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Health Net Access, Inc. dba Arizona Complete Health-Complete Care Plan

Administrative and Case Management Cost Bid for RFP NO. YH24-001 ALTCS E/PD Program

Best and Final Offer (BAFO)
Revised Actuarial Certification

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Introduction

Health Net Access Inc., dba Arizona Complete Health-Complete Care Plan currently serve Arizona residents statewide through our ACC-RBHA and Medicare D-SNP programs. We are bidding on the ALTCS E-PD Contract Renewal to expand our services to the ALTCS population.

The purpose of this actuarial certification is to comply with the requirements of AHCCCS RFP YH24-0001 stated in Section H: Instructions to Offerors[1] and Data Supplement Section F – Non-Benefit Costs Bid Requirements[2]. This actuarial certification goes over the data, assumptions, and methodologies of both the administrative component and case management component bids. This rate certification complies

[1] https://www.azahcccs.gov/Resources/Downloads/Solicitations/Open/RFPs/YH24-0001_ALTCSEPD/H-InstructionstoOfferors.pdf
[2] https://www.azahcccs.gov/Resources/Downloads/Solicitations/Open/RFPs/YH24-0001_ALTCSEPD/Non-Benefit_CostsBidRequirements.pdf

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with the requirements put forward in 42 CFR § 438.7(b)(3)[3], 42 CFR § 438.5(e)[4], and the 2023-2024 Medicaid Managed Care Rate Development Guide.[5] Please see section 4 and 5 for more information.

1. Best and Final Offer (BAFO) Revisions

We have revised this actuarial certification to account for the changes and clarifications requested in the October 16, 2023 letter from Meggan LaPorte to James Stover with the subject "Request for Best and Final Offer – ALTCS E/PD Request for Proposal (RFP) #YH24-0001". Our original actuarial certification was dated September 29, 2023 and was included in our initial RFP submission which was confirmed as received by AHCCCS on October 2, 2023.

We have made the following changes from our initial submission:

- In the Administrative Cost Component Bid (see attached Non-Benefit Cost Bid Excel Workbook), we updated the bucketing of our administrative dollars by shifting amounts into the "Care Management/Care Coordination" and "Interpretation/Translation Services" lines.
    - For the "Care Management/Care Coordination" line, we identified four FTEs that perform care coordination services and shifted any dollars associated with these positions from "Compensation" into "Care Management/Care Coordination." Note that in higher membership scenarios, we have additional FTEs assigned to care coordination services.
    - For the "Interpretation/Translation Services" line, we reviewed ACC and RBHA projections for these costs and adjusted these projections for the ALTCS program. These costs were removed from the "Professional and Outside Services" line and shifted into the "Interpretation/Translation Services" line.
- AHCCCS will notice that certain lines still have $0.00 in them. While these are expenses our ALTCS program will incur, they are already captured in other lines in the Administrative Bid Template for the purposes of our bid. This is broken down below:
    - We did not distinguish Repair and Maintenance charges from normal building costs, which are already accounted for in the Occupancy and Depreciation line
    - While we expect there will be some Interest Expense associated with our ALTCS program, we do not expect it to be material.
    - Fraud Reduction Expenses and Program Integrity Fraud, Waste and Abuse Prevention Expenses are already accounted for in Compensation, since our costs associated with these items are primarily staffing costs.

[3] https://www.ecfr.gov/current/title-42/chapter-IV/subchapter-C/part-438/subpart-A/section-438.7
[4] https://www.ecfr.gov/current/title-42/section-438.5
[5] https://www.medicaid.gov/sites/default/files/2023-08/2023-2024-medicaid-rate-guide-05242023.pdf

    - We did not distinguish between Third Party Activities and Professional and Outside Services cost.
- We reduced our administrative bid by removing all costs from the Other Administrative Expenses line.
    - Upon further review, we determined that the $25,000 of fixed dollars was not needed to fund the administrative costs of our ALTCS program.
    - We removed the $0.11 PMPM in variables costs. These represented some IT and services costs incurred by the health plan which should be sufficiently covered by corporate overhead allocations.
- After thoughtful review of our Case Management bid, we are making no changes or adjustments. Understanding that Member-Centered Case Management is a key guiding principle of the ALTCS program, our bid is reflective of value adds exceeding the AHCCCS CM requirements. We feel this model will provide the best outcomes for our members and achieve the AHCCCS goal of supporting individuals to age at home.

