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May 9, 2025

Elizabeth Pitman  
Director, Division of Medical Services  
Arkansas Department of Human Services  
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**Re: NET Bid Rate Ranges – January 1, 2026 to December 31, 2026 - DRAFT**

Dear Elizabeth:

At your request, we developed NET capitation bid rate ranges for the Arkansas Department of Human Services (DHS) effective for calendar year 2026 (CY 2026). We understand DHS intends to use these rate ranges in its invitation for bid (IFB) for potential NET brokers. This letter documents the development of these rate ranges.

The rate ranges in this letter also include the impact of combining the NET and Day Treatment Transportation (DTT) contracts in the IFB effective January 1, 2026.

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

**SITUATION SUMMARY**

DHS currently contracts with three NET brokers on a full risk capitated basis to provide NET services across seven regions, or rate cells. No region is currently served by more than one NET broker. The capitation rate prospectively provides funding for the NET brokers to cover benefit costs, administrative costs, and risk margin.

Additionally, DHS currently has a separate contract with the three NET brokers across seven regions to provide transportation to and from Adult Developmental Day Treatment (ADDT) and Early Intervention Day Treatment (EIDT) centers. These DTT services are currently carved out of the NET capitated rate, and the brokers receive a rate per mile that varies by broker for providing these services. In addition to the DTT services provided by the NET brokers, several of the ADDT and EIDT centers own their own vehicles and directly provide transportation to and from their facilities, which are reimbursed by DHS through a Direct Bill program.

DHS intends to release an IFB to select NET brokers to operate under the new NET contract beginning January 1, 2026. This IFB will combine NET services currently covered under the capitated program and the DTT broker services currently covered as a separate contract. Services provided by the ADDT and EIDT providers under Direct Bill will continue to be excluded from the NET capitated program. In this letter, we develop bidding rate ranges for CY 2026.

The final capitation rates for this period will be based on the IFB 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 continue to only award the contract to one NET broker in each region. We will separately provide an actuarial certification and accompanying letter for CMS. Following CY 2026, we anticipate DHS will return 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 and margin) to set a single rate for each region rather than rate ranges. The CY 2026 process differs in that the certified rate will be informed by the IFB bidding process, while the usual process includes rates that we independently develop using historical data without a bidding component.

## RESULTS – BID RATE RANGES

Table 1 below shows estimated CY 2025 member months and CY 2026 bid rate ranges (both including and excluding the newly added DTT services) by region. Exhibit 1A contains a detailed development of the high end of these ranges for non-DTT services currently included in the capitated program 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 for these same services. 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 capitated program, up to 5%.

Exhibit 1B contains a detailed development of the projected CY 2026 capitation rate for DTT services using the methodology described in this letter. A rate range is not developed for DTT services; instead, a risk corridor will be implemented for the DTT service portion of each final 2026 rate by region to protect against the uncertainty associated with adding these services to the capitated model.

**TABLE 1**  
**ARKANSAS DEPARTMENT OF HUMAN SERVICES**  
**CY 2026 NET RATE DEVELOPMENT**  
**BID RATE RANGES**

	ESTIMATED CY 2025		CY 2026 RATE RANGE (WITHOUT DTT)		CY 2026 RATE (DTT ONLY)	CY 2026 RATE RANGE (WITH DTT)	
REGION	MEMBER MONTHS	CY 2025 RATE	LOW	HIGH		LOW	HIGH
Region A	1,601,100	\$2.39	\$2.36	\$2.48	\$1.08	\$3.44	\$3.56
Region B	771,276	4.26	4.19	4.41	\$3.66	7.85	8.07
Region C	1,248,631	3.93	3.87	4.07	\$1.08	4.95	5.15
Region D	1,276,764	3.98	3.91	4.12	\$1.80	5.71	5.92
Region E	1,566,948	7.91	7.77	8.18	\$3.90	11.67	12.08
Region F	810,262	12.28	12.07	12.71	\$4.52	16.59	17.23
Region G	1,664,215	2.69	2.64	2.78	\$3.75	6.39	6.53
<b>Total</b>	<b>8,939,196</b>	<b>\$4.91</b>	<b>\$4.83</b>	<b>\$5.09</b>	<b>\$2.71</b>	<b>\$7.54</b>	<b>\$7.80</b>

## METHODOLOGY

### For non-DTT NET services currently included in the capitated program:

The CY 2026 rate ranges rely on the underlying data and methodology included in our November 22, 2024 CY 2025 NET rate certification, included as Attachment A to this letter.

Due to the timing of the IFB release, validated CY 2024 data was not available to use as the base data underlying the CY 2026 rate range development. Instead, we started with the projected CY 2025 benefit expenses (i.e., claims) from the CY 2025 rate certification. We applied an additional twelve months of service cost trend to move from CY 2025 to CY 2026 and then added allowances for administrative costs and risk margin. We did not include an explicit adjustment for projecting CY 2025 to CY 2026 benefit expenses to account for disenrollment patterns at the end of the PHE, as the redetermination process was largely completed by the end of CY 2023.

We developed each region's rate range for the non-DTT rate component by subtracting 5.0% from the developed point estimate of the high end of the range. This is consistent with CMS 2024-2025 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.

### For DTT services that will be included in the capitated program effective January 1, 2026:

The CY 2026 rates rely on CY 2024 utilization data (number of trips and mileage) by region, as well as the 2025 mileage rates by broker, which DHS provided. We used this information to project CY 2025 benefit expenses and then applied an additional twelve months of service cost trend to move from CY 2025 to CY 2026. The utilization and service cost trends for DTT services are consistent with those assumed for non-DTT services. We do not include an additional allowance for administrative costs as these costs are already included in the 2025 mileage rates paid to the DTT

brokers. The capitation rates include an additional allowance for risk margin related to DTT services since these services are moving to an at-risk capitated model. We did not include an explicit adjustment for projecting CY 2025 to CY 2026 benefit expenses to account for disenrollment patterns at the end of the PHE, as the redetermination process was largely completed by the end of CY 2023.

The CY 2024 utilization data from DHS represents invoiced (paid) utilization by month. We received data from January 2022 to December 2024 to understand the variation in this data by month, quarter, and year. We note significant variation in utilization by month, but the data presents general consistency when looking at longer periods (i.e., 3-month, 6-month, 12-month). As such, we feel comfortable using the 12-month CY 2024 period as the base data for estimating future DTT service utilization.

## CY 2025 Estimated Claims

### For non-DTT NET services currently included in the capitated program:

Exhibit 2 of Attachment A shows the estimated CY 2025 NET claims per member per month (PMPM) for each region. We developed these estimates using CY 2023 utilization and cost data provided by the current NET brokers. We applied utilization / mix and cost trends for two years, as described in detail in Attachment A.

Given validated CY 2024 data was not available to use as the base data underlying CY 2025 rate range development, the estimated 2025 PMPMs by region are composited using estimated CY 2025 enrollment by region.

### For DTT services that will be included in the capitated program effective January 1, 2026:

Exhibit 1B shows the development of the estimated CY 2025 DTT claims PMPM for each region using CY 2024 utilization, the CY 2025 mileage rate provided by DHS, and the estimated CY 2025 member months.

### Utilization / Mix and Unit Cost Trend

We projected the CY 2025 estimated claims to CY 2026 using updated utilization / mix and unit cost trends. Utilization and mix trends per member per month are assumed to be 0% based on a review of historical changes in the demand for NET services per beneficiary and the average mileage per trip.

