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July 14, 2023

Elizabeth Pitman
Director, Division of Medical Services
Arkansas Department of Human Services
700 Main Street
Little Rock, AR 72201

Re: Dental Bid Rate Ranges – January 1, 2024 to December 31, 2024

Dear Elizabeth:

At your request, we developed dental capitation bid rate ranges for the Arkansas Department of Human Services (DHS) effective for calendar year 2024 (CY 2024). We understand DHS intends to use these rate ranges in its request for proposal (RFP) for potential dental managed care organizations (DMOs). This letter documents the development of these rate ranges.

We also provide information and instructions related to an RFP bid sheet at the end of this letter.

SITUATION SUMMARY

Arkansas currently contracts statewide with two vendors on a full risk capitated basis to provide dental services across seven age bands, or rate cells. The capitation rate prospectively provides funding for the DMOs to cover benefit costs, administrative costs, risk margin, and premium tax. Currently, the two DMOs have reasonably similar distributions of membership across the seven age bands, each of which has a distinct capitation rate.

DHS intends to release an RFP in the second half of CY 2023 to select DMOs to begin accepting risk for beneficiaries in CY 2024, with a potential operational phase-in period beginning January 1, 2024. In this letter, we develop bidding rate ranges for CY 2024.

The final capitation rates for this period will be based on the RFP responses and will be within the bid rate ranges noted in this letter, subject to additional relevant information becoming available that may require changes to the rates (e.g., legislative changes, significant market changes, program changes). We understand DHS will require all contracted DMOs to contract at the lowest bid rate among the bids from selected vendors. We will provide an actuarial certification of the contracted rates and accompanying letter for CMS after the bidding process is complete. Following CY 2024, we anticipate returning to the usual rate setting process of relying on historical program data from two years prior, applying trend and program adjustments, and adding in the appropriate non-benefit items (i.e., administration, margin, premium tax) to set a single rate for each age band rather than rate ranges. The CY 2024 process differs in that the certified rate will be informed by the RFP bidding process, while the usual process includes rates that we independently develop using historical data without a bidding component.

Given the uncertainty related to the transition out of the public health emergency (PHE) and to provide financial protection to DHS (in the case of lower-than-expected costs) and the DMOs (in the case of higher-than-expected costs), DHS intends to implement a two-sided risk corridor for the CY 2024 rate period. We note that enrollment grew substantially during the PHE, while aggregate dental expenditures did not follow the same pattern. However, the relationship between enrollment and expenditure changes varies widely by age band and general population (i.e., pediatric versus adult), making it difficult to ascertain the underlying cause. Some possible causes include a higher prevalence of non-utilizers, changes in preventive care behavior post-PHE, and limited access to dental providers, among others. The risk corridor will help mitigate the risk associated with this uncertainty once member redeterminations are completed.

Lastly, there are certain hospital costs (e.g., anesthesia) associated with dental services that are not currently covered in the dental managed care program. As such, the rate ranges in this letter exclude such services and their associated non-benefit costs. We understand DHS is considering adding these services to the program as part of the new contract for CY 2024. Separate from the bidding process, we will develop estimates for these services and their associated non-benefit costs to be added to the final negotiated and certified rates, if DHS chooses to include these services. There will not be a bidding component for these services.

RESULTS – BID RATE RANGES

Table 1 below shows CY 2021 member months and CY 2024 bid rate ranges by age band. Exhibit 1 contains a detailed development of the high end of these ranges using the methodology described in this letter. Exhibit 2 shows the application of a 5.0% variance to create the low end of the ranges. The high end of the ranges reflects our best estimate of trends, while the low end of the ranges creates the opportunity for bidders to indicate the amount of managed care savings they can achieve relative to the current program. In other words, we expect bidders would achieve the same level of savings as today (i.e., high end of the range) up to 5% additional savings i.e., low end of the range).

Table 1 Arkansas Department of Human Services CY 2024 Dental Rate Development Bid Rate Ranges				
Region	CY 2021 Member Months	CY 2023 Rate	CY 2024 Rate Range	
			Low	High
0-1	513,797	\$1.83	\$1.78	\$1.87
2-5	1,172,752	19.70	19.02	20.02
6-18	3,683,513	27.96	27.08	28.51
19-20	407,717	12.38	11.93	12.56
21-54	1,420,001	9.11	8.76	9.22
55-64	316,885	8.11	7.78	8.19
65+	389,640	4.87	4.68	4.93
Total	7,904,305	\$18.91	\$18.29	\$19.25

METHODOLOGY

The CY 2024 rate ranges rely on the underlying data and methodology included in our December 7, 2022 CY 2023 dental rate certification, included as Attachment A to this letter.

Due to the timing of the RFP release, validated CY 2022 data was not available to use as the base data underlying the CY 2024 rate range development. Instead, we started with the projected CY 2023 benefit expenses (i.e., claims) from the CY 2023 rate certification. We applied an additional twelve months of service cost trend to move from CY 2023 to CY 2024 and then added allowances for administrative costs, risk margin, and premium tax. As discussed above, we did not include an explicit adjustment to account for disenrollment patterns at the end of the PHE due to the absence of reliable data patterns but note the inclusion of the two-sided risk corridor to mitigate the risk associated with the unwinding process.

We developed each age band's rate range by subtracting 5.0% from the developed point estimate of the high end of the range. This is consistent with CMS Medicaid Managed Care Rate Setting Guide that allows for rate ranges with a width of 5% and represents DHS' intent for potential bidders to indicate the amount of managed care savings they can achieve (i.e., 0% to 5%) relative to the current program.

CY 2023 Estimated Claims

Exhibit 2 of Attachment A shows the estimated CY 2023 dental claims per member per month (PMPM) for each rate cell. We developed these estimates using CY 2021 utilization and cost data provided by the current DMOs. We applied utilization / mix and cost trends for two years, as described in detail in Attachment A.

Given validated CY 2022 data was not available to use as the base data underlying CY 2024 rate range development, the estimated 2023 rate cell PMPMs are weighted using CY 2021 enrollment by rate cell.

Utilization / Mix and Unit Cost Trend

We projected the CY 2023 estimated claims to CY 2024 using the utilization / mix and unit cost trends from the CY 2023 rate certification. Table 2 below shows the annual utilization / mix and unit cost trends by broad category of service.

Table 2 Arkansas Department of Human Services CY 2024 Dental Rate Development Utilization / Mix and Cost Trend		
Broad Service Category	Utilization / Mix (Annualized)	Unit Cost
Class I	3.0%	0.0%
Class II	0.5%	0.0%
Class III	0.5%	0.0%
Class IV	2.5%	0.0%
Total	1.8%	0.0%

We assign the annual utilization trend by broad service category based on historical PMPM program experience, Milliman internal research on utilization trends, as found in the Dental component of the Milliman *Health Cost Guidelines™ (HCGs)*, and actuarial judgement. We believe these trends are supportable for this program, especially considering the existence of managed care to ensure utilization of services only when necessary. **These trend estimates do not rely on experience observed during the COVID-19 public health emergency given the disruption of care during this time.**

Unit cost trends are assumed to be 0%, since there are no known expected reimbursement changes under FFS, and we assume DMO reimbursement to remain constant as a percent of FFS over time.

Table 3 shows the resulting annual PMPM trend adjustment by age band. Total trends vary by rate cell consistent with variation in service category utilization.

Table 3 Arkansas Department of Human Services CY 2024 Dental Rate Development Utilization / Mix and Cost Trend	
Broad Service Category	Utilization / Mix (Annualized)
0-1	2.7%
2-5	1.6%
6-18	1.9%
19-20	1.5%
21-54	1.3%
55-64	1.0%
65+	1.1%
Total	1.8%

Below we note the methodology used to develop these trend assumptions, which are consistent with the trends used in the CY 2023 rate certification:

[Utilization / Mix Trend](#)

Utilization / mix trend reflects expected changes in:

- Demand for dental services
- Intensity or mix of dental services
- Provider practice patterns
- Provider coding changes

We reviewed multiple data sources to determine utilization / mix trends for use in the CY 2023 and CY 2024 rate development.

- Historical trends by major service categories
- Experience from similar Medicaid programs in other states
- Milliman research as found in the Dental component of the Milliman HCGs

[Unit Cost Trend](#)

We discussed historical provider reimbursement levels with DHS, as well as expectations around future reimbursement changes. We understand no material changes occurred, or are expected to occur in CY 2024, for the services provided in the dental managed care program. As a result, we include a 0.0% unit cost trend.

