CYE2025 ALTCS E/PD

Administrative and Case Management Actuarial Certification

October 23, 2023

Section 1
Introduction

Banner-University Care Advantage dba Banner-University Family Care (hereafter referred to as BUFC) has developed actuarially sound administrative and case management components for the 12-month period from October 1, 2024 through September 30, 2025 (CYE2025).

Per 42 CFR §438.7(b)(3), the Centers for Medicare & Medicaid Services (CMS) requires that a rate certification and supporting documentation describing the development of non-benefit costs be submitted and must meet several criteria for approval, including the following:

- Have been developed in accordance with generally accepted actuarial principles and practices.
- Are appropriate for the populations to be covered and the services to be furnished under the contract.
- Have been certified by actuaries who meet qualification standards established by the American Academy of Actuaries and Actuarial Standards Board.

The following report provides an overview of the analyses and methodologies used to develop the CYE2025 administrative and case management components for purposes of Arizona Long Term Care System Elderly/Physical Disability (ALTCS E/PD) RFP YH24-0001. The report follows the currently available outline of the CMS July 2023 through June 2024 Medicaid Managed Care Rate Development Guide (RDG), which is applicable to contract periods beginning on or after July 1, 2023. The final administrative and case management bid components are included in a separate attachment.

This document is the result of requirements for the AHCCCS ALTCS RFP as outlined in Section F of the provided data supplement. It should be read in its entirety and has been prepared under the direction of Zach Aters, ASA, MAAA who is a member of the American Academy of Actuaries and meets its US Qualification Standard for issuing statements of actuarial opinion herein.

To the best of BUFC's knowledge, there are no conflicts of interest in performing this work. BUFC expressly disclaims responsibility, liability, or both for any reliance on this communication by third parties or the consequences of any unauthorized use.

Section 2
Data

The most recent three years of experience available at the time of non-benefit cost development were CYE2021, CYE2022, and CYE2023 (partial year). In reviewing the data, BUFC determined that the CYE2022 data was appropriate to use as the basis for the CYE2025 administrative cost component and CYE2023 annualized for the case management component.

The data utilized was BUFC administrative and case management costs. BUFC assessed the quality and completeness of the data per Actuarial Standards of Practice 23 (Data Quality) to deem the data sufficient to support non-benefit cost development. Validation efforts included reviews of the data for changes year-over-year, errors in reporting including missing or duplicated data, and overall reasonableness and consistency of the data to ensure it was reasonable to develop the non-benefit costs.

Along with describing the underlying experience, adjustments applied to this data are described in this section.

Base Data Source: As stated above, the CYE2022 and CYE2023 time periods serves as the basis for CYE2025 non-benefit cost development. BUFC validated and reviewed the data to ensure it was appropriate for the populations and services covered in the ALTCS program. This review included comparisons of the data to the previous years' experience. After reviewing the data, BUFC identified adjustments within the administrative cost data and the impact across the ALTCS program are as follows:

- Inclusion of costs allocated for sub capitation block administration of approximately $460,000.
- Inclusion of Program Integrity Fraud, Waste and Abuse Prevention Expenses of approximately $125,000.
- Certain costs had been allocated to the Other Administrative component of the overall administration costs. For CYE2022, BUFC had reported a negative amount due to re-allocation to other categories. As it is not expected to continue at a negative rate, BUFC made an adjustment to reflect this category at approximately $500,000 based on historical experience.

Section 3

Administrative Cost Development

After the base data was reviewed and adjusted as described in Section 2, BUFC applied several assumptions in the development of the projected CYE2025 administrative cost component for the ALTCS bid. These assumptions are described in detail in this section.

Fixed and Variable Cost Assumptions

Fixed and variable costs were identified using historical (CYE2022) experience at the General Ledger (GL) Account level and were aggregated into the AHCCCS Account categories seen in the administrative cost template (provided in the Data Supplement, Section F). These fixed and variable costs were projected separately by Geographic Service Area (GSA) and population group. Splitting fixed and variable costs prior to projection allowed BUFC to better reflect the economies of scale that could be realized in the administrative cost bid. Adjustments were applied to the aggregate administrative expense to reflect these economies of scale achieved for fixed costs stemming from enrollment growth.

Once projected, the individual categories outlined in the administrative cost template were reviewed to ensure that an appropriate assumption of fixed and variable costs had been applied. The overall fixed administrative cost percentage is projected to be approximately 30%.