Unit cost trends reflect expected changes in labor, operations, and fuel costs from 2025 to 2026, which are summarized in Table 2 below. The fuel cost trend assumes a nationwide average projected price of approximately \$3.10 per gallon in 2026. For reference, gasprices.aaa.com notes the average price as of May 5, 2025 is \$3.17.

**TABLE 2**  
**ARKANSAS DEPARTMENT OF HUMAN SERVICES**  
**CY 2026 NET RATE DEVELOPMENT**  
**COMPONENTS OF 2025 TO 2026 UNIT COST TREND**

COMPONENT	UNIT COST	WEIGHT
Labor	4.75%	50%
Operations	4.88%	30%
Fuel	-2.00%	20%
<b>Total</b>	<b>3.44%</b>	<b>100%</b>

The total unit cost trends shown in Table 2 do not vary by region so the annual PMPM trend adjustment is 3.44% for all regions.

For DTT services, the unit cost trends shown in Table 2 will also apply to the portion of the mileage rate associated with administrative expenses. This composite unit cost trend of 3.44% is reasonably consistent with the administrative cost trend of 3.5% used in the 2025 NET rate certification based on recent BLS wage growth data (as described in Attachment A).

Below we note the methodology used to develop these trend assumptions, which are consistent with the trend methodology used in the CY 2025 rate certification:

### Utilization / Mix Trend

Utilization trend reflects expected changes in the demand for NET services per beneficiary and the average mileage per trip. We do not have broker financial data prior to CY 2019, so we reviewed utilization levels for CY 2019 through CY 2023 reported in the broker financial templates for use in the CY 2025 and 2026 rate development. Due to the COVID-19 pandemic, we did not rely on CY 2020 utilization to develop trends.

Based on this analysis of historical utilization, we include a 0.0% utilization / mix trend for all NET services (including DTT). For this reason, Exhibit 1B develops estimated CY 2025 costs using CY 2024 utilization (i.e., assuming CY 2025 will be the same) and CY 2025 mileage rates.

### Unit Cost Trend

Unit cost trend reflects expected changes in labor, operations, and fuel costs. We reviewed multiple data sources to determine unit cost trends for use in the CY 2025 and 2026 rate development.

- Consumer Price Index – Urban (CPI-U) Index
- IRS standard mileage reimbursement rates
- U.S. historical retail gas prices
- Bureau of Labor Statistics (BLS) wage data for Arkansas
- Arkansas wage changes

The weighted average unit cost trend is 3.44% annually for all NET services (including DTT).

### **Administrative Cost and Margin**

The non-DTT component of the NET managed care rates include an estimated administration allowance of \$0.88 PMPM for all regions, which reflects administrative cost data reported by the NET brokers for CY 2023, trended three years at a 3.5% annual trend rate (based on recent BLS wage growth data) to CY 2026. We do not include an additional administration allowance for the DTT portion of NET rates as the 2025 mileage rate underlying the development in Exhibit 1B includes the administrative allowance.

For all services, the target margin is set at 3.0% of revenue for the NET program for all regions to account for risk margin, surplus maintenance, and cost of capital. These assumptions are consistent with the CY 2025 rate certification.

### **RISK MITIGATION**

#### **Minimum Service Cost for Non-DTT Services**

Consistent with the 2025 rates, DHS indicated the portion of the CY 2026 NET program for non-DTT services will include a minimum service cost set equal to 95% of the projected service costs PMPM for each region. Exhibit 1A currently shows the projected CY 2026 service cost PMPM associated with the high-end of the capitation rate range. The final projected minimum service cost may vary based on the accepted rate for each region since the variance relative to the high-end of the range will primarily be due to anticipated managed care efficiencies. We believe a minimum service cost is an appropriate measure instead of a fixed minimum loss ratio because the target loss ratios vary significantly across regions with varying PMPM service costs and fixed PMPM administrative loads.

The participating brokers will submit remittances to DHS equal to 100% of the minimum service cost less actual service costs. No payment will be made to DHS or to the brokers if service costs exceed the regional floor. Actual service costs will be reported through broker financial reporting. This calculation will be performed separately for each program region several months after the end of the contract period.

Since there is only one transportation broker and one rate cell for each region, it is possible to set appropriate service cost targets and minimums prospectively.

## Risk Corridor Program

The DTT component of the CY 2026 NET rates will include a symmetrical risk corridor program to control the risk associated with the incorporation of these new services into the NET managed care program. Given the capitation pricing assumptions for DTT services include a target margin of 3.0% (shown in Exhibit 1B) when including the administrative component in the mileage rate, the average target medical loss ratio (MLR) for these services is 97.0%.

In 2026, DHS and each NET broker will share the marginal financial risk of actual results above or below the MLR target as shown in Table 3 below.

**TABLE 3**  
**ARKANSAS DEPARTMENT OF HUMAN SERVICES**  
**CY 2026 NET CAPITATION RATES**  
**RISK CORRIDOR PROGRAM**

MLR CLAIMS CORRIDOR	NET BROKER SHARE OF GAIN / LOSS IN CORRIDOR	DHS SHARE OF GAIN / LOSS IN CORRIDOR
< 94.0%	0%	100%
94.0% to 100.0%	100%	0%
> 100.0%	0%	100%

The risk corridor settlement will occur after the CY 2026 contract period has ended and enough time has passed to collect and validate CY 2026 financial data. We anticipate performing the settlement using CY 2026 contract year data with six months of claim runoff.

The DTT service costs included in the numerator of the MLR calculation for the risk corridor program will be evaluated as the actual CY 2026 mileage (on a PMPM basis) multiplied by the projected CY 2026 mileage rate by region (shown in Table 4 below). Quality improvement and other administrative costs will not be included in the numerator of the MLR calculation, consistent with the development of the risk corridor target MLR of 97.0%, since those costs will already be reflected in the Table 4 mileage rate.

**TABLE 4**  
**ARKANSAS DEPARTMENT OF HUMAN SERVICES**  
**CY 2026 NET CAPITATION RATES**  
**PROJECTED CY 2026 DTT MILEAGE RATE**

REGION	2025 MILEAGE RATE	COST TREND	2026 MILEAGE RATE
Region A	\$3.01	1.034	\$3.11
Region B	\$3.01	1.034	\$3.11
Region C	\$3.01	1.034	\$3.11
Region D	\$3.01	1.034	\$3.11
Region E	\$2.86	1.034	\$2.96
Region F	\$6.06	1.034	\$6.27
Region G	\$3.01	1.034	\$3.11

The portion of the 2026 capitation revenue subject to the risk corridor and included in the denominator of the MLR calculation is detailed in Exhibit 3.

## RATE RANGES

We developed each region's rate range in the "Without DTT" section of Table 1 by subtracting 5.0% from the high end of the range shown in Exhibit 1A. 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. The point estimates for DTT services shown in Exhibit 1B are added to these rate ranges to develop each region's rate range shown in the "With DTT" section of Table 1.

## ACTUARIAL CERTIFICATION

The final actuarial certification of CY 2026 rates will be provided after DHS completes the NET broker re-procurement process.

