



## COLORADO DEPARTMENT OF HEALTH CARE POLICY & FINANCING

1570 Grant Street, Denver, CO 80203-1818 • (303) 866-2993 • (303) 866-4411 Fax

John W. Hickenlooper, Governor • Susan E. Birch MBA, BSN, RN, Executive Director

October 17, 2011

The Honorable Mary Hodge  
Chair, Joint Budget Committee  
200 East 14<sup>th</sup> Avenue, Third Floor  
Denver, CO 80203

Dear Senator Hodge:

This letter is in response to the Legislative Request for Information number 2 which states:

*The Department is requested to submit a report on the managed care organizations' capitation rates for each population and the estimated blended rate for each aid category in effect for FY 2011-12 to the Joint Budget Committee by September 1, 2011. The Department is requested to include in the report a copy of each managed care organization's certification that the reimbursement rates are sufficient to assure the financial stability of the managed care organization with respect to delivery of services to the Medicaid recipients covered in their contract pursuant to Section 25.5-5-404 (1) (1), C.R.S.*

The Department is submitting this report late because of difficulties compiling the data. The attached report includes the documents requested under Legislative Request for Information number 2. Questions regarding the attached report can be addressed to Joel Dalzell, Managed Care Rates Section Manager, at 303-866-3618.

Sincerely,

A handwritten signature in black ink, appearing to read "Susan Birch".

Susan E. Birch, MBA, BSN, RN  
Executive Director

SB/sc

**Cc: Representative Cheri Gerou, Vice-Chairman, Joint Budget Committee**  
**Senator Pat Steadman, Joint Budget Committee**  
**Senator Kent Lambert, Joint Budget Committee**  
**Representative Jon Becker, Joint Budget Committee**  
**Representative Mark Ferrandino, Joint Budget Committee**  
**Senator Brandon Shaffer, President of the Senate**  
**Senator John Morse, Senate Majority Leader**  
**Senator Mike Kopp, Senate Minority Leader**  
**Representative Frank McNulty, Speaker of the House**  
**Representative Amy Stephens, House Majority Leader**  
**Representative Sal Pace, House Minority Leader**  
**John Ziegler, Staff Director, JBC**  
**Eric Kurtz, JBC Analyst**  
**Lorez Meinhold, Deputy Policy Director, Governor's Office**  
**Henry Sobanet, Director, Office of State Planning and Budgeting**  
**Erick Scheminske, Deputy Director, Office of State Planning and Budgeting**  
**Bettina Schneider, Budget Analyst, Office of State Planning and Budgeting**  
**Legislative Council Library (6 copies)**  
**State Library (4 copies)**  
**Susan E. Birch, Executive Director**  
**Suzanne Brennan, Medical and CHP+ Program Administration Office Director**  
**John Bartholomew, Financial & Administrative Services Office Director**  
**Antoinette Taranto, Client & Community Relations Office Director**  
**Phil Kalin, Center for Improving Value in Health Care (CIVHC) Director**  
**Carrie Cortiglio, Legislative Liaison**  
**Joanne Zahora, Public Information Officer**  
**HCPF Budget Library, HCPF Budget Division**



**COLORADO DEPARTMENT OF HEALTH CARE  
POLICY AND FINANCING**

**REPORT TO THE JOINT BUDGET COMMITTEE**

**MANAGED CARE ORGANIZATIONS' MEDICAL SERVICES  
PREMIUMS**

**OCTOBER 17, 2011**

This report is presented to the Joint Budget Committee (JBC) of the Colorado General Assembly in response to Legislative Request for Information number 2, which states:

*The Department is requested to submit a report on the managed care organizations' capitation rates for each population and the estimated blended rate for each aid category in effect for the FY 2011-12 to the Joint Budget Committee by September 1, 2011. The Department is requested to include in the report a copy of each managed care organization's certification that the reimbursement rates are sufficient to assure the financial stability of the managed care organization with respect to delivery of services to the Medicaid recipients covered in their contract pursuant to Section 25.5-5-404 (1)(1), C.R.S.*

In response to the legislative request for information number 2, the Department of Health Care Policy and Financing (the Department) has attached two actuarial certification letters and six financial stability certifications. The first attachment is the Department's January 1, 2011 – December 31, 2011 Behavioral Health Organization (BHO) capitation rate certification letter. Exhibit 8 of this letter contains the January 1, 2011 – December 31, 2011 BHO capitation rates by eligibility group for each of the BHOs. The second through sixth attachments are financial stability certification letters from the five BHOs: Northeast Behavioral Health Partnership, Foothills Behavioral Health Partners, Colorado Health Partnerships, Colorado Access Behavioral Care and Behavioral Healthcare Inc. respectively.

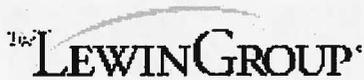
The seventh attachment is the Department's January 1, 2011 – December 31, 2011 Health Maintenance Organization (HMO) capitation rate certification letter. The Rates Exhibit of this certification letter contains the actuarially sound rate ranges and the state capitation payment maximum, which is equal to one hundred percent of the direct health care cost of providing these same services on an actuarially equivalent Colorado Medicaid population. As specified in C.R.S. 25.5-5-408(2009), HMOs must submit a capitation payment proposal to the Department which does not exceed the state capitation payment maximum. For the capitation rates effective January 1, 2011 – December 31, 2011, Denver Health and Hospital Authority submitted capitation proposals that are equal to the state capitation payment maximum.

The eighth attachment is the financial stability certification letter from Denver Health and Hospital Authority.

BHOs, HMOs, and Primary Care Physicians (PCPs) are all managed care organizations as defined by C.R.S. 25.5-5-403(2008); however PCPs do not receive capitation payments and thus are not included in this report.

## **ATTACHMENTS**

- 1. THE STATE OF COLORADO DEPARTMENT OF HEALTH CARE POLICY AND FINANCING'S JANUARY 1, 2011 -DECEMBER 31, 2011 BEHAVIORAL HEALTH ORGANIZATION CAPITATION RATE CERTIFICATION LETTER**
- 2. NORTHEAST BEHAVIORAL HEALTH PARTNERSHIP FINANCIAL STABILITY CERTIFICATION LETTER**
- 3. FOOTHILLS BEHAVIORAL HEALTH PARTNERS FINANCIAL STABILITY CERTIFICATION LETTER**
- 4. COLORADO HEALTH PARTNERSHIPS FINANCIAL STABILITY CERTIFICATION LETTER**
- 5. COLORADO ACCESS BEHAVIORAL CARE FINANCIAL STABILITY CERTIFICATION LETTER**
- 6. BEHAVIORAL HEALTHCARE INC FINANCIAL STABILITY CERTIFICATION LETTER**
- 7. THE STATE OF COLORADO DEPARTMENT OF HEALTH CARE POLICY AND FINANCING'S JANUARY 1, 2011 -DECEMBER 31, 2011 HEALTH MAINTENANCE ORGANIZATION CAPITATION RATE CERTIFICATION LETTER**
- 8. DENVER HEALTH AND HOSPITAL AUTHORITY FINANCIAL STABILITY CERTIFICATION LETTER**



3150 Fairview Park Drive, Suite 800 | Falls Church, VA 22042 | phone: (703) 269-5500 | fax: (703) 269-5501 | www.lewin.com

November 30, 2010

Mr. Jed Ziegenhagen  
Rates and Analysis Division Director  
Department of Health Care Policy and Financing  
1570 Grant Street  
Denver, CO 80203

**Re: BHO Capitation Rate Certification for January 1, 2011 - December 31, 2011**

Dear Jed:

The State of Colorado Department of Health Care Policy and Financing (Department) has developed Medicaid mental health managed care capitation rates for January 1, 2011 - December 31, 2011 (CY11), for the purposes of contracting with Behavioral Healthcare Organizations (BHOs). The Department contracted with The Lewin Group (Lewin) to review the proposed capitation rates and their development and to certify that they are within an actuarially sound range for the purpose of seeking rate approval by the Centers for Medicare and Medicaid Services (CMS) under 42 CFR 438.6(c). Certification of these capitation rate ranges by Lewin will also fulfill all applicable state statutes.

This letter documents the methodologies used by the Department in developing the behavioral health capitation rates as well as the processes used by Lewin in reviewing the actuarial soundness of the rates.

#### **PROGRAM BACKGROUND**

The Department provides behavioral health services via the Medicaid Mental Health Capitation Program. This program is currently operated by five BHOs: Behavioral Healthcare Inc. (BHI), Colorado Access (ABC), Colorado Health Partnerships, LLC (CHP), Foothills Behavioral Health Partners, LLC (FBHP) and Northeast Behavioral Health Partnership, LLC (NBHP). This certification letter applies to all five of the aforementioned BHOs.

In addition to reviewing the mental health capitation rates, Lewin has established and certified actuarially sound rate ranges for the behavioral health managed care rates (which are in compliance with federal regulations and guidance concerning setting capitation rates for managed care organizations).

#### ***Covered Services***

The BHOs are responsible for providing a range of medically necessary behavioral health services to their enrolled members. Behavioral health services can be categorized as those required under the State Plan and those required under the Department's 1915(b)(3) waiver:



Mr. Jed Ziegenhagen  
November 30, 2010  
Page 2 of 25

#### **State Plan Services**

Clinical Services, Case Management	Psychiatric - 65 and Over
Emergency	Psychiatrist
Inpatient Hospital	Psychosocial Rehabilitation Services
Medication Management	Rehabilitation
Outpatient	School-Based Services
Psychiatric - Under 21	

#### **1915(b)(3) (Non-State Plan) Services**

Assertive Community Treatment (ACT)	Prevention/Early Intervention
Clubhouses/Drop-In Centers	Recovery Services
Home-Based Services for Children and Adolescents	Residential Services
Intensive Case Management	Respite Care
	Vocational Services

Note that CMS regulations prevent the Non-State Plan services from being included in the development of actuarially sound capitation rates. As a result, separate rates must be developed for these services.

#### ***Covered Aid Categories***

All BHOs cover the following aid categories:

- Categorically Eligible Low Income Adults (AFDC-A)
- Baby Care Program Adults (BCCP)
- Eligible Children Over Age One (AFDC-C and BCKC-C)
- Eligible Children Under Age One (AFDC-U and BCKC-U)
- Foster Care
- Adults 65 and Older (OAP-A)
- Disabled Adults 60-64 (OAP/B-SSI)
- Disabled Individuals to 59 (AND/AB-SSI)

This certification letter applies to the aforementioned populations.

### ***CY11 Methodology Overview***

The CY11 capitation rates and rate ranges are primarily based on a combination of historical rates, Calendar Year 2009 (CY09) BHO encounter data priced with fiscal year 2009 (FY09) unit costs, and CY09 BHO encounter data priced using standard CY08 case rates. Each data (or rate) source is summarized by rate cell and adjusted so as to project costs to CY11.