[Administrative Cost, Margin, and Premium Tax](#)

The dental managed care rates include an estimated administration allowance of 11.0% of revenue for all age bands. The target margin is set at 1.5% of revenue for the dental program for all age bands to account for risk margin, surplus maintenance, and cost of capital. The capitation rates also include an allowance for the premium tax equal to 2.5% of revenue collected by the Arkansas Insurance Department. These assumptions are consistent with the CY 2023 rate certification.

[RATE RANGES](#)

We developed each age band's rate range in Table 1 by subtracting 5.0% from the developed point estimate of the high end of the range. This is consistent with CMS Medicaid Managed Care Rate Setting Guide that allows for rate ranges with a width of 5% and represents DHS' intent for potential bidders to indicate the amount of managed care savings they can achieve (i.e., 0% to 5%) relative to the current program.

[ACTUARIAL CERTIFICATION](#)

When DHS completes the dental re-procurement process, we will provide an actuarial certification and further documentation of the final contracted dental rates, as required by CMS.

[RFP BID SHEET](#)

Exhibit 3 contains a "live" bid sheet that DHS can use as part of the RFP process. This bid sheet contains the CY 2022 membership by age band, along with each age band's low end, midpoint, and high end capitation rate. The vendor should enter a **single composite bid amount** in the yellow highlighted cell, corresponding to estimated costs at the rate cell level that are blended using the CY 2021 program-wide age distribution. When entered correctly (i.e., within the specified total rate range), the sheet will show a capitation rate bid for each age band with the same relationship to the age band's midpoint as the total bid relative to the total midpoint. For example, if a vendor enters a total bid amount 1% less than the total midpoint, each age band will have a bid amount 1% less than each midpoint. **We understand DHS intends to pay the selected vendors using the calculated age band capitation rates and actual enrollment in each DMO by age band. The amount in the "Total" line is illustrative of CY 2021 program-wide membership and will not necessarily be equivalent to the average rate paid to any vendor.**

We suggest DHS request that prospective vendors submit an actuarial certification along with their bid documenting their acceptance of the submitted rates and indicating they can achieve the managed care savings amounts included in their bid.

CAVEATS AND LIMITATION ON USE

This letter is intended to provide DHS with CY 2024 dental bid rate ranges for inclusion in the upcoming RFP. This information may not be appropriate for other purposes.

Milliman developed certain models to estimate the values included in this report. The intent of the models was to estimate CY 2024 dental bid rate ranges. We reviewed the models, including their inputs, calculations, and outputs for consistency, reasonableness, and appropriateness to the intended purpose and in compliance with generally accepted actuarial practice and relevant actuarial standards of practice (ASOP).

The models rely on data and information as input to the models. We used CY 2021 financial reports provided by the dental MCOs and additional information provided by DHS to develop the CY 2024 Arkansas dental bid rate ranges shown in this report. We did not audit this data and other information. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete. We performed a limited review of the data used directly in our analysis for reasonableness and consistency and did not find material defects in the data. If there are material defects in the data, it is possible they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable, or for relationships that are materially inconsistent. Such a review was beyond the scope of our assignment.

We also relied on our December 7, 2022 CY 2023 rate certification. Please see that certification document for additional methodology and assumption details.

Differences between the dental bid rates and actual experience will depend on the extent to which future experience conforms to the summarized dental encounter data and projected trends. It is certain that actual experience will not conform exactly to the final contracted dental rates.

Our letter is intended for the internal use of DHS to develop CY 2024 dental bid rate ranges. It may not be appropriate for other purposes. Milliman does not intend to benefit, and assumes no duty or liability to, other parties who receive this work. It should only be distributed and reviewed in its entirety. These capitation rates may not be appropriate for all DMOs. Any DMO considering participating in the DHS dental program should consider their unique circumstances before deciding to contract under these rates. We understand DHS intends to share this letter and exhibits with prospective DMOs participating in the dental managed care RFP process.

The results of this letter are technical in nature and are dependent upon specific assumptions and methods. No party should rely on these results without a thorough understanding of those assumptions and methods. Such an understanding may require consultation with qualified professionals.

I, Greg J. Herrle, Principal and Consulting Actuary for Milliman, am a member of the American Academy of Actuaries. I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

The terms of Milliman's contract with the Arkansas Department of Human Services #4600041898 apply to this letter and its use.





Elizabeth Pitman
Arkansas Department of Human Services
July 14, 2023
Page 6 of 6

Elizabeth, thank you again for the opportunity to work with DHS. We look forward to your feedback on these dental rates.

Sincerely,

A handwritten signature in black ink that reads 'Gregory J. Herrle'.

Greg J. Herrle, FSA, MAAA
Principal and Consulting Actuary

GJH/jm

Attachments (Also Provided in Excel)

EXHIBITS

(Also Provided in Excel)

Exhibit 1
Arkansas Department of Human Services
CY 2024 Dental Rate Development
Development of CY 2024 High End Capitation Rate
Cumulative Trend Factor

Age Band	CY 2021 Member Months	CY 2023 Claims PMPM¹	Utilization / Mix	Unit Cost	Trended PMPM	Admin PMPM	Margin PMPM	Premium Tax	High End Capitation Rates
0-1	513,797	\$1.55	1.027	1.000	\$1.59	\$0.21	\$0.03	\$0.05	\$1.87
2-5	1,172,752	16.74	1.016	1.000	\$17.02	2.20	0.30	0.50	20.02
6-18	3,683,513	23.77	1.020	1.000	\$24.23	3.14	0.43	0.71	28.51
19-20	407,717	10.52	1.015	1.000	\$10.68	1.38	0.19	0.31	12.56
21-54	1,420,001	7.74	1.013	1.000	\$7.84	1.01	0.14	0.23	9.22
55-64	316,885	6.89	1.010	1.000	\$6.96	0.90	0.12	0.20	8.19
65+	389,640	4.14	1.011	1.000	\$4.19	0.54	0.07	0.12	4.93
Total	7,904,305	\$16.08	1.018	1.000	\$16.37	\$2.12	\$0.29	\$0.48	\$19.25

¹ Source: CY 2023 Rate Certification Exhibit 2 (December 7, 2023); excludes hospital services (e.g., anesthesia) not currently covered by the CY 2023 program.

Exhibit 2
Arkansas Department of Human Services
CY 2024 Dental Rate Development
Development of CY 2024 Capitation Rate Ranges

Age Band	CY 2021 Member Months	High End Capitation Rates	Low End		Midpoint	
			Adjustment	Capitation Rates	Adjustment	Capitation Rates
0-1	513,797	\$1.87	0.950	\$1.78	0.975	\$1.82
2-5	1,172,752	20.02	0.950	19.02	0.975	19.52
6-18	3,683,513	28.51	0.950	27.08	0.975	27.80
19-20	407,717	12.56	0.950	11.93	0.975	12.25
21-54	1,420,001	9.22	0.950	8.76	0.975	8.99
55-64	316,885	8.19	0.950	7.78	0.975	7.99
65+	389,640	4.93	0.950	4.68	0.975	4.81
Total	7,904,305	\$19.25	0.950	\$18.29	0.975	\$18.77

Exhibit 3
Arkansas Department of Human Services
CY 2024 Dental Rate Development
Vendor Bid Sheet

Age Band	CY 2021			High End	Vendor Bid Submission
	Member Months	Low End	Midpoint		
0-1	513,797	\$1.78	\$1.82	\$1.87	ENTER BID BELOW
2-5	1,172,752	19.02	19.52	20.02	ENTER BID BELOW
6-18	3,683,513	27.08	27.80	28.51	ENTER BID BELOW
19-20	407,717	11.93	12.25	12.56	ENTER BID BELOW
21-54	1,420,001	8.76	8.99	9.22	ENTER BID BELOW
55-64	316,885	7.78	7.99	8.19	ENTER BID BELOW
65+	389,640	4.68	4.81	4.93	ENTER BID BELOW
Total	7,904,305	\$18.29	\$18.77	\$19.25	

Notes

Please see accompanying July 14, 2023 letter and exhibits for additional details and methodology.

Bid range excludes hospital services (e.g., anesthesia) not currently covered by the CY 2023 program.

Vendor to enter bid amount in yellow highlighted cell

Bid amount must be between the total low end (\$18.29) and total high end (\$19.25)

Bid sheet will automatically calculate the vendor bid rate for each age band based on the total bid rate entered

We understand DHS intends to pay the selected vendors using the calculated age band capitation rates and actual enrollment in each DMO by age band.

The amount in the "Total" line is illustrative of CY 2021 program-wide membership and will not necessarily be equivalent to the average rate paid to any vendor.