## IFB BID SHEET

Exhibit 3 contains a “live” bid sheet that DHS can use as part of the IFB process. This bid sheet contains the estimated CY 2025 membership by region, along with each region’s low end, midpoint, and high end capitation rate. The vendor should enter a **single bid amount** in the yellow highlighted cells corresponding to each region they would like to bid in. When entered correctly (i.e., within the specified rate range), the “Validation” column will indicate the bid is allowable. The portion of the vendor’s bid subject to the DTT risk corridor described in this report is also detailed in Exhibit 3.

**We suggest DHS request that prospective vendors submit an actuarial certification along with their bid documenting their acceptance of the submitted rates and indicating why they expect 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 2026 NET bid rate ranges for inclusion in the upcoming IFB. 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 2026 NET 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 2023 financial reports provided by the NET brokers, CY 2024 utilization data and CY 2025 mileage rates for DTT services provided by DHS, and additional information provided by DHS to develop the CY 2026 Arkansas NET 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 November 22, 2024 CY 2025 rate certification. Please see that certification document for additional methodology and assumption details.

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

Our letter is intended for the internal use of DHS to develop CY 2026 NET 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 NET brokers. Any NET broker considering participating in the DHS NET 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 NET brokers participating in the NET managed care IFB 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.



Elizabeth Pitman  
Arkansas Department of Human Services  
May 9, 2025  
Page 7 of 7

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

Sincerely,

**- DRAFT -**

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

GJH/bl

Attachments (Exhibits also provided in Excel)

DRAFT

Exhibits

(Also Provided in Excel)

<b>Exhibit 1A</b> <b>Arkansas Department of Human Services</b> <b>CY 2026 NET Capitation Rates</b> <b>Development of CY 2026 High End Capitation Rate Component for Non-DTT Services Only</b>								
<b>Region</b>	<b>Estimated CY 2025 Member Months</b>	<b>Projected CY 2025 Claims PMPM<sup>1</sup></b>	<b>Utilization Trend</b>	<b>Cost Trend</b>	<b>Projected CY 2026 Service Cost PMPM</b>	<b>Admin</b>	<b>Margin</b>	<b>High-End Non-DTT CY 2026 Capitation Rate Component</b>
Region A	1,601,100	\$1.48	1.000	1.034	\$1.53	\$0.88	\$0.07	\$2.48
Region B	771,276	\$3.28	1.000	1.034	\$3.40	\$0.88	\$0.13	\$4.41
Region C	1,248,631	\$2.97	1.000	1.034	\$3.07	\$0.88	\$0.12	\$4.07
Region D	1,276,764	\$3.02	1.000	1.034	\$3.12	\$0.88	\$0.12	\$4.12
Region E	1,566,948	\$6.82	1.000	1.034	\$7.06	\$0.88	\$0.25	\$8.18
Region F	810,262	\$11.07	1.000	1.034	\$11.45	\$0.88	\$0.38	\$12.71
Region G	1,664,215	\$1.76	1.000	1.034	\$1.82	\$0.88	\$0.08	\$2.78
<b>Total</b>	<b>8,939,196</b>	<b>\$3.92</b>	<b>1.000</b>	<b>1.034</b>	<b>\$4.05</b>	<b>\$0.88</b>	<b>\$0.15</b>	<b>\$5.08</b>

<sup>1</sup>. Source: CY 2025 Rate Certification, Exhibit 2, Column J (November 22, 2024)

**Exhibit 1B**  
**Arkansas Department of Human Services**  
**CY 2026 NET Capitation Rates**  
**Development of CY 2026 Capitation Rate Component for DTT Services**

Region	CY 2024 Mileage	CY 2025 Mileage Rate	Estimated CY 2025 Cost	Estimated CY 2025 Member Months	Estimated CY 2025 Claims PMPM	Utilization Trend	Cost Trend	Projected CY 2026 Service Cost PMPM	Admin	Margin	DTT CY 2026 Cap Rate Component
Region A	539,904	\$3.01	\$1,625,112	1,601,100	\$1.01	1.000	1.034	\$1.05	\$0.00	\$0.03	\$1.08
Region B	880,612	\$3.01	\$2,650,643	771,276	\$3.44	1.000	1.034	\$3.55	\$0.00	\$0.11	\$3.66
Region C	421,635	\$3.01	\$1,269,121	1,248,631	\$1.02	1.000	1.034	\$1.05	\$0.00	\$0.03	\$1.08
Region D	716,621	\$3.01	\$2,157,029	1,276,764	\$1.69	1.000	1.034	\$1.75	\$0.00	\$0.05	\$1.80
Region E	2,003,602	\$2.86	\$5,730,303	1,566,948	\$3.66	1.000	1.034	\$3.78	\$0.00	\$0.12	\$3.90
Region F	566,129	\$6.06	\$3,430,739	810,262	\$4.23	1.000	1.034	\$4.38	\$0.00	\$0.14	\$4.52
Region G	1,945,176	\$3.01	\$5,854,980	1,664,215	\$3.52	1.000	1.034	\$3.64	\$0.00	\$0.11	\$3.75
<b>Total</b>	<b>7,073,679</b>	<b>\$3.21</b>	<b>\$22,717,926</b>	<b>8,939,196</b>	<b>\$2.54</b>	<b>1.000</b>	<b>1.034</b>	<b>\$2.63</b>	<b>\$0.00</b>	<b>\$0.08</b>	<b>\$2.71</b>

**Exhibit 2**  
**Arkansas Department of Human Services**  
**CY 2026 NET Capitation Rates**  
**Development of CY 2026 NET Capitation Rate Ranges - Non-DTT Services**

Region	Estimated CY 2025 Member Months	High End Capitation Rates	Low End		Midpoint	
			Adjustment	Capitation Rates	Adjustment	Capitation Rates
Region A	1,601,100	\$2.48	0.950	\$2.36	0.975	\$2.42
Region B	771,276	\$4.41	0.950	\$4.19	0.975	\$4.30
Region C	1,248,631	\$4.07	0.950	\$3.87	0.975	\$3.97
Region D	1,276,764	\$4.12	0.950	\$3.91	0.975	\$4.02
Region E	1,566,948	\$8.18	0.950	\$7.77	0.975	\$7.98
Region F	810,262	\$12.71	0.950	\$12.07	0.975	\$12.39
Region G	1,664,215	\$2.78	0.950	\$2.64	0.975	\$2.71
<b>Total</b>	<b>8,939,196</b>	<b>\$5.09</b>		<b>\$4.83</b>		<b>\$4.96</b>

**Exhibit 3**  
**Arkansas Department of Human Services**  
**CY 2026 NET Capitation Rates**  
**Vendor Bid Sheet**

Estimated CY 2025		Total NET (Including DTT)			Vendor Bid Submission	Validation	Amount of Vendor Bid Subject to DTT Risk Corridor	Amount of Vendor Bid Not Subject to DTT Risk Corridor
Region	Member Months	Low End	Midpoint	High End				
Region A	1,601,100	\$3.44	\$3.50	\$3.56	ENTER BID AMOUNT HERE		\$1.08	
Region B	771,276	7.85	7.96	8.07	ENTER BID AMOUNT HERE		\$3.66	
Region C	1,248,631	4.95	5.05	5.15	ENTER BID AMOUNT HERE		\$1.08	
Region D	1,276,764	5.71	5.82	5.92	ENTER BID AMOUNT HERE		\$1.80	
Region E	1,566,948	11.67	11.88	12.08	ENTER BID AMOUNT HERE		\$3.90	
Region F	810,262	16.59	16.91	17.23	ENTER BID AMOUNT HERE		\$4.52	
Region G	1,664,215	6.39	6.46	6.53	ENTER BID AMOUNT HERE		\$3.75	
<b>Total</b>	<b>8,939,196</b>	<b>\$7.54</b>	<b>\$7.67</b>	<b>\$7.80</b>				

**Notes**

Please see accompanying May 9, 2025 letter and exhibits for additional details and methodology.