### ***Rate Cells***

The capitation payments received by the BHO are based on their enrollment by rate cell. The purpose of the rate cells is to group homogeneous, credible populations in a reasonable manner. The rate cells generally follow the aid categories listed above:

- Elderly: The Adults 65 and over (OAP-A).
- Disabled: both disabled aid categories (OAP/B-SSI and AND/AB-SSI) have in common a Medicaid eligibility determination process that requires a formal disability determination. Those categories of eligibility are therefore combined together into the Disabled rate cell.
- Adults: The AFDC and BCCP subsets of Eligible Adults are combined together into one rate cell.
- Children: The BCKC-C and AFDC subsets of Eligible Children Over Age One are combined together into one rate cell.
- Foster Care: This rate cell includes all Foster Care data.

The claim and member month data for the Refugee Medical Assistance (RMA) category of eligibility, formerly known as Non-Categorical Refugee Assistance (NCRA), is not included in the rate development. Given the relatively small size of the refugee categories, excluding this group was determined to be the best course of action.

Exhibit 1 provides a summary of CY09 member months by BHO and rate cell.

### **BASE UTILIZATION AND UNIT COST DATA**

#### ***Data Sources***

As mentioned above, three data sources were utilized: historical rates, CY09 BHO encounter data priced with FY09 unit costs, and CY09 BHO encounter data priced using standard CY08 case rates.



Mr. Jed Ziegenhagen  
November 30, 2010  
Page 4 of 25

**Historical Rates**

January 1, 2010 – December 31, 2010 (CY10) contracted capitation rates were used in the development of CY11 capitation rates and rate ranges. In order to project these rates to the CY11 contract period, the following adjustments were applied:

- Public Policy Changes – A public policy adjustment was applied to account for FY11 programmatic rate changes made to hospital reimbursement.
- Trend – trend adjustments were applied to project the CY10 capitation rates to the CY11 contract period.

The CY10 historical rates, projected to CY11 are shown in Exhibit 2.

**CY09 Encounter Data Priced at FY09 Unit Costs**

The Department provided Lewin with summarized and detailed BHO encounter data for the period January 1, 2009 – December 31, 2009. The CY09 encounter data included all State Plan and 1915(b)(3) services; services that do not fall into either of these categories and services not covered under the Mental Health Capitation Program contract were excluded.

The following steps/adjustments were made to project the encounter data to the CY11 contract period; additional details regarding the following can be found in the Data Considerations/Modifications and Forecast of CY 11 Experience Sections:

- The Department priced the encounter data with FY09 unit costs.
- Adjustments were made for un-priced State Plan and non-state plan services. The Department estimated the adjustments for un-priced services as follows:

BHO	Un-Priced Encounters Adj
Behavioral Healthcare Inc.	1.0104
Colorado Access	1.0083
Colorado Health Partnerships, LLC	1.0052
Foothills Behavioral Health Partners, LLC	1.0120
Northeast Behavioral Health Partnership, LLC	1.0177

- Encounters for 1915(b)(3) services were included in the capitation rate. The CY09 ratio of State Plan and 1915(b)(3) services is shown in Exhibit 3.
- The CY09 encounter data was summarized by BHO and rate cell and then linked to the Department's eligibility file. Linking the encounter data to the Department's eligibility file restricts the encounters to those members that have a corresponding eligibility span.
- The priced encounter data was weighted with Colorado-specific case rates: 75% priced encounter data and 25% case rate data. This blending is discussed in greater detail below.
- The Department compared the priced CY09 encounter data to BHO financials in order to verify the accuracy of the encounter data. On average, the priced encounters and FY09 financials were not significantly different; thus, no adjustments were made to the encounter data.
- Encounter costs were adjusted downwards to account for Third Party Liability (TPL) collections. TPL adjustments are BHO specific and applied, as a percentage, over all risk groups/rate cells.
- Adjustments were applied to account for the following: incurred but not reported, FY10 and FY11 public policy changes, trend and administrative costs. Note that since the encounters were priced at FY09 unit costs, 2.5 years of unit cost trend is required to project this data to the CY11 contract period.

The encounter rate development, including State plan/Non-State Plan splits and blending with case rates, is shown in Exhibit 4.

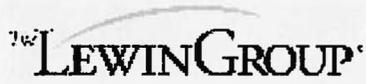
#### ***CY09 Encounter Data Priced at CY08 Case Rates***

The Department worked with a contractor to develop Colorado-specific case rates for mental health services; the case rates are based on CDPS logic. Any given member is assigned a case rate depending on his/her diagnoses, risk group and gender.

This component of the CY11 capitation rate applies Colorado-specific, CY08 case rates to each member based on his/her CY09 encounters.

As mentioned above, the encounter data priced at FY09 unit costs was blended with this case rate component at 75/25 (respectively). This blending was introduced for the following reasons:

- Since the case rates are higher (on average) than the priced encounter data, it is believed that the BHOs are finding efficiencies. To encourage the BHOs to continue to find efficiencies the Department decided to incorporate savings realized from CY08 to CY09.



Mr. Jed Ziegenhagen  
November 30, 2010  
Page 6 of 25

As a result, 25% of CY08 case rate (or, said differently, 25% of the savings realized) were added into/blended with the CY09 priced encounter data.

- To help reduce rate variation by minimizing the deviation in unit costs across the BHOs.

By blending the case rate and unit cost-based encounter data, the case rate-based encounter data was also adjusted for the following:

- Third Party Liability (TPL)
- Incurred But Not Reported
- Prospective Policy Changes
- 2.5 years of trend
- Administrative costs

The encounter rate development, including State plan/Non-State Plan splits and blending with case rates, is shown in Exhibit 4.

#### ***Blending of the Data Sources***

The CY10 capitation rates were based on a 45/55% priced encounter data and historical rates (respectively). As mentioned above, the CY11 encounter-based rates is a blend the unit cost-based encounter rates and the case rate-based encounter rates using weights of 75% and 25% (respectively). Lastly, in order to move more towards an encounter-based rate, the final encounter-based rate was blended with the historical CY10 rates based on a 50/50 split.

Exhibit 5 shows point estimates of the blended encounter and historical rates. Exhibit 6 splits the blended CY11 point estimates between State Plan and Non-State Plan (or 1915(b)(3)) services.

#### **DATA CONSIDERATIONS/MODIFICATIONS**

##### ***Determination of Unit Costs***

The Department reviewed and priced the CY09 detailed encounter data. As part of the review process, the Department worked closely with each BHO to ensure that the underlying encounter data was as complete and accurate as possible. The Department used FY09 unit costs to price the CY09 encounter data.

At a high-level, the Department performed the following steps to price the CY09 encounter data:

Mr. Jed Ziegenhagen  
 November 30, 2010  
 Page 7 of 25

- Community Mental Health Centers (CMHCs) – For individuals that utilized the CMHCs, one procedure is chosen for each service category and is set as the service base unit cost. For all other procedures in the same service category, the unit cost is determined as the relative value unit (RVU) times the service base unit cost divided by the service base RVU.
- Pueblo and Fort Logan Institute Encounters – rates based on the Institute Cost Report were applied to these inpatient encounters.
- Inpatient Encounters – inpatient hospital per diem rates were applied to all other inpatient encounters.
- Emergency and Lab Encounters – the Department applied the Colorado Medicaid fee-for-service (FFS) fee schedule rates, by procedure code, to these encounters.
- Remaining/Un-priced Encounters – these encounters were adjusted based on the factors shown above (in the CY09 Encounter Data Priced at FY09 Unit Costs section).

***IBNR Claim Adjustment***

The unit cost priced encounter data was completed with Incurred but Not Reported (IBNR) claim adjustments. The IBNR adjustments were developed using the CY09 encounter data with runout (or paid dates) through August 2010. A review of the claims triangles revealed the following:

- A significant spike in claims for paid months June – August 2010. Since the Department encouraged the BHOs to process all of their encounters (for inclusion in the rate development), this spike was treated as a one-time event.
- For a few of the BHOs a deviation in claims payment pattern occurred in July 2009. It is believed that this deviation was a one-time event due to changes in claims processing vendors.

The table below shows the completion factors by BHO:

BHO	Completion Factor
Behavioral Healthcare Inc.	1.0025
Colorado Access	1.0009
Colorado Health Partnerships, LLC	1.0010
Foothills Behavioral Health Partners, LLC	1.0004
Northeast Behavioral Health Partnership, LLC	1.0024



Mr. Jed Ziegenhagen  
November 30, 2010  
Page 8 of 25

### ***Administrative Load***

CMS regulations require an administration load for costs directly related to the provision of approved Medicaid State Plan services. Per the BHO's FY09 financial statements, administrative costs averaged approximately 10.81% of total service costs. While this admin percent is based on all services (as opposed to State Plan services only), it is reasonable and in-line with other Medicaid managed care organizations. Thus, the capitation rates for each BHO include a 10.81% administrative load.

At the time of this certification letter, ABC and the Department were engaged in discussions regarding an option where ABC would serve a population requiring above average administrative services. To account for this population it was determined that an additional 0.07% in administrative costs would need to be applied to ABC's CY11 point estimate rates; Exhibit 8 shows this additional administration load as an optional add-on.

### ***Institutions for Mental Diseases (IMD) Adjustment***

Under the BHO contracts, inpatient services for Medicaid members aged 22-64 are not covered at an IMD; thus BHOs are not required to pay for said services. Since services in an IMD are not covered, they would normally be excluded from the rate development. However, consistent with CMS policy, IMD services provided in lieu of acute psych days are included in the rate development. If the BHOs reported IMD services for persons aged 22-64 then these costs are included in the rate development. IMD services included in the rate development exhibit the following characteristics:

- They are substitutes for acute inpatient days and do not represent long-term care IMD services.
- They have a lower length of stay/average cost than an equivalent psych stay in a general hospital.

### ***Closure of Beds at Fort Logan Institute***

Effective January 1, 2010, the beds at the Fort Logan Institute were closed. This closure occurred because it was determined that the current patients could be served in a residential rather than institutional setting. Federal regulation excludes payment for members aged 22-64 who receive treatment at an Institute for Mental Disease or who have exhausted the State's inpatient psychiatric limit of 45 days. These exclusions were paid for by the General Fund.

Since these individuals will be eligible for community mental health services (provided by the BHOs), an adjustment has been applied to account for the anticipated costs.

