partially Integrated/Acute
October 2013 Member Months	17,405	158
Currently Approved Rate	\$741.22	\$656.43
Currently Approved Estimated Capitation	\$12,900,833	\$103,907
Minimum of Range for Revised Rate	\$854.36	\$756.63
Minimum of Range for Revised Estimated Capitation	\$14,870,066	\$119,767
Minimum of Range for Dollar Impact	\$1,969,233	\$15,861
Minimum of Range for Percentage Impact	15.3%	15.3%
Maximum of Range for Revised Rate	\$928.32	\$822.13
Maximum of Range for Revised Estimated Capitation	\$16,157,335	\$130,135
Maximum of Range for Dollar Impact	\$3,256,502	\$26,229
Maximum of Range for Percentage Impact	25.2%	25.2%

## 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, 2013 to October 31, 2013.

In developing the actuarially sound October 2013 capitation rates and the actuarially sound methodology for the HIF capitation adjustments, I have relied upon data and information provided by the sole Contractor and the AHCCCS internal databases. I have accepted the data without audit and have relied upon the sole Contractor 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.

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.

*Matthew C. Varitek*

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Matthew C. Varitek

11-12-2014

Date

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