ATTACHMENT A



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December 7, 2022

Elizabeth Pitman
Deputy Director
Arkansas Department of Human Services
Division of Medical Services
700 Main Street
Little Rock, AR 72201
Sent via email: elizabeth.pitman@dhs.arkansas.gov

Re: CY 2023 Dental Capitation Rates

Dear Elizabeth:

The Arkansas Department of Human Services (DHS) retained Milliman to calculate, document, and certify actuarially sound dental capitation rates for the calendar year (CY) 2023 contract period. The attached report documents the development of the actuarially sound CY 2023 dental capitation rates.



Please call us at 262 784 2250 if you have any questions.

Sincerely,

Greg J. Herrle, FSA, MAAA
Principal and Consulting Actuary

Katarina N. Lorenz, FSA, MAAA
Consulting Actuary

GJH/KNL/bl

Attachments

MILLIMAN REPORT

State of Arkansas Department of Human Services

Calendar Year 2023 Dental Capitation Rate Development

December 7, 2022

[Greg J. Herrle](#), FSA, MAAA,
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ATTACHMENTS

Capitation Rate Development Exhibits:

Exhibit 1:	CY 2021 Financial Base Experience Data
Exhibit 2:	Development of CY 2023 Projected Service Costs
Exhibit 3:	Development of CY 2023 Capitated Rates
Exhibit 4:	Estimated CY 2023 Expenditures

Actuarial Certification:

Appendix A:	Actuarial Certification of CY 2023 Arkansas Dental Capitation Rates
Appendix B:	Reliance Letter

I. EXECUTIVE SUMMARY

This report documents the development of the calendar year (CY) 2023 dental capitation rates. The Arkansas Department of Human Services (DHS) retained Milliman to calculate, document, and certify its capitation rate development. This report documents the methodology used to develop the CY 2023 dental capitation rates.

Our role is to certify that the CY 2023 capitation rates produced by the rating methodology are actuarially sound to comply with Centers for Medicare and Medicaid Services (CMS) regulations. We developed actuarially sound capitation rates using published guidance from the American Academy of Actuaries (AAA), the Actuarial Standards Board (ASB), CMS, and federal regulations to ensure compliance with generally accepted actuarial practices and regulatory requirements.

CY 2023 CAPITATION RATES

Table 1 below shows the capitation rates that DHS will pay to Dental Managed Care Organizations (MCO) for each member according to the rate cell definitions.

Table 1 Arkansas Department of Human Services CY 2023 Dental Rate Development CY 2023 Capitation Rates				
Age Band	CY 2021 Member Months	2022 PMPM	2023 PMPM	Rate Change
0-1	513,797	\$2.03	\$1.83	-10.2%
2-5	1,172,752	21.47	19.70	-8.2%
6-18	3,683,513	26.90	27.96	4.0%
19-20	407,717	11.62	12.38	6.5%
21-54	1,420,001	9.64	9.11	-5.5%
55-64	316,885	8.28	8.11	-2.1%
65+	389,640	4.73	4.87	3.0%
Total	7,904,305	\$18.75	\$18.91	0.9%

The rate change for each age band is primarily attributable to updated base period data, an additional year of trend from 2022 to 2023, and the removal of the COVID-19 public health emergency (PHE) utilization adjustment previously applied to rates. The size of the COVID-19 utilization adjustment varied across rate cells for CY 2022 rates and is now removed for CY 2023 rates, which results in significant variance in rate changes across rate cells. The MCOs participating in the dental program have a similar distribution of membership by age band, so the larger rate changes by age band do not disproportionately impact any single MCO.

Capitation rates are a projection of future costs for an efficient organization based on a set of assumptions. Actual costs will be dependent on each MCO's situation and the extent to which future experience conforms to the assumptions made in the capitation rate development calculations.

RATE CHANGE FROM CY 2022 RATES

Table 2 below shows the various components of the rate change from the CY 2022 effective rates to the CY 2023 capitation rates. The actual CY 2021 data is roughly 2.8% lower than what was estimated for CY 2021 during the CY 2022 rate setting process, which included the impact of trend and the PHE.

We used an annual trend of 1.8% between 2021 and 2023, which is 0.2% lower than the trend assumed in CY 2022 capitation rates. Administrative expenses were kept consistent with CY 2022 rates on a PMPM basis, which results in a slightly higher administrative allowance as a percentage of capitation rates. This leads to a 2.1% increase to the rates overall compared to CY 2022. Margin and premium tax percentages remain consistent with the CY 2022 rates, and as a result, the overall rate increase from CY 2022 to CY 2023 is about 0.9%. These percentages can be found in Table 2 below.

Table 2
Arkansas Department of Human Services
CY 2023 Dental Rate Development
CY 2023 PMPM Capitation Rate Build Up

Component	Impact of Rate Change
Actual 2021 Base Data	-2.8%
Updated 2021 to 2022 Trend	-0.2%
2022 to 2023 Trend	1.8%
Updated Administrative Cost	2.1%
Updated Margin	0.0%
Updated Premium tax	0.0%
Total	0.9%

REPORT STRUCTURE

Section II provides background information related to the dental managed care program. Section III provides an overview of the methodology. Section IV documents the capitation rate base data and dental cost projections. Section V summarizes final capitation rate adjustments, including the non-benefit allowance. Section VI of the report provides information regarding other rate development considerations. Section VII discusses issues related to the CMS rate setting checklist. Section VIII includes comments on items related to the 2022-2023 Medicaid Managed Care Rate Development Guide.

Exhibits 1 through 3 document the development of the CY 2023 capitation rates by rate cell. Exhibit 1 contains the detailed historical dental plan spend for CY 2021 by age band. Exhibit 2 projects the base period costs to CY 2023 accounting for trends. Exhibit 3 includes allowances for administrative costs, margin, and premium tax.

Exhibit 4 documents the expected state and federal CY 2023 expenditures for the dental managed care program separately for Medicaid individuals and CHIP individuals. The actuarial certification of the CY 2023 dental capitation rates is included as Appendix A.

DATA RELIANCE AND IMPORTANT CAVEATS

Milliman developed certain models to estimate the values included in this report. The intent of the models was to estimate CY 2023 capitation rates. We reviewed the models, including their inputs, calculations, and outputs for consistency, reasonableness, and appropriateness to the intended purpose and in compliance with generally accepted actuarial practice and relevant actuarial standards of practice (ASOP).

The models rely on data and information as input to the models. We used CY 2021 financial reports provided by the dental MCOs and additional information provided by DHS to develop the CY 2023 Arkansas dental capitation rates shown in this report. We did not audit this data and other information. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete. We performed a limited review of the data used directly in our analysis for reasonableness and consistency and did not find material defects in the data. If there are material defects in the data, it is possible they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable, or for relationships that are materially inconsistent. Such a review was beyond the scope of our assignment. Please see Appendix B for a full list of the data relied upon to develop the CY 2023 capitation rates.

Differences between the capitation rates and actual dental MCO experience will depend on the extent to which future experience conforms to the assumptions made in the capitation rate development calculations. It is certain that actual experience will not conform exactly to the assumptions used in the CY 2023 capitation rates due to differences in health care trend, managed care efficiency, provider reimbursement levels, and many other factors. Actual amounts will differ from projected amounts to the extent that actual experience is higher or lower than expected.

Milliman prepared this report for the specific purpose of developing CY 2023 dental capitation rates. This report should not be used for any other purpose. This report has been prepared solely for the internal business use of, and is only to be relied upon by, the management of DHS. We understand this report may be shared with participating MCOs, CMS, and other interested parties. Milliman does not intend to benefit or create a legal duty to any third-party recipient of its work. This report should only be reviewed in its entirety. These capitation rates may not be appropriate for every dental MCO. Any dental MCO considering participating in the program should consider their unique circumstances before deciding to contract under these rates.

The results of this report are technical in nature and are dependent upon specific assumptions and methods. No party should rely on these results without a thorough understanding of those assumptions and methods. Such an understanding may require consultation with qualified professionals.

The authors of this report are actuaries for Milliman, members of the American Academy of Actuaries, and meet the Qualification Standards of the Academy to render the actuarial opinion contained herein. To the best of their knowledge and belief, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices.

The terms of Milliman's contract with the Arkansas Department of Human Services #4600041898 apply to this report and its use.