### ***Additional Considerations***

The following potential adjustments were also considered:

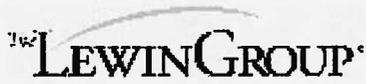
- **Data Smoothing** - no data smoothing adjustments were applied. Due to the nature of the services covered under the mental health contract it is unlikely that large claims would cause significant distortion. Furthermore, the underlying populations are sufficiently large to be credible.
- **Population Biased Selection** - no adjustment was necessary, since enrollment into the BHO program is mandatory.
- **Spenddown** - this is not included in managed care.
- **Benefit Differences** - the benefits in the base data are the same as those in the contract period; thus, no adjustment was made.
- **Eligibility Adjustments** - the population covered in the base data is the same as the population covered in the contract period; as a result, no adjustment was necessary.
- **Disproportionate Share Hospital (DSH), Graduate Medical Education (GME), Indirect Medical Education (IME)** - these are paid outside the capitation rate.
- **Cost Sharing** - there is no cost sharing in this program, so no adjustments were needed.
- **Federally Qualified Health Centers (FQHCs) and Rural Health Centers (RHCs)** - the full cost of providing services at these centers are included in the rate.
- **Risk Adjustment** - Lewin believes that the current rate cells (by risk group and BHO/ geographic region) provide sufficient variation to account for differences in risk. Furthermore, due to the current quality of the encounter data it is not possible to calculate and apply more sophisticated forms of risk adjustment.

### **FORECAST OF CY 11 EXPERIENCE**

#### ***Prospective Policy Changes***

Policy change adjustments are made to account for budget actions through statutory changes by the General Assembly of the State of Colorado. These projected changes in expenditures are due to rate, benefit, or eligibility changes occurring after the base period. The factors used to adjust the rates were calculated by the Department. Three inpatient prospective policy adjustments are applicable to the BHO rates:

- FY10 (effective July): -2.39%
- FY10 (effective September): -1.50%



Mr. Jed Ziegenhagen  
November 30, 2010  
Page 10 of 25

- FY11: -1.00%

Since hospital claims account for approximately 9.1% of the encounter data, the combined hospital adjustment was adjusted (or multiplied) by 9.1% and then applied as a flat adjustment to all rates.

In addition to the hospital changes, the rates were adjusted for various policy adjustments, including the closure of beds at Fort Logan, which was effective January 1, 2010. This closure occurred because it was determined that the current patients could be served in a residential rather than institutional setting. Federal regulation excludes payment for members aged 22-64 who receive treatment at an Institute for Mental Disease or who have exhausted the State's inpatient psychiatric limit of 45 days. These exclusions were paid for by the General Fund.

Since these individuals will be eligible for community mental health services (provided by the BHOs), an adjustment/increase has been applied to account for the anticipated costs.

The Department estimates the combined impact of the Fort Logan Institute bed closure and the other various policy adjustments to be approximately -0.61%.

#### ***Unit Cost Trends***

The Department provided Lewin with fee and audited unit cost changes for the period FY06-09. Given the unit costs by fiscal year and CY09 encounters/units, average annual unit costs (normalized for public policy changes) were calculated for the following service categories: CMHC, services rendered at Pueblo and Fort Logan, inpatient hospital and all other providers. For each category, the average change in unit costs from FY06 to FY09 was calculated. The final overall unit cost trend was estimated as a weighted average of the aforementioned service categories (weighted based on FY09 costs associated with each category). The trend components and overall average unit cost trend (of approximately 1.92%) are shown in Exhibit 7. As can be seen in Exhibit 7, the analysis of historical cost data provided a range of reasonable trend rates. Based on this analysis, prior year unit cost trends and national average benchmark trends, Lewin believes that the final unit cost trend adjustment of 1.92% is both reasonable and appropriate.

#### ***Utilization/1,000 Trends***

Lewin examined yearly, quarterly and rolling three-month-average utilization/1,000 rates for the period CY08 to CY09. Utilization rates were calculated by BHO, high-level service category and risk group. Lewin calculated utilization rates using encounters, units as reported by the BHOs and days.

In all instances, utilization rates decreased from CY08 to CY09. This decrease was considered when developing CY11 capitation rates. Since extremely negative health care trends tend to be unsustainable over time, Lewin determined a 0.0% utilization trend to be the most appropriate at this time.

#### **MANAGED CARE RATE RANGE DEVELOPMENT**

Actuarial certification is no longer based on the managed care savings assumption implicit in setting rates relative to the federal upper payment limit (UPL), as was permitted by CMS through its November 1, 2000 checklist. To comply with the Balanced Budget Act (BBA) regulations for August 13, 2003 implementation, actuarially sound assessments were performed independently for each rate cell based on the development of a rate range (see below). To further comply with the BBA regulations, the actuarial certification is based on FFS cost experience that is gross of copayments.

In order to develop rate ranges as required by the BBA, two sets of managed care and administrative assumptions were developed using related data. The lower bound represents an amount commensurate with what a very efficient BHO, with typical utilization and administrative levels, could achieve without denying medically necessary services. The upper bound represents the least amount of efficiency a state may be willing to purchase.

#### ***Rate Range Assumptions***

Two sets of adjustments were developed and applied to account for variations in the health care delivery patterns between the estimated low and high end of the managed care rate range. The adjustments are based upon relevant data, which are consistent with historical assumptions.

The following low/high assumptions were considered to drive a reasonable, actuarially sound rate range:

- Utilization and unit cost trends
- TPL recoveries
- Public policy related adjustments
- The 75/25% encounter/case rate blend
- The 50/50% encounter-based/historical rate blend

Also pursuant to CMS requirements, capitation rates must provide some amount for plan administration. The range of administrative loading used in the rate range development is based upon plan financial reports for the participating plans as well as external sources. From this analysis, a combined administrative and underwriting profit load has been developed. For



Mr. Jed Ziegenhagen  
November 30, 2010  
Page 12 of 25

the lower end of the range, the load is 8.5% of premium. For the upper end of the range, the load is 12.6%. These administrative and underwriting profit loads are based on actual administration amounts reported by the BHOs during fiscal years 2008 and 2009.

#### **RATE CERTIFICATION**

The Department has developed, and Lewin has reviewed, Medicaid mental health managed care capitation rates effective January 1, 2011 – December 31, 2011. Lewin further, and separately, developed Medicaid mental health managed care rate ranges for January 1, 2011 – December 31, 2011 as required by the BBA. Exhibit 8 summarizes the CY11 State capitation rates and the January 1, 2011 – December 31, 2011 Lewin rate ranges (by defined rate cell).

Lewin reviewed capitation rates developed by the Department and developed rate ranges based on data supplied by the Department. Lewin has not audited the data and changes to the data could affect the resulting rates, perhaps even materially. Further, use of these rate ranges for purposes beyond those required by the BBA and Colorado Revised Statute may not be appropriate.

Lewin certifies that the above described capitation rates and rate ranges 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 the Department, as reviewed by Lewin, and rate ranges and trending rates developed by Lewin are actuarial projections of future contingent events. Actual BHO costs will differ from these projections. Lewin has developed these rate ranges on behalf of the State of Colorado to demonstrate compliance with the CMS requirements under 42 CFR 438.6(c). BHOs are advised that the use of these rates and/or rate ranges may not be appropriate for their particular circumstance, and Lewin disclaims any responsibility for the use of these rate ranges by BHOs for any purpose. Lewin recommends that any BHO considering contracting with the State of Colorado should analyze its own projected mental health expense, administrative expense, and any other premium needs for comparison to these rate ranges before deciding whether to contract with the State. Use of these rate ranges for any purpose beyond that stated may not be appropriate. Furthermore, as outlined in C.R.S. Section 25.5-5-404, each BHO must certify the following: first, per C.R.S. Section 25.5-5-404(k) "an MCE [managed care entity] that is contracting for a defined scope of services under a risk contract shall certify...that the capitation payments set forth in the contract...are sufficient to assure the financial stability of the MCE;" second, per C.R.S. Section 25.5-5-404(l) "an MCE that is contracting for a defined scope of services under a risk contract shall certify, through a qualified actuary retained by the MCE, that the capitation payments set forth in the contract...comply with all applicable federal and state requirements."



Mr. Jed Ziegenhagen  
November 30, 2010  
Page 13 of 25

If you have any questions regarding this letter, please contact Tom Carlson at 952-833-8244.

Sincerely,

Thomas Carlson, FSA, MAAA

/Attachment

Exhibit 1: Jan-Dec 2009 (CY09) Member Months by BHO

BHO	Elderly	Disabled	Adults	Children	Foster Care	Total
Behavioral Healthcare Inc.	94,459	138,480	218,464	813,216	48,926	1,313,545
Colorado Access	88,803	131,781	165,158	588,021	35,918	1,009,681
Colorado Health Partnerships, LLC	153,784	296,025	378,641	1,076,056	77,337	1,981,843
Foothills Behavioral Health Partners, LLC	58,225	95,897	115,109	341,469	30,766	641,466
Northeast Behavioral Health Partnership, LLC	54,553	82,095	135,487	416,302	29,610	718,046
Total	449,824	744,278	1,012,860	3,235,062	222,557	5,664,581

**Exhibit 2: Jan-Dec 2011 (CY11) Rate Development Based on CY10 Capitation Rates\***

**CY10 Capitation Rates**

<b>BHO</b>	<b>Elderly</b>	<b>Disabled</b>	<b>Adults</b>	<b>Children</b>	<b>Foster Care</b>	<b>Total</b>
Behavioral Healthcare Inc.	\$10.23	\$147.85	\$18.90	\$14.41	\$233.54	\$37.09
Colorado Access	\$19.00	\$171.35	\$13.75	\$10.06	\$189.03	\$38.87
Colorado Health Partnerships, LLC	\$13.86	\$114.11	\$20.62	\$15.82	\$191.82	\$38.14
Foothills Behavioral Health Partners, LLC	\$13.39	\$153.27	\$28.25	\$20.97	\$210.04	\$50.43
Northeast Behavioral Health Partnership, LLC	\$7.36	\$103.90	\$19.05	\$13.89	\$175.61	\$31.33
<b>Total</b>	<b>\$13.26</b>	<b>\$134.44</b>	<b>\$19.79</b>	<b>\$14.72</b>	<b>\$200.90</b>	<b>\$38.55</b>

**CY10 Capitation Rates with CY11 Hospital Public Policy**

<b>BHO</b>	<b>Elderly</b>	<b>Disabled</b>	<b>Adults</b>	<b>Children</b>	<b>Foster Care</b>	<b>Total</b>
Behavioral Healthcare Inc.	\$10.22	\$147.72	\$18.88	\$14.40	\$233.33	\$37.05
Colorado Access	\$18.98	\$171.19	\$13.74	\$10.05	\$188.86	\$38.83
Colorado Health Partnerships, LLC	\$13.85	\$114.01	\$20.60	\$15.81	\$191.65	\$38.10
Foothills Behavioral Health Partners, LLC	\$13.38	\$153.13	\$28.22	\$20.95	\$209.85	\$50.39
Northeast Behavioral Health Partnership, LLC	\$7.35	\$103.81	\$19.03	\$13.88	\$175.45	\$31.30
<b>Total</b>	<b>\$13.25</b>	<b>\$134.32</b>	<b>\$19.77</b>	<b>\$14.70</b>	<b>\$200.72</b>	<b>\$38.52</b>

**CY11 Capitation Rates (Adjusted CY10 Rates Trended)**

<b>BHO</b>	<b>Elderly</b>	<b>Disabled</b>	<b>Adults</b>	<b>Children</b>	<b>Foster Care</b>	<b>Total</b>
Behavioral Healthcare Inc.	\$10.42	\$150.56	\$19.25	\$14.67	\$237.82	\$37.77
Colorado Access	\$19.35	\$174.49	\$14.00	\$10.24	\$192.49	\$39.58
Colorado Health Partnerships, LLC	\$14.12	\$116.20	\$21.00	\$16.11	\$195.34	\$38.84
Foothills Behavioral Health Partners, LLC	\$13.64	\$156.08	\$28.77	\$21.35	\$213.89	\$51.36
Northeast Behavioral Health Partnership, LLC	\$7.49	\$105.81	\$19.39	\$14.15	\$178.83	\$31.90
<b>Total</b>	<b>\$13.51</b>	<b>\$136.91</b>	<b>\$20.15</b>	<b>\$14.98</b>	<b>\$204.58</b>	<b>\$39.26</b>

\*Totals are calculated using CY09 Member Months as weights.