The vendor can enter their bid amount for each region in the yellow highlighted cells.

The bid amount must be between the total low end and total high end for each region.

We understand DHS intends to pay the selected vendors using the bid capitation rates and actual enrollment for each NET broker by region.

The amounts in the "Total" line are illustrative of projected CY 2025 program-wide membership and will not necessarily be equivalent to the average rate paid to any vendor.

Attachment A

MILLIMAN REPORT

# State of Arkansas Department of Human Services

## Calendar Year 2025 NET Capitation Rate Development

November 22, 2024

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### ATTACHMENTS

#### Capitation Rate Development Exhibits:

Exhibit 1:	CY 2023 Financial Base Experience Data
Exhibit 2:	Development of CY 2025 Projected Service Costs and Capitated Rates
Exhibit 3:	Estimated CY 2025 Expenditures

#### Actuarial Certification:

Appendix A:	Actuarial Certification of CY 2025 Arkansas NET Capitation Rates
Appendix B:	Reliance Letter

## I. EXECUTIVE SUMMARY

This report documents the development of the calendar year (CY) 2025 NET 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 2025 NET capitation rates.

Our role is to certify that the CY 2025 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 2025 CAPITATION RATES AND RATE CHANGE FROM CY 2024 RATES

Table 1 below shows the CY 2025 capitation rates that DHS will pay to NET brokers for each member in each region and the change relative to the CY 2024 capitation rates included in the October 11, 2024 amended rate certification.

<b>Table 1</b> <b>Arkansas Department of Human Services</b> <b>CY 2025 NET Capitation Rates</b> <b>Rate Change</b>				
<b>Region</b>	<b>Projected CY 2025 Member Months</b>	<b>2024 PMPM</b>	<b>2025 PMPM</b>	<b>Rate Change</b>
Region A	1,601,100	\$2.35	\$2.39	1.8%
Region B	771,276	\$3.41	\$4.26	24.8%
Region C	1,248,631	\$3.31	\$3.93	18.9%
Region D	1,276,764	\$3.57	\$3.98	11.5%
Region E	1,566,948	\$6.31	\$7.91	25.2%
Region F	810,262	\$9.90	\$12.28	24.0%
Region G	1,664,215	\$2.33	\$2.69	15.5%
<b>Total</b>	<b>8,939,196</b>	<b>\$4.13</b>	<b>\$4.91</b>	<b>19.1%</b>

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 broker's situation and the extent to which future experience conforms to the assumptions made in the capitation rate development calculations.

The primary driver of the rate increase from CY 2024 to CY 2025 is use of CY 2023 data as the base period for capitation rates. Further discussion on the drivers of this increase is included below.

Table 2 below shows the various components of the rate change from the CY 2024 effective rates to the CY 2025 capitation rates.

<b>Table 2</b> <b>Arkansas Department of Human Services</b> <b>CY 2025 NET Capitation Rates</b> <b>Rate Change Key Drivers From CY 2024 Rates</b>	
<b>Component</b>	<b>Impact of Rate Change</b>
Actual 2023 Base Data	15.4%
Updated 2023 to 2024 Trend	1.4%
2024 to 2025 Trend	3.0%
2025 PHE Adjustment	0.0%
Updated Administrative Cost	-1.1%
Updated Margin	0.0%
<b>Total</b>	<b>19.1%</b>

The base data increased by about 15% relative to where we previously estimated CY 2023. This includes consideration for updates to the previously estimated Public Health Emergency (PHE) adjustment based on actual membership during CY 2023. In comparing actual CY 2022 to CY 2023 trends to the trends assumed in CY 2024 capitation rate setting, we noted that CY 2023 trends emerged roughly 5% higher than expected for labor, operations, and fuel prices. The remainder of the increase (roughly 10%) appears to be attributable to other factors, such as increased utilization, pent-up demand, and other market influences.

We include an annual service cost trend of 3.7% between 2023 and 2025, which is higher than the 2.0% annual trend assumed in the CY 2024 capitation rate development. The increased trend assumption is primarily driven by expected flat gas trends from 2023 to 2025, whereas there was an assumed reduction in gas prices in the 2024 rates. Updating the trends used to project experience from CY 2023 to CY 2024 increased capitation rates 1.4%, while the additional year of trend from CY 2024 to CY 2025 increased capitation rates 3.0% relative to CY 2024 capitation rates.

Similar to CY 2024 capitation rates, the CY 2025 rates include an adjustment to reflect utilization and other population changes related to the PHE unwinding, which began during CY 2023. This adjustment has no overall impact compared to the CY 2023 to CY 2024 PHE impact assumed in the updated CY 2024 capitation rate development given we are not projecting any additional changes in enrollment from projected CY 2024 to projected CY 2025 at this time. This adjustment is discussed in more detail in Section IV.

Administrative expenses were updated to reflect administrative cost data reported by the NET brokers for CY 2023, trended two years at a 3.5% annual trend rate to CY 2025. The update to administrative expenses overall results in a 1.1% rate decrease. The margin percentage remains consistent with the CY 2024 rates.

We reviewed medical loss ratios (MLRs) certified by the NET brokers in the 2023 experience financial templates, as well as emerging YTD 2024 MLRs as part of 2025 rate development to confirm the composite rate changes by broker are generally consistent and reasonable compared to MLR results.

The CY 2025 NET program will include a minimum service cost set equal to 95% of the projected service costs PMPM for each region. The participating brokers will submit remittances to DHS equal to 100% of the minimum service cost less actual service costs.

## REPORT STRUCTURE

Several exhibits are provided to help outline the rate setting process.

- Exhibits 1 and 2 document the development of the CY 2025 capitation rates by region
  - Exhibit 1 contains the historical base period data for CY 2023 by region
  - Exhibit 2 projects the base period costs to CY 2025, accounting for trends and emerging experience, and includes allowances for administrative costs and margin
- Exhibit 3 documents the estimated state and federal CY 2025 expenditures for the NET managed care program

The actuarial certification of the CY 2025 NET capitation rates is included as Appendix A.

An overview of each section in the report is provided below.

- Section II provides background on the NET program
- Section III provides an overview of the methodology used to set capitation rates
- Section IV documents the capitation rate base data and NET cost projections
- Section V summarizes final capitation rate adjustments, including the non-benefit allowance

- Section VI provides information regarding other rate development considerations
- Section VII includes comments on items related to the 2024-2025 Medicaid Managed Care Rate Development Guide

## 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 2025 NET 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 NET broker encounter utilization, cost and eligibility data for CY 2023, along with supplemental information from DHS, Optum, and the NET brokers to develop the Arkansas NET capitation rates shown in this report. This data was provided by DHS. We did not audit this data or 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 engagement.

Differences between the capitation rates and actual NET 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 2025 capitation rate development due to differences in utilization trend, fuel costs, broker efficiency, subcontractor 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 2025 NET 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 NET brokers, 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 NET broker. Any NET broker 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.

