Capitation Rate Development Documentation

For the Contract Year Ending (CYE) 28 (10/1/2027 – 9/30/2028) capitation rate setting process, AHCCCS will utilize historical encounter, member month, member placement, reinsurance, and share of cost (SOC) data similar to information provided in the Bidders' Library, Data Supplement sections:

- Section E – Data Book Information
- Section F – Reinsurance and Share of Cost Information
- Section I – Enrollment, Member Months, and Placement Information

It is anticipated that AHCCCS will utilize CYE 26 (10/1/2025 – 9/30/2026) as the base data period for CYE 28 capitation rate setting.

When setting the CYE 28 capitation rates, AHCCCS will apply completion factors to the encounter and reinsurance data, along with any other adjustments (e.g., programmatic adjustments, fee schedule impacts) necessary to the development of actuarially sound capitation rates. Unit cost and utilization trend assumptions will be applied from the mid-point of the base period to the mid-point of the rating period.

When developing the medical portion of the capitation rates, there are three main rate setting categories: nursing facility (NF) services, home and community based services (HCBS), and acute services. AHCCCS further analyzes these categories based on additional subcategories, as shown in the Bidders' Library, Data Supplement, Section C, Service Categorization.

The Bidders' Library, Data Supplement, Section I contains member placement information. Member placement is not used to group medical service utilization and costs into the main rate setting categories as a member can be in an HCBS or Institutional placement setting and still have costs related to acute services. Member placement information is used to develop the projected HCBS mix percentage. The current ALTCS E/PD capitation rate development process calculates the HCBS mix percentage as the sum of members in HCBS Home and HCBS Community placements over the sum of members in HCBS Home, HCBS Community, and Institutional (i.e., NF) placements.

AHCCCS is continually reviewing the data and may make changes to the above methodologies, if deemed appropriate.

For CYE 28, the ALTCS E/PD specific risk groups are:

- Duals (i.e., members who are dually eligible for Medicare and Medicaid)
- Non-Duals (i.e., members who are not eligible for Medicare)

When developing the reinsurance offset of the capitation rates, past reinsurance payment information is adjusted for completion, deductible changes, historical and prospective program and reimbursement changes, and trend. Reinsurance applies only to acute care services. See the actuarial capitation rate certifications for more details on the development of the reinsurance offsets.

SOC payments apply only to ALTCS E/PD members who receive LTSS. The NF and HCBS expenses in the Data Book Information files are net of SOC payments. Historical SOC payments by contract year and risk group are provided in the Bidders' Library, Data Supplement, Section F.

AHCCCS intends to have two risk corridor type arrangements for the ALTCS E/PD Program. One is a reconciliation of medical costs to medical reimbursement (tiered reconciliation); the other is a reconciliation of actual SOC payments to the assumed SOC offsets in the certified capitation rates.

The tiered risk corridor will reconcile the Contractor's medical cost expenses to the medical revenue paid to the Contractor. Refer to AHCCCS Contractor Operations Manual (ACOM) Policy 301 for additional information on the tiered risk corridor. In the first year of the contract, this reconciliation is anticipated to limit the Contractor's profits and losses as shown in the table below. AHCCCS intends to review the limitation of profit and loss on an annual basis using a data driven approach.

Profit	Contractor Share	State Share	Max Contractor Profit	Cumulative Contractor Profit
<= 2%	100%	0%	2.00%	2.00%
2% < Profit <= 4%	75%	25%	1.50%	3.50%
4% < Profit <= 7%	25%	75%	0.75%	4.25%
> 7%	0%	100%	2.00%	4.25%
Loss	**Contractor Share**	**State Share**	**Max Contractor Loss**	**Cumulative Contractor Loss**
<= 1%	100%	0%	1.00%	1.00%
1% < Loss <= 2%	75%	25%	0.75%	1.75%
2% < Loss <= 3%	50%	50%	0.50%	2.25%
3% < Loss <= 4%	25%	75%	0.25%	2.50%
> 4%	0%	100%	0.00%	2.50%

The SOC risk corridor is expected to reconcile the Contractor's "actual SOC PMPM" against the SOC PMPM amounts assumed in the capitation rates for the contract year plus or minus 2% (i.e., a risk band). The Contractor's "actual SOC PMPM" for the contract year will be calculated as the Contractor's total actual SOC payments divided by the Contractor's total paid member months. Differences between the Contractor's total actual share of cost payments and the Contractor's total assumed share of cost dollars that fall within the risk band are the responsibility of the Contractor. For differences that fall outside the risk band, AHCCCS shall recoup or reimburse the differences between the risk band threshold and the Contractor's total actual share of cost payments.

AHCCCS will incorporate risk adjustment in capitation rate development during the RFP contract term. Given the unique nature of an LTSS program and, in particular, the AHCCCS ALTCS E/PD Program, AHCCCS intends to apply three separate risk adjustment methodologies: one for each of the major Category of Service (COS). All three factors will use prospective modeling, be budget neutral, and apply for each risk group combination. The three major COS risk adjustment methodologies are:

- NF COS: Risk adjustment factors are expected to use Contractor specific members' needs based on their different levels of nursing care and use AHCCCS allowed amounts (removes impact of different contracting across Contractors),
- HCBS COS: Risk adjustment factors are expected to use the Contractors' members' Activities of Daily Living (ADL) data,
- Acute COS: Risk adjustment factors are expected to use the Combined Chronic Illness and Disability Payment System and Medicaid Rx (CDPS+Rx) risk adjustment model.

After accounting for the health status of each Contractors' members through risk adjustment, there will also be separate adjustments by Contractor to account for the difference between the statewide risk group averages and individual Contractor averages for percentages of members receiving LTSS, as well as the percentage of LTSS members using NF or HCBS services. The projected LTSS and NF/HCBS mix percentage factors will be applied to the NF and HCBS categories when calculating the final net medical by Contractor.

AHCCCS will continue to review and evaluate the above methodologies for any changes necessary to achieve the goal of aligning risk with revenue to the extent possible given the data available. The above adjustments for the first year of the contract (10/1/2027 – 9/30/2028) will be based on initial member assignment and subsequent member choice.

Underwriting Margin, Administrative Expenses (excluding Case Management Compensation), Case Management Compensation, and Premium Tax

Underwriting Margin, Administrative Expenses (excluding Case Management Compensation), and Case Management Compensation components will be bid by the Offerors. AHCCCS reserves the right to adjust the capitation rates, including the bid cost components, in order to maintain compliance with the Medicaid Managed Care Rules and Rate Setting Guidelines. See the Non-Benefit Costs Bid Submission Workbook Instructions (RFP Section I, Exhibit H1) and Non-Benefit Costs Bid Submission Workbook Template (RFP Section I, Exhibit H2) for additional information on the cost component bids. Arizona's premium tax is 2.0%; AHCCCS will adjust the final capitation rates to account for premium tax, and it should not be considered as part of the non-benefit cost component bids.