May 2, 2025

The Honorable David Livingston
Chairman, Joint Legislative Budget Committee
Arizona House of Representatives
1700 W Washington St.
Phoenix, Arizona 85007

Dear Representative Livingston:

The Arizona Health Care Cost Containment System (AHCCCS) respectfully requests to be placed on the agenda of the next Joint Legislative Budget Committee (JLBC) meeting to discuss the Contract Year Ending 2025 (CYE 2025, October 1, 2024, to September 30, 2025) capitation rate adjustments. In accordance with federal regulations, capitation rates paid to MCOs must be actuarially sound, meaning they must cover all anticipated costs for providing medically necessary services to AHCCCS members. AHCCCS is reporting its expenditure plan for review by the JLBC. This letter summarizes the capitation rate adjustments and their associated financial impacts.

For capitation rate payments retroactive to April 1, 2025, through September 30, 2025, AHCCCS will be implementing changes to the certified capitation rates for the programs within the AHCCCS appropriation (ACC/ACC-RBHA, CHP, and ALTCS EPD). Coupled with enrollment decreases, these rate changes remain below the AHCCCS appropriation. For capitation rate payments retroactive to April 1, 2025, through September 30, 2025, AHCCCS will also be implementing changes to the certified capitation rate for the Regular DDD rate cell for the ALTCS DD program. The state impact of this rate change is within the supplemental appropriation amount recently approved for the Department of Economic Security (DES).

AHCCCS provided information to JLBC, in a letter dated September 4, 2024, outlining AHCCCS program capitation rate growth by component. The primary growth in the capitation rates came from the rebase of the data to use CYE 2023 (October 1, 2022, to September 30, 2023) encounter and enrollment data which included six months of the disenrollments associated with the unwinding of the maintenance of effort (MOE) requirements connected to the Families First Coronavirus Response Act (FFCRA) after the end of the COVID-19 public health emergency (PHE). The ACC and ACC-RBHA Program capitation rates also included an additional acuity adjustment to account for the remainder of the disenrollments that occurred after the end of CYE 2023.

ACC/ACC-RBHA, CHP, ALTCS EPD

The rate changes for the AHCCCS programs are necessary to maintain actuarial soundness of the capitation rates for the second six months of the CYE 2025 rating period. There have been significant unanticipated disenrollments, mostly from the ACC and ACC-RBHA Program, since the beginning of CYE 2025. The disenrollments have been primarily associated with increased incomes driving ineligibility for

Medicaid. This has further increased the acuity of the remaining members and driven up the service utilization rates on a per 1000-member basis in more recent data analyzed by the actuaries, necessitating changes to the trend assumptions included in the capitation rates. Additionally, there are increased levels of “churn” (members losing Medicaid coverage and then regaining it after a gap), and increased amounts of prior period coverage, similar to those seen before the COVID-19 PHE and the FFCRA MOE requirements. The foster child population has also continued to decline as the Department of Child Safety (DCS) has continued to provide support to families in order to reduce the necessity of removal of a child from the home, and the utilization trends are being similarly impacted with the change in the foster child population to be more focused on those children in situations requiring removal, i.e., increased need of the incoming members and decreased need of the outgoing members. Finally, a change in regulations for the coordination of enrollment for dually-eligible members (members with both Medicare and Medicaid eligibility) has shifted the enrollment of members across the various ALTCS-EPD health plans, and adjustments to the projected Long Term Services and Supports (LTSS) and Home and Community Based Settings (HCBS) mix percentages were also included to make the revised capitation rates reflective of the current LTSS and HCBS mix for each of the ALTCS-EPD health plans.

The impact of the changes differ by risk group, with some risk groups impacted more than others. While the aggregate impact is an increase over the previously certified capitation rates, the declining enrollment has been more substantive to the overall change in projected spending for CYE 2025, and the revised rates with the revised enrollment are below what was initially provided to JLBC in the September 2024 letter.

The combined, overall capitation rate increase from the CYE 2024 to CYE 2025 rates for the second six months of the contract year for all programs within the AHCCCS appropriation, is now 9.86%, increased from the 3.64% previously provided, as shown in Column 1 in the table on the next page. Columns 2 through 4 in the following table summarize the impact of the components of the April 1, 2025, rate changes for the ACC/ACC-RBHA, CHP, and ALTCS EPD programs while column 5 provides the change in the blended capitation rate across the first and second halves of CYE 2025 compared to the CYE 2024 rates for the AHCCCS programs.

Table 1: CYE 2025 Capitation Rate Changes

		CYE 2025 Change from CYE 2024 Rates			
	Rates Effective 10/1/2024	Components of Rate Revisions 4/1/2025			Rates Effective 4/1/2025
	1	2	3	4	5
Program	Total	Disenrollments (Acuity, Churn, PPC)	Trend	Mix Change & Enrollment Shifts	Total Increase - Second 6 Months
ACC	3.33%	4.68%	2.88%	NA	10.90%
ACC-RBHA	6.29%	2.80%	2.26%	NA	11.34%
DCS CHP	23.36%	0.00%	6.44%	NA	29.80%
ALTCS-EPD	1.65%	0.00%	1.26%	(0.62%)	2.29%
AHCCCS Total	**3.64%**				**9.86%**

ALTCS DD

The AHCCCS actuaries are also adjusting the CYE 25 capitation rates paid to DES/DDD for the ALTCS-DD program to ensure that the capitation rates will cover the anticipated costs for the program due to increased utilization of specific categories of service beyond what was projected previously. The specific categories of service with increased utilization experience beyond the original projections are the same as those that necessitated the CYE 24 midyear amendment: attendant care services, habilitation services per 15-minutes, and applied behavior analysis (ABA) services. The first two categories of services are home and community-based services (HCBS) that are part of the long-term services and supports (LTSS) responsibilities paid by DES/DDD directly for its members, while ABA services are part of the integrated care services provided to the ALTCS-DD members and paid for through DES/DDD subcontractors.