II. BACKGROUND

DENTAL BACKGROUND

Arkansas DHS currently operates a mandatory, statewide dental managed care program for its Medicaid and CHIP beneficiaries, currently served by two MCOs. The dental managed care program began January 1, 2018. This program serves Medicaid and CHIP beneficiaries that are not covered through the ARHOME Medicaid expansion program. Individuals residing in a nursing facility or an intermediate care facility for individuals with intellectual disabilities (ICF / IID), those who reside in human development centers, individuals enrolled in the program for all-inclusive care for the elderly (PACE), and individuals who are eligible only after incurring medical expenses that cause them to "spend down" to Medicaid eligibility levels are also ineligible for the program. The dental program covers all dental services, though coverage for adults is limited to \$500 in covered services annually (extractions and dentures are exempt from the limit) and includes the following benefit set:

- One service annually for each of office visit, cleaning, set of x-rays and fluoride treatment
- Simple tooth pulling
- Surgical tooth pulling
- Fillings
- One set of dentures
- Dental lab fees

III. METHODOLOGY OVERVIEW

This section of the report provides an overview of the CY 2023 Arkansas dental capitation rate base data and methodology.

BASE DATA

We developed the CY 2023 dental capitation rates using detailed summaries of dental program enrollment and claims data from CY 2021 with runout through May 2022 as prepared and certified by the dental MCOs. This data reflects the experience of the population enrolled in the managed care program during CY 2021.

We are taking steps to reconcile the dental encounter data against financial reports by quarter of service date, but the encounter data is not of sufficient quality and completeness to use for 2023 rate development. We are working with DHS and the dental MCOs to better understand the impact of denied claims and any other drivers of the differences between the encounter data and the financial reports. We expect this process to continue and hopefully allow us to rely on the encounter data in future rate setting cycles.

The service categories reflected in the base data as provided in certified financial reporting are shown in Table 3.

Table 3 Arkansas Department of Human Services CY 2023 Dental Rate Development Covered Services		
Broad Service Category	Service Category	2021 Paid Dollars ¹
Class I	Fluoride	\$6,637,561
Class I	Lab and Other Tests	\$294,636
Class I	Oral Evaluations	\$11,780,109
Class I	Prophylaxis	\$14,840,325
Class I	Sealants	\$2,054,326
Class I	X-Rays	\$16,586,812
Class II	Anesthesia	\$5,455,260
Class II	Emergency (Palliative)	\$7,857
Class II	Endodontics	\$3,131,080
Class II	Oral Surgery	\$358,923
Class II	Periodontics	\$694,139
Class II	Restorations	\$17,877,879
Class II	Simple Extractions	\$5,905,035
Class II	Space Maintainers	\$467,552
Class II	Surgical Extractions	\$8,588,303
Class III	Dentures	\$2,589,892
Class III	Inlays / Onlays / Crowns	\$11,085,362
Class III	Other Prosthetics	\$117,884
Class III	Repair (Simple)	\$62,597
Class III	Bridges	\$611
Class IV	Orthodontics	\$13,573,330
Total		\$122,109,471

¹ Paid amounts include IBNR and exclude "Not Covered" claims.

We reviewed the historical data for overall consistency by quarter, age, and service category. We believe the data is appropriate to use to develop the CY 2023 dental capitation rates. We did not identify any additional material concerns with the quality or availability of the data with respect to total claims in aggregate or our ability to allocate data to the included dental service categories. Our data reconciliation efforts are consistent with Actuarial Standard of Practice #23.

METHODOLOGY

We used the following methodology to develop the Arkansas dental capitation rates:

1. Summarize CY 2021 dental MCO experience data for the covered population by age band and service category.
2. Project CY 2023 dental costs and utilization for all covered services by age band.
3. Adjust CY 2023 projected dental costs for expected administrative expenses, margin, and premium tax.

Sections IV and V of this report document the rate setting methodology in detail.

IV. DENTAL COST PROJECTIONS

This section of the report describes the projection of the dental MCO base period experience data to CY 2023.

We used the following methodology to project the dental MCO base period experience data used in the calculation of the dental service component of the capitation rates:

1. Summarize CY 2021 base period experience data for the population eligible for the services covered by the dental managed care program.
2. Apply adjustments to the base data to project CY 2023 dental costs.

Each of the above steps is described in detail below.

STEP 1: SUMMARIZE BASE EXPERIENCE DATA

In this step, we summarize the dental MCO base period experience data for CY 2021 by age band and service category. Exhibit 1 shows the summarized dental MCO base experience data by age band. We reviewed the historical data for overall consistency by age band, month, and service category. We believe the data is appropriate to use to develop the CY 2023 dental capitation rates.

Base Data

The dental MCOs completed financial templates to provide member months by calendar quarter and population, and to provide utilization and claim payment data by calendar quarter, population, detail service category, and broad service category. The payment data was allocated into the following payment types:

- Amount paid, net of member cost sharing
- Member cost sharing
- Other paid amounts
- Incurred but not paid

The base data includes costs reported as “amount paid.” Member cost sharing and other paid amounts are excluded from the capitation rate development.

We reviewed the dental MCO base period financial experience and found it to be reliable. We also extracted dental eligibility and encounter data from the data feeds provided to Milliman by DHS, but as discussed above, our review of the encounter data identified some data processing issues causing the encounter data to not be representative of actual program utilization and cost. Therefore, the base data summary in Exhibit 1 is based solely on the dental MCO base period experience financial data.

Non-Covered or In-Lieu of Services

We excluded utilization and claim costs reported as Not Covered by the dental MCOs. The total paid amount for Not Covered services represent less than 0.05% of the total paid dollars. No in-lieu of services were identified in the base data.

Subcapitated Services

The dental MCOs did not report any subcapitated services in the CY 2021 financial summaries.

Member Cost Sharing and Other Paid Amounts

The paid PMPM claim values on Exhibit 1 reflect MCO payments net of member cost sharing and other paid amounts. Other paid amounts include amounts not covered by the plan and not paid by the beneficiary as cost sharing, such as services not covered by Medicaid, denied services (e.g., for frequency limitations), payment by other insurance, and services performed by providers who are not Medicaid providers. The member cost sharing was worth approximately 1.3% of the CY 2021 reported costs, and the other paid amounts was worth approximately 5.4% of reported costs.

Retroactive Eligibility and Enrollment Lag

Recipient enrollment in the dental managed care program does not occur retroactively. Since we only include individuals enrolled in the managed care program, there is no impact of enrollment and claims activity during any retroactive eligibility period.

Rate Cell Assignment

The dental capitation program uses age bands to determine the member's rate cell. The age identification in the underlying data is consistent with how DHS currently pays its capitation rates. The dental managed care program currently has two MCOs that each have a very similar distribution of enrolled members by county. We reviewed each plan's enrollment by county and found no material difference in the membership distribution, confirming the appropriateness of using a statewide rate. As a result, there is no need for regionally adjusted capitation rates.

STEP 2: APPLY ADJUSTMENTS TO THE BASE EXPERIENCE DATA TO PROJECT CY 2023 DENTAL COSTS

In this step, we apply adjustment factors to reflect differences between the base period data and the projected CY 2023 dental costs. We explain each adjustment factor in detail below.

Exhibit 2 shows adjusted and trended values for each age band along with the composite adjustment factors described below.

IBNR Adjustment

We relied on the incurred but not reported (IBNR) reserve estimates developed by the dental MCOs as reported in their financial reporting using claims incurred in CY 2021 and paid through May 31, 2022. We performed the following high-level reasonability checks to validate these estimates:

- Data, including IBNR estimates, was reported on a quarterly basis by each MCO. We reviewed the reported IBNR by quarter to determine that there was a reasonable pattern throughout the year (i.e., IBNR amounts held for Q1 2021 were significantly lower than Q4 2021).
- IBNR estimates among the MCOs were reviewed to validate that they were approximately the same as a percentage of total claims, where appropriate.
- IBNR estimates are approximately the same as a percentage of total claims as IBNR adjustments applied to the data in prior years after accounting for differences in runout period between years.

Based on the data reported by the dental MCOs, the aggregate completion factor for the CY 2021 data is 1.003, as shown on Exhibit 2.

Utilization / Mix and Unit Cost Trend

Table 4 shows the annual utilization / mix and unit cost trends applied to the CY 2021 base data to adjust it to a CY 2023 basis. We trended the base experience two years from the July 1, 2021 midpoint to the July 1, 2023 midpoint of the projection period.

