4500 E. Cotton Center Blvd.
Phoenix, AZ 85040

November 2, 2021

Arizona Health Care Cost Containment System Administration (AHCCCS)
Procurement Office (First Floor)
Meggan LaPorte, CPPO, MSW
Chief Procurement Officer
701 E. Jefferson, MD5700
Phoenix, Arizona 85034

RE: Best and Final Offer For Competitive Contract Expansion (CCE) Solicitation #YH20-0002 – C3, Revised Actuarial Certification

On Friday, October 22nd, AHCCCS requested a Best and Final Offer (BAFO) from the Offeror of its Administrative Cost Bid for CCE Solicitation #YH21-002. In response to the BAFO request, Mercy Care is providing this updated actuarial certification and Administrative Cost Bid, included separately in the Administrative Cost Bid workbook. The purpose of this actuarial certification is to provide further support to the originally submitted cost proposal as well as document the source of changes in the updated cost bid. This document is intended solely for use by AHCCCS in the evaluation of Mercy Care's Administrative Cost Bid proposal BAFO response. The projections and assumptions described within this certification must be viewed in aggregate and should not be reviewed independent of the other projections and assumptions contained herein.

Base Experience Data and Adjustments

AHCCCS provided more than three years of detailed encounter data and financial records of the current contract holder, by county. The encounter data included claims for the Serious Mental Illness (SMI) and Crisis programs under the RBHA for contract years ending (CYE) in 2018, 2019, 2020 and the first quarter of CYE 2021 (October 1, 2020 through December 31, 2020). The financial statements were also included for the same timeframe - CYE 2018, 2019, 2020 and the first quarter of CYE 2021 (October 1, 2020 through December 31, 2020).

In our evaluation of the encounter data for the Central GSA including Maricopa, Gila, and Pinal counties, we found the encounter data to be credible. We used the CYE 2020 data provided as the base data for our financial projection model. We also reviewed the emerging trends from Mercy Care's own experience through the first six months of 2021. We increased the base period, CYE 2020, expenses for SMI and Crisis 4.0% and 2.3%, respectively. These increases accounted for the downturn in expenses because of the stay-

at-home orders at the outset of the COVID pandemic and the subsequent COVID+ waves in the summer and winter of 2020 in Arizona, which temporarily suppressed utilization. Beginning in March 2021, mental health costs have increased significantly, especially the costs related to inpatient and outpatient substance use services likely triggered by social isolation during the time communities were required to socially isolate, defer elective procedures and school's implemented remote learning.

Projected Medical Expenses

We continually analyze the change in historical medical costs for all our lines of business, controlling for known changes to benefits, provider reimbursement, membership mix, and risk profile. We also analyze and review published literature from consultants, federal government agencies and state government agencies.

In addition to expecting many services to return to pre-pandemic levels, we also expect some services to increase as a result of the pandemic. We expect an increase in Child Crisis utilization as more children will be returning to in-person learning for the 2021-2022 school year and many will not have continued their social development having been required to engage in remote learning for more than one school year. We also expect an increase in Adult Crisis utilization due to the lingering effects of the Public Health emergency.

To develop our medical expense projections, we used overall trend assumption of 2.3% for SMI; 1.3% for utilization per 1,000 and 1.0% for unit cost, and 2.0% for Crisis; 1.0% for utilization per 1,000 and 1.0% for unit cost. The number of months between the base period (CYE 2020) and contract period, October 2022 through September 2023, is 36 months.

Membership growth was assumed to increase at a rate of 3.0% per year for the projection period.

Administrative Expense Load

In our evaluation of the historical administration loads for the SMI and Crisis programs, we noted that the loads were 7.9% and 7.9%, respectively, in the CYE2021 capitation rates. For the CYE2022 capitation rates, the loads are 8.0% and 6.0%, respectively, for an average of 7.83%.

Mercy Care has been the Contractor of the SMI and Crisis programs in Maricopa County since April 2014. Since that time, they have proactively worked with AHCCCS to ensure the programs are being effectively managed, supported and the appropriate level of resources are dedicated to improving the health, well-being, and satisfaction of the individuals in these programs

Mercy Care successfully addressed the decades-long Arnold vs. Sarn lawsuit requirements by working in partnership with AHCCCS while remaining compliant with increased fidelity scores and service utilization. Mercy Care achieved top scores in our Operational Review with a recent draft score of 97% and ranked high in member and provider satisfaction as outlined in B1 section of the narrative in the bid document.

