

June 6, 2007

Mr. David Reese
Chief Financial Officer
Arizona Department of Health Services
Division of Behavioral Health Services
150 N. 18th Avenue, Suite 200
Phoenix, AZ 85007

FINAL AND CONFIDENTIAL

Subject:

**Behavioral Health Services State Fiscal Year 2008 Capitation Rates
for the Title XXI and HIFA II Programs**

Dear Mr. Reese:

Introduction/Background

The State of Arizona Department of Health Services (ADHS), Division of Behavioral Health Services (BHS) contracted with Mercer Government Human Services Consulting (Mercer) to develop actuarially sound capitation rates for each of its Regional Behavioral Health Authorities (RBHAs) for State Fiscal Year 2008 (SFY08). Rates were developed for the Title XXI and HIFA II programs.

The State Children's Health Insurance Program (SCHIP), titled "KidsCare" and also known as Title XXI, provides health insurance to uninsured children under 19 years of age whose family's gross income is at or below 200 percent of the federal poverty level. The KidsCare benefit package is identical to what is offered to TXIX Medicaid Members.

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There are four RBHAs for which actuarially sound capitation rates were developed, covering six geographic service areas. They include:

RBHA	Areas Served
Community Partnership of Southern Arizona (CPSA3 and CPSA5)	Pima, Graham, Greenlee, Santa Cruz, and Cochise Counties
Cenpatico Behavioral Health of Arizona (Cenpatico 2 and Cenpatico 4)	Yuma, LaPaz, Pinal and Gila Counties
Northern Arizona Regional Behavioral Health Authority (NARBHA)	Mohave, Coconino, Apache, Navajo, and Yavapai Counties
Maricopa County RBHA (RFP currently out to bid)	Maricopa County

Actuarially sound capitation rates were developed for each of the following population and RBHA combinations, shown in the tables below.

Title XXI

Population	CPSA 3	CPSA 5	Cenpatico 2	NARBHA	Cenpatico 4	Maricopa County	Statewide
Children	\$ 19.52	\$ 30.69	\$ 15.53	\$ 16.19	\$ 30.36	\$ 16.57	\$ 18.93
SMI	\$ 17.03	\$ 21.43	\$ 11.21	\$ 12.83	\$ 21.28	\$ 30.10	\$ 23.63

HIFA II

Population	CPSA 3	CPSA 5	Cenpatico 2	NARBHA	Cenpatico 4	Maricopa County	Statewide
SMI	\$ 8.88	\$ 11.18	\$ 7.67	\$ 8.35	\$ 10.93	\$ 20.61	\$ 15.66
GMH/SA	\$ 8.17	\$ 12.89	\$ 11.74	\$ 7.96	\$ 16.65	\$ 12.34	\$ 11.72

The rate development schedules are shown in Attachment A.

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Base Costs

Mercer has developed capitation rates for the Title XXI and HIFA II populations for SFY08. Because the membership in these populations is quite low, encounter data from their claims is not sufficient. Based upon review of historical financial statements, Title XXI individuals' claim costs generally represent about 30–35 percent of Title XIX claim costs. Based on this observation, BHS and Mercer agreed to use the Title XIX claim cost per-member-per-month (PMPM) values as the base data for the Title XXI rates.

From these base PMPMs, Mercer applied an acuity adjustment factor to the PMPMs to derive the Title XXI capitation rates. The overall acuity adjustment factors were 0.35 for Children and 0.31 for the SMI population. The individual RBHA acuity factors varied. They were adjusted based on symmetrical bands of medical loss ratio (MLR) experience for each RBHA. A final adjustment was applied to make the entire process budget neutral.

Similar to the Title XXI rates, Mercer used the Title XIX claim cost PMPMs as the base PMPM for the HIFA II capitation rates. From there, an overall acuity adjustment factor of 0.20 was applied to the SMI population, and 0.31 was applied to the GMH/SA population. As with the Title XXI rate development, individual RBHA factors were adjusted based on symmetrical bands of MLR experience. A final adjustment was applied to make the entire process budget neutral.

Administration and Underwriting Profit/Risk/Contingency

The actuarially sound capitation rates developed include provisions for RBHA administration. Mercer used its professional experience in working with numerous state Medicaid behavioral health and substance abuse programs in determining appropriate loads for administration and underwriting profit/risk/contingency. Mercer also reviewed current RBHA financial reports. The component for administration and underwriting profit/risk/contingency is calculated as a percentage of the final capitation rate. A 10 percent load was added across all populations. This is the same percentage as SFY07.