Exhibit 3: State Plan vs Non-State Plan Service Costs by BHO (Based on Jan-Dec 2009 (CY09) Priced Encounter)

BHO	CY09 State Plan Services	Prcnt State Plan	CY09 Non-State Plan Services	Prcnt Non-State Plan	Total
Behavioral Healthcare Inc.	31,982,598	74.5%	10,951,125	25.5%	42,933,723
Colorado Access	24,852,970	65.9%	12,845,086	34.1%	37,698,055
Colorado Health Partnerships, LLC	42,158,057	65.3%	22,394,110	34.7%	64,552,166
Foothills Behavioral Health Partners, LLC	16,716,873	60.3%	11,014,918	39.7%	27,731,791
Northeast Behavioral Health Partnership, LLC	16,151,821	81.9%	3,565,628	18.1%	19,717,450
Total	131,862,319	68.5%	60,770,867	31.5%	192,633,186

**Exhibit 4: Jan-Dec 2011 (CY11) Rate Development Based on CY09 Encounter Data\***

**CY09 State Plan Encounter Per Capita Costs (at FY09 Prices) with IBNR and Un-priced Claims Adjustment**

<b>BHO</b>	<b>Elderly</b>	<b>Disabled</b>	<b>Adults</b>	<b>Children</b>	<b>Foster Care</b>	<b>Total</b>
Behavioral Healthcare Inc.	\$9.08	\$109.02	\$13.63	\$9.40	\$118.92	\$24.66
Colorado Access	\$12.12	\$102.24	\$9.48	\$6.83	\$137.43	\$24.83
Colorado Health Partnerships, LLC	\$8.64	\$67.46	\$12.30	\$9.91	\$75.02	\$21.40
Foothills Behavioral Health Partners, LLC	\$7.31	\$80.78	\$19.91	\$11.66	\$80.61	\$26.38
Northeast Behavioral Health Partnership, LLC	\$5.57	\$75.36	\$15.18	\$11.60	\$104.69	\$22.95
<b>Total</b>	<b>\$8.88</b>	<b>\$83.94</b>	<b>\$13.38</b>	<b>\$9.62</b>	<b>\$99.46</b>	<b>\$23.53</b>

**CY09 Non-State Plan Encounter Per Capita Costs (at FY09 Prices) with IBNR and Un-priced Claims Adjustment**

<b>BHO</b>	<b>Elderly</b>	<b>Disabled</b>	<b>Adults</b>	<b>Children</b>	<b>Foster Care</b>	<b>Total</b>
Behavioral Healthcare Inc.	\$3.11	\$37.33	\$4.67	\$3.22	\$40.72	\$8.44
Colorado Access	\$6.26	\$52.84	\$4.90	\$3.53	\$71.03	\$12.83
Colorado Health Partnerships, LLC	\$4.59	\$35.83	\$6.54	\$5.26	\$39.85	\$11.37
Foothills Behavioral Health Partners, LLC	\$4.82	\$53.23	\$13.12	\$7.68	\$53.12	\$17.38
Northeast Behavioral Health Partnership, LLC	\$1.23	\$16.64	\$3.35	\$2.56	\$23.11	\$5.07
<b>Total</b>	<b>\$4.23</b>	<b>\$39.25</b>	<b>\$6.19</b>	<b>\$4.34</b>	<b>\$44.68</b>	<b>\$10.83</b>

**CY09 State and Non-State Plan Encounter PMPM Blended with Case Rate (75/25%)**

<b>BHO</b>	<b>Elderly</b>	<b>Disabled</b>	<b>Adults</b>	<b>Children</b>	<b>Foster Care</b>	<b>Total</b>
Behavioral Healthcare Inc.	\$11.54	\$145.58	\$18.45	\$13.09	\$160.77	\$33.34
Colorado Access	\$17.60	\$159.89	\$14.56	\$10.54	\$202.44	\$38.14
Colorado Health Partnerships, LLC	\$13.55	\$107.08	\$20.29	\$15.95	\$122.34	\$34.36
Foothills Behavioral Health Partners, LLC	\$12.50	\$141.40	\$32.80	\$19.86	\$143.33	\$45.61
Northeast Behavioral Health Partnership, LLC	\$7.46	\$102.43	\$19.81	\$15.44	\$136.76	\$30.61
<b>Total</b>	<b>\$13.05</b>	<b>\$127.50</b>	<b>\$20.32</b>	<b>\$14.60</b>	<b>\$148.53</b>	<b>\$35.59</b>

**Exhibit 4: CY09 Blended Encounter PMPM with TPL Adjustment**

<b>BHO</b>	<b>Elderly</b>	<b>Disabled</b>	<b>Adults</b>	<b>Children</b>	<b>Foster Care</b>	<b>Total</b>
Behavioral Healthcare Inc.	\$11.43	\$144.23	\$18.28	\$12.97	\$159.28	\$33.03
Colorado Access	\$16.97	\$154.10	\$14.03	\$10.16	\$195.11	\$36.76
Colorado Health Partnerships, LLC	\$13.35	\$105.46	\$19.98	\$15.71	\$120.48	\$33.84
Foothills Behavioral Health Partners, LLC	\$12.29	\$139.03	\$32.25	\$19.53	\$140.93	\$44.84
Northeast Behavioral Health Partnership, LLC	\$7.39	\$101.57	\$19.64	\$15.31	\$135.61	\$30.35
<b>Total</b>	<b>\$12.80</b>	<b>\$125.18</b>	<b>\$20.00</b>	<b>\$14.36</b>	<b>\$145.89</b>	<b>\$34.97</b>

**CY09 Blended Encounter PMPM with TPL and Policy Adjustments**

<b>BHO</b>	<b>Elderly</b>	<b>Disabled</b>	<b>Adults</b>	<b>Children</b>	<b>Foster Care</b>	<b>Total</b>
Behavioral Healthcare Inc.	\$11.31	\$142.71	\$18.09	\$12.83	\$157.60	\$32.68
Colorado Access	\$16.79	\$152.48	\$13.89	\$10.05	\$193.06	\$36.37
Colorado Health Partnerships, LLC	\$13.21	\$104.35	\$19.77	\$15.55	\$119.21	\$33.48
Foothills Behavioral Health Partners, LLC	\$12.16	\$137.57	\$31.91	\$19.32	\$139.45	\$44.37
Northeast Behavioral Health Partnership, LLC	\$7.31	\$100.50	\$19.44	\$15.15	\$134.18	\$30.03
<b>Total</b>	<b>\$12.67</b>	<b>\$123.87</b>	<b>\$19.79</b>	<b>\$14.21</b>	<b>\$144.36</b>	<b>\$34.61</b>

**CY09 Adjusted/Blended Encounter PMPM with Unit Cost Trend (from FY09 fee level to CY11)**

<b>BHO</b>	<b>Elderly</b>	<b>Disabled</b>	<b>Adults</b>	<b>Children</b>	<b>Foster Care</b>	<b>Total</b>
Behavioral Healthcare Inc.	\$11.86	\$149.68	\$18.97	\$13.46	\$165.30	\$34.28
Colorado Access	\$17.61	\$159.92	\$14.56	\$10.54	\$202.48	\$38.15
Colorado Health Partnerships, LLC	\$13.85	\$109.44	\$20.74	\$16.31	\$125.03	\$35.12
Foothills Behavioral Health Partners, LLC	\$12.75	\$144.29	\$33.47	\$20.27	\$146.25	\$46.54
Northeast Behavioral Health Partnership, LLC	\$7.67	\$105.41	\$20.39	\$15.89	\$140.73	\$31.50
<b>Total</b>	<b>\$13.28</b>	<b>\$129.91</b>	<b>\$20.75</b>	<b>\$14.91</b>	<b>\$151.41</b>	<b>\$36.30</b>

**Exhibit 4: CY09 Adjusted/Blended Encounter PMPM with Unit Cost Trend and Admin**

<b>BHO</b>	<b>Elderly</b>	<b>Disabled</b>	<b>Adults</b>	<b>Children</b>	<b>Foster Care</b>	<b>Total</b>
Behavioral Healthcare Inc.	\$13.30	\$167.82	\$21.27	\$15.09	\$185.33	\$38.43
Colorado Access	\$19.74	\$179.30	\$16.33	\$11.82	\$227.02	\$42.77
Colorado Health Partnerships, LLC	\$15.53	\$122.71	\$23.25	\$18.28	\$140.19	\$39.37
Foothills Behavioral Health Partners, LLC	\$14.30	\$161.78	\$37.53	\$22.72	\$163.98	\$52.18
Northeast Behavioral Health Partnership, LLC	\$8.60	\$118.18	\$22.86	\$17.81	\$157.79	\$35.31
<b>Total</b>	<b>\$14.89</b>	<b>\$145.66</b>	<b>\$23.27</b>	<b>\$16.71</b>	<b>\$169.76</b>	<b>\$40.70</b>

\*Totals are calculated using CY09 Member Months as weights.

