Actuarial Certification of the Non-Benefit Costs (Administrative and UW Gain Bids)

The 2018 Medicaid Managed Care Rate Development Guide (2018 Guide) issued by CMS describes the rate development standards and appropriate documentation to be include within Medicaid managed care rate certification. This certification has been organized to follow the 2018 Guide to help facilitate the review of this rate certification by CMS and AHCCCS. The following certification covers section 5 of the guide, Projected Non- Benefit Costs.

5. Projected Non-Benefit Cost Section

A. Rate Development Standards

i. Overview

The purpose of this document is to certify the non-benefit cost bid submission for UnitedHealthcare's response to Contract/RPF No. YH19-0001. In accordance with 42 CFR 438.5(e) the non-benefit component of the capitation rate includes reasonable, appropriate and attainable expenses related to MCO operation of the AZ Complete Care managed care program. The methodology described was applied to each of the 6 potential scenarios:

1. North
2. Central
3. South
4. North + South
5. North + Central
6. Central + South

ii. PMPM versus percentage basis

The non-benefit cost was developed as a PMPM amount for each of the six scenarios submitted. Each individual scenario bid stands alone.

iii. Basis for variation in assumptions

A PMPM cost has been developed for both fixed and variable costs for each scenario. Fixed costs are costs that do not change in relation to utilization or enrollment. At a minimum these costs include the salaries, employee related expenses, and related operating costs for all required key staff and additional required staff/positions listed in the contract. Variable costs are costs that change with utilization and/or enrollment changes.

Per Contract/RPF No. YH19-0001, Amendment 1, UnitedHealthcare will rely on AHCCCS to distribute the adjusted administrative PMPM by developing benefit cost relativities based on the projected member costs by risk group. We will also rely on AHCCCS to sufficiently adjust the variable administrative bid rate for each risk group and GSA using contractor specific relative cost ratios.

iv. Health insurance provider's fee.

The Health Insurance Providers Fee (HIPF) is not included in these rates. Per Contract/RPF No. YH19-0001 Section D, AHCCCHS shall make a capitation rate adjustment consistent with a methodology approved by CMS to approximate the cost associated with the HIPF.

B. Appropriate Documentation

i. Development of non-benefit costs

(a) Description of the data, assumptions and methodologies

Data

The primary data sources used in the development of the non-benefit costs are listed below:

- Historical non-benefit expense loads
- A detailed survey of internal functional areas
- Non-benefit loads in comparable state Medicaid programs

Assumptions and methodology

In developing the non-benefit costs, we reviewed historical state specific managed care administrative costs loads for the Acute, CRS and RBHA contracts. For each GSA scenario we considered the anticipated membership and the resulting economies of scale that could be achieved, along with the benefits covered and the demographics of the Arizona Complete Care population. We surveyed internal functional areas to determine appropriate staffing and other needs related to the contract.

Historic non-benefit expense assumptions were utilized, adjusted for additional administrative requirements since the development of the historical expenses. We have compared this load to actual administrative costs in Contract Year Ending 2018 Acute, CRS, and RBHA rates as well as administrative loads added to capitation rates in other comparable state Medicaid programs. Both of these comparisons lead us to believe that the non-benefit load rate developments are reasonable.

(b) Material Changes

Considerations in development were given for programmatic and administrative requirement changes since the development of the historical administrative rates. Additionally considerations were given for economies of scale and efficiencies gained through the integration of physical and behavioral health programs.

(c) Descriptions of other material adjustments

There were no other adjustments (material or non-material) to the projected non-benefit expenses bid in each GSA.

ii. Non-benefit costs, by cost category

(a) Administrative costs

Non-benefit costs were developed by GSA, utilizing historical applied non-benefit expenses and results of internal functional area survey. The non-benefit cost allowed was reviewed in aggregate by GSA scenario, with anticipated further actuarially sound adjustments to be applied by AHCCCS. The resulting non-benefit costs by GSA win scenario are illustrated in the table below.

Admin Component	North	Central	South	North + South	North + Central	Central + South
% of Admin PMPM that is fixed	42.56%	24.40%	31.29%	26.76%	20.02%	18.81%
% of Admin PMPM that is variable	57.44%	75.60%	68.71%	73.24%	79.98%	81.19%
Total Admin PMPM (All Admin Expenses)	$28.89	$22.83	$22.84	$26.17	$25.54	$21.58

(b) Taxes, licensing and regulatory fees, and other assessments and fees

As indicated in the RFP, AHCCCS will include a provision for premium tax and any other applicable taxes, fees, or assessments for this filing. UnitedHealthcare did not include any provisions for these fees.

(c) Contribution to reserves, risk margin, and cost of capital

A provision for risk margin, by GSA and contract year, as a percent of the gross medical component for each GSA is given in the table below.

UW Gain	North	Central	South	North + South	North + Central	Central + South
Year 1	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Year 2	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Year 3	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%

The Society of Actuaries (SOA) 2017 report, "Medicaid Managed Care Organizations: Considerations in Calculating Margin in Rate Setting," indicates that most state's capitation rates include an explicit provision for margin in recent periods ranging from 0.5% to 2.5%. UnitedHealthcare's bid falls within this national range. UnitedHealthcare sets margins based on financial needs and expectations, in alignment with business strategies, including competitiveness of current bid. Population risk adjustment as described in Contract/RPF No. YH19-0001, risk corridors and other risk mitigation approaches alleviate some of the burden of unexpected claim volatility and other financial risks. For these reasons, UnitedHealthcare has no concerns with meeting the capitalization requirements with the underwriting gain bid above.

AHCCCS is awaiting CMS requirements of the actuarial certification for the underwriting gain if it is bid rather than developed by AHCCCS actuaries. If AHCCCS elects not to apply the conditions required by CMS for documentation, the underwriting gain bid above will not be used in the capitation rates. In the event the underwriting gain bids are

not utilized in the capitation rate development, AHCCCS will set the underwriting gain equal to one percent of the gross medical component.

(d) Other material non-benefit costs

The required submission document, "Section F-Non-Benefit Cost Bid Submission – amended.xlsx" includes a detail admin break out section for each component of the non-benefit cost submission.

iii. Health insurance providers fee

(a) Whether the fee is incorporated in the rates

See section 5.A.iv. The Health Insurance Providers Fee (HIPF) is not included in these rates.

(b) Fee year or data year

See section 5.A.iv. The Health Insurance Providers Fee (HIPF) is not included in these rates.

(c) Fee impact to rates

See section 5.A.iv. The Health Insurance Providers Fee (HIPF) is not included in these rates.

(d) Timing of adjustment

See section 5.A.iv. The Health Insurance Providers Fee (HIPF) is not included in these rates.

(e) Identification of long-term care benefits

See section 5.A.iv. The Health Insurance Providers Fee (HIPF) is not included in these rates.

Actuarial Certification

I, Bonnie M. Punch, Actuary at UnitedHealthcare and Member of the American Academy of Actuaries (MAAA) and an Associate of the Society of Actuaries (ASA), am certifying that the non-benefit component of the capitation rate includes reasonable, appropriate and attainable expenses related to MCO operation of the AZ Complete Care managed care program for the contract period. I meet the qualification standards established by the American Academy of Actuaries and have followed the practice standards established by the Actuarial Standards Board, specifically the guidance put forth in ASOP #49.

Bonnie M. Punch, ASA, MAAA – Director, Actuarial Services

1/18/2018
Date