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## II. BACKGROUND

### NET BACKGROUND

Arkansas currently contracts with brokers on a full risk capitated basis to provide NET services to all Medicaid beneficiaries in its seven regions), each of which is served by one contracted broker. DHS selected these brokers through a competitive bidding process and these brokers began providing services January 1, 2019. As part of the RFP process, Milliman developed a rate range and the final awarded rate in each region fell within that region's range. Each region's capitation rate for CY 2019 remained in updated rate ranges for 2020, so the capitation rates did not change in CY 2020. Starting in CY 2021, NET broker contracts permitted DHS to set capitation rates without a competitive bidding process. Therefore, we developed a single NET capitation rate for each region for CY 2025.

We understand NET services provided to and from day treatment centers (i.e., ADDT / EIDT services) are not included in the capitation arrangement. These costs are not reported in the NET broker financial templates and are, therefore, excluded from the capitation rates.

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### III. METHODOLOGY OVERVIEW

This section of the report provides an overview of the CY 2025 Arkansas NET capitation rate base data and methodology.

#### BASE DATA

The NET rates in Table 1 are developed based on membership, utilization, and claim cost data for dates of service from January 2023 through December 2023 (CY 2023) with service payment runout through February 2024, as provided in financial templates by NET brokers. We reviewed this information for internal accuracy and consistency. The CY 2023 base data reflects actual program data and NET broker experience. We also received emerging CY 2024 information by region (summarized enrollment and cost data) through May 2024.

We are taking steps to reconcile the NET encounter data against financial reports by quarter of service date, but the encounter data is not currently of sufficient quality and completeness to use for 2025 rate development. We are working with DHS and the NET brokers to better understand the 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. We are also working with DHS and the NET brokers to proactively address the reporting of various types of transportation services in future encounter data, such as how to handle attaching costs to services provided by broker staff and broker-owned vehicles.

We reviewed the historical financial template data for overall consistency by region, quarter, and service type. We did not identify any 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 NET service categories. We also summarized various metrics by service type to identify outliers and ensure reasonableness of the underlying data used for base data and / or assumption development. Based on our review, we did not apply any adjustments for outliers. Our data reconciliation efforts are consistent with Actuarial Standard of Practice #23.

#### METHODOLOGY

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

1. Summarize CY 2023 NET broker enrollment, claims summaries, and financial data for the covered population by region and service category.
2. Project CY 2025 NET costs for all covered services by region.
3. Adjust CY 2025 projected NET costs for expected administrative expenses and margin.

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

## IV. NET COST PROJECTIONS

This section of the report describes the projection of the base period financial NET data to CY 2025.

We used the following methodology to project the financial data used in the calculation of the NET service component of the capitation rates:

1. Summarize CY 2023 NET broker base experience financial data for the population eligible for the services covered by the NET managed care program.
2. Apply adjustments to the base data to project CY 2025 NET costs.

Each of the above steps is described in detail below.

### STEP 1: SUMMARIZE BROKER BASE EXPERIENCE DATA

In this step, we summarize the NET broker base period experience for CY 2023 by region and service type as reported in the broker certified financial statements. The NET brokers provided completed financial templates, which included the following data with runout through February 28, 2024:

- Quarterly membership and revenue by region
- Quarterly utilization and service costs (actual or estimated, in the case of broker-provided services) by service type by region
- Detailed reporting of revenues, service costs, non-service costs, and margin by calendar year

The NET brokers certified the medical loss ratios reported in the financial templates, which we used to validate regional rate changes.

Exhibit 1 shows the summarized base experience data by region and type of transportation. We reviewed the historical data for overall consistency by region, quarter, and service type. Through DHS, we requested additional information and revised templates, as necessary, from brokers to ensure the data was complete and consistent. As a part of this review, we noted material variation in utilization by region and some regions where certain modes of transportation are not used. However, we believe the data is appropriate to use to develop the CY 2025 NET capitation rates.

### Base Data

NET brokers provided enrollment, utilization, and paid amounts by region and quarter for each of the following service types:

- Ambulatory
- Wheelchair
- Mileage Reimbursement
- Taxi
- Bus

For services performed by another vendor / subcontractor, the NET brokers provided the actual amount paid to the vendor / subcontractor. For services where the NET broker did not contract out for a direct cost (e.g., broker-provided services), the NET brokers provided an estimated cost based on an allocation of the NET broker's direct costs.

NET brokers reported minimal incurred but not reported (IBNR) claims for CY 2023. These amounts represent approximately 0.02% of the total paid amounts reported in Exhibit 1. Given the reported financials include two months of claims runout, we reviewed these reported amounts and determined they are appropriate to include in the base data.

We reviewed the encounter data for completeness and reasonableness, and we concluded the broker financial data is more appropriate to use for rate development due to several inconsistencies in the encounter data. For example, we were unable to reconcile the encounter data to the financial data provided by the NET brokers. Additionally, the encounter data does not include paid amounts for all claims. As discussed above, we are working with DHS and the NET brokers to improve the quality of the submitted encounter data with the intent to use detailed encounter data for future rate setting periods.

## STEP 2: APPLY ADJUSTMENTS TO THE BASE EXPERIENCE DATA TO PROJECT CY 2025 NET COSTS

In this step, we apply adjustment factors to reflect differences between the base period data and the projected CY 2025 NET costs. We explain each adjustment factor in detail below.

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

### Utilization and Unit Cost Trend

Table 3 shows the annual utilization and unit cost trends applied to the CY 2023 base data to adjust it to a CY 2025 basis. We trended the base experience two years from the July 1, 2023 midpoint to the July 1, 2025 midpoint of the projection period.

Table 3 Arkansas Department of Human Services CY 2025 NET Rate Development Annual Utilization and Cost Trend		
Annual Trend		
Utilization	0.00%	
Type of Cost	Annual Trend	Trend Weight
Labor	4.75%	50%
Operations	4.50%	30%
Fuel	0.00%	20%
<b>Total</b>	<b>3.73%</b>	

The resulting total cost annual trend is 3.73% as seen in Exhibit 2. The rest of this section outlines the methodology used to develop these trend values.

### Utilization Trend

Utilization trend reflects expected changes in the demand for NET services per beneficiary and the average mileage per trip. For the same reasons we did not use encounter data as the base data, we did not rely on encounter data to review trends. In addition, utilization metrics reported in the encounter data appear to be inconsistent between brokers.

We do not have broker financial data prior to CY 2019, so we reviewed utilization levels for CY 2019 through CY 2023 reported in the broker financial templates for use in the CY 2025 rate development. Due to the COVID-19 pandemic, we did not rely on CY 2020 utilization to develop trends.

Based on this analysis of historical utilization, we did not apply any trend to the base data to reflect changes in the demand for NET services per beneficiary. However, we develop a PHE adjustment later in this section to adjust for expected utilization changes as eligibility redetermination is completed for the BH population.

### Unit Cost Trend

Unit cost trend reflects expected changes in labor, operations, and fuel costs. We reviewed multiple data sources to determine unit cost trends for use in the CY 2025 rate development.

- Consumer Price Index – Urban (CPI-U) Index
- IRS standard mileage reimbursement rates

- U.S. historical retail gas prices
- Bureau of Labor Statistics (BLS) wage data for Arkansas
- Arkansas wage changes

We assume 50% of costs are attributable to labor costs, 30% are attributable to operations costs, and 20% are attributable to fuel costs, which is updated from 40% attributable to labor, 40% attributable to operations, and 20% attributable from fuel from 2024 rates.