**Exhibit 5: Jan-Dec 2011 (CY11) Point Estimates\***

**CY11 Encounter-based Rates with Trend and Admin: Blended based on 75/25 split of Repriced CY09 Encounter Data and Case Rates**

BHO	Elderly	Disabled	Adults	Children	Foster Care	Total
Behavioral Healthcare Inc.	\$13.30	\$167.82	\$21.27	\$15.09	\$185.33	\$38.43
Colorado Access	\$19.74	\$179.30	\$16.33	\$11.82	\$227.02	\$42.77
Colorado Health Partnerships, LLC	\$15.53	\$122.71	\$23.25	\$18.28	\$140.19	\$39.37
Foothills Behavioral Health Partners, LLC	\$14.30	\$161.78	\$37.53	\$22.72	\$163.98	\$52.18
Northeast Behavioral Health Partnership, LLC	\$8.60	\$118.18	\$22.86	\$17.81	\$157.79	\$35.31
<b>Total</b>	<b>\$14.89</b>	<b>\$145.66</b>	<b>\$23.27</b>	<b>\$16.71</b>	<b>\$169.76</b>	<b>\$40.70</b>

**CY11 Rates with Trend and Admin: Blended based on 50/50 split of CY09 Encounter-Based Rate and Historical Rates**

BHO	Elderly	Disabled	Adults	Children	Foster Care	Total
Behavioral Healthcare Inc.	\$11.86	\$159.19	\$20.26	\$14.88	\$211.57	\$38.10
Colorado Access	\$19.55	\$176.90	\$15.16	\$11.03	\$209.76	\$41.17
Colorado Health Partnerships, LLC	\$14.82	\$119.46	\$22.12	\$17.20	\$167.76	\$39.10
Foothills Behavioral Health Partners, LLC	\$13.97	\$158.93	\$33.15	\$22.04	\$188.93	\$51.77
Northeast Behavioral Health Partnership, LLC	\$8.05	\$111.99	\$21.13	\$15.98	\$168.31	\$33.61
<b>Total</b>	<b>\$14.20</b>	<b>\$141.28</b>	<b>\$21.71</b>	<b>\$15.85</b>	<b>\$187.17</b>	<b>\$39.98</b>

\*Totals are calculated using CY09 Member Months as weights.

**Exhibit 6: Jan-Dec 2011 (CY11) Point Estimates Split by State Plan and Non-State Plan Services**

**Behavioral Healthcare Inc.**

Risk Group	CY11 Point Est	State Plan	Prcnt State Plan	Non-State Plan	Prcnt Non-State Plan
Elderly	\$11.86	\$8.83	74.5%	\$3.03	25.5%
Disabled	\$159.19	\$118.58	74.5%	\$40.60	25.5%
Adults	\$20.26	\$15.09	74.5%	\$5.17	25.5%
Children	\$14.88	\$11.09	74.5%	\$3.80	25.5%
Foster Care	\$211.57	\$157.61	74.5%	\$53.97	25.5%

**Colorado Access**

Risk Group	CY11 Point Est	State Plan	Prcnt State Plan	Non-State Plan	Prcnt Non-State Plan
Elderly	\$19.55	\$12.89	65.9%	\$6.66	34.1%
Disabled	\$176.90	\$116.62	65.9%	\$60.28	34.1%
Adults	\$15.16	\$10.00	65.9%	\$5.17	34.1%
Children	\$11.03	\$7.27	65.9%	\$3.76	34.1%
Foster Care	\$209.76	\$138.29	65.9%	\$71.47	34.1%

**Colorado Health Partnerships, LLC**

Risk Group	CY11 Point Est	State Plan	Prcnt State Plan	Non-State Plan	Prcnt Non-State Plan
Elderly	\$14.82	\$9.68	65.3%	\$5.14	34.7%
Disabled	\$119.46	\$78.01	65.3%	\$41.44	34.7%
Adults	\$22.12	\$14.45	65.3%	\$7.68	34.7%
Children	\$17.20	\$11.23	65.3%	\$5.97	34.7%
Foster Care	\$167.76	\$109.56	65.3%	\$58.20	34.7%

**Foothills Behavioral Health Partners, LLC**

Risk Group	CY11 Point Est	State Plan	Prcnt State Plan	Non-State Plan	Prcnt Non-State Plan
Elderly	\$13.97	\$8.42	60.3%	\$5.55	39.7%
Disabled	\$158.93	\$95.80	60.3%	\$63.13	39.7%
Adults	\$33.15	\$19.98	60.3%	\$13.17	39.7%
Children	\$22.04	\$13.29	60.3%	\$8.75	39.7%
Foster Care	\$188.93	\$113.89	60.3%	\$75.04	39.7%

**Northeast Behavioral Health Partnership, LLC**

Risk Group	CY11 Point Est	State Plan	Prcnt State Plan	Non-State Plan	Prcnt Non-State Plan
Elderly	\$8.05	\$6.59	81.9%	\$1.46	18.1%
Disabled	\$111.99	\$91.74	81.9%	\$20.25	18.1%
Adults	\$21.13	\$17.31	81.9%	\$3.82	18.1%
Children	\$15.98	\$13.09	81.9%	\$2.89	18.1%
Foster Care	\$168.31	\$137.87	81.9%	\$30.44	18.1%

**Exhibit 7: Development of Unit Cost Trend**

	FY06	FY07	FY08	FY09	Trend	Weight
CMHC Unit Cost	99.32	105.86	104.60	105.87		
Rate Change		6.58%	-1.19%	1.22%	2.15%	84.7%
Pueblo+FortLogan Cost	849.93	817.24	831.98	908.69		
Rate Change		-3.85%	1.80%	9.22%	2.25%	5.0%
Hosp Per Diem Cost	1,044.52	1,022.28	1,020.05	1,026.05		
Rate Change		-2.13%	-0.22%	0.59%	-0.59%	9.1%
Oth Providers Ave. Rate	22.03	22.72	24.38	24.38		
Rate Change		3.1%	7.3%	0.0%	3.44%	1.19%
<b>Weighted Average Annual Increase</b>					<b>1.92%</b>	

**Exhibit 8: Jan-Dec 2011 (CY11) Point Estimates, Low and High Rate Ranges, Final Rates and Additional Admin (Where Applicable) PMPMs**

**Behavioral Healthcare Inc.**

Risk Group	CY11 Point Est	CY11 Low End	CY11 High End	Final CY11 Rate
Elderly	\$11.86	\$11.03	\$12.34	\$11.66
Disabled	\$159.19	\$145.79	\$169.80	\$156.46
Adults	\$20.26	\$18.45	\$21.78	\$19.91
Children	\$14.88	\$13.46	\$16.17	\$14.63
Foster Care	\$211.57	\$197.75	\$221.78	\$207.95

**Colorado Access**

Risk Group	CY11 Point Est	CY11 Low End	CY11 High End	Final CY11 Rate	Addtnl Admin
Elderly	\$19.55	\$18.54	\$20.72	\$19.21	\$0.01
Disabled	\$176.90	\$162.36	\$196.15	\$173.87	\$0.12
Adults	\$15.16	\$13.91	\$16.81	\$14.91	\$0.01
Children	\$11.03	\$10.11	\$12.25	\$10.84	\$0.01
Foster Care	\$209.76	\$196.11	\$226.61	\$206.17	\$0.15

**Colorado Health Partnerships, LLC**

Risk Group	CY11 Point Est	CY11 Low End	CY11 High End	Final CY11 Rate
Elderly	\$14.82	\$13.45	\$16.08	\$14.57
Disabled	\$119.46	\$108.13	\$130.11	\$117.41
Adults	\$22.12	\$19.62	\$24.70	\$21.75
Children	\$17.20	\$15.38	\$18.99	\$16.90
Foster Care	\$167.76	\$155.03	\$179.59	\$164.89

**Foothills Behavioral Health Partners, LLC**

Risk Group	CY11 Point Est	CY11 Low End	CY11 High End	Final CY11 Rate
Elderly	\$13.97	\$12.69	\$15.21	\$13.73
Disabled	\$158.93	\$143.09	\$175.29	\$156.21
Adults	\$33.15	\$30.16	\$35.87	\$32.58
Children	\$22.04	\$20.03	\$24.00	\$21.66
Foster Care	\$188.93	\$173.37	\$204.74	\$185.70

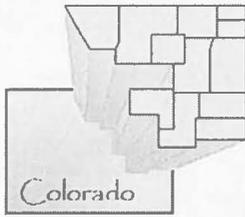
**Northeast Behavioral Health Partnership, LLC**

Risk Group	CY11 Point Est	CY11 Low End	CY11 High End	Final CY11 Rate
Elderly	\$8.05	\$7.04	\$9.08	\$7.91
Disabled	\$111.99	\$97.53	\$127.10	\$110.08
Adults	\$21.13	\$18.64	\$23.57	\$20.77
Children	\$15.98	\$13.89	\$18.12	\$15.71
Foster Care	\$168.31	\$152.24	\$183.42	\$165.43

## Exhibit 9: CMS Checklist Crosswalk

### Calendar Year 2011 (CY11) Behavioral Health Rates - CMS Checklist Crosswalk

Item #	Subject	Location	Comments
AA.1.0	Overview of Ratesetting Methodology	Certification Letter	
AA.1.1	Actuarial Certification	Page 12	
AA.1.2	Projection of Expenditures	See Comments	The Department (HCPF) will provide
AA.1.3	Procurement, Prior Approval and Ratesetting	See Comments	State Set Rates
AA.1.5	Risk Contracts	See Comments	In BHOs' contract
AA.1.6	Limit on Payment to Other Providers	See Comments	In BHOs' contract
AA.1.7	Rate Modifications	Not Applicable	
AA.2.0	Base Year Utilization and Cost Data	Pages 1-9	Encounter data and historical rates
AA.2.1	Medicaid Eligibles under the Contract	Not Applicable	Data submitted by participating BHOs
AA.2.2	Dual Eligibles (DE)	Not Applicable	
AA.2.3	Spenddown	Not Applicable	Not included in managed care
AA.2.4	State Plan Services only	Pages 1-2	Data submitted by participating BHOs
AA.2.5	Services that may be covered by a capitated entity out of contract savings	Not Applicable	In BHOs' contract
AA.3.0	Adjustments to the Base Year Data	Pages 4-10	
AA.3.1	Benefit Differences	Not Applicable	Benefits have not changed for CY11
AA.3.2	Administrative Cost Allowance Calculations	Pages 7-8	
AA.3.3	Special Populations' Adjustments	Not Applicable	
AA.3.4	Eligibility Adjustments	See Comments	Base rates reflect the covered population
AA.3.5	DSH Payments	Page 9	
AA.3.6	Third Party Liability (TPL)	Page 5	
AA.3.7	Copayments, Coinsurance and Deductibles in capitated rates	Page 9	
AA.3.8	Graduate Medical Education (GME)	Page 9	
AA.3.9	FQHC and RHC reimbursement	Page 9	
AA.3.10	Medical Cost/Trend Inflation	Page 10	
AA.3.11	Utilization Adjustments	Page 10	
AA.3.12	Utilization and Cost Assumptions	Not Applicable	
AA.3.13	Post-Eligibility Treatment of Income (PETI)	Not Applicable	
AA.3.14	Incomplete Data Adjustment	Page 4, 7	
AA.4.0	Establish Rate Category Groupings	Page 2	
AA.4.1	Age	Page 2	Rates developed for children, adults and elderly
AA.4.2	Gender	Not Applicable	
AA.4.3	Locality/Region	See Comments	Rates developed by BHO
AA.4.4	Eligibility Categories	Page 2	
AA.5.0	Data Smoothing	Page 8	
AA.5.1	Special Populations and Assessment of the Data for Distortions	Page 8	See Data Smoothing bullet
AA.5.2	Cost-neutral data smoothing adjustment	Not Applicable	See Data Smoothing bullet
AA.5.3	Risk Adjustment	Page 9	
AA.6.0	Stop Loss, Reinsurance or Risk-sharing Arrangements	Not Applicable	
AA.6.1	Commercial Reinsurance	Not Applicable	
AA.6.2	Simple Stop Loss Program	Not Applicable	
AA.6.3	Risk Corridor Program	Not Applicable	
AA.7.0	Incentive Arrangements	Not Applicable	



## Northeast Behavioral Health Partnership, LLC

1300 N 17<sup>th</sup> Avenue ♦ Greeley, CO 80631

970-347-2622 ♦ fax 970-392-1354 ♦ toll free 1-888-296-5827

December 30, 2010

Colorado Department of Healthcare Policy and Financing

1570 Grant Street

Denver, Colorado 80203-1818

To Whom It May Concern:

Pursuant to 25.5-5-404 (k), C.R.S., Northeast Behavioral Health Partnership, LLC certifies that the proposed rates for the period January 1, 2011-December 31, 2011 are sufficient to assure the financial stability of Northeast Behavioral Health Partnership, LLC with respect to delivery of services to the Medicaid recipients covered in the contract.