Table 4
Arkansas Department of Human Services
CY 2023 Dental Rate Development
Utilization / Mix and Cost Trend

Broad Service Category	Utilization / Mix (Annualized)	Unit Cost
Class I	3.0%	0.0%
Class II	0.5%	0.0%
Class III	0.5%	0.0%
Class IV	2.5%	0.0%
Total	1.8%	0.0%

We assign the annual utilization trend from CY 2022 to CY 2023 by broad service category based on historical PMPM program experience, Milliman internal research on utilization trends, as found in the Dental component of the Milliman *Health Cost Guidelines*TM (HCGs), and actuarial judgement. We believe these trends are supportable for this program, especially considering the existence of managed care to ensure utilization of services only when necessary.

Unit cost trends are assumed to be 0%, since there are no known expected reimbursement changes under FFS, and we assume MCO reimbursement to remain constant as a percent of FFS over time.

The resulting total PMPM annual trends from CY 2021 to CY 2023 range from 1.01% to 2.66% by age band and underlie the trend factors shown in Exhibit 2.

Table 5 illustrates dental service costs PMPM from 2015 to 2021. The CY 2019 through CY 2021 data reflects dental MCO financial statements, while prior year experience reflects FFS and encounter data provided by DHS. Due to potential differences in how utilization and costs may be reported between these sources, we evaluated PMPM trends in total. As shown in Table 5, the average annual PMPM trend from CY 2015 through CY 2021 is approximately -0.6%. The average trend from CY 2015 to CY 2017 (prior to the implementation of managed care) is 2.1%.

Table 5
Arkansas Department of Human Services
CY 2023 Dental Rate Development
Dental Class PMPM Changes from 2015 to 2021
PMPM Costs

Class	2015	2016	2017	2018	2019	2020	2021
Class I	\$6.81	\$6.79	\$7.14	\$6.93	\$7.58	\$5.96	\$6.72
Class II	\$7.65	\$7.42	\$7.77	\$6.09	\$6.59	\$5.00	\$5.46
Class III	\$0.25	\$0.24	\$0.24	\$1.94	\$2.12	\$1.55	\$1.78
Class IV	\$1.60	\$1.79	\$1.88	\$1.52	\$1.54	\$1.67	\$1.75
Total	\$16.32	\$16.25	\$17.02	\$16.48	\$17.83	\$14.17	\$15.71

Class	2015 to 2016	2016 to 2017	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021	2015 to 2021
Class I	-0.3%	5.2%	-2.9%	9.4%	-21.4%	12.9%	-0.2%
Class II	-3.0%	4.6%	-21.6%	8.1%	-24.1%	9.3%	-5.5%
Class III	-3.8%	-3.1%	718.5%	9.7%	-27.0%	14.9%	38.4%
Class IV	12.1%	4.9%	-19.4%	1.3%	8.8%	4.5%	1.5%
Total	-0.4%	4.8%	-3.2%	8.2%	-20.5%	10.8%	-0.6%

Given the implementation of dental managed care in 2018 and the impact of COVID-19 it is difficult to use recent program experience to set future trends. Therefore, we continue to rely on historical FFS experience and the Milliman HCGs when setting trends for CY 2023 dental capitation rates. The selected trends result in an average total PMPM annual trend of 1.8% for CY 2021 to CY 2023, which is a slight decrease compared to the average trend used in the CY 2022 capitation rates.

The rest of this section outlines the methodology used to develop these trend values.

[Utilization / Mix Trend](#)

Utilization / mix trend reflects expected changes in:

- Demand for dental services
- Intensity or mix of dental services
- Provider practice patterns
- Provider coding changes

We reviewed multiple data sources to determine utilization / mix trends for use in the CY 2023 rate development.

- Historical trends by major service categories
- Experience from similar Medicaid programs in other states
- Milliman research as found in the Dental component of the Milliman HCGs

The adjustment for utilization / mix trends is shown in Exhibit 2.

[Unit Cost Trend](#)

We discussed historical provider reimbursement levels with DHS, as well as expectations around future reimbursement changes. We understand no material changes occurred, or are expected to occur in CY 2023, for the services provided in the dental managed care program. As a result, we include a 0.0% unit cost trend for the services in the development of the CY 2023 dental managed care rates.

[Public Health Emergency / Emerging Experience Adjustment](#)

After reviewing the detailed summaries of CY 2021 and YTD 2022 enrollment and claims data submitted by the dental MCOs as part of their financial data submissions, we determined a PHE adjustment is no longer needed as the base period data used for setting capitation rates appears to reflect the YTD 2022 utilization and cost patterns of the population. We expect that enrollment levels in CY 2023 will be similar to CY 2021, assuming the PHE ends in early CY 2023. At the end of the PHE, we plan to reevaluate whether future adjustments to reflect population acuity and / or utilization patterns are necessary.

[Program Changes and Other Adjustments](#)

We do not anticipate any additional program changes or adjustments to be reflected in the CY 2023 dental managed care rates.

V. CAPITATION RATE ADJUSTMENT

This section of the report describes the final adjustments to calculate the Arkansas dental capitation rates from the projected CY 2023 dental services costs developed in Section IV of this report.

CALCULATE FINAL CAPITATION RATES BY RATE CELL

In this step, we include the allowance for MCO administrative costs, risk margin, and the state premium tax. Exhibit 3 shows the details of our calculations.

Administration Allowance and Margin

The dental managed care rates include an administration allowance of 11.0% of revenue for all age bands, which is equivalent to roughly \$2.08 PMPM in total. Dental MCOs reported program-wide administrative costs of \$1.92 in CY 2021. We adjusted the administrative PMPM for inflation to CY 2023 by applying 4.0% annual trend based on BLS wage growth data.

Margin

The target margin is set at 1.5% of revenue for the dental program for all age bands to account for risk margin, surplus maintenance and cost of capital.

Premium Tax Allowance

The capitation rates include an allowance for the premium tax equal to 2.5% of revenue collected by the Arkansas Insurance Department.

VI. OTHER RATE CONSIDERATIONS

The contracts between DHS and the dental MCOs require remittances for MLRs below the federal minimum MLR threshold of 85%. Actual MLRs will be calculated based on Dental MCO valid encounters. Encounters that are not valid based on DHS requirements (e.g., due to an invalid provider ID) will be excluded from the MLRs used to calculate remittance amounts. This calculation will be performed separately for each Dental MCO several months after the end of the contract period.

We are not aware of any other rate considerations at this time.

VII. CMS RATE SETTING CHECKLIST ISSUES

This section of the report lists each item in the November 10, 2014 CMS checklist and discusses how DHS addresses each issue and / or directs the reader to other parts of this report. CMS uses the rate setting checklist to review and approve a state's Medicaid capitation rates.

AA.1.0 – Overview of Rates Being Paid under the Contract

The CY 2023 dental managed care capitation rates are developed using 2021 enrollment and financial data from the dental managed care organizations. DHS calculates state-set rates by age band for all participating MCOs.

AA.1.1 – Actuarial Certification

Please refer to Appendix A for our Actuarial Certification of the CY 2023 capitation rates. The CY 2023 capitation rates have been developed in accordance with generally accepted actuarial principles and practices and are appropriate for the populations to be covered and the services to be furnished under the contract.

AA.1.2 – Projection of Expenditures

Exhibit 4 includes a projection of CY 2023 expenditures using CY 2021 member months.

AA.1.3 – Risk Contracts

The Arkansas dental managed care program meets the criteria of a risk contract.

AA.1.4 – Modifications

The CY 2023 rates documented in this report are the initial capitation rates for the CY 2023 dental managed care contract.

Note: There is no AA.1.5 on the Rate Setting Checklist

AA.1.6 – Limit on Payment to Other Providers

It is our understanding that no payments are made to providers other than those made by participating organizations for services available under the contract.

AA.1.7 – Risk and Profit

The CY 2023 capitation rates include a targeted margin of 1.5% for risk, RBC maintenance, and cost of capital.

AA.1.8 – Family Planning Enhanced Match

Not applicable for dental services.

AA.1.9 – Indian Health Service (IHS) Facility Enhanced Match

DHS does not claim an enhanced match for Indian Health Services (IHS) for the populations covered under this program.

AA.1.10 – Newly Eligible Enhanced Match

The newly eligible Medicaid population is not part of the dental managed care population. Therefore, the rates are not eligible for the enhanced Federal match.

AA.1.11 – Retroactive Adjustments

The CY 2023 rates documented in this report are the initial capitation rates for the CY 2023 Arkansas dental managed care contract. We do not anticipate any retroactive adjustments.

AA.2.0 – Based Only Upon Services Covered Under the State Plan

The base utilization and cost data uses 2021 enrollment and financial data only for populations enrolled in a dental MCO.

Only State Plan and Approved Waiver services covered under the dental managed care contract have been included in the rate development.