While the original CYE 25 capitation rates included higher projected trends for these categories of service than was projected in the previous year, utilization rates per 1000 members have continued to increase at a rate greater than anticipated. Attendant care services and habilitation services per 15-minutes are primarily delivered one-on-one between the provider and the member. It is noted that there were sizeable utilization increases for these one-on-one services at the onset of the COVID-19 public health emergency (PHE) amid the various closures of group settings, such as schools and day programs, where services to more than one member could be provided by an individual and/or on a per diem basis. As more families continue to seek alternatives to the standard public schooling model, these services (which have been traditionally provided in a group setting within public schools) continue to be provided instead as one-on-one care to the members. Additionally, the extension, and eventual approval as part of the AHCCCS 1115 waiver, of the COVID-19 PHE flexibility allowing parents of minor children to receive payment for attendant care and habilitation services given the increased need for those individual services and the lack of enough direct care workers (DCWs) to provide the services has closed some of the gap between assessed needs and provided services. This flexibility is more commonly referenced as parents as paid caregivers (PPCG).

As noted in the original CYE 25 capitation rate certification, significant increases in utilization began being observed starting in January 2023 coinciding with the federally mandated implementation date of electronic visit verification (EVV) for home health services (including attendant care services and habilitation services per 15-minutes). In the actuaries' opinion, this increase is likely due to enforcement of the requirements for EVV, and the total amount of habilitation and attendant care services provided by PPCG which was likely underreported previously is now being recorded through EVV, thereby increasing the total volume of services billed by the agencies employing the PPCG and DCWs providing these services and thus showing up in the data. Further seasonal increases have been observed, with increased attendant care and habilitation per 15 minutes being provided during the summer months when group settings such as schools are unavailable to provide congregate care. Consequently, utilization trend revisions for these categories of service are necessary to increase the capitation rate to an appropriate level.

The third category of service (ABA services) requiring a utilization trend revision due to significant increased utilization growth is part of the integrated care services provided by the DES/DDD subcontractors. The increased utilization is being driven both by growing penetration (more members using the service) and increased average utilization (increasing ABA service hours provided to members using the service). The utilization trend (blended across all services provided by the DES/DDD subcontractors) assumed in the development of the integrated care services component of the capitation rate is therefore being revised to reflect the increased utilization of ABA services beyond the original projections. This is necessary to lessen the likelihood of significant loss (in excess of two percent related to medical expenditures) on the part of the DES/DDD subcontractors which would require additional reconciliation payments in future years consistent with the profit/loss risk corridors addressed in the contract.

The table on the next page shows the utilization per 1000, unit cost, and PMPM trends assumed for the associated rate components of these three categories of service in the original CYE 25 rates, in the revised CYE 25 rates, and the differences. The overall capitation rate increase for the Regular DDD rate cell for the second six months of the contract year compared to the first six months of the contract year due to these adjustments is 12.9%.

Table 2: Changes in Trend Assumptions Between Original and Revised CYE 25 Rates for ALTCS-DD

Statewide Regular DD – Trend Assumptions									
	Original CYE 25			**Revised CYE 25**			**Difference**		
Trend COS	**Util Per 1000**	**Unit Cost**	**PMPM**	**Util Per 1000**	**Unit Cost**	**PMPM**	**Util Per 1000**	**Unit Cost**	**PMPM**
Attendant Care	11.0%	0.0%	11.0%	34.6%	0.0%	34.6%	23.6%	0.0%	23.6%
Hab - Per 15 Min	19.0%	0.0%	19.0%	34.6%	0.0%	34.6%	15.6%	0.0%	15.6%
Integrated Care Services	4.54%	1.92%	6.55%	9.29%	1.76%	11.22%	4.75%	(0.16%)	4.67%

Actuarial certifications are required by CMS to document the changes to the capitation rates as multiple rate cells are changing by more than +/- 1.5% (de minimis allowable by CMS without recertification). The actuarial certifications for the ACC/ACC-RBHA, CHP, and ALTCS EPD programs are attached. The actuarial certification for the ALTCS DD program is under development and will be sent to JLBC as soon as it is completed. Additional documentation and details on the original CYE 2025 capitation rate development can be found in the rates letter dated September 4, 2024. Should you have any questions on any of these issues, please feel free to contact Erica Johnson, Chief Actuary, at erica.johnson@azahcccs.gov.

Sincerely,

Jeffery Tegen

Jeffery Tegen
Division of Business and Finance
Arizona Health Care Cost Containment System

cc: The Honorable John Kavanagh, Vice Chairman, Joint Legislative Budget Committee
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Ben Henderson, Director, Office of Strategic Planning and Budgeting
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