Respectfully,

Margaret Rose Stauffer, CPA

Chief Financial Officer, Northeast Behavioral Health Partnership, LLC

Providing behavioral health services in Cheyenne, Elbert, Kit Carson, Larimer, Lincoln,  
Logan, Morgan, Phillips, Sedgwick, Washington, Weld and Yuma Counties



December 30, 2010

Colorado Department of Healthcare Policy and Financing  
1570 Grant Street  
Denver, Colorado 80203-1818

To Whom It May Concern:

Pursuant to 25.5-5-404 (k), C.R.S., Foothills Behavioral Health Partners, LLC certifies that the proposed rates for the period January 1, 2011-December 31, 2011 are sufficient to assure the financial stability of Foothills Behavioral Health Partners, LLC with respect to delivery of services to the Medicaid recipients covered in the contract.

Respectfully,

A handwritten signature in cursive script that reads "Tina McCrory".

Tina McCrory, MBA  
Chief Financial Officer, Foothills Behavioral Health Partners, LLC



Colorado Health Partnerships, LLC  
Pikes Peak ♦ SyCare ♦ West Slope Casa ♦ ValueOptions

---

December 30, 2010

Colorado Department of Healthcare Policy and Financing  
1570 Grant Street  
Denver, Colorado 80203-1818

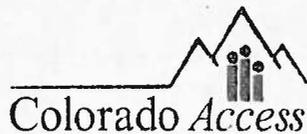
To Whom It May Concern:

Pursuant to 25 5-5-404 (k), C.R.S., Colorado Health Partnerships, LLC certifies that the proposed rates for the period January 1, 2011-December 31, 2011 are sufficient to assure the financial stability of Colorado Health Partnerships, LLC with respect to delivery of services to the Medicaid recipients covered in the contract.

Respectfully,

A handwritten signature in cursive script that reads "Tina McCrory".

Tina McCrory, MBA  
Chief Financial Officer, Colorado Health Partnerships, LLC



December 31, 2010

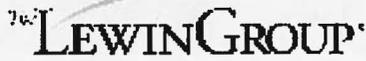
Ms. Marceil Case  
Department of Health Care Policy and Financing  
1570 Grant Street  
Denver CO 80203

Dear Ms. Case:

As required by 25.5-5-404(k), C.R.S., Colorado Access hereby certifies that the Company is in full compliance with all financial stability criteria established by the Colorado Division of Insurance (DOI). Colorado Access certifies that the capitation payments set forth in the contract between the Company and the Colorado Department of Health Care Policy and Financing for the Denver County Behavioral Health region for the period January 1, 2011 through December 31, 2011 are sufficient to ensure the financial stability of the Company with respect to the delivery of services to Medicaid recipients as specified under the aforementioned contract.

Sincerely,

Philip Reed  
CFO



December 30, 2010

Mr. Jed Ziegenhagen  
Rates Section Manager  
Department of Health Care Policy and Financing  
1570 Grant Street  
Denver, CO 80203

**RE: FINAL JANUARY 1, 2011 - DECEMBER 31, 2011 CAPITATION RATE CERTIFICATION**

Dear Jed:

The State of Colorado Department of Health Care Policy and Financing (Department) has developed Medicaid managed care capitation rates for Calendar Year 2011 (CY 11), or the period January 1, 2011 through December 31, 2011. The Department contracted with The Lewin Group (Lewin) to review the proposed capitation rates and their development, and to certify that they are actuarially sound for the purpose of seeking rate approval by the Centers for Medicare and Medicaid Services (CMS) under 42 CFR 438.6(c). Certification of these capitation rates by Lewin will also fulfill all applicable state statutes.

This letter documents the methodologies used by the Department in developing the CY11 managed care capitation rates as well as the processes used by Lewin in reviewing the actuarial soundness of the rates.

#### **PROGRAM BACKGROUND**

The General Assembly adopted House Bill 1346, which makes certain changes to the Medicaid managed care program, including removal of the upper limit on the Department's calculation of managed care capitated rates. Previously, rates set by the Department had been no greater than 95% of relative fee-for-service costs. However, Colorado Revised Statutes at 25.5-5-408 (9) contain a requirement that managed care plans submit rate proposals to the Department, and House Bill 06-1346 requires the managed care rate proposal to not exceed 100% of fee-for-service costs. Lewin, as explained below, has established an actuarially sound rate range for the managed care rates, in compliance with federal regulations and guidance concerning setting capitation rates for managed care organizations. Also, Lewin has certified a state statute payment maximum that is equal to the 100% of the expected fee-for-service cost of the managed care organization's anticipated enrollees.

The capitation rates being reviewed and certified are those under the managed care program for physical health, acute care Managed Care Organizations (MCO). There is currently one MCO for which rates are developed - Denver Health and Hospital Authority (DHHA). This

certification letter only applies to DHHA.

### ***CY11 Methodology***

Colorado Revised Statute (C.R.S.) Section 25.5-5-408 (8) states: "For capitation payments effective on and after July 1, 2003, the state department shall recalculate the base calculation every three years. The three-year cycle for the recalculation of the base calculation shall begin with capitation payments effective for fiscal year 2003-04. In the years in which the base calculation is not recalculated, the state department shall annually trend the base calculation after consulting with the MCOs. The state department shall take into consideration when trending the base calculation any public policy changes that affect reimbursement under the 'Colorado Medical Assistance Act'."

The capitation rates developed and certified for CY11 were not rebased per the statute. Details regarding the following items are found in the body of this document.

- CY11 trend rates are developed and applied to the existing base.
- Policy Changes for FY 05-06 through FY 10-11 are applied to the existing base.
- A Health Status Based Risk Adjustment Case Mix Index was developed with enrollment and claims data using the Chronic Illness and Disability Payment System (CDPS) and is discussed in the Voluntary Risk Assessment section.

### ***Aid Categories***

For DHHA, the aid categories that are covered are:

- Categorically Eligible Low Income Adults (AFDC-A)
- Expansion Adults
- Baby Care Program Adults
- Eligible Children Over Age One (AFDC-C and BCKC-C)
- Eligible Children Under Age One (AFDC-U and BCKC-U)
- Foster Care
- Adults 65 and Older (OAP-A)
- Disabled Adults 60-64 (OAP/B-SSI)
- Disabled Individuals to 59 (AND/AB-SSI)

Note that the managed care programs do not cover the Partial Dual Eligibles such as Qualified Medicare Beneficiaries, Specified Low-Income Medicare Beneficiaries, and Qualified Disabled and Working Individuals. Furthermore, the managed care programs do not cover participants

in the state funded Old Age Pension Health and Medical program.

***Covered Services***

The MCO is responsible for providing a range of services to their enrolled members, summarized here by Categories of Service:

- Inpatient Hospital
- Outpatient Hospital
- Physician
- Laboratory and X-Ray
- Early Periodic Screening, Diagnosis, and Treatment (EPSDT)
- Family Planning
- Home Health (Acute Care services only)
- Durable Medical Equipment (DME)
- Emergency Transportation
- Prescription Drugs
- Federally Qualified Health Center (FQHC)/Rural Health Clinic (RHC)

***Rate Cells***

The capitation payments received by the MCO are based on their enrollment by rate cell. The purpose of the rate cells is to group homogeneous, credible populations in a reasonable manner. While these rate cells generally follow the aid categories, there are some differences:

- Both disabled aid categories (OAP/B-SSI and AND/AB-SSI) have in common a Medicaid eligibility determination process that requires a formal disability determination.  
Those categories of eligibility are therefore combined together into an OAP-B/AND-SSI rate cell and refined to account for Institutional and third party liability (TPL) status:
  - Institutional/TPL (IT)
  - Institutional/Medicaid Only (IN)
  - Non-Institutional/TPL (NT)
  - Non-Institutional/Medicaid Only (NN)
- The Adults 65 and over (OAP-A) category is split only by institutional status. Previous analysis found that the TPL split for this aid category was temporary,

and non credible, for most eligibles.

- The BCKC-C and AFDC-C subsets of Eligible Children Over Age One are combined together into one rate cell - CHILD-C. The Department previously performed a statistical analysis that showed that differences in cost between these groups of eligible children are not significant. Also, combining these aid categories into one rate cell is consistent with the Department's practice for budgeting and reporting financials. Similarly, the BCKC-U and AFDC-U (Eligible Children Under Age One) are combined together into one rate cell - CHILD-U.
- The Department calculated separate rate cells by sex within the AFDC eligibility category. The Department examined the claims experience of the FFS eligible adult males and determined that expenditure differences were material enough and significant enough to warrant a separate set of rates.
- The claim and member month data for the Refugee Medical Assistance (RMA) category of eligibility, formerly known as Non-Categorical Refugee Assistance (NCRA), is grouped into the income eligible, non-disabled categories based on age. Given the risk characteristics and relatively small size of the refugee categories, this combination was determined to be the best course of action.
- A risk adjustment payment is made for maternity services. This risk adjustment payment includes facility and professional service costs for the delivery and post partum care. Prenatal and neonatal expenses are paid through the standard acute care MCO capitation payment. A single payment is made for each delivery regardless of the number of births.

