

April 15, 2008

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 2009 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), a part of Mercer Health & Benefits LLC, to develop actuarially sound capitation rates for each of its Regional Behavioral Health Authorities (RBHAs) for State Fiscal Year 2009 (SFY09). 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.

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

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RBHA	Areas Served
Northern Arizona Regional Behavioral Health Authority (NARBHA)	Mohave, Coconino, Apache, Navajo and Yavapai Counties
Magellan Health Services (MHS)	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	MHS	Statewide
Children	\$20.30	\$29.08	\$20.86	\$18.03	\$31.16	\$16.60	\$19.17
SMI	\$14.67	\$21.50	\$9.34	\$14.06	\$15.94	\$31.26	\$24.12

HIFA II

Population	CPSA 3	CPSA 5	Cenpatico 2	NARBHA	Cenpatico 4	MHS	Statewide
SMI	\$4.17	\$6.88	\$3.32	\$5.00	\$4.53	\$10.53	\$8.21
GMH/SA	\$9.53	\$15.58	\$14.53	\$9.13	\$18.18	\$11.40	\$12.09

The rate development schedules are shown in Attachment A.

Base Costs

Mercer has developed capitation rates for the Title XXI and HIFA II populations for SFY09. 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 0.34 for Children and 0.30 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.

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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 0.10 was applied to the SMI population, and 0.30 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 SFY08.

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.

The proposed SFY09 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 SFY05 through SFY07. 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 SFY09 will be

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approximately \$562,240 and the HIFA II tribal claim costs for SFY09 will be approximately \$308,412.

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 SFY09. 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 3.82 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 SFY09 capitation rates for each RBHA using projected SFY09 member months, the estimated amount of SFY09 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 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.

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

Sincerely,

A handwritten signature in black ink that reads "Michael E. Nordstrom ASA, MAAA". The signature is written in a cursive style.

Michael E. Nordstrom, ASA, MAAA

Copy:
Cynthia Layne, ADHS
Sundee Easter, Mercer
Amanda Mueller, Mercer
Rob O'Brien, Mercer

Enclosures

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	CPSA 3	CPSA 5	Cenpatico 2	NARBHA	Cenpatico 4	Magellan	Total
Title XXI - Children							
1. 1HSFY08 Member Months	11,961	49,387	16,132	42,695	12,861	247,000	380,036
2. T-19 SFY09 Claim Costs	\$ 55.73	\$ 79.84	\$ 52.08	\$ 49.51	\$ 77.79	\$ 43.41	\$ 50.75
3. Acuity Factor	0.328	0.328	0.361	0.328	0.361	0.344	0.340
4. Base SFY09 Claim Costs	\$ 18.27	\$ 26.17	\$ 18.78	\$ 16.23	\$ 28.05	\$ 14.94	\$ 17.26
5. Administrative Load and Underwriting Profit	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
6. Capitation Rates SFY09	\$ 20.30	\$ 29.08	\$ 20.86	\$ 18.03	\$ 31.16	\$ 16.60	\$ 19.17
7. Current Rates SFY08	\$ 19.52	\$ 30.69	\$ 15.53	\$ 16.19	\$ 30.36	\$ 16.57	\$ 18.88
8. Change in Rates	4.0%	-5.3%	34.3%	11.4%	2.6%	0.2%	1.6%
Title XXI - SMI							
1. 1HSFY08 Member Months	590	1,701	655	1,338	322	5,019	9,625
2. T-19 SFY09 Claim Costs	\$ 42.24	\$ 61.89	\$ 33.59	\$ 40.46	\$ 45.88	\$ 94.73	\$ 72.37
3. Acuity Factor	0.313	0.313	0.250	0.313	0.313	0.297	0.300
4. Base SFY09 Claim Costs	\$ 13.21	\$ 19.35	\$ 8.40	\$ 12.65	\$ 14.34	\$ 28.14	\$ 21.71
5. Administrative Load and Underwriting Profit	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
6. Capitation Rates SFY09	\$ 14.67	\$ 21.50	\$ 9.34	\$ 14.06	\$ 15.94	\$ 31.26	\$ 24.12
7. Current Rates SFY08	\$ 17.03	\$ 21.43	\$ 11.21	\$ 12.83	\$ 21.28	\$ 30.10	\$ 23.78
8. Change in Rates	-13.8%	0.3%	-16.7%	9.5%	-25.1%	3.9%	1.4%