Risk Corridors and Performance Incentive

BHS has in place a risk corridor arrangement with the RBHAs that provides motivation for the RBHAs to appropriately manage expenses, yet provides financial protection against unmanageable losses. The risk corridor provides impetus for the RBHAs to operate efficiently and generate net income, but also provides for the return of any excessive profit to the State.

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The proposed SFY08 BHS risk corridor approach provides for gain/loss risk sharing symmetry around the service revenue portion of the capitation rates. This risk corridor model is designed to be cost neutral, with no net aggregate assumed impact across all payments. The RBHA contract also provides for a potential one percent performance incentive. In Mercer's professional opinion, the risk corridor and performance incentive methodologies utilized by BHS are actuarially sound.

Tribal Fee-For-Service Claims Estimate

Mercer received tribal claims and membership data from BHS for SFY04 through SFY06. This data was reviewed, projected, and trended forward. BHS also provided additional information related to FFS rate increases that would affect tribal claims. Based on this information, Mercer and BHS projected that Title XXI tribal claim costs for SFY08 will be approximately \$530,000 and the HIFA II tribal claim costs for SFY08 will be approximately \$535,000.

BHS Administration/Risk/Contingency

The Arizona Health Care Cost Containment System (AHCCCS) has placed BHS Administration at financial risk for the provision of BHS covered services for SFY08. Accordingly, the capitation rates were developed to include compensation to BHS for the cost of ensuring the delivery of all BHS covered services. The capitation rates paid to BHS include a 4.40 percent load, which was negotiated between AHCCCS and BHS Administration. The load represents the BHS costs of ensuring the efficient delivery of services in a managed care environment.

Development of Statewide Capitation Rates

Statewide capitation rates were developed by blending the SFY08 capitation rates for each RBHA using projected SFY08 member months, the estimated amount of SFY08 tribal claims, and the administrative percentage add-on component for BHS.

The statewide capitation rates are shown in Attachment B.

Certification of Final Rates

Mercer certifies that the above and attached rates were developed in accordance with generally accepted actuarial practices and principles by actuaries meeting the qualification standards of the American Academy of Actuaries for the populations and services covered under the managed

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care contract. Rates developed by Mercer are actuarial projections of future contingent events. Actual RBHA costs will differ from these projections. Mercer has developed these rates on behalf of BHS to demonstrate compliance with the Centers for Medicare & Medicaid Services (CMS) requirements under 42 CFR 438.6(c) and are in accordance with applicable law and regulations.

If you have any questions concerning our rate-setting methodology, please feel free to contact me at 602 522 6510.

Sincerely,

Michael E. Nordstrom ASA, MAAA

Michael E. Nordstrom, ASA, MAAA

MEN/hl

Copy:
Eddy Broadway, BHS
Sundee Easter, Mercer
Amanda Mueller, Mercer

Enclosures

Attachment A
SFY08 Capitation Rate Development
Title XXI & HIFA II

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	CPSA 3	CPSA 5	Cenpatico 2	NARBHA	Cenpatico 4	Maricopa County RBHA	Total
Title XXI - Children							
1. 1HSFY07 Member Months	11,907	44,758	15,229	38,499	11,702	216,311	338,406
2. T-19 SFY08 Claim Costs	\$ 50.36	\$ 79.17	\$ 42.17	\$ 41.76	\$ 71.20	\$ 42.74	\$ 48.67
3. Acuity Factor	0.349	0.349	0.331	0.349	0.384	0.349	0.350
4. Base SFY08 Claim Costs	\$ 17.57	\$ 27.62	\$ 13.98	\$ 14.57	\$ 27.33	\$ 14.91	\$ 17.04
5. Administrative Load and Underwriting Profit	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
6. Capitation Rates SFY08	\$ 19.52	\$ 30.69	\$ 15.53	\$ 16.19	\$ 30.36	\$ 18.57	\$ 18.93
7. Current Rates SFY07	\$ 18.01	\$ 28.13	\$ 19.96	\$ 14.04	\$ 29.71	\$ 15.40	\$ 17.46
8. Change in Rates	8.4%	17.5%	-22.2%	15.3%	2.2%	7.6%	8.4%
Title XXI - SMI							
1. 1HSFY07 Member Months	527	1,434	456	1,269	327	4,140	8,153
2. T-19 SFY08 Claim Costs	\$ 45.95	\$ 57.83	\$ 39.68	\$ 36.35	\$ 50.23	\$ 89.75	\$ 68.61
3. Acuity Factor	0.334	0.334	0.254	0.318	0.381	0.302	0.310
4. Base SFY08 Claim Costs	\$ 15.33	\$ 19.29	\$ 10.08	\$ 11.55	\$ 19.15	\$ 27.09	\$ 21.27
5. Administrative Load and Underwriting Profit	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
6. Capitation Rates SFY08	\$ 17.03	\$ 21.43	\$ 11.21	\$ 12.83	\$ 21.28	\$ 30.10	\$ 23.63
7. Current Rates SFY07	\$ 14.63	\$ 17.77	\$ 16.29	\$ 11.15	\$ 14.25	\$ 27.62	\$ 21.31
8. Change in Rates	16.4%	20.6%	-31.2%	15.1%	49.3%	9.0%	10.9%