2. Data

We gathered multiple types of data to support the development of our administrative and case management bids. The primary data sources were:

- Salaries/travel expenses for Case Management and required contract positions provided by AzCH Finance staff.
- Current and forecasted direct health plan administrative costs from internal accounting systems. We gathered these for our current ACC-RBHA contract as well as other Centene-owned health plans that serve LTC populations.
- Centene corporate overhead allocations from internal accounting systems. We gathered these for our current ACC-RBHA contract as well as other Centene-owned health plans that serve LTC populations.
- Program and IT expenses associated with our RFP commitments provided by AzCH subject matter experts.
- Historical membership reports and projected CYE25 membership from the ALTCS E/PD Bidder's Library[6]
- CYE21-CYE24 AHCCCS ALTCS E-PD rate certifications.[7]

Direct health plan costs were gathered at either the health plan department or line-item level, while corporate overhead allocations were gathered at the corporate department level.

[6] https://www.azahcccs.gov/PlansProviders/HealthPlans/YH24-0001.html
[7] https://www.azahcccs.gov/PlansProviders/RatesAndBilling/ManagedCare/capitationrates.html

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Per ASOP 23, we reviewed the data for reasonableness, consistency, and other requirements outlined in Section 3 of ASOP 23. While we did not audit the data, we did the following to increase our confidence in the data:

- Ensured consistency between multiple internal systems.
- Compared our final projected administrative bid amounts with other Centene-owned LTC plans for reasonableness.
- Compared our final projected administrative and case management bid amounts with the current amounts in the CYE24 AHCCCS ALTCS E-PD rate certification[8].
- Compared our projection methodology to how administrative costs are currently reported for the ACC-RBHA program.

We relied on data supplied by AzCH Finance Staff, AzCH subject matter experts, and AHCCCS. We also relied on data sourced from internal accounting systems. After performing the review steps mentioned above, we did not find any material issues or make further adjustments to the data. However, our projections are dependent on the accuracy of the data used, and if there is an issue with the underlying data, our projections may also be inaccurate.

For the BAFO, we consulted with the same staff and subject matter experts to determine how to modify our initial bid.

3. Assumptions and Methodology

3.1 Case Management Bid Template

Most of the inputs in this bid template were prescribed by AHCCCS and outputs are formula driven. The required inputs were developed as follows:

- AzCH developed Case Management Manager, Supervisor, and Administration Support Staff total compensation based on current salary expectations.
- The maximum members per case manager were taken directly from pages 108-110 of the ALTCS E-PD RFP.[9]
- Travel expenses were based on the expected relative annual costs for different regions of Arizona, with the highest costs occurring in the North due to the rural nature of this GSA.

[8] https://www.azahcccs.gov/PlansProviders/Downloads/CapitationRates/ALTCS/CYE_24_ALTCS-EPD_Capitation_Rate_Certification_SOF.pdf

[9] https://www.azahcccs.gov/Resources/Downloads/Solicitations/Open/RFPs/YH24-0001_ALTCSEPD/EPD_RFP-Section%20D_%20ProgramRequirements_YH24-0001.pdf

- Average administrative support staff per supervisor was developed based on inputs from AzCH subject matter experts.

3.2 Membership – Administrative Bid Template

To determine membership, we needed to establish both a starting CYE25 membership as well as a trend. For our starting membership, we chose the midpoint of each of AHCCCS's membership tiers except for the highest membership tier. These are laid out in more detail in Table 1.

Table 1: CYE25 Member Months by Admin Bid Template Tier

Membership Tier Name	**MMs used in bid development**
Member Months 0-34,999	17,500
Member Months 35,000-69,999	52,500
Member Months 70,000-104,999	87,500
Member Months 105,000-139,999	122,500
Member Months 140,000-174,999	157,500
Member Months 175,000+	175,000

To trend membership forward, we looked at membership growth prior to the PHE, during the PHE, and after the PHE ended. We also reviewed AHCCCS's projected CYE25 membership from the ALTCS E-PD Bidders Library. We used a combination of these data points to develop our annual membership growth assumption of roughly 1%.