AA.2.1 – Provided Under the Contract to Medicaid-eligible Individuals

Data for populations not eligible to enroll in the Arkansas dental managed care program has been excluded from the base data used in rate development. Please refer to Section III for details.

AA.2.2 – Data Sources

The base utilization and cost data is CY 2021 enrollment and financial data (paid through May 2022) for the populations enrolled in the dental managed care program in CY 2021. Eligibility criteria are the same in CY 2021 and CY 2023.

AA.3.0 – Adjustments to Base Year Data

All adjustments to the base year data are discussed in Sections IV and V. In addition, each item in the checklist is addressed in items AA.3.1 – AA.3.17 below.

AA.3.1 – Benefit Differences

The base data used to calculate the capitation rates includes the same benefits as the contract period. No adjustment was made for benefit differences.

AA.3.2 – Administrative Cost Allowance Calculations

The dental managed care capitation rates include explicit administrative allowances. Please see Section V for details.

AA.3.3 – Special Populations' Adjustments

Not applicable.

AA.3.4 – Eligibility Adjustments

Not applicable.

AA.3.5 – Third Party Liability (TPL)

The dental MCOs are responsible for the collection of any TPL recoveries for all services. The base data used for the capitation rates are net of TPL recoveries, as certified by the dental MCOs. Please see Section IV for more details regarding the base data.

AA.3.6 – Indian Health Care Provider Payments

Not applicable.

AA.3.7 – DSH Payments

Not applicable.

AA.3.8 – FQHC and RHC Reimbursement

Dental services provided at FQHCs and RHCs are not covered by the FQHC and RHC encounter rates.

AA.3.9 – Graduate Medical Education (GME)

Not applicable.

AA.3.10 – Copayments, Coinsurance, and Deductibles in Capitated Rates

The Arkansas dental managed care program includes member cost sharing for certain populations. Section IV of this report documents the treatment of cost sharing in the rate development.

AA.3.11 – Medical Cost / Trend Inflation

Section IV of this report documents the trend assumptions used to project the CY 2021 base period costs to CY 2023.

AA.3.12 – Utilization Adjustments

Utilization trend is included in AA.3.11.

AA.3.13 – Utilization and Cost Assumptions

The utilization and cost assumptions are based on historical population experience and expected reimbursement changes and are appropriate for the population to be covered.

AA.3.14 – Post-Eligibility Treatment of Income (PETI)

Not applicable.

AA.3.15 – Incomplete Data Adjustment

The capitation rates include an adjustment to reflect IBNR claims. Please refer to Section IV for more information on the development of these adjustment factors.

AA.3.16 – Primary Care Rate Enhancement

Not applicable.

AA.3.17 – Health Homes

Not applicable.

AA.4.0 – Establish Rate Category Groupings

Please refer to Sections III to IV of the report.

AA.4.1 – Eligibility Categories

Please refer to Sections III to IV of the report. Rates do not vary by eligibility category.

AA.4.2 – Age

Please refer to Sections III to IV of the report. Rates vary by broad age category.

AA.4.3 – Gender

Please refer to Sections III to IV of the report. Rates do not vary by gender.

AA.4.4 – Locality / Region

Please refer to Sections III to IV of this report. Rates do not vary by region.

AA.4.5 – Risk Adjustments

The CY 2023 dental capitation rates do not use risk adjustment.

AA.5.0 – Data Smoothing

We did not perform any data smoothing.

AA.5.1 – Cost-Neutral Data Smoothing Adjustment

We did not perform any data smoothing.

AA.5.2 – Data Distortion Assessment

Our review of the financial data did not detect any material distortions or outliers.

AA.5.3 – Data Smoothing Techniques

We did not perform any data smoothing.

AA.5.4 – Risk Adjustments

The CY 2023 dental capitation rates do not use risk adjustment.

AA.6.0 – Stop Loss, Reinsurance, or Risk Sharing Arrangements

The CY 2023 dental capitation rates do not include stop loss, reinsurance, or risk sharing arrangements beyond the minimum MLR requirement.

AA.6.1 – Commercial Reinsurance

DHS does not require entities to purchase commercial reinsurance.

AA.6.2 – Stop-Loss Program

Please see AA.6.0.

AA.6.3 – Risk Corridor Program

Please see AA.6.0.

AA.7.0 – Incentive Arrangements

Not applicable.

AA.7.1 – Electronic Health Records (EHR) Incentive Payments

Not applicable.

VIII. RESPONSES TO MANAGED CARE RATE SETTING GUIDE

This section of the report contains responses to the 2022 to 2023 Managed Care Rate Setting Guide.

SECTION I. MEDICAID MANAGED CARE RATES

1. General Information

A. Rate Development Standards

- i. The rate certification included in Appendix A is for the January 2023 to December 2023 (CY 2023) contract period.
- ii. The rate certification includes all of the items required in the rate development guide.
 - a. The rate certification is included in Appendix A.
 - b. The final capitation rates are shown in Exhibit 3.
 - c. The descriptions of the Arkansas Dental Capitation program can be found in Section II.

Arkansas DHS currently operates a mandatory, statewide dental managed care program for its Medicaid and CHIP beneficiaries, currently served by two MCOs. The dental managed care program began January 1, 2018. This program serves Medicaid and CHIP beneficiaries that are not covered through the ARHOME Medicaid expansion program. Individuals residing in a nursing facility or an intermediate care facility for individuals with intellectual disabilities (ICF / IID), those who reside in human development centers, individuals enrolled in the program for all-inclusive care for the elderly (PACE), and individuals who are eligible only after incurring medical expenses that cause them to "spend down" to Medicaid eligibility levels are also ineligible for the program. The dental program covers all dental services, though coverage for adults is limited to \$500 in covered services annually (excluding costs for extractions and dentures) and includes the following benefit set:

- One service annually for each of office visit, cleaning, set of x-rays and fluoride treatment.
- Simple tooth pulling.
- Surgical tooth pulling.
- Fillings.
- One set of dentures.
- Dental lab fees.

The rating period is CY 2023.

- iii. Rate differences by rate cell are not based on federal financial participation rates.
- iv. Rate cells do not cross-subsidize other rate cells.
- v. The assumptions used to develop the capitation rates are consistent with the effective dates of all changes to the dental capitation program from the January 2021 to December 2021 (CY 2021) base period to CY 2023.
- vi. The target rate development MLR for the CY 2023 rates is 86.5% on a statewide basis for the dental capitation program prior to giving special consideration to the 2.5% premium tax or any costs for quality initiatives allowed under §438.8. As such, the capitation rates are developed, such that MCOs can reasonably achieve a federal MLR of greater than 85%. The contracts between DHS and the dental MCOs require remittances for MLRs below 85%.
- vii. The rate setting report includes documentation showing that the CY 2023 rates were developed using generally accepted actuarial practices and principles.
 - a. All adjustment to the capitation rates reflect reasonable, appropriate, and attainable costs.

- b. No adjustments to the rates are performed outside of the initial rate setting process beyond those outlined in Section V of the report.
- c. The final contracted rates in each cell match the capitation rates in the certification.
- viii. Section IV describes how the CY 2023 capitation rates account for the direct and indirect impacts of the COVID-19 public health emergency.
- ix. The rate certification covers the CY 2023 time period.
- x. This rate certification is consistent with CMS procedures. The CY 2023 rates documented in this report are the initial capitation rates for the CY 2023 dental capitation program contract.

B. [Appropriate Documentation](#)

- i. We believe this report properly documents all the elements included in the rate certification and provides CMS enough detail to determine that regulation standards are met. Please see this report for the following details:
 - a. Data used, including citations to studies, research papers, other states' analyses, or similar secondary data sources.
 - b. Assumptions made, including any basis or justification for the assumption.
 - c. Methods for analyzing data and developing assumptions and adjustments.
- ii. We believe this report properly provides support for each assumption that underlies the certified rates for each rate cell. Assumptions and adjustments underlying the capitation rates do not vary between managed care plans.
- iii. We detail within our responses in this guide the section of our report where each item described in the 2022 to 2023 Medicaid Managed Care Rate Setting Guide can be found. The table of contents at the beginning of the report also includes specific page numbers for each section.
- iv. The CHIP population is subject to an enhanced FMAP, which is detailed in Exhibit 4. All other populations included in this rate certification are subject to the regular state FMAP.
- v. Relative to the previous rating period:
 - a. See Table 2 for detail of rate change drivers from CY 2022 capitation rates to CY 2023 capitation rates.
 - b. The CY 2023 capitation rates do not include any other material changes to the capitation rates, or the rate development process not otherwise addressed in the other sections of this guidance.
- vi. At this time, we are unaware of any amendments to this rate certification that will be provided to CMS in the future.