Mercy Care continues to reinvest in the program, improving administrative efficiencies and removing redundancies while improving health outcomes and effectively managing the physical and behavioral health costs too. Mercy Care plans to increase the resources dedicated to specific services, expertise, and technology without additional funding; they plan to achieve this by finding additional and greater efficiencies in other processes. A few examples (not a complete list) are enumerated here based on the bid document:

- Adding staff to support tribal members, implementation, and oversight of Evidence Based Practice (EBP) and care coordination to ensure transitions in care
- Available value adds to address member outcomes including tablets to assist individuals in accessing and staying connected to services via telehealth and text notifications
- Access to Mercy Care's new member portal, Mercy Care Connect, and other applications to reduce social loneliness
- Implementation of enhanced care management and case management models of care and enhanced crisis service delivery
- Expanded access to services through community health workers and implementation of community resource centers

Based on our calculation of the projected medical expenses as noted above, we developed a range of administrative expense loads that we determined to be actuarially sound. Mercy Care's initial administrative cost bid was 7.8% of the projected capitation rates or $5.46 pmpm which was within our actuarially sound administrative expense load range.

Updated Administrative Cost Bid

After careful consideration and re-evaluation of the administrative expense resource needs to support the SMI and Crisis programs appropriately and adequately, Mercy Care has decided to update the administrative cost bid proposal to 7.7% or $5.39 pmpm for CYE2023. Mercy Care is still committed to continually looking to reinvest in the program to improve administrative efficiencies and removing redundancies. This updated administrative cost bid is still within our actuarially sound administrative expense load range.

This bid reduction is representative of Mercy Care's dedication to continually finding efficiencies and passing those savings on to AHCCCS. This reduction is roughly $0.95M for CYE2023 and a projected $5.3M for the life of the contract.

Change in Administrative Cost Bid

	CYE 23	Life of Contract
Projected Mmos	13,667,822	72,564,323
Initial Bid	$ 74,589,490	$ 416,479,763
BAFO Update	73,633,214	411,140,279
Change	**(956,276)**	**(5,339,484)**

Deviation of projected future events and actual outcomes

Our assessment of the proposed capitation rates is based on a projection of future events, medical expenses, membership levels and administrative expenses. Actual experience can and will vary from the experience assumed in the rates. Differences between the projection of future events and actual results depend on the extent to which future experience conforms to the assumptions made during the evaluation. It should be recognized that future events frequently do not occur exactly as expected; there are usually differences between projected and actual results. The projections were developed based on a best estimate of future events and should be viewed as such.

ACTUARIAL CERTIFICATION

I, Jason Strandquist, am an employee of Aetna Life Insurance Company, the contracted administrator for Mercy Care. I am also a member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. I have reviewed the assumptions and methods used to develop the non-benefit cost proposal submitted for the CCE Solicitation No. YH20-0002. I meet the qualification standards established by the American Academy of Actuaries and have followed the practice standards established by the Actuarial Standards Board.

In developing the assessment, I relied upon certain data and information provided by AHCCCS and Mercy Care. I have reviewed the data without audit and have relied upon AHCCCS and Mercy Care for the accuracy of the data.

In my opinion, the assumptions used in developing the non-benefit cost proposal for CCE No. YH20-002 are actuarially sound for the purposes of 42 CFR 438.5(e), according to the following criteria:

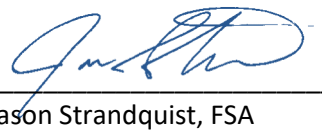
- "*The development of the non-benefit component of the rate must include reasonable, appropriate, and attainable expenses related to MCO, PIHP, or PAHP administration, taxes, licensing and regulatory fees, contribution to reserves, risk margin, cost of capital, and other operational costs associated with the provision of services identified in § 438.3(c)(1)(ii) to the populations covered under the contract*."

To ensure compliance with generally accepted actuarial practices and regulatory requirements, we referred to published guidance from the American Academy of Actuaries (AAA), the Actuarial Standards Board (ASB), the Centers for Medicare and Medicaid Services (CMS), and federal regulations. Specifically, the following were referenced during the rate development:

- Actuarial Standards of Practice (ASOP) applicable to Medicaid managed care rate setting: ASOP 5 (Incurred Health and Disability Claims), ASOP 23 (Data Quality), ASOP 25 (Credibility Procedures), ASOP 41 (Actuarial Communications), ASOP 45 (The Use of Health Status Based Risk Adjustment Methodologies) and ASOP 49 (Medicaid Managed Care Rate Development and Certification).
- The most recent *Medicaid Managed Care Rate Development Guide* published by CMS.

For the purposes of this attestation, and consistent with the requirements under 42 CFR § 438.4(a), "actuarial soundness" is defined as in ASOP 49:

> *"Medicaid capitation rates are "actuarially sound" if, for business for which the certification is being prepared and for the period covered by the certification, projected capitation rates and other revenue sources provide for all reasonable, appropriate, and attainable costs. For purposes of this definition, other revenue sources include, but are not limited to, expected reinsurance and governmental stop-loss cash flows, governmental risk adjustment cash flows, and investment income. For purposes of this definition, costs include, but are not limited to, expected health benefits, health benefit settlement expenses, administrative expenses, the cost of capital, and government-mandated assessments, fees, and taxes."*



Jason Strandquist, FSA
Member, American Academy of Actuaries

November 2, 2021
Date