3.3 Annual administrative trend – Administrative Bid Template

We explicitly developed our admin bid for CYE25 and then applied trend to project CYE26-CYE29 administrative amounts. A few bid items were provided with specific costs by year (IT costs and program costs) so we used the estimated annual amounts provided for these. Our trend was based on a review of BLS CPI-U data from January 2012 through August 2023. This review indicated that the current high interest rate environment is a clear departure from pre-pandemic norms.

Given the sensitivity of future administrative costs to inflation, we recommend that AHCCCS review inflation factors applied to future years on an annual basis. It is very likely the projections used here will need to be adjusted for CYE26 and future years given the unpredictability of the current inflationary environment and the departure from historical norms.

3.4 Revenue

For some types of administrative costs, we needed to estimate future revenue and therefore future dual/non-dual member mix. We used the AHCCCS CYE24 ALTCS E-PD Certified Capitation Rates to

estimate future revenue, and our bid reflects a dual/non-dual member mix consistent with December 2022 data shown in the Member Placement Detail File provided via the ASFS. We adjusted these amounts slightly for CYE25 based on the historical trend of a ~0.5% annual shift in members from dual to non-dual rate cells.

3.5 Administrative Costs – Administrative Bid Template

Since we do not currently serve the ALTCS population, we did not have current internal data to use as a baseline for our bid. As mentioned above, we developed an explicit projection for CYE25 costs and then trended these costs forward for CYE26-CYE29. We developed admin costs in four steps based on the type of admin cost being modelled. Once we had these initial projections, we reviewed each cost individually to determine whether it should be fixed or variable. As a final step, we mapped each admin cost to the AHCCCS-defined categories given in the bid template (i.e., Compensation, Occupancy, Depreciation, etc.) Details on each type of admin cost are provided below.

For the BAFO, we made some changes to where certain costs were mapped. See Section 1 for more details.

Direct Health Plan Costs – non-salary

Fixed Cost

Only a small portion of these costs are considered fixed. Most vary based on members enrolled and their associated revenue.

Variable Cost

PMPM admin rates for each non-salary line item were calculated using current ACC-RBHA data. An adjustment was made to PBM administrative fees to account for the different average per-member script counts for ALTCS members compared to our current ACC-RBHA membership.

Direct Health Plan Costs – Salary

Fixed Cost

Within a given membership tier, our projected salary costs are fixed. However, AHCCCS will see that our fixed costs generally increase when moving up a membership tier. This is because we must hire additional AHCCCS-required and supporting staff as our membership grows to support the operation of the program. When developing our staffing estimates, we considered each membership tier unique and modelled needed staff using the member months shown in table 1 above. Given the six-tiered nature of the bid, we believe these costs are better represented as fixed rather than variable.

Variable Cost

See above. There are no variable costs in this category.

Corporate Overhead Allocations

Fixed Cost

Since corporate overhead allocations are distributed among different Centene health plans based on their size and scale, these costs are all variable depending on the membership and revenue awarded to AzCH for the ALTCS program.

Variable Cost

Given the reasons mentioned above, all corporate overhead allocations are variable. We projected the AzCH ALTCS share of corporate overhead allocation by using the latest allocation methodology to get an initial estimate, and then excluded various corporate departments that would not provide support services to the ALTCS line of business. This final number, based on the expected corporate support the ALTCS program will need, was used to develop our bid.

Program and IT costs

Fixed Costs

Costs for programs we wrote to in the narrative portion of our RFP as well as the required IT costs needed to support these programs were provided to us by internal AzCH subject matter experts. These costs were provided as fixed dollars by year, which we then mapped into each membership tier in the AHCCCS bid template. These costs vary by year due to implementation costs and were all mapped into the Health Care Quality Improvement line of the admin bid templates. This is why this category of costs varies over the five years.

Variable Costs

All program and IT costs are fixed. There were not variable costs in this category.

4. Compliance with the Non-Benefit Costs Bid Requirements

We confirm that AzCH complied with the following requirements put forward in the Non-Benefit Costs Bid Requirements document in the ALTCS RFP bidder's library.[10]

- Only pink cells were modified by AzCH. Blue and green cells were left untouched.
- No start-up expenses were included in the bid.