2. Data

A. [Rate Development Standards](#)

- i. The dental capitation rate development process follows CMS rate development standards related to base data.

- a. Data sources are included in Section III of the letter and Exhibit 1. Dental MCOs provided financial templates to the state's actuaries, and DHS provided encounter claims and enrollment data for CY 2021 to the state's actuaries for this rate development.
- b. Section III includes documentation of the CY 2021 base data period used to develop the CY 2023 dental capitation rates.
- c. Base data is specific to the population and services expected to be covered by the dental capitation program during the CY 2023 rate period.
- d. The CY 2023 rate calculation uses CY 2021 base data, which is within the CMS three-year requirement.

B. [Appropriate Documentation](#)

- i. Section III includes documentation of the base data used for dental capitation rate development. Dental MCOs provided detailed summaries of claims and enrollment data for CY 2021 to the state's actuaries for this rate development.
- ii. Section III thoroughly describes the base data used to calculate the CY 2023 dental capitation rates.
 - a. The CY 2023 capitation rates for the dental capitation program are developed using CY 2021 claims and enrollment data.
 - b. DHS and Milliman went through an extensive data validation process to review all data included in the CY 2023 rate setting methodology. Milliman reviewed the historical data for overall consistency. We are comfortable that the financial data are all of high quality and appropriate for use in rate development.
 - c. All base data is specific to the populations that will be covered under the CY 2023 dental capitation rates.
 - d. The rate documentation methodology does not use a data book separate from what is shown in the report.
- iii. Sections IV and V thoroughly document all adjustments made to the base data.

3. **Projected Benefit Costs**

A. [Rate Development Standards](#)

- i. Final capitation rates are based only upon services described in 42 CFR §438.3(c)(1)(ii) and 438.3(e).
- ii. Variations in assumptions by rate cell are based on valid rate development standards and not based on federal financial participation rates.
- iii. Section IV of this report includes a detailed discussion on the methodology used to develop benefit utilization and unit cost trends.
- iv. Non-covered services are excluded from the base data used to develop the dental capitation rates. Thus, we did not make any additional adjustment to for these services.
- v. There are no IMD services in the 2023 dental capitation rate development.

B. [Appropriate Documentation](#)

- i. Final projected benefit costs are shown in Exhibits 2 and 3.
- ii. Section IV of this report documents the development of projected benefit costs from the base period data to CY 2023.
- iii. Section IV of this report includes a detailed discussion on the methodology used to develop benefit utilization and unit cost trends.
- iv. This certification does not include additional services deemed by the state to be necessary to comply with the parity standards of the Mental Health Parity and Addiction Equity Act.
- v. The projected benefit costs do not include any costs for non-covered services. Therefore, we did not explicitly evaluate them for inclusion as in-lieu-of services.
- vi. No retrospective eligibility periods are included in rate development.
- vii. We are not aware of any program changes between our base data (CY 2021) and projected period (CY 2023).

4. **Special Contract Provisions Related to Payment**

A. [Incentive Arrangements](#)

The CY 2023 capitation rate methodology does not include any incentive arrangements.

B. [Withhold Arrangements](#)

The CY 2023 capitation rate methodology does not include any withhold arrangements.

C. [Risk Sharing Mechanisms](#)

The CY 2023 capitation rate methodology does not include any risk sharing mechanisms beyond the minimum MLR requirement.

D. [Delivery System and Provider Payment Initiatives](#)

The CY 2023 capitation rate methodology does not include any delivery system or provider payment initiatives.

E. [Pass-Through Payments](#)

The CY 2023 capitation rate methodology does not include any pass-through payments.

5. **Projected Non-Benefit Costs**

A. [Rate Development Standards](#)

- i. Please refer to Section V for a description of the data and methodology used to develop the projected non-benefit costs included in the capitation rates.
- ii. The non-benefit costs included in the CY 2023 capitation rates are developed as a percentage of the total capitation rate by age band. The targeted margin is applied as a percentage of the total capitation rate by age band. The final PMPM administrative load is reviewed for reasonableness compared to national benchmarks. Please see Section V for additional detail on how the administrative component is calculated.

- iii. Variations in assumptions by rate cell are based on valid rate development standards and not based on federal financial participation rates.

B. Appropriate Documentation

- i. Please refer to Section V for a description of the data and methodology used to develop the projected non-benefit costs included in the capitation rates.
- ii. The administrative and targeted margin components of the non-benefit costs are separately identified in the report.
- iii. Section V discloses and explains how the historical non-benefit cost data provided by the plans was considered in the non-benefit cost assumptions used in rate development.

6. Risk Adjustment and Acuity Adjustments

A. Rate Development Standards

The CY 2023 capitation rates will not use a risk adjustment arrangement.

B. Appropriate Documentation

The CY 2023 capitation rates will not use a risk adjustment arrangement.

SECTION II. MEDICAID MANAGED CARE RATES WITH LONG-TERM SERVICES

This certification does not include rates for managed long-term services and supports (MLTSS).

SECTION III. NEW ADULT POPULATION CAPITATION RATES

This certification does not include rates for the new adult group under 1902(a)(10)(A)(i)(VIII) of the Social Security Act.

ATTACHMENTS

State of Arkansas Department of Human Services
CY 2023 Capital Rate Development for Dental Managed Care Program

December 7, 2022

This report assumes that the reader is familiar with the State of Arkansas's Medicaid program, its benefits, and rate selling principles. This report was prepared solely to provide to DHS to set CY 2023 dental capitation rates. It may not be appropriate for other purposes. Milliman does not intend to benefit, and assumes no duty or liability to, other parties who receive the work. This material should only be reviewed in its entirety.

EXHIBITS 1 through 4

State of Arkansas Department of Human Services CY 2023 Dental Capitation Rate Development

State of Arkansas Department of Human Services
CY 2023 Capital Rate Development for Dental Managed Care Program

December 7, 2022

This report assumes that the reader is familiar with the State of Arkansas's Medicaid program, its benefits, and rate selling principles. This report was prepared solely to provide to DHS to set CY 2023 dental capitation rates. It may not be appropriate for other purposes. Milliman does not intend to benefit, and assumes no duty or liability to, other parties who receive the work. This material should only be reviewed in its entirety.

Exhibit 1
Arkansas Department of Human Services
CY 2023 Dental Rate Development
Experience for Calendar Year 2021

Age Band	Member Months	Utilization / 1,000	Cost Per Unit	PMPM
0-1	513,797	871	\$20.24	\$1.47
2-5	1,172,752	6,369	\$30.45	\$16.16
6-18	3,683,513	8,034	\$34.06	\$22.80
19-20	407,717	2,816	\$43.38	\$10.18
21-54	1,420,001	2,232	\$40.48	\$7.53
55-64	316,885	1,550	\$52.13	\$6.73
65+	389,640	995	\$48.80	\$4.04
Total	7,904,305	5,403	\$34.35	\$15.47

Exhibit 2
Arkansas Department of Human Services
CY 2023 Dental Rate Development
Development of CY 2023 Projected Service Costs

Age Band	CY21 Base Data Experience				Cumulative Trend Factor			Public Health Emergency Adjustment	CY 2023 Projected Claims
	Member Months	Paid PMPM	IBNR	Completed PMPM	Utilization / Mix	Unit Cost	Trended PMPM		
0-1	513,797	\$1.47	1.003	\$1.47	1.054	1.000	\$1.55	1.000	\$1.55
2-5	1,172,752	16.16	1.003	\$16.21	1.033	1.000	\$16.74	1.000	16.74
6-18	3,683,513	22.80	1.003	\$22.87	1.039	1.000	\$23.77	1.000	23.77
19-20	407,717	10.18	1.003	\$10.21	1.030	1.000	\$10.52	1.000	10.52
21-54	1,420,001	7.53	1.003	\$7.55	1.025	1.000	\$7.74	1.000	7.74
55-64	316,885	6.73	1.003	\$6.75	1.020	1.000	\$6.89	1.000	6.89
65+	389,640	4.04	1.003	\$4.06	1.021	1.000	\$4.14	1.000	4.14
Total	7,904,305	\$15.47	1.003	\$15.51	1.036	1.000	\$16.08	1.000	\$16.08

Exhibit 3
Arkansas Department of Human Services
CY 2023 Dental Rate Development
Development of CY 2023 Capitated Rates