Attachment A
SFY08 Capitation Rate Development
Title XXI & HIFA II

Final & Confidential

	CPSA 3	CPSA 5	Cenpatico 2	NARBHA	Cenpatico 4	Maricopa County RBHA	Total
HIFA II - SMI							
1. 1HSFY07 Member Months	4,463	13,161	5,236	12,044	3,360	47,433	85,697
2. T-19 SFY08 Claim Costs	\$ 45.95	\$ 57.83	\$ 38.68	\$ 36.35	\$ 50.23	\$ 89.75	\$ 70.45
3. Acuity Factor	0.174	0.174	0.174	0.207	0.186	0.207	0.200
4. Base SFY08 Claim Costs	\$ 8.00	\$ 10.06	\$ 6.90	\$ 7.51	\$ 9.83	\$ 18.55	\$ 14.09
5. Administrative Load and Underwriting Profit	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
6. Capitation Rates SFY08	\$ 8.88	\$ 11.18	\$ 7.67	\$ 8.35	\$ 10.93	\$ 20.61	\$ 15.66
7. Current Rates SFY07	\$ 12.27	\$ 14.90	\$ 13.67	\$ 9.35	\$ 11.96	\$ 23.17	\$ 18.37
8. Change in Rates	-27.6%	-26.0%	-43.9%	-10.7%	-8.7%	-11.1%	-14.8%
HIFA II - GMH/SA							
1. 1HSFY07 Member Months	4,463	13,161	5,236	12,044	3,360	47,433	85,697
2. T-19 SFY08 Claim Costs	\$ 26.40	\$ 41.67	\$ 42.15	\$ 23.40	\$ 51.23	\$ 33.23	\$ 34.04
3. Acuity Factor	0.278	0.278	0.251	0.308	0.282	0.334	0.310
4. Base SFY08 Claim Costs	\$ 7.35	\$ 11.60	\$ 10.57	\$ 7.17	\$ 14.98	\$ 11.10	\$ 10.55
5. Administrative Load and Underwriting Profit	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
6. Capitation Rates SFY08	\$ 8.17	\$ 12.89	\$ 11.74	\$ 7.96	\$ 16.65	\$ 12.34	\$ 11.72
7. Current Rates SFY07	\$ 8.35	\$ 13.23	\$ 8.53	\$ 7.29	\$ 16.22	\$ 11.96	\$ 11.27
8. Change in Rates	-2.2%	-2.5%	37.6%	9.2%	2.6%	3.2%	4.0%

Attachment C
SFY08 Capitation Rate Development
Projection of Expenditures
Title XX/HIFA II

Note: This section uses SFY08 Projected Member Months applied to both SFY07 and SFY08 Rates.

TX00	SFY07		Statewide Rates SFY08		SFY08 Projected MMs		SFY07		Total Projected Expenditures SFY08		Percent Change			
	Best Estimate	High	Low	High	Best Estimate	High	Best Estimate	High	Best Estimate	Low	High	Best	Low	High
Children	\$ 18.57	\$ 20.34	\$ 20.04	\$ 20.63	738,362	\$ 13,711,375	\$ 14,798,762	\$ 15,233,348	\$ 14,798,762	\$ 15,233,348	\$ 15,727,578	9.5%	7.9%	11.1%
SMI	\$ 23.63	26.42	\$ 26.04	\$ 26.80	18,444	\$ 435,836	\$ 487,275	\$ 494,230	\$ 487,275	\$ 494,230	\$ 494,230	11.6%	10.2%	13.4%
Total						\$ 14,147,213	\$ 15,503,342	\$ 15,727,578	\$ 15,503,342	\$ 15,727,578	\$ 15,727,578	9.6%	8.0%	11.2%
Grand Total												6.2%	4.7%	7.7%

Note: This section uses SFY07 Actual/Projected Member Months applied to SFY07 Rates, and SFY08 Projected Member Months applied to SFY08 Rates.