## **BASE UTILIZATION AND UNIT COST DATA**

### ***Data Source***

The CY11 capitation rates are developed using direct health care FFS (PCP and Traditional FFS or Unassigned) claims and member month data from State FY 05-06 (July 1, 2005 - June 30, 2006) through state FY 07-08 (July 1, 2007 - June 30, 2008), hereinafter referred to as "base data". Lewin did not receive raw claims data. The summarization of claims and enrollment data was completed by the Department and the results were reviewed for reasonableness by Lewin. Lewin relied upon these summaries in drawing conclusions regarding the actuarial soundness of the state CY11 rates.

### ***Claims***

The base data was collected for individuals identified as potentially eligible for the respective Medicaid managed care program and includes only those services that will be covered by the MCO.

The base data was then summarized by fiscal year, rate cell and category of service and then linked to the Department's eligibility file. The counties in the base data are: Adams, Arapahoe, Boulder, Broomfield, Denver, Douglas and Jefferson.

The Department compared the base data to the record of expenditures contained within the Colorado Financial and Reporting System (COFRS), the information system used for accounting throughout state government, in order to verify the accuracy of the paid data. This reconciliation showed that the differences between claims contained in the base data and the records of expenditures in the state accounting system were small and largely explicable.

#### ***Maternity Delivery Risk Adjustment Payment***

The Department calculated a maternity delivery risk adjustment payment to appropriately reimburse its participating MCOs for the risk incurred by a maternity delivery. Maternity deliveries are carved out from the total capitation rate. As a matter of public policy, the Department has adopted this methodology to ensure that MCOs are not at risk for the relative prevalence of pregnancies and deliveries within MCO enrolled populations, but instead are only at risk for the cost for each episode. A well managed MCO may well incur a lower incidence of cesarean deliveries (relative to the total number of deliveries) through well managed prenatal care. As such, the Department has determined that it should retain a single delivery payment for both cesarean and vaginal deliveries to retain the incentive for its contracting MCOs to provide intensive prenatal care. However, claims information was captured separately for cesarean and vaginal deliveries for the purpose of calculating actuarially sound rate ranges. Since the delivery risk adjustment payment only covers the delivery and post partum care, only the facility and professional payments related to these services were used in the payment development.

#### ***Medicare Coinsurance and Deductibles***

Medicare co-insurance and deductibles, to the extent they are covered benefits of the managed care program, are included in the base data as well as the claims data used to develop trend rates. Incorporation of such "cross-over claims" results in their inclusion in the capitation rates.

#### **DATA EXCLUSIONS**

The Department modified the FFS data in order to develop rates that reflect MCO covered services and costs. Since these items are not part of the MCO benefit package, the claims are removed from the rate setting process. Some of the exclusions to the data that require the Department to take a more granular approach in order to remove them from the base data include:

- Inpatient Graduate Medical Education (GME)

- Outpatient Graduate Medical Education (GME)
- Mental Health Exclusion
- Indian Health Services Exclusion
- Substance Abuse Exclusion
- Medicare Modernization Act "Part D" Pharmacy Benefit Exclusion
- Oxygen (DME) Exclusion

#### **AGE ADJUSTMENT FOR CHILDREN UNDER 1 YEAR**

The Age Adjustment for the Child-U rate cell measures the relative cost of members in this eligibility category within the FFS population versus members in this category within the MCO population. For instance, FFS Medicaid incurs a disproportionate share of the earliest months in a newborn baby's Medicaid eligibility. These months are disproportionately expensive compared to later months. The capitation rates were adjusted based on the relative expected cost of the MCO compared to FFS.

A relative cost curve for the Child-U eligibility category was developed based on FFS claims data in fiscal years 2006 through 2008 to determine the relative health care costs of Child-U enrollees separately for the following four age categories: first month of life, age 1 month, age 2 months, and ages 3 through 12 months. FY10 DHHA enrollment information was used to develop a distribution of their Child-U enrollees, and the same was done for the FFS population. Those distributions were applied to the relative cost curve, and it was determined that the DHHA Child-U population is expected to be approximately 37% lower cost than the FFS Child-U population, purely based on age characteristics. DHHA's capitation rate for Child-U has been adjusted accordingly.

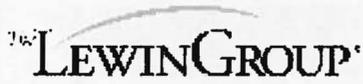
#### **DATA CONSIDERATIONS/MODIFICATIONS**

##### ***IBNR Claim Adjustment***

Incurred but Not Reported (IBNR) claim adjustments were applied to the base data and the trend data. The IBNR adjustments applied to the trending data were developed using incurred data from FY 05-06 to FY 08-09, paid through October 31, 2009.

##### ***Federally Qualified Health Center Reimbursement***

Amounts paid to Federally Qualified Health Centers (FQHCs) in excess of the standard Medicaid fee allowance are excluded from the base rates and are paid separately. That is, the Department adjusts FQHC claims (by category of eligibility) down to the average primary care



Mr. Jed Ziegenhagen  
 December 30, 2010  
 Page 7 of 13

provider level. Under this methodology, each MCO is reimbursed for a percentage of the FQHC costs in their capitation payment.

Since the Department is responsible for reimbursing the FQHCs at 100% of their reasonable costs, the Department makes an additional 'wrap-around' payment to each MCO for the portion of the FQHC payment obligation that is not covered in the monthly capitation payment. The Department's contract with the MCO contains a provision stating that the MCO is then obliged to ensure that its contracted FQHCs are paid at the "100% of reasonable cost" rate. This wraparound payment is determined by taking the product of the FQHC encounter rate (by FQHC), the percent of FQHC costs not covered in the capitation (by category of eligibility), and the number of encounters.

**FORECAST OF CY 11 EXPERIENCE**

***Prospective Policy Changes***

Policy change adjustments are made to account for budget actions through statutory changes by the General Assembly of the State of Colorado. These projected changes in expenditures are due to rate, benefit, or eligibility changes occurring after the base period. The factors used to adjust the rates were calculated by the Department, and represent changes in the price and copayments of the services as described.

The following table shows public policy adjustments:

Category of Service	FY07	FY07 - Effective Apr 1 2007	FY08	FY09	FY10	FY10 - Effective Sep 1 2009	FY10 - Effective Dec 1 2009	FY11
DME	3.25%	0.00%	0.83%	0.71%	-2.00%	-1.50%	-1.00%	-1.69%
Drugs	0.00%	0.00%	0.00%	-0.70%	-1.04%	-3.79%	-0.04%	-1.11%
Emergency Transport	0.00%	0.00%	7.58%	0.00%	-2.00%	-1.50%	-1.00%	-1.00%
EPSDT	3.25%	0.00%	0.00%	0.00%	-2.00%	-1.50%	-1.00%	-1.00%
Family Planning	0.00%	0.00%	17.84%	0.00%	0.00%	0.00%	0.00%	0.00%
FQHC & Rural Health	3.25%	0.00%	3.78%	7.20%	-4.54%	-1.50%	-1.00%	-1.00%
FQHC (Children)	3.25%	0.00%	3.78%	11.72%	-4.54%	-1.50%	-1.00%	-1.00%
Home Health	0.00%	7.00%	0.00%	1.50%	-2.34%	-1.50%	-1.00%	-1.00%
Inpatient Hospital	3.25%	0.00%	1.46%	1.50%	-2.39%	-1.50%	-1.00%	-1.00%
Laboratory and X-Ray	3.25%	0.00%	0.00%	10.37%	-2.00%	-1.50%	-1.00%	-1.00%
Outpatient Hospital	0.00%	0.00%	0.93%	0.00%	-2.00%	-1.50%	-1.00%	-1.00%
Physician	3.25%	0.00%	3.78%	7.20%	-4.54%	-1.50%	-1.00%	-1.00%
Physician (Children)	3.25%	0.00%	3.78%	11.72%	-4.54%	-1.50%	-1.00%	-1.00%

### ***Voluntary Risk Assessment***

This adjustment is intended to account for the difference in health status between members that enroll in the managed care program and members that enroll in the traditional FFS or PCP programs.

Because enrollees may voluntarily elect to participate in either the PCP or Medicaid managed care program, the health risk of those who participate in the Medicaid managed care program may vary from the risks underlying the base data (PCP and unassigned). When individuals have a choice between an MCO and the FFS program, the enrollment of individuals into an MCO will most likely not reflect the exact same risk as enrollment in the FFS program. The impact of this voluntary selection inherent in the FFS base data is measured using a prospective risk adjustment model, the Chronic Illness and Disability Payment System (CDPS).

The CDPS model is used to identify the risks assumed by the MCOs relative to the risk inherent in the FFS base data for all aid categories except Eligible Children Under Age One, Baby Care Program Adults, Foster Care, and Adults 65 and Older.

The FY06, FY07, and FY08 FFS CMI's were calculated based on FFS and MCO claims data incurred within those twelve-month periods, for FFS members who had a minimum of six months of eligibility during each of the fiscal years. In order to be consistent with the development of the MCO CMI's, claim run-out for each fiscal year's analysis was capped at four months of paid claims after each fiscal year (i.e., through October 31). To obtain an average FFS CMI, the members' risk scores were weighted by their enrollment spans within FFS during the fiscal year.

The MCO CMI's were calculated based on the risk scores of their clients enrolled June 2009. FY09 FFS and MCO medical claims data for these MCO enrollees was utilized, with claims paid through October 31, 2009. Only those clients who had a minimum of six months of eligibility during FY09 were considered in the risk adjustment calculation.

Because the MCO CMI's were calculated for members enrolled in June 2009, an adjustment was applied because the MCO CMI's did not consider risk scores for people who died, transitioned to a different rate cell, became institutionalized prior to June 2009, or were deemed Medicaid-ineligible; these issues all affected the FFS CMI's. This adjustment increased the MCO CMI's in the OAP-B/AND-AB eligibility category and reduced the MCO CMI's in the other risk-adjusted rate cells.

The adjusted CMI's for the MCOs were compared to the FFS CMI's within the three years of base data used for rate setting. The ratio between the case mix index values shows the relative difference in expected acuity between the FFS eligibles and the MCO enrollees.

These case mix ratios were developed independently by aid category.

***Additional Data Considerations/Modifications***

Additionally, modifications have been made to the data to reflect pharmacy rebates, 'pay-and-chase' TPL recoveries, unspecified adjustments and Colorado Financial Reporting System (COFRS) payments. Since these adjustments are not attributable to individuals, they are applied as applicable and across the board.

***CY 11 Trends***

Trend rates were developed by Lewin using summarized FY 05-06 to FY 08-09 adjusted claims data paid through October 2009 and corresponding enrollment data. Data was split by Metro and Non-Metro areas, and trend was developed for Metro areas only. The Department provided summarized per member per month (PMPM) data, adjusted for incurred but not reported (IBNR) claims and normalized for historic Public Policy Adjustments. The trend data was normalized for risk factors. The data was partitioned by category of eligibility and category of service. IBNR factors were calculated by Lewin using the most recent data available. We calculated two distinct trends for rate setting: a retrospective trend, which is based only on historical experience and a prospective trend, which is based on both historical experience and actuarial judgment.