We reviewed historical labor trends over the last several years from the Current Employment Statistics from the Bureau of Labor Statistics, along with an understanding of the current Arkansas employment conditions. Consistent with the CY 2024 rate development, we included an annual wage trend of 4.75%.

We assume the operations costs will increase consistent with the change in CPI-U for Motor Vehicle Parts and Equipment, Motor Vehicle Maintenance and Repair, Motor Vehicle Maintenance and Services, and Motor Vehicle Insurance. The average annual historical CPI-U increase for these categories from 2016 to 2024 is 4.5%. Therefore, we include a 4.5% annual unit cost trend for operations costs in the development of the CY 2025 NET managed care rates.

Based on the U.S. Energy Information Administration Short-Term Energy Outlook as of May 2024, the average U.S. gas price per gallon from CY 2023 to CY 2025 is expected to remain relatively flat. Therefore, we assume a 0.0% annual cost trend for fuel costs in the development of the CY 2025 NET managed care rates.

The weighted average unit cost trend is 3.73% annually.

### COVID-19 PHE Adjustment

We adjusted the projection of CY 2023 experience to account for continued disenrollments from the COVID-19 public health emergency (PHE) unwinding process. Consistent with the CY 2024 recertified rates, we assume enrollment changes during the PHE would drive a corresponding change in aggregate utilization of either 0% or 40%, depending on the region. Regions with predominantly broker provided services (regions E and F) saw a decline in utilization as membership decreased, so we use a 40% correlation assumption. However, the remaining regions with a majority of contracted services did not see this same decrease in utilization. Therefore, we assumed a 0% correlation for all regions except regions E and F.

For example, in region E where the correlation is assumed to be 40%, a 50% change in enrollment would see roughly a  $50\% \times 40\% = 20\%$  change in aggregate utilization. This implies that the enrollment increases add individuals who use significantly fewer services, so the aggregate claims increase slower than the enrollment and the PMPM costs decrease.

Based on emerging CY 2024 data, we expect CY 2025 enrollment levels to be roughly 15.2% lower than CY 2023. Using region E as an example, this translates to an estimated aggregate claim expenditure decrease of roughly  $15.2\% \times 40\% = 6.1\%$ , all else equal. We convert this to a PMPM increase adjustment, equal to  $1.107 = (1 - 0.061) / (1 - 0.152)$ . This methodology is consistent with how the PHE adjustment was calculated for CY 2024 capitation rate setting.

### Program Changes and Other Adjustments

We are not currently aware of any other program changes or adjustments related to the CY 2025 NET managed care program.

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## V. CAPITATION RATE ADJUSTMENTS

This section of the report describes the final adjustments to calculate the Arkansas NET capitation rates from the projected CY 2025 NET services costs developed in Section IV of this report.

### CALCULATE FINAL CAPITATION RATES BY RATE CELL

In this step, we include the allowance for NET broker administrative costs and risk margin. Exhibit 2 shows the details of our calculations.

#### Administration Allowance

The CY 2025 NET capitation rates include an administrative cost allowance of \$0.85 PMPM for all regions, which is equivalent to roughly 17.2% of revenue in total. The administrative PMPM cost was developed based on CY 2023 administrative cost data reported by the NET brokers, trended two years to CY 2025 at an annual rate of 3.5%. The trend rate of 3.5% is based on recent BLS wage growth data.

#### Margin

The target margin is set at 3.0% of revenue for the NET program to account for risk margin, surplus maintenance, and cost of capital.

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## VI. OTHER RATE CONSIDERATIONS

This section of the report provides information about other rate considerations related to the Arkansas NET program.

### RISK MITIGATION

DHS has indicated that the CY 2025 NET program will include a minimum service cost set equal to 95% of the projected service costs PMPM in the CY 2025 rate development for each region. We believe that a minimum service cost is an appropriate measure instead of a fixed minimum loss ratio because the target loss ratios vary significantly across regions with varying PMPM service costs and fixed PMPM administrative loads. The participating brokers will submit remittances to DHS equal to 100% of the minimum service cost less actual service costs.

No payment will be made to DHS or to the brokers if service costs exceed the regional floor. Actual service costs will be reported through broker financial reporting. This calculation will be performed separately for each program region several months after the end of the contract period.

Because there is only one transportation broker and one rate cell for each region, it is possible to set appropriate service cost targets and minimums prospectively rather than determining them retrospectively based on membership mix across rate cells. The minimum service cost for each region is shown in Exhibit 2.

We are not aware of any other rate considerations related to the Arkansas NET program for CY 2025 at this time.

## VII. RESPONSES TO MANAGED CARE RATE SETTING GUIDE

This section of the report contains responses to the 2024 to 2025 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 2025 to December 2025 (CY 2025) 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 2.
  - c. The descriptions of the NET managed care program can be found in Section II.
    - i. There are currently three participating transportation brokers across seven regions, but no region has more than one broker. The program operates statewide and has been in operation for multiple years.
    - ii. The rating period is CY 2025.
    - iii. All Medicaid beneficiaries excluding services to and from Adult Developmental Day Treatment (ADDT) and Early Intervention Day Treatment (EIDT).
    - iv. Not applicable.
    - v. Not applicable.
    - vi. Not applicable.
- iii. Rates only differ by region.
- 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 NET capitation program from the January 2023 to December 2023 (CY 2023) base period to CY 2025.
- vi. The projected non-benefit costs include appropriate consideration for administrative costs, taxes, licensing and regulatory fees, other assessments and fees, contribution to reserves, risk margin, and cost of capital.
- vii. The rate setting report includes documentation showing that the CY 2025 rates were developed using generally accepted actuarial practices and principles.
  - a. All adjustment to the capitation rates reflects reasonable, appropriate, and attainable costs.
  - b. No adjustments to the rates are performed outside of the initial rate setting.
  - c. The final contracted rates in each region match the capitation rates in the certification.

- viii. Section IV describes how the CY 2025 capitation rates account for the direct and indirect impacts of the COVID-19 public health emergency.
- ix. The rate certification covers the CY 2025 time period.
- x. This rate certification is consistent with CMS procedures. The CY 2025 rates documented in this report are the initial capitation rates for the CY 2025 NET 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 provides documentation regarding our review of past medical loss ratios provided by the NET brokers and how those loss ratios align with rate change results.
- iii. We believe this report properly provides support for each assumption that underlies the certified rates for each region. Assumptions and adjustments underlying the capitation rates do not vary between NET brokers.
- iv. We detail within our responses in this guide the section of our report where each item described in the 2024 to 2025 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.
- v. The FMAP does not differ from the standard FMAP for Arkansas.
- vi. Relative to the previous rating period:
  - a. See Table 1 for the rate change from CY 2024 capitation rates to CY 2025 capitation rates.
  - b. The CY 2025 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.
- vii. 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 NET capitation rate development process follows CMS rate development standards related to base data.
  - a. Data sources are included in Section III of the report and Exhibit 1. The NET brokers provided claims and enrollment data for CY 2023 to the state's actuaries for this rate development.
  - b. Section III includes documentation of the CY 2023 base period data used to develop the CY 2025 NET capitation rates.
  - c. Base data is specific to the population and services expected to be covered by the NET capitation program during the CY 2025 rate period.

- d. The CY 2025 rate calculation uses CY 2023 base data, which is within the CMS three-year requirement.