Projected Admin Trend

As part of the CYE2025 administrative cost development, BUFC reviewed historical administrative data to apply trend to major admin categories. These assumptions do not vary by GSA or population. The final trend factors were applied from the mid-point of the base period (April 1, 2022) to the mid-point of the CYE2025 period (April 1, 2025). This reflects 36 months of movement for trend application. The aggregate adjustment for trend is represented as an annualized value and is summarized in the table below:

Category	Assumption
Compensation	2%
Case Management/Coordination	2%
Fraud Reduction/HCQI	2%
Depreciation/Bank Service/Subcap Block/FWA	0%
Interest Expense	-37%
All Other Categories	1%
Total	**-0.8%**

Note, the total annualized trend applied is negative due to the large interest expense incurred in CYE2022. Throughout 2022 and into 2023, BUFC has increased the number of claims processed through auto adjudication. This has substantially decreased the volume of aged, pended claims and reduced the interest expense in emerging 2023 experience. This is expected to continue as BUFC continues to increase utilization of the auto-adjudication process.

Re-allocation Assumptions

As noted in Section 2, BUFC's administrative claims data reflects a mid-year change to Banner Health's overall administrative cost allocation methodology. Banner Health strives to continuously improve processes and as such, periodically reviews and updates the methodology used to allocate administrative costs across multiple lines of business. As part of the due diligence in response to this ALTCS E/PD RFP, BUFC (and Banner Health) reviewed the allocation methodology, staffing models, and enrollment growth modeling to determine a current best estimate of administrative allocation to the ALTCS E/PD line of business.

BUFC reviewed each category provided in the administrative bid template in detail utilizing more recent data and trends to determine an appropriate adjustment by category. The resulting aggregate impact to the ALTCS program is expected to be a reduction of approximately 38%.

Community/Institutional Mix

After all other adjustments described above were applied, BUFC developed an assumption for the projected CYE2025 community/institutional mix. The purpose of this assumption is that overall administrative costs are impacted by the number of members residing in the community or institutional setting. Since more case management is needed when members reside in the community, administrative costs may increase for these members, whereas the costs may

decrease due to limited case management needed in an institutional setting. The overall CYE2025 mix assumptions vary by GSA and dual status and are displayed in the table below:

GSA/Population	Assumption
Central Dual	76%
Central Non-Dual	63%
South Dual	73%
South Non-Dual	69%
North Dual	69%
North Non-Dual	69%

Final Projected Administrative Cost

After all adjustments described above have been applied, BUFC calculated the final projected administrative cost for each of the six membership tiers as outlined in the Section F of the ALTCS-EPD RFP YH24-0001 document.

BUFC developed various membership scenarios based on potential GSA awards to provide AHCCCS with the administrative bid amount by tier as requested. The scenarios selected for completing the template were those that BUFC felt were most likely to occur. The table below assumes the following CYE2025 membership scenarios for each of the six tiers in the bid template:

MM Scenario Tier	GSAs Awarded	Assumed MMs	Community Mix %	Dual Mix %
0-34,999 MMs	Central	33,543	73.1%	80.9%
35,000-69,999	Central, North	44,031	72.1%	81.9%
70,000-104,999	Central, South[1]	80,170	72.8%	82.4%
105,000-139,999	Central, South[2]	121,308	72.8%	81.7%
140,000-174,999	Central, South, North[3]	149,901	72.6%	81.7%
175,000+	Central, South, North[4]	175,745	72.2%	82.2%

[1] Central: All incumbents retain contracts, South: All incumbents retain contracts.
[2] Central: Banner and one new entrant, South: All incumbents retain contracts.
[3] Central: Banner and two new entrants, South: All incumbents retain contracts, North: All incumbents retain contracts.
[4] Central: Banner and two new entrants, South: One new entrant, North: Banner only.
The bid amounts for each tier are included in a separate attachment.

Section 4
Case Management Cost Development

The case management cost assumption was developed utilizing the data supplement provided by AHCCCS. BUFC relied upon the AHCCCS prescribed values and calculations as outlined in Section F of ALTCS-E/PD RFP YH24-0001. BUFC did not audit or alter the assumptions or calculations provided in the template. In our opinion, it is appropriate for the intended case management development. However, if the data and information are incomplete/inaccurate, the values shown in the case management bid template may differ significantly from values that would be obtained with accurate and complete information; this may require a later revision to the report.

For the values that BUFC input to the template (compensation, members per case manager, travel expenses, case managers/support staff per supervisor), details are provided in the remainder of this section.