[10] https://www.azahcccs.gov/Resources/Downloads/Solicitations/Open/RFPs/YH24-0001_ALTCSEPD/Non-Benefit_CostsBidRequirements.pdf

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- Management fee amounts were included in the pink categories on the administrative component bid tabs.
- The Other Administrative Expenses line has no costs in it for the BAFO submission.
- We have not included underwriting gain or premium tax in our bid.
- We have entered bid amounts on all membership tier tabs for administrative costs and all GSAs for case management costs.

5. Compliance with CMS regulations and ASOPs

5.1 42 CFR § 438.7(b)(3)

We have described the development of the non-benefit component of the rate in sufficient detail that CMS or another actuary applying generally accepted actuarial principles and practices can identify each type of non-benefit expense that is included in the rate and evaluate the reasonableness of the cost assumptions underlying each expense.

5.2 42 CFR § 438.5(e)

Based on our development and review of the Administrative Component Bid and the Case Management Component Bid combined with further financial analysis and projections, we believe that the Admin and Case Management rates we have bid are reasonable, appropriate, and attainable expenses related to our administration, licensing and regulatory fees, and other operational costs associated with the provision of services identified in § 438.3(c)(1)(ii)[11] to the populations covered under the contract. Costs related to premium taxes, contribution to reserves, risk margin, and cost of capital will be developed by AHCCCS in the final capitation rates. We have not accounted for these costs in our bid.

5.3 2023-2024 Medicaid Managed Care Rate Development Guide

We have developed and are certifying specific rates, not rate ranges. The administrative rates we are certifying vary based on the member months we are awarded at the start of the ALTCS contract, while the case management rates vary based on the GSAs we are awarded. This is consistent with how AHCCCS designed the Non-Benefit Cost Bid Submission Template. We have developed a single administrative rate for each membership scenario. This was not broken down at a GSA/rate cell level because:

1. AHCCCS stated in Solicitation Amendment 1 that "AHCCCS will distribute the administrative PMPM associated with the membership tier that matches the expected enrollment for each plan across all awarded GSAs. AHCCCS may incorporate underlying cost differences in the populations between GSAs when determining the overall distribution, if such an adjustment is appropriate." [12]

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[11] https://www.ecfr.gov/current/title-42/chapter-IV/subchapter-C/part-438/subpart-A/section-438.3#p-438.3(c)(1)(ii)

[12] https://azahcccs.gov/Resources/Downloads/Solicitations/Open/RFPs/YH24-0001_ALTCSEPD/ALTCS_EPD_RFP_YH24-0001-Amendment1.pdf

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2. AHCCCS stated in the Non-Benefit Cost Bid Requirements[13] that "administrative expenses will be allocated between the dual and non-dual risk groups by AHCCCS during the capitation rate development process."

Since this rate certification only applies to projected non-benefit costs, we only reviewed Section 5 of the 2023-2024 Medicaid Managed Care Rate Development Guide (hereafter referred to as "Rate Guide") for applicable standards and documentation requirements. To assist in AHCCCS's review, we have provided an index below based on Section 5 of the Rate Guide that refers to areas in this certification that directly address each section of the Rate Guide. We believe the information provided in this rate certification and the accompanying exhibits is sufficient and meets CMS requirements.

Rate Guide Index

Rate Guide Section	Applicable section in this rate certification
1.5.A Rate Development Standards	See Section 4.2 42 CFR § 438.5(e) and Section 2
1.5.B.i.(a) Data, Assumptions, Methodology	See Section 1 and 2 and the attached Non-Benefit Cost Bid Excel Workbook.
I.5.B.i.(b) Changes from the Previous Rate Certification	N/A – this is the first rate certification of AzCH ALTCS non-benefit costs.
I.5.B.i.(c) Any Other Material Changes	N/A – all detail is provided in Sections 1 and 2
I.5.B.ii. Projected Non-Benefit Costs by Category	See section 4.2 42 CFR § 438.5(e)
I.5.B.iii. Historical Non-Benefit Cost	N/A – we have not operated in the ALTCS program since 2017 so there is no relevant historical data to provide.

5.4 ASOP 23, 41, 49

ASOP 23

See Section 1.