#### B. [Appropriate Documentation](#)

- i. Section III includes documentation of the base data used for NET capitation rate development. The NET brokers provided detailed summaries of claims and enrollment data for CY 2023 to the state's actuaries for this rate development.
- ii. Section III thoroughly describes the base data used to calculate the CY 2025 NET capitation rates.
  - a. The CY 2025 capitation rates for the NET capitation program are developed using CY 2023 claims and enrollment data provided by NET vendors.
  - b. Milliman went through an extensive data validation process to review all data included in the CY 2025 rate setting methodology. Milliman reviewed the historical data for overall consistency. We are comfortable that the claims and enrollment 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 2025 NET 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 §438.7(b)(2).
- ii. Variations in assumptions by region 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. There are no in-lieu-of services included in the NET capitation rate development. Thus, we did not make an adjustment to explicitly remove these services.
- v. There are no IMD services in the 2025 NET capitation rate development.

#### B. [Appropriate Documentation](#)

- i. Final projected benefit costs are shown in Exhibit 2.
- ii. Section IV of this report documents the development of projected benefit costs from the base period data to CY 2025.
- 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 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 CY 2023 base period and the CY 2025 projection period beyond those documented within this report.

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

##### A. [Incentive Arrangements](#)

The CY 2025 capitation rate methodology does not include any incentive arrangements.

##### B. [Withhold Arrangements](#)

The CY 2025 capitation rate methodology does not include any withhold arrangements.

##### C. [Risk Sharing Mechanisms](#)

The CY 2025 capitation rate methodology does not include any risk sharing mechanisms beyond the minimum service cost threshold of 95%.

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

The CY 2025 capitation rate methodology does not include any delivery system or provider payment initiatives.

##### E. [Pass-Through Payments](#)

The CY 2025 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 targeted margin included in the CY 2025 capitation rates is developed and applied as a percentage of the total capitation rate by age band. The final PMPM administrative load is developed and applied as a PMPM cost. Please see Section V for additional detail on how the administrative component is calculated.
- iii. Variations in assumptions by region 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

### A. [Rate Development Standards](#)

The CY 2025 capitation rates will not use a risk adjustment arrangement.

### B. [Appropriate Documentation](#)

The CY 2025 capitation rates will not use a risk adjustment arrangement.

## 7. Acuity Adjustments

### A. [Rate Development Standards](#)

The CY 2025 capitation rates include an adjustment reflecting population acuity and utilization changes between CY 2023 and CY 2025 related to the unwinding of the COVID-19 PHE. No other acuity adjustments are applied.

### B. [Appropriate Documentation](#)

Section IV documents the adjustment applied to all regions related to the unwinding of the COVID-19 PHE.

## 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

### 1. Data

- A. Section IV describes the data used to develop rates for all eligible beneficiaries.
- B. The CY 2023 base period includes experience for the new adult population. NET capitation rates are developed at the regional level. Costs, experience, and assumptions were not evaluated by population.

### 2. Projected Benefit Costs

- A. Section IV describes the data used to project benefit costs for all eligible beneficiaries. The CY 2023 base period includes experience for the new adult population. NET capitation rates are developed at a regional level. Costs, experience, and assumptions were not evaluated by population. The assumptions used to project the NET benefit costs for each region do not vary by the rate of federal financial participation associated with the covered populations.
- B. Section IV of this report includes a detailed discussion on the methodology used to develop benefit utilization and unit cost trends.

### 3. Projected Non-Benefit Costs

- A. 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 for all eligible beneficiaries.
- B. The assumptions used to project non-benefit costs are the same for all eligible beneficiaries.

### 4. Final Certified Rates

- A. Please refer to Section I for a comparison to the final certified rates in the previous rate certification and a description of changes.

## 5. Risk Mitigation Strategies

- A. Risk mitigation strategies applicable to all eligible beneficiaries are described in Section VI.
- B. There has not been any risk mitigation strategy specific to the new adult group in this or any prior rating period.

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## ATTACHMENTS

## EXHIBITS 1 through 3

### State of Arkansas Department of Human Services CY 2025 NET Capitation Rate Development

**Exhibit 1**  
**Arkansas Department of Human Services**  
**CY 2025 NET Capitation Rates**  
**CY 2023 Base Data**

Region	Service	CY 2023 Data			
		MM	Trips	Mileage	Paid + IBNR
Region A	Ambulatory	1,890,733	10,777	417,297	\$1,115,199
Region A	Wheelchair	1,890,733	3,167	68,883	\$448,042
Region A	Mileage Reimbursement	1,890,733	8,249	460,905	\$230,493
Region A	Taxi	1,890,733	8,400	141,999	\$405,838
Region A	Bus	1,890,733	-	-	\$0
<b>Region A</b>	<b>Total</b>	<b>1,890,733</b>	<b>30,593</b>	<b>1,089,085</b>	<b>\$2,199,572</b>
Region B	Ambulatory	896,066	11,874	648,486	\$1,852,641
Region B	Wheelchair	896,066	1,384	55,067	\$297,770
Region B	Mileage Reimbursement	896,066	3,459	302,307	\$152,780
Region B	Taxi	896,066	200	12,076	\$16,862
Region B	Bus	896,066	-	-	\$0
<b>Region B</b>	<b>Total</b>	<b>896,066</b>	<b>16,917</b>	<b>1,017,936</b>	<b>\$2,320,053</b>
Region C	Ambulatory	1,460,550	30,010	1,187,721	\$2,382,238
Region C	Wheelchair	1,460,550	4,189	122,352	\$588,140
Region C	Mileage Reimbursement	1,460,550	10,429	608,253	\$304,867
Region C	Taxi	1,460,550	1,777	73,349	\$139,058
Region C	Bus	1,460,550	-	-	\$0
<b>Region C</b>	<b>Total</b>	<b>1,460,550</b>	<b>46,405</b>	<b>1,991,676</b>	<b>\$3,414,303</b>
Region D	Ambulatory	1,492,572	22,721	883,504	2,321,359
Region D	Wheelchair	1,492,572	4,012	135,897	\$731,125
Region D	Mileage Reimbursement	1,492,572	4,433	269,790	\$135,332
Region D	Taxi	1,492,572	6,241	137,370	\$360,319
Region D	Bus	1,492,572	-	-	\$0
<b>Region D</b>	<b>Total</b>	<b>1,492,572</b>	<b>37,407</b>	<b>1,426,561</b>	<b>\$3,548,136</b>
Region E	Ambulatory	1,850,519	129,182	3,560,498	\$9,689,639
Region E	Wheelchair	1,850,519	12,089	434,378	\$907,299
Region E	Mileage Reimbursement	1,850,519	-	-	\$0
Region E	Taxi	1,850,519	-	-	\$0
Region E	Bus	1,850,519	-	-	\$0
<b>Region E</b>	<b>Total</b>	<b>1,850,519</b>	<b>141,271</b>	<b>3,994,875</b>	<b>\$10,596,938</b>
Region F	Ambulatory	954,171	113,099	2,842,383	\$7,749,683
Region F	Wheelchair	954,171	16,050	326,828	\$1,113,334
Region F	Mileage Reimbursement	954,171	-	-	\$0
Region F	Taxi	954,171	-	-	\$0
Region F	Bus	954,171	-	-	\$0
<b>Region F</b>	<b>Total</b>	<b>954,171</b>	<b>129,149</b>	<b>3,169,211</b>	<b>\$8,863,017</b>
Region G	Ambulatory	1,995,321	29,160	527,451	\$1,346,502
Region G	Wheelchair	1,995,321	5,666	91,204	\$694,098
Region G	Mileage Reimbursement	1,995,321	5,799	194,705	\$98,476
Region G	Taxi	1,995,321	20,397	262,770	\$615,297
Region G	Bus	1,995,321	3,107	23,149	\$16,781
<b>Region G</b>	<b>Total</b>	<b>1,995,321</b>	<b>64,129</b>	<b>1,099,279</b>	<b>\$2,771,154</b>
All Regions	Ambulatory	10,539,932	346,823	10,067,340	\$26,457,261
All Regions	Wheelchair	10,539,932	46,557	1,234,609	\$4,779,808
All Regions	Mileage Reimbursement	10,539,932	32,369	1,835,961	\$921,949
All Regions	Taxi	10,539,932	37,015	627,564	\$1,537,373
All Regions	Bus	10,539,932	3,107	23,149	\$16,781
<b>All Regions</b>	<b>Total</b>	<b>10,539,932</b>	<b>465,871</b>	<b>13,788,622</b>	<b>\$33,713,172</b>