TX00	SFY07		Statewide Rates SFY08		Actual/Projected SFY07 MMs		SFY07		Total Projected Expenditures SFY08		Percent Change			
	Best Estimate	High	Low	High	Best Estimate	High	Best Estimate	High	Best Estimate	Low	High	Best	Low	High
Children	\$ 18.57	\$ 20.34	\$ 20.04	\$ 20.63	687,011	\$ 12,757,794	\$ 14,798,762	\$ 15,233,348	\$ 14,798,762	\$ 15,233,348	\$ 15,727,578	17.7%	16.0%	18.4%
SMI	\$ 23.63	26.42	\$ 26.04	\$ 26.80	16,764	\$ 396,133	\$ 487,275	\$ 494,230	\$ 487,275	\$ 494,230	\$ 494,230	23.0%	21.3%	24.8%
Total						\$ 13,153,928	\$ 15,503,342	\$ 15,727,578	\$ 15,503,342	\$ 15,727,578	\$ 15,727,578	17.9%	16.2%	19.6%
Grand Total												9.4%	7.9%	11.0%

Statewide TXXI Rate for All Children

RBHA	Col. 1 Projected SFY08 Member Months	Best Estimate		Low End of Rate Range		High End of Rate Range	
		Col. 2 Proposed Rates	Col. 1 x Col. 2 Total Dollars	Col. 2 Proposed Rates	Col. 1 x Col. 2 Total Dollars	Col. 2 Proposed Rates	Col. 1 x Col. 2 Total Dollars
CPSA 3	23,490	\$ 19.52	\$ 458,615	\$ 19.23	\$ 451,735	\$ 19.82	\$ 465,494
CPSA 5	89,655	\$ 30.69	\$ 2,751,756	\$ 30.23	\$ 2,710,479	\$ 31.15	\$ 2,793,032
Cenpatico 2	30,093	\$ 15.53	\$ 467,381	\$ 15.30	\$ 460,370	\$ 15.76	\$ 474,392
NARBHA	77,959	\$ 16.19	\$ 1,262,083	\$ 15.95	\$ 1,243,151	\$ 16.43	\$ 1,281,014
Cenpatico 4	24,626	\$ 30.36	\$ 747,711	\$ 29.91	\$ 736,495	\$ 30.82	\$ 758,926
Maricopa County RBHA	492,539	\$ 16.57	\$ 8,160,859	\$ 16.32	\$ 8,038,446	\$ 16.82	\$ 8,283,272
Tribes			\$ 507,249		\$ 507,249		\$ 507,249
Subtotal	738,362		\$ 14,355,654		\$ 14,147,925		\$ 14,563,379
BHS Administration/R/C of 4.40%			\$ 660,413		\$ 650,857		\$ 669,969
Total with BHS Administration/R/C			\$ 15,016,067		\$ 14,798,782		\$ 15,233,348
Statewide Capitation Rate			\$ 20.34		\$ 20.04		\$ 20.63

Statewide TXXI Rate for SMI

RBHA	Col. 1 Projected SFY08 Member Months	Best Estimate		Low End of Rate Range		High End of Rate Range	
		Col. 2 Proposed Rates	Col. 1 x Col. 2 Total Dollars	Col. 2 Proposed Rates	Col. 1 x Col. 2 Total Dollars	Col. 2 Proposed Rates	Col. 1 x Col. 2 Total Dollars
CPSA 3	2,167	\$ 17.03	\$ 36,905	\$ 16.77	\$ 36,351	\$ 17.29	\$ 37,458
CPSA 5	2,407	\$ 21.43	\$ 51,590	\$ 21.11	\$ 50,816	\$ 21.75	\$ 52,364
Cenpatico 2	1,263	\$ 11.21	\$ 14,152	\$ 11.04	\$ 13,940	\$ 11.37	\$ 14,365
NARBHA	2,033	\$ 12.83	\$ 26,092	\$ 12.64	\$ 25,700	\$ 13.02	\$ 26,483
Cenpatico 4	425	\$ 21.28	\$ 9,042	\$ 20.96	\$ 8,907	\$ 21.59	\$ 9,178
Maricopa County RBHA	10,149	\$ 30.10	\$ 305,467	\$ 29.65	\$ 300,885	\$ 30.55	\$ 310,049
Tribes			\$ 22,596		\$ 22,596		\$ 22,596
Subtotal	18,444		\$ 465,844		\$ 459,195		\$ 472,493
BHS Administration/R/C of 4.40%			\$ 21,431		\$ 21,125		\$ 21,737
Total with BHS Administration/R/C			\$ 487,275		\$ 480,320		\$ 494,230
Statewide Capitation Rate			\$ 26.42		\$ 26.04		\$ 26.80