ASOP 41

These requirements are addressed throughout the certification, most notably in Section 5.

ASOP 49

The rates certified in this document are single rates, not capitation rate ranges. We have developed these rates in total and not at the rate cell level. Please see section 4.3 for more details. For required disclosures, please see section 5.

[13] https://www.azahcccs.gov/Resources/Downloads/Solicitations/Open/RFPs/YH24-0001_ALTCSEPD/Non-Benefit_CostsBidRequirements.pdf

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6. Actuarial Certification

We, Kevin-Mitby Manning, ASA, MAAA, and Nathanael Schatz, ASA, MAAA, are employees of Centene Corporation, the parent organization of AzCH. We are members of the American Academy of Actuaries and meet its Qualification Standards for Statements of Actuarial Opinion. You can contact us at nathanael.e.schatz@centene.com and kevin.mitbymanning@centene.com for follow-ups or further discussion.

In our opinion, the proposed Administrative and Case Management Bid Components in the attached Excel workbook meet the requirements at 42 CFR § 438.7(b)(3) , 42 CFR § 438.5(e), in the 2023-2024 Medicaid Managed Care Rate Development Guide, and applicable Actuarial Standards of Practice, most notably ASOP 23, 41, and 49. These rates provide for all reasonable, appropriate, and attainable costs for CYE25-CYE29, assuming that AHCCCS will make proper adjustments for changes in membership, GSAs, inflation, and future program requirements that were not accounted for in this bid. The soundness of the full capitation rates is also dependent on AHCCCS's development of the medical, underwriting gain, reinsurance offset, share of cost, premium tax, and all other components of the rate not accounted for in this certification.

The bid amounts provided here are actuarially sound in accordance with the definition of actuarial soundness provided in ASOP 49[14]:

> "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."

The administrative and case management bid amounts have been developed in accordance with generally accepted actuarial principles and practices, are appropriate for the populations to be covered, the services to be furnished under the contract, and have been certified as meeting the requirements at 42 CFR § 438.4[15] by actuaries who meet the *Qualification Standards* established by the American Academy of Actuaries and follow the practice standards established by the Actuarial Standards Board.

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[14] https://www.actuarialstandardsboard.org/wp-content/uploads/2015/03/asop049_179.pdf
[15] https://www.ecfr.gov/current/title-42/section-438.4

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The administrative and case management bid amounts projections in this document are estimates and projections of future administrative expenses. In our opinion, the data, assumptions, and methodologies used to develop these projections are appropriate. Actual results will differ from the bids presented here if our assumptions and methodologies do not accurately account for future changes and experience.

This rate certification may be published on the Arizona Health Care Cost Containment System (AHCCCS) website. If this rate certification is provided to third parties, then this rate certification should be provided in its entirety along with the attached Excel workbook. Any third party reviewing this rate certification should be familiar with the AHCCCS Medicaid managed care program, the provisions of 42 CFR Part 438 applicable to this rate certification, the 2023-2024 Medicaid Managed Care Rate Development Guide (2024 Guide), Actuarial Standards of Practice, and generally accepted actuarial principles and practices.

The purpose of this actuarial certification is to comply with the requirements of AHCCCS RFP YH24-0001 stated in Section H: Instructions to Offerors[16] and Data Supplement Section F – Non-Benefit Costs Bid Requirements[17]. The intended audience is the AHCCCS actuaries. We are not responsible or obligated to any other parties or audiences, nor should this rate certification be used for any other purpose. There are no known conflicts of interest in our preparation of this report.

Date: 10/18/2023
Kevin Mitby-Manning, ASA, MAAA
Staff Vice President Actuarial Services
Centene Corporation

Date: 10/18/2023
Nathanael Schatz, ASA, MAAA
Associate Actuary
Centene Corporation

[16] https://www.azahcccs.gov/Resources/Downloads/Solicitations/Open/RFPs/YH24-0001_ALTCSEPD/H-InstructionstoOfferors.pdf
[17] https://www.azahcccs.gov/Resources/Downloads/Solicitations/Open/RFPs/YH24-0001_ALTCSEPD/Non-Benefit_CostsBidRequirements.pdf

7. Supporting Exhibits

Please see the attached Non-Benefit Cost Bid Excel Workbook.