Assumptions

Average Compensation

BUFC reviewed more recent salary data by GSA (from CYE2023) for case managers, supervisory roles, and support staff as a basis to estimate the average compensation requested in the case management bid template. North GSA average compensation rates were estimated by analyzing BUFC's statewide compensation in CYE2023. A trend rate of 2.5% was applied to project the costs to CYE2025.

Average Travel Cost

BUFC reviewed more recent travel costs by GSA from CYE2023 through August 2023 for traveling case managers. These incurred costs were annualized and allocated to the GSAs in which the case managers work. North GSA travel costs were estimated by analyzing the CYE2023 costs for case managers who primarily work in the South GSA outside of Pima. A trend rate of 2.5% was applied to project the costs to CYE2025.

Maximum Case Managers

The assumptions for the maximum case managers by setting is based on the prescribed values in the AHCCCS Medical Policy Manual 1630 Section D. BUFC did not vary from these prescribed values for purposes of the bid development.

Case Managers and Administrative Support Staff per Supervisor

The assumption for the case managers per supervisor meets the standard set forth in the current approved case management plan submitted to AHCCCS annually.

BUFC estimated the administrative support staff per supervisor based on the observed CYE2022 and CYE2023 averages. The assumption is sufficient to support the supervisors and ALTCS population and is not expected to vary significantly in the CYE2025 projected period.

Section 5
Other Considerations

Financial Viability

BUFC has no concern meeting the financial viability standards as defined in ACOM Policy 505 and as outlined in Section D.48 of RFP No. YH24-0001. This includes:

- Maintaining a Current Ratio of at least 1.00
- Equity per member value of at least $3,000 (for CYE2025), $3,500 for CYE2026, and $4,000 for CYE2027 and thereafter
- An administrative cost percentage no greater than 8%
- Equity per member of at least $350 for the AHCCCS-certified Dual Special Needs Plan, Banner Medicare Advantage Dual

Section 6
Certification of Final Costs

This certification assumes items in the bid documentation will not be altered and are final. In preparing the administrative and case management rates, BUFC used and relied upon our own enrollment, eligibility, and non-benefit cost information from our data systems. We have reviewed it for validity, completeness, and consistency and reasonableness for the intended bid documentation purposes.

Because modeling all aspects of a scenario is not possible or practical, BUFC may use summary information, estimates, or simplifications of calculations to facilitate modeling of future events in an efficient and cost-effective manner. BUFC may also exclude factors or data that are immaterial in our judgement. Use of such simplifying techniques does not, in our judgement, affect the reasonableness, appropriateness, or attainability of the results for the ALTCS program. Actuarial assumptions may also be changed in subsequent certifications because of changes in mandated requirements, program experience, changes in expectations about the future, and other factors. A change in assumptions is not an indication that the assumptions outlined in the report were unreasonable, inappropriate, or unattainable when they were made.

BUFC certifies that the administrative and case management rates shown in the bid templates were developed in accordance with generally accepted actuarial practices and principles and are appropriate for the ALTCS covered populations and services under the AHCCCS contract. The undersigned actuary is a member of the American Academy of Actuaries and meets its qualification standards to certify to the actuarial soundness of the administrative and case management rates. To the best of BUFC's knowledge, there are no conflicts of interest in performing this work.

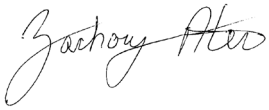
These costs developed by BUFC are actuarial projections of future contingent events. All estimates are based upon the information and data available at a point in time and are subject to unforeseen and random events. Therefore, any projection must be interpreted as having a likely, and potentially wide, range of variability from the estimate. Any estimate or projection may not be used or relied upon by any party or for any other purpose than for which it was issued

by BUFC. BUFC is not responsible for the consequences of any unauthorized use. Actual costs will differ from these projections. BUFC has developed these cost estimates to demonstrate compliance with the CMS requirements under 42 CFR §438.7(b)(3) and accordance with applicable law and regulations. Use of these estimates for any purpose beyond stated may not be appropriate. BUFC disclaims any responsibility for use of these estimates by any other contractor for any purpose.

This report assumes the reader is familiar with the AHCCCS ALTCS program, Medicaid eligibility rules, and actuarial rating techniques. It has been prepared exclusively for AHCCCS and should not be relied upon by third parties. Other readers should seek the advice of actuaries or other qualified professional competent in the areas of actuarial projections to understand the technical nature of these estimates. BUFC is not responsible for, and expressly disclaims liability for, any reliance on this report by third parties.

This report is deemed final and acceptable. If there are any questions regarding this report, please contact Zach Aters at Zachary.Aters@bannerhealth.com.

Sincerely,



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