The following modifications were made in the trend rate development:

- All OAP-A categories were combined for trend calculation.
- The trend data was normalized for risk factors.
- The Adult Expansion/Eligible male and female and the Baby Care Program Adult rate cells have been combined for all types of service to create a larger group of similar coverages for additional trend credibility.
- Disabled categories were combined as follows:
  - Disabled Non Institutional/Non Third Party Liability and Disabled Institutional/Non Third Party Liability Combined
  - Disabled Non Institutional/ Third Party Liability and Disabled Institutional/ Third Party Liability Combined
- Within each aid category, trend rates for EPSDT, FQHC and Rural Health, Family Planning, and Physician were calculated by combining data for all of these categories of service. The resulting trend rate was used for each of these service categories.
- Within each aid category, data was combined for the DME and Emergency Transport service categories. The resulting trend rate was used for both of these service categories.

- Actuarial judgment was used where historic data fluctuation was observed, as allowed under 42 CFR 438.6(c).

#### **MANAGED CARE RATE RANGE DEVELOPMENT**

Actuarial certification is no longer based on the managed care savings assumption implicit in setting rates relative to the federal upper payment limit (UPL), as was permitted by CMS through its November 1, 2000 checklist. To comply with the Balanced Budget Act (BBA) regulations for August 13, 2003 implementation, actuarially sound assessments were performed independently for each rate cell based on the development of a rate range (see below). To further comply with the BBA regulations, the actuarial certification is based on FFS cost experience that is gross of copayments.

In order to develop rate ranges as required by the BBA, two sets of managed care and administrative assumptions were developed using related data. The lower bound represents an amount commensurate with what a very efficient MCO, with typical utilization and administrative levels, could achieve without denying medically necessary services. The upper bound represents the least amount of efficiency a state may be willing to purchase.

For Colorado, the upper bound of the rate range is calculated without consideration of Colorado's state UPL (MCO payment proposals cannot exceed 100% percent of the direct health care cost). Additionally, the following were considered:

#### ***DSH Payments***

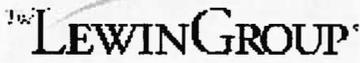
Pursuant to Item AA.3.5 of the CMS Rate Checklist, DSH payments were not included in the rate setting.

#### ***Third Party Liability (TPL) Payments***

Pursuant to Item AA.3.6 of the CMS Rate Checklist, TPL recoveries were captured in the base data, and since the MCO collects and keeps their own TPL there was not an additional amount added back into the rates.

#### ***Inclusion of Value of Copayments***

Pursuant to Item AA.3.7 of the CMS Rate Checklist, an amount equal to the value of copayments collected from Medicaid enrollees through the FFS program has been included in the FFS base data for development of capitation rate range endpoints. Because extracted paid claims data is net of copayments, an amount equal to the value of copayments has been added to the rate range base data.



Mr. Jed Ziegenhagen  
December 30, 2010  
Page 11 of 13

### ***Graduate Medical Education (GME)***

Pursuant to Item AA.3.8 of the CMS Rate Checklist, GME was removed from the base data.

### ***FQHC and RHC Reimbursement***

Pursuant to Item AA.3.9 of the CMS Rate Checklist, the cap rates only include standard Medicaid reimbursement for the services rendered at FQHCs and RHCs.

### ***Rate Range Assumptions***

Two sets of managed care adjustments were developed and applied to account for variations in the health care delivery patterns between the managed care and FFS setting. The adjustments are based upon relevant managed care data, which are consistent with historical assumptions.

In the managed care adjustments, utilization reductions were assumed for hospital inpatient, hospital outpatient, laboratory and x-ray, and pharmacy. Net increases in physician utilization were assumed.

For the maternity delivery payment lower bound, reduction in unit cost was assumed that would result from an MCO directing care to facilities with lower than average costs.

Also pursuant to CMS requirements, capitation rates must provide some amount for plan administration. The range of administrative loading used in the rate range development is based upon plan financial reports for the participating plans as well as external sources. From this analysis, a combined administrative and underwriting profit load has been developed. For the lower end of the range, the load is 9.0% of premium for the monthly capitation payments and 1.0% for the maternity delivery payment. For the upper end of the range, the load is 20.0% of premium for the monthly capitation payments and 2.0% for the maternity delivery payment. These administrative and underwriting profit loads are based on rate filings of Colorado MCOs as of June 30, 2008.

### **RATE CERTIFICATION**

The Department has developed, and Lewin has reviewed, CY11 Medicaid managed care capitation rates. Lewin further, and separately, developed Medicaid managed care rate ranges for CY11 as required by the BBA. For Denver Health, the attached exhibits summarize the CY11 State capitation rate range and the CY11 Lewin rate range by defined rate cell. To note, health based risk adjustment underlying the capitation rates, rate ranges, and final rate ranges shown in the exhibit below are specific to Denver Health.

Lewin developed rate ranges based on data supplied by the Department. Lewin has not



Mr. Jed Ziegenhagen  
December 30, 2010  
Page 12 of 13

audited the data and changes to the data could affect the resulting rates, perhaps even materially. Further, use of these rate ranges for purposes beyond those required by the BBA and Colorado Revised Statute may not be appropriate.

Lewin certifies that the above described rate ranges 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 the Department, as reviewed by Lewin, and rate ranges and trending rates developed by Lewin are actuarial projections of future contingent events. Actual MCO costs will differ from these projections. Lewin has developed these rate ranges on behalf of the State of Colorado to demonstrate compliance with the CMS requirements under 42 CFR 438.6(c) and certifies that they are in accordance with Colorado Revised Statute (C.R.S.) Section 25.5-5-408 and other applicable laws and regulations. MCOs are advised that the use of these rates and/or rate ranges may not be appropriate for their particular circumstance, and Lewin disclaims any responsibility for the use of these rate ranges by MCOs for any purpose. Lewin recommends that any MCO considering contracting with the State of Colorado should analyze its own projected medical expense, administrative expense, and any other premium needs for comparison to these rate ranges before deciding whether to contract with the State. Use of these rate ranges for any purpose beyond that stated may not be appropriate. Furthermore, as outlined in C.R.S. Section 25.5-5-404, each MCO must certify the following: first, per C.R.S. Section 25.5-5-404(k) "the MCO shall certify...that the capitation payments set forth in the contract...are sufficient to assure the financial stability of the MCO;" second, per C.R.S. Section 25.5-5-404(l) "the MCO shall certify, through a qualified actuary retained by the MCO, that the capitation payments set forth in the contract...comply with all applicable federal and state requirements."

□ □ □ □ □ □

If you have any questions regarding this letter, please contact Tom Carlson at 952-833-8244.

Sincerely,

A handwritten signature in cursive script that reads "Thomas P. Carlson".

Thomas Carlson, FSA, MAAA



Mr. Jed Ziegenhagen  
 December 30, 2010  
 Page 13 of 13

**RATES EXHIBIT**

State of Colorado Department of Health Care Policy and Financing  
 Calendar Year 2011 PMPM HMO Capitation Rates

**Denver Health**

	Metro			
	HCPF CY11 100% Base			
	Rate	Rate Min	Rate Max	Final Rate
AFDC-A F (RA CMI)	\$262.19	\$248.35	\$306.00	\$262.19
AFDC-A M (RA CMI)	\$217.29	\$199.76	\$240.31	\$217.29
BCKC-A	\$321.41	\$301.45	\$373.25	\$321.41
CHILD-C (RA CMI)	\$79.14	\$74.61	\$88.97	\$79.14
CHILD-U	\$243.53	\$219.01	\$263.36	\$243.53
FC	\$243.78	\$224.81	\$269.91	\$243.78
<b>OAP-A</b>				
Non-Institutional/MK Only	\$231.52	\$211.88	\$256.93	\$231.52
Non-Institutional/TPL	\$231.52	\$211.88	\$256.93	\$231.52
Institutional/MK Only	\$86.67	\$80.43	\$95.59	\$86.67
Institutional/TPL	\$86.67	\$80.43	\$95.59	\$86.67
<b>OAP-B,AND/AB</b>				
Non-Institutional/MK Only	\$807.94	\$721.90	\$887.54	\$807.94
Non-Institutional/TPL	\$202.22	\$188.24	\$229.00	\$202.22
Institutional/MK Only	\$1,619.26	\$1,417.60	\$1,735.36	\$1,619.26
Institutional/TPL	\$170.88	\$163.81	\$192.36	\$170.88

	HCPF CY11 100% Base			
	Rate	Rate Min	Rate Max	Final Rate
<b>Delivery</b>	\$4,745.43	\$4,508.15	\$4,842.27	\$4,745.43



December 30, 2010

Joan Henneberry  
Executive Director  
Colorado Department of Health Care Policy and Financing  
1570 Grant Street  
Denver, CO 80203-1818

RE: Certification Amendment

Dear Ms. Henneberry:

Denver Health is submitting the proposed capitation rates (Attachment A) and an actuarial certification from Milliman, Inc., dated December 30, 2010. The actuarial certification is submitted pursuant to C.R.S. 25.5.5-404(k.1) to the Colorado Department of Health Care Policy and Financing for consideration. If approved, these rates are anticipated to be in effect for the period, January 1, 2011 through December 31, 2011.

Pursuant to C.R.S. 25.5.5-404(k), Denver Health certifies that the proposed rates are sufficient to assure the financial stability of Denver Health with respect to delivery of services to the Medicaid recipients covered in the contract.

Should you require any additional information regarding Denver Health's certification, please contact me at (303) 436-6076 or email me at [peg.burnette@dhha.org](mailto:peg.burnette@dhha.org).

Sincerely,

Peg Burnette  
Chief Financial Officer  
Denver Health & Hospital Authority

Enclosure

Behavioral Healthcare Inc.  
155 Inverness Drive West, #207  
Englewood, CO 80112  
720-490-4400  
Fax: 720-490-4395  
www.bhicares.org

December 9, 2010



Marceil Case  
Department of Health Care Policy & Financing  
1570 Grant Street  
Denver, CO 80203

Re: Financial Stability Certification for  
January 1, 2011 to December 31, 2011

Pursuant to 25.5-5-404(1)(k-1) C.R.S. Behavioral Healthcare, Inc. certifies that the proposed rates for calendar year January 1, 2011 to December 31, 2011 are sufficient to assure the financial stability of Behavioral Healthcare, Inc. with respect to delivery of services to the Medicaid recipients covered in the contract.

Proposed Rates for CY2011

- Elderly \$11.66
- Disabled \$156.47
- Adults \$19.91
- Children \$14.63
- Foster Care \$207.95

Sincerely,

A handwritten signature in cursive script, appearing to read 'Rian G. Nowitzki'.

Rian G. Nowitzki  
CFO/Controller