

CONSULTANT SERVICES AGREEMENT

This Services Agreement (the "Agreement") is between The Stephen Group ("TSG"), located at 814 Elm Street, Ste. 309, Manchester, New Hampshire, 03101, and the Bureau of Legislative Research ("BLR"), located in the State Capitol Building, Room 315, 500 Woodlane Street, Little Rock, Arkansas 72201. TSG provides Health Care Program Reform/Medicaid Consulting Services. The BLR desires to hire TSG to assist the members of the Arkansas General Assembly by providing review, analysis, and recommendations regarding the Living Choices Assisted Living Provider Survey Summaries and the 2020 Living Choices Assisted Living Waiver Rates Report provided to the Department of Human Services by Milliman on March 1, 2019 (the "Milliman Report").

TSG and the BLR hereby agree as follows:

1. **Services to be performed.** The BLR hereby retains TSG to perform the Services as set forth in the Statement of Work ("SOW"), which is attached hereto and incorