Comment #22 – 5/15/14 – 6:34 p.m.

May 15, 2014

Exposure Draft Comments
Actuarial Standards Board
1850 M Street, NW
Suite 300
Washington, DC 20036

RE: Comments on Exposure Draft – Medicaid Managed-Care Capitation Rate Development and Certification

To Whom It May Concern:

Thank you for the opportunity to comment on the "Medicaid Managed Care Capitation Rate Development and Certification" exposure draft. The credentialed actuaries at Arizona's Medicaid Agency, Arizona Health Care Cost Containment System (AHCCCS), support the goal of providing additional guidance for Medicaid program actuaries. Our comments on the new actuarial standard of practice follow.

Regarding Section 3.2.2, Structure of the Medicaid Managed-Care Capitation Rates, and Section 3.2.11, Non-Medical Expenses, we support comments submitted previously by Michael Cook on April 10, 2014 which provide:

> These sections imply that separate administrative loads should be developed for each rate cell. However, this conflicts with current practice in most programs I am aware of. This would likely require the establishment of fixed and variable loads for every rate cell. This could also impact risk adjustment calculations, with the variable portion of administration revenue being adjusted and the fixed portion not being adjusted. I would propose retaining the current guidance as issues to be considered, while adding language that allows the certifying actuary the flexibility to determine whether there are material variances in the rate cell mix of enrollees, either across MCOs or relative to expected for a particular MCO, that result in an inappropriate distribution of administrative revenue in the contract period for a particular MCO. If such variances are not present, it would not be required to develop separate fixed and variable administrative cost loads.

AHCCCS includes an administrative expense component in the capitation rates for each of its programs. Separating the administrative component into fixed and variable portions could distort comparisons between contracting MCOs to the extent that allocation methods vary between the MCOs. Those distortions could have a negative impact on our competitive procurement process, in addition to the impact on our risk adjustment process as noted by Mr. Cook.

AHCCCS supports a comment by Mr. Cook regarding Section 3.2.11.b, Underwriting Gain, which provides:

> Should "cost of capital" be defined? Are cost of capital and "margin for risk or contingency" additive? Should the current capital levels of participating MCOs influence the determination of targeted "underwriting gain"? This is a relatively undeveloped practice in capitation rate development, as most MCO staff, Medicaid agency staff, Medicaid actuaries and federal regulators simply have a common understanding of what range of targeted underwriting gains are typical and appropriate. If this ASOP will require a quantified link between capital and risk requirements to targeted underwriting gain, then additional practical guidance and possible methodologies should be developed in a timely manner.

AHCCCS includes a margin for risk or contingency in the capitation rates for each program. That margin is the same in percentage terms for all MCOs contracting with a given program. However, the levels of capital and risk borne by each MCO, and therefore the cost of capital for each MCO, can vary. In a competitive environment, it is difficult to justify providing different margins for capital costs.

AHCCCS supports a comment by Mr. Cook regarding Section 3.2.14, Performance Withholds/Incentives, which provides:

> I agree with the statement that capitation rates should reflect "the value of the portion of the withholds for targets that the MCOs can reasonably achieve." However, this conflicts with consistent CMS requirement that rates be certified as actuarially sound assuming that none of the withhold is returned. While not necessarily something to be addressed within the ASOP, we should encourage education within our community about this issue and the requirement to adhere to Section 4.2.d (the second "d") if this difference in assumptions is material.

AHCCCS values our partnerships with our contractor MCOs and will actively educate and inform our contractor MCOs to address their concerns with various payment reform initiatives.

Sincerely,

Windy Marks, on behalf of the AHCCCS Actuarial Staff
FSA, MAAA