# ACTUARIAL MEMORANDUM

## Colorado Access – Access Behavioral Care (ABC)

## Proposed FY 2008 and July 1, 2008 to December 31, 2008 Behavioral Health Medicaid Capitation Rates

This actuarial memorandum is in support of the Actuarial Certification of Proposed Medicaid Behavioral Health Capitation Rates (including Goebel) for the Periods July 1, 2007 through June 30, 2008 (FY 2008) and July 1, 2008 through December 31, 2008 provided by Richard D. Johnson FSA, MAAA, FCA for Colorado Access - Access Behavioral Care (ABC) This memorandum describes procedures performed to support that Statement of Actuarial Opinion

This memorandum has been prepared for use by Colorado Access' management While this memorandum may be shared with the state insurance department, it is not intended for audiences who are unfamiliar with the development of Medicaid Behavioral Health Capitation Rates for Managed Care Organizations.

Actuarial methods, considerations, and analyses used in the preparation of this memorandum conform to the appropriate Standards of Practice as promulgated by the Actuarial Standards Board, which standards form the basis for this memorandum.

Colorado Access is a health maintenance organization that is currently providing managed care behavioral health to certain Medicaid participants through its Access Behavioral Care (ABC) Division. Colorado Access, through other divisions of the company, also provides other medical services to Medicaid participants and certain other like state supported groups

### Data Reviewed

- PricewaterhouseCoopers' May 15, 2007 Report "Medicaid Mental Health Program Data Book and Proposed Capitation Rates Effective July 1, 2007 June 30, 2009 and July 1, 2008 – December 31, 2008."
- PricewaterhouseCoopers' November 6, 2006 Report "Medicaid Mental Health Program Data Book and Proposed Capitation Rates Effective July 1, 2006 – June 30, 2007."
- Sharon Liu's, of the Department of Health Care Policy and Financing, Goebel summary data regarding the cost by service, cost by eligibility type and their summary of ABC's eligibility records.
- LeNore Ralston's (Executive Director of Access Behavioral Care) August 4, 2006 representation concerning the delegation of the Goebel services risk to MHCD.

- The Colorado Access Behavioral Care (ABC) unaudited Statement of Revenue and Expense for the twelve month periods ending December 31, 2006 and December 31, 2005.
- Colorado Access' ABC Financial Performance Exhibits for earned/incurred periods through April 30, 2007.
- The CY 2007 forecast of ABC's revenue, claims, administrative expense and profit.
- Provider Capitation and Risk Sharing Agreement with MHCD for non-Goebel services.

**Analysis and Findings**

- The percent of premium capitation arrangement transfers approximately 50% of the non-Goebel risk to MHCD.
- Based on LeNore Ralston's representation, MHCD has agreed in principle to assume basically all risk (and related revenue) for the Goebel services
- Although I have not reviewed the financial status of MHCD, the non-Goebel prepayment to MHCD is 30.5% of the gross capitation fee leaving 15% of the gross capitation for ABC's expense and 54.5% of the gross capitation fee for the settlement of all non-MHCD fee-for-service claims. When all fee-for-service claims have been settled, the amount remaining from the 54.5% capitation allocation is equally divided between MHCD and Colorado Access (ABC). Historically, the 54.5% capitation allocation has been sufficient to pay all the non-MHCD fee-for-service claims and to provide risk share distributions for both parties.
- The proposed FY 2008 capitation rates basically increase by 8% over the rate levels in effect at June 30, 2007 and the capitation rates for the last half of CY 2008 are increased by 3.7% over the FY 2008 levels based on the current distribution of aid category participants.
- Colorado Access's over-all surplus position (@ 120% of Authorized Control Level as of March 31, 2007) will no longer support major negative deviations from expected morbidity costs. Colorado Access does not allocate its surplus by line of business. Therefore, ABC does not have any defined portion of the surplus
- ABC's CY 2006 financial performance as stated in its unaudited Statement of Revenue and Expense indicates a loss of approximately 2% of revenue However, the actual CY 2007 results through March 2007 indicate a gain of approximately 5% of revenue, and this combined with the 8% increase on July 1, 2007 should result in a positive bottom line for CY 2007 and 2008 Also, most negative deviations in ABC's claims experience would be dampened by 50% when they hit ABC's bottom line due to the effects of the MHCD risk sharing arrangement.
- Colorado Access' ABC Financial Performance Exhibits for earned/incurred periods through April 30, 2007 indicate continued risk sharing settlements to each partner.

- The disconnect between the financial losses on the unaudited CY 2006 Statement of Revenue and Expense and the Financial Performance Exhibit gain creating positive risk sharing distributions is primarily due to the fact that the actual expense charges on the unaudited Statement of Revenue and Expenses (18.5%) is considerably greater than that allowed under the Financial Performance Exhibits (15%).
- The internal projections and representations and the Department of Health Care Policy & Financing's Actuarial Certification for the periods July 1, 2007 to June 30, 2008 and July 1, 2008 to December 31, 2008 all indicate
  - Increasing Revenue/Gross Capitation Rates
  - Stable population & service area
  - Stable utilization
  - Stable Provider Fee Schedule
  - Stable Network
  - Stable sub capitation and risk-sharing arrangements

**Conclusions**

Access Behavioral Care's projection of reasonable profitability combined with the forecast of increasing revenue and stable expenses, contracts, claims, network, service area, should enable it to operate in profitable position during the period July 1, 2007 through June 30, 2008 and July 1, 2008 through December 31, 2008 using the certified rates. In making this conclusion, I have not examined Colorado Access' lines of business other than ABC, and therefore, I have not necessarily concluded that Colorado Access will be profitable over-all or that its surplus position will be adequate over-all. Furthermore, this conclusion assumes that the "MHCD/Colorado Access Delegation Agreement Principles" for Goebel services will continue in a manner similar to that outlined in LeNore Ralston's August 4, 2006 letter to me

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Date