	CPSA 3	CPSA 5	Cenpatico 2	NARBHA	Cenpatico 4	Magellan	Total
HIFA II - SMI							
1. 1HSFY08 Member Months	4,067	12,805	4,913	11,599	3,222	45,866	82,472
2. T-19 SFY09 Claim Costs	\$ 42.24	\$ 61.89	\$ 33.59	\$ 40.46	\$ 45.88	\$ 94.73	\$ 73.86
3. Acuity Factor	0.089	0.100	0.089	0.111	0.089	0.100	0.100
4. Base SFY09 Claim Costs	\$ 3.76	\$ 6.19	\$ 2.99	\$ 4.50	\$ 4.08	\$ 9.48	\$ 7.39
5. Administrative Load and Underwriting Profit	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
6. Capitation Rates SFY09	\$ 4.17	\$ 6.88	\$ 3.32	\$ 5.00	\$ 4.53	\$ 10.53	\$ 8.21
7. Current Rates SFY08	\$ 8.88	\$ 11.18	\$ 7.67	\$ 8.35	\$ 10.93	\$ 20.61	\$ 15.69
8. Change in Rates	-53.0%	-38.5%	-56.7%	-40.1%	-58.5%	-48.9%	-47.7%
HIFA II - GMH/SA							
1. 1HSFY08 Member Months	4,067	12,805	4,913	11,599	3,222	45,866	82,472
2. T-19 SFY09 Claim Costs	\$ 28.17	\$ 46.08	\$ 47.76	\$ 27.01	\$ 59.73	\$ 33.72	\$ 36.27
3. Acuity Factor	0.304	0.304	0.274	0.304	0.274	0.304	0.300
4. Base SFY09 Claim Costs	\$ 8.57	\$ 14.02	\$ 13.08	\$ 8.22	\$ 16.36	\$ 10.26	\$ 10.88
5. Administrative Load and Underwriting Profit	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
6. Capitation Rates SFY09	\$ 9.53	\$ 15.58	\$ 14.53	\$ 9.13	\$ 18.18	\$ 11.40	\$ 12.09
7. Current Rates SFY08	\$ 8.17	\$ 12.89	\$ 11.74	\$ 7.96	\$ 16.65	\$ 12.34	\$ 11.74
8. Change in Rates	16.6%	20.9%	23.8%	14.7%	9.2%	-7.6%	3.0%

Statewide TXXI Rate for All Children

RBHA	Col. 1 Projected SFY09 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	21,481	\$ 20.30	\$ 435,959	\$ 20.09	\$ 431,600
CPSA 5	86,045	\$ 29.08	\$ 2,501,942	\$ 28.79	\$ 2,476,923	\$ 29.37	\$ 2,526,962
Cenpatico 2	27,845	\$ 20.86	\$ 580,898	\$ 20.65	\$ 575,089	\$ 21.07	\$ 586,707
NARBHA	81,711	\$ 18.03	\$ 1,473,218	\$ 17.85	\$ 1,458,486	\$ 18.21	\$ 1,487,950
Cenpatico 4	30,517	\$ 31.16	\$ 951,010	\$ 30.85	\$ 941,500	\$ 31.47	\$ 960,520
Magellan	445,040	\$ 16.60	\$ 7,388,224	\$ 16.44	\$ 7,314,342	\$ 16.77	\$ 7,462,106
Tribes			\$ 537,812		\$ 537,812		\$ 537,812
Subtotal	692,639		\$ 13,869,063		\$ 13,735,752		\$ 14,002,376
BHS Administration/R/C of 3.82%			\$ 551,553		\$ 546,251		\$ 556,855
Total with BHS Administration/R/C			\$ 14,420,616		\$ 14,282,003		\$ 14,559,231
Statewide Capitation Rate			\$ 20.82		\$ 20.62		\$ 21.02

Statewide TXXI Rate for SMI

RBHA	Col. 1 Projected SFY09 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	500	\$ 14.67	\$ 7,337	\$ 14.53	\$ 7,264
CPSA 5	3,411	\$ 21.50	\$ 73,336	\$ 21.28	\$ 72,603	\$ 21.71	\$ 74,070
Cenpatico 2	1,195	\$ 9.34	\$ 11,156	\$ 9.24	\$ 11,044	\$ 9.43	\$ 11,268
NARBHA	1,837	\$ 14.06	\$ 25,822	\$ 13.92	\$ 25,564	\$ 14.20	\$ 26,081
Cenpatico 4	1,015	\$ 15.94	\$ 16,177	\$ 15.78	\$ 16,015	\$ 16.10	\$ 16,339
Magellan	9,250	\$ 31.26	\$ 289,173	\$ 30.95	\$ 286,282	\$ 31.57	\$ 292,065
Tribes			\$ 24,427		\$ 24,427		\$ 24,427
Subtotal	17,208		\$ 447,428		\$ 443,199		\$ 451,661
BHS Administration/R/C of 3.82%			\$ 17,794		\$ 17,626		\$ 17,962
Total with BHS Administration/R/C			\$ 465,222		\$ 460,825		\$ 469,623
Statewide Capitation Rate			\$ 27.04		\$ 26.78		\$ 27.29