<u>Age Band</u>	<u>CY21 Member Months</u>	<u>CY 2023 Claims PMPM</u>	<u>Admin PMPM</u>	<u>Margin PMPM</u>	<u>Premium Tax</u>	<u>Capitation Rates</u>
0-1	513,797	\$1.55	\$0.20	\$0.03	\$0.05	\$1.83
2-5	1,172,752	16.74	2.17	0.30	0.49	19.70
6-18	3,683,513	23.77	3.08	0.42	0.70	27.96
19-20	407,717	10.52	1.36	0.19	0.31	12.38
21-54	1,420,001	7.74	1.00	0.14	0.23	9.11
55-64	316,885	6.89	0.89	0.12	0.20	8.11
65+	389,640	4.14	0.54	0.07	0.12	4.87
Total	7,904,305	\$16.08	\$2.08	\$0.28	\$0.47	\$18.91

Exhibit 4
Arkansas Department of Human Services
CY 2023 Dental Rate Development
Total Estimated CY 2023 Expenditures

Age Band	Population	CY21 Member Months	Capitation Rate PMPM	FMAP	Total Estimated Expenditures	AR Share	Federal Share
0-1	CHIP	20,567	\$1.83	79.82%	\$38,000	\$8,000	\$30,000
2-5	CHIP	126,519	19.70	79.82%	\$2,492,000	\$503,000	\$1,989,000
6-18	CHIP	465,984	27.96	79.82%	\$13,031,000	\$2,629,000	\$10,402,000
0-1	Medicaid	493,230	1.83	71.18%	\$901,000	\$260,000	\$641,000
2-5	Medicaid	1,046,233	19.70	71.18%	\$20,610,000	\$5,941,000	\$14,669,000
6-18	Medicaid	3,217,529	27.96	71.18%	\$89,975,000	\$25,935,000	\$64,040,000
19-20	Medicaid	407,717	12.38	71.18%	\$5,046,000	\$1,455,000	\$3,591,000
21-54	Medicaid	1,420,001	9.11	71.18%	\$12,933,000	\$3,728,000	\$9,205,000
55-64	Medicaid	316,885	8.11	71.18%	\$2,569,000	\$741,000	\$1,828,000
65+	Medicaid	389,640	4.87	71.18%	\$1,899,000	\$547,000	\$1,352,000
Total		7,904,305	\$18.91		\$149,494,000	\$41,747,000	\$107,747,000

¹ Calendar Year 2023 Federal Matching Assistance Percentage; Source: kff.org

APPENDIX A

State of Arkansas Department of Human Services CY 2023 Actuarial Certification

State of Arkansas Department of Human Services
CY 2023 Capital Rate Development for Dental Managed Care Program

December 7, 2022

This report assumes that the reader is familiar with the State of Arkansas's Medicaid program, its benefits, and rate selling principles. This report was prepared solely to provide to DHS to set CY 2023 dental capitation rates. It may not be appropriate for other purposes. Milliman does not intend to benefit, and assumes no duty or liability to, other parties who receive the work. This material should only be reviewed in its entirety.



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Principal and Consulting Actuary

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December 7, 2022

Appendix A
Arkansas Department of Human Services
Capitated Contracts Ratesetting - Actuarial Certification
CY 2023 Dental Capitation Rates

I, Greg J. Herrle, am associated with the firm of Milliman, Inc., am a member of the American Academy of Actuaries, and meet its Qualification Standards for Statements of Actuarial Opinion. I was retained by the Arkansas Department of Human Services (DHS) to perform an actuarial certification of the dental managed care program capitation rates for CY 2023 for filing with the Centers for Medicare and Medicaid Services (CMS). I reviewed the calculated capitation rates and am familiar with the following regulation and guidance:

- The requirements of 42 CFR §438.3(c), 438.3(e), 438.4, 438.5, 438.6, and 438.7
- CMS "Appendix A, PAHP, PIHP, and MCO Contracts Financial Review Documentation for At-risk Capitated Contracts Ratesetting dated November 10, 2014"
- 2022 to 2023 Medicaid Managed Care Rate Development Guide
- Actuarial Standard of Practice 49 and other relevant standards of practice

I examined the actuarial assumptions and actuarial methods used in setting the capitation rates for CY 2023. To the best of my information, knowledge and belief, the capitation rates offered by DHS are in compliance with the relevant requirements of 42 CFR 438.4. The attached actuarial report describes the capitation rate setting methodology.

In my opinion, the capitation rates are actuarially sound, as defined in *Actuarial Standard of Practice (ASOP) 49*, were developed in accordance with generally accepted actuarial principles and practices and are appropriate for the populations to be covered and the services to be furnished under the contract.

In making my opinion, I relied upon the accuracy of the underlying claims and eligibility data records prepared by DHS. A copy of the reliance letter received from DHS is attached and constitutes part of this opinion. I did not audit the data and calculations, but did review them for reasonableness and consistency and did not find material defects. In other respects, my examination included such review of the underlying assumptions and methods used and such tests of the calculations as I considered necessary.

The capitation rates developed may not be appropriate for any specific dental MCO. Any MCO will need to review the rates in relation to the benefits provided. Each MCO should compare the rates with its own experience, expenses, capital, and surplus, and profit requirements prior to agreeing to contract with DHS. The MCO may require rates above, equal to, or below the actuarially sound capitation rates.

Actuarial methods, considerations, and analyses used in forming my opinion conform to the appropriate Standards of Practice as promulgated from time-to-time by the Actuarial Standards Board, whose standards form the basis of this Statement of Opinion.

It should be emphasized that capitation rates are a projection of future costs based on a set of assumptions. Actual costs will be dependent on each contracted MCO's situation and experience.



This Opinion assumes the reader is familiar with the Arkansas Medicaid program, Medicaid eligibility rules, and actuarial rating techniques. The Opinion is intended for the State of Arkansas and the Centers for Medicare and Medicaid Services and should not be relied on by other parties. The reader should be advised by actuaries or other professionals competent in the area of actuarial rate projections of the type in this Opinion so as to properly interpret the projection results.

A handwritten signature in black ink that reads 'Gregory J. Herrle'.

Greg J. Herrle
Member, American Academy of Actuaries
December 7, 2022

APPENDIX B

State of Arkansas Department of Human Services Reliance Letter

State of Arkansas Department of Human Services
CY 2023 Capitation Rate Development for Dental Managed Care Program

December 7, 2022

This report assumes that the reader is familiar with the State of Arkansas's Medicaid program, its benefits, and rate setting principles. This report was prepared solely to provide assistance to DHS to set CY 2023 capitation rates for the Dental Managed Care Program. It may not be appropriate for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work. This material should only be reviewed in its entirety.



Division of Medical Services

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December 6, 2022

Mr. Gregory J. Herrle, FSA
Mrs. Katarina N. Lorenz, FSA
Milliman, Inc.
17335 Golf Parkway, Suite 100
Brookfield, WI 53045

Re: Actuarial Certification of CY 2023 Capitation Rates for the Arkansas Dental Managed Care Program

Dear Greg and Katarina:

I, Elizabeth Pitman, Division of Medical Services Director for the Arkansas Department of Human Services, hereby affirm that the data prepared and submitted to Milliman, Inc. (Milliman) for the purpose of certifying the CY 2023 Arkansas dental managed care program capitation rates were prepared under my direction, and to the best of my knowledge and belief are accurate and complete. This data includes:

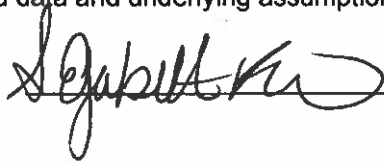
1. Computer files supporting the CY 2023 dental capitation rate calculation, including, but not limited to:
 - a. Detailed claims and membership database for historical dental managed care population.
 - b. Financial reporting templates provided by dental managed care organizations.
 - c. Emerging experience templates with data through CY 2022 provided by dental managed care organizations.
2. Assumptions supporting the CY 2023 dental capitation rate calculation, including, but not limited to:
 - a. Confirmation of 2.5% premium tax rate.
 - b. Historical and anticipated future provider reimbursement changes.
 - c. Information related to member cost sharing.

d. Confirmation of DHS' intent to enforce a minimum medical loss ratio of 85% and collect remittances from the dental MCOs, as necessary.

3. Other supporting documentation, including:

a. Other computer files.

b. Conversations concerning supplied data and underlying assumptions.



Elizabeth Pitman

Division of Medical Services Director

December 6, 2022

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please visit us at:

milliman.com



Milliman is among the world's largest providers of actuarial and related products and services. The firm has consulting practices in life insurance and financial services, property & casualty insurance, healthcare, and employee benefits. Founded in 1947, Milliman is an independent firm with offices in major cities around the globe.

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