Statewide HIFA II Rate for SMI

RBHA	Col. 1 Projected SFY08 Member Months	Best Estimate		Low End of Rate Range		High End of Rate Range	
		Col. 2 Proposed Rates	Col. 1 x Col. 2 Total Dollars	Col. 2 Proposed Rates	Col. 1 x Col. 2 Total Dollars	Col. 2 Proposed Rates	Col. 1 x Col. 2 Total Dollars
CPSA 3	8,559	\$ 8.88	\$ 76,039	\$ 8.75	\$ 74,899	\$ 9.02	\$ 77,180
CPSA 5	21,200	\$ 11.18	\$ 237,038	\$ 11.01	\$ 233,482	\$ 11.35	\$ 240,593
Cenpatico 2	9,370	\$ 7.67	\$ 71,888	\$ 7.56	\$ 70,809	\$ 7.79	\$ 72,966
NARBHA	23,015	\$ 8.35	\$ 192,098	\$ 8.22	\$ 189,217	\$ 8.47	\$ 194,979
Cenpatico 4	5,135	\$ 10.93	\$ 56,102	\$ 10.76	\$ 55,261	\$ 11.09	\$ 56,944
Maricopa County RBHA	87,569	\$ 20.61	\$ 1,804,606	\$ 20.30	\$ 1,777,537	\$ 20.92	\$ 1,831,675
Tribes			\$ 212,200		\$ 212,200		\$ 212,200
Subtotal	154,848		\$ 2,649,971		\$ 2,613,405		\$ 2,686,537
BHS Administration/R/C of 4.40%			\$ 121,909		\$ 120,227		\$ 123,591
Total with BHS Administration/R/C			\$ 2,771,880		\$ 2,733,632		\$ 2,810,128
Statewide Capitation Rate			\$ 17.90		\$ 17.65		\$ 18.15

Statewide HIFA II Rate for CMH/SA

RBHA	Col. 1 Projected SFY08 Member Months	Best Estimate		Low End of Rate Range		High End of Rate Range	
		Col. 2 Proposed Rates	Col. 1 x Col. 2 Total Dollars	Col. 2 Proposed Rates	Col. 1 x Col. 2 Total Dollars	Col. 2 Proposed Rates	Col. 1 x Col. 2 Total Dollars
CPSA 3	8,559	\$ 8.17	\$ 69,918	\$ 8.05	\$ 68,870	\$ 8.29	\$ 70,967
CPSA 5	21,200	\$ 12.89	\$ 273,331	\$ 12.70	\$ 269,231	\$ 13.09	\$ 277,431
Cenpatico 2	9,370	\$ 11.74	\$ 109,996	\$ 11.56	\$ 108,346	\$ 11.92	\$ 111,645
NARBHA	23,015	\$ 7.96	\$ 183,284	\$ 7.84	\$ 180,535	\$ 8.08	\$ 186,034
Cenpatico 4	5,135	\$ 16.65	\$ 85,479	\$ 16.40	\$ 84,197	\$ 16.90	\$ 86,761
Maricopa County RBHA	87,569	\$ 12.34	\$ 1,080,389	\$ 12.15	\$ 1,064,183	\$ 12.52	\$ 1,096,595
Tribes			\$ 322,832		\$ 322,832		\$ 322,832
Subtotal	154,848		\$ 2,125,229		\$ 2,098,194		\$ 2,152,265
BHS Administration/R/C of 4.40%			\$ 97,768		\$ 96,524		\$ 99,012
Total with BHS Administration/R/C			\$ 2,222,997		\$ 2,194,718		\$ 2,251,277
Statewide Capitation Rate			\$ 14.36		\$ 14.17		\$ 14.54