**Exhibit 2**  
**Arkansas Department of Human Services**  
**CY 2025 NET Capitation Rates**  
**CY 2025 Capitation Rate Development**

Region	CY 2023 Experience					Adjustments			Projected Service Cost PMPM	Non-Benefit Expenses			CY 2025 Capitation Rate	Minimum Service Cost
	MM	Trips	Mileage	Paid + IBNR	Service Cost PMPM	Utilization Trend	Cost Trend	PHE Adjustment		Admin	Margin			
Region A	1,890,733	30,593	1,089,085	\$2,199,572	\$1.16	1.000	1.076	1.179	\$1.48	\$0.85	\$0.07		\$2.39	\$1.40
Region B	896,066	16,917	1,017,936	\$2,320,053	\$2.59	1.000	1.076	1.179	\$3.28	\$0.85	\$0.13		\$4.26	\$3.12
Region C	1,460,550	46,405	1,991,676	\$3,414,303	\$2.34	1.000	1.076	1.179	\$2.97	\$0.85	\$0.12		\$3.93	\$2.82
Region D	1,492,572	37,407	1,426,561	\$3,548,136	\$2.38	1.000	1.076	1.179	\$3.02	\$0.85	\$0.12		\$3.98	\$2.86
Region E	1,850,519	141,271	3,994,875	\$10,596,938	\$5.73	1.000	1.076	1.107	\$6.82	\$0.85	\$0.24		\$7.91	\$6.48
Region F	954,171	129,149	3,169,211	\$8,863,017	\$9.29	1.000	1.076	1.107	\$11.07	\$0.85	\$0.37		\$12.28	\$10.51
Region G	1,995,321	64,129	1,099,279	\$2,771,154	\$1.39	1.000	1.076	1.179	\$1.76	\$0.85	\$0.08		\$2.69	\$1.67
<b>Total</b>	<b>10,539,932</b>	<b>465,871</b>	<b>13,788,622</b>	<b>\$33,713,172</b>	<b>\$3.20</b>	<b>1.000</b>	<b>1.076</b>	<b>1.138</b>	<b>\$3.92</b>	<b>\$0.85</b>	<b>\$0.15</b>		<b>\$4.91</b>	<b>N/A</b>

**Exhibit 3**  
**Arkansas Department of Human Services**  
**CY 2025 NET Capitation Rates**  
**Estimated Projected CY 2025 Expenditures**

<b>Region</b>	<b>CY 2025 Cap PMPM</b>	<b>Estimated CY 2025 Member Months</b>	<b>Estimated CY 2025 Total Expenditures</b>	<b>AR Share<sup>1</sup></b>	<b>Federal Share<sup>1</sup></b>
Region A	\$2.39	1,601,100	\$3,834,000	\$1,106,000	\$2,728,000
Region B	\$4.26	771,276	\$3,285,000	\$947,000	\$2,338,000
Region C	\$3.93	1,248,631	\$4,907,000	\$1,415,000	\$3,492,000
Region D	\$3.98	1,276,764	\$5,084,000	\$1,466,000	\$3,618,000
Region E	\$7.91	1,566,948	\$12,390,000	\$3,572,000	\$8,818,000
Region F	\$12.28	810,262	\$9,952,000	\$2,869,000	\$7,083,000
Region G	\$2.69	1,664,215	\$4,475,000	\$1,290,000	\$3,185,000
<b>Total</b>	<b>\$4.91</b>	<b>8,939,196</b>	<b>\$43,927,000</b>	<b>\$12,665,000</b>	<b>\$31,262,000</b>

<sup>1</sup> Assumes 71.17% Calendar Year 2025 Federal Matching Assistance Percentage; Source: kff.org.

## APPENDIX A

### State of Arkansas Department of Human Services CY 2025 Actuarial Certification

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**State of Arkansas Department of Human Services**  
Calendar Year 2025 NET Capitation Rate Development

November 22, 2024

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 2025 NET 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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November 22, 2024

**Appendix A**  
**Arkansas Department of Human Services**  
**Capitated Contracts Ratesetting - Actuarial Certification**  
**CY 2025 NET 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 NET managed care program capitation rates for CY 2024 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"
- 2024 to 2025 Medicaid Managed Care Rate Development Guide
- Actuarial Standard of Practice 49

I examined the actuarial assumptions and actuarial methods used in setting the capitation rates for CY 2025. 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.

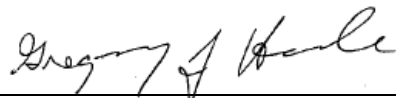
In making my opinion, I relied upon the accuracy of the underlying claims and eligibility data records prepared by DHS. A copy of the reliance letter received from DHS is attached and constitutes part of this opinion. I did not audit the data and calculations but did review them for reasonableness and 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 NET 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.



---

Greg J. Herrie  
Member, American Academy of Actuaries  
November 22, 2024

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## APPENDIX B

### State of Arkansas Department of Human Services Reliance Letter

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**State of Arkansas Department of Human Services**  
Calendar Year 2025 NET Capitation Rate Development

November 22, 2024

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 2025 NET 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.



**Division of Medical Services**

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November 18, 2024

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

**Re: Actuarial Certification of CY 2025 Capitation Rates for the Arkansas NET Program**

Dear Greg and Katarina:

I, S. Elizabeth Pitman, Director of the Division of Medical Services 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 2025 Arkansas NET 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 2025 NET capitation rate calculation, including, but not limited to:
  - a. Detailed claims and membership database for historical NET program population.
  - b. Financial reporting templates provided by NET brokers for CY 2023.
  - c. Emerging experience templates with data through May 31, 2024, provided by NET brokers.
2. Assumptions supporting the CY 2025 NET capitation rate calculation, including, but not limited to:
  - a. Confirmation of DHS' intent to enforce a minimum service cost of 95% and collect payment from the brokers if actual service costs are less than the 95% minimum.
  - b. DHS' input related to the anticipated impacts of the Public Health Emergency (PHE) redetermination process on projected costs in CY 2025.
  - c. DHS' input related to funding of administrative responsibilities of the NET brokers.
3. Other supporting documentation, including:
  - a. Other computer files.
  - b. Conversations concerning supplied data and underlying assumptions.

S. Elizabeth Pitman  
DMS Director

Date: November 18, 2024

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please visit us at:

[milliman.com](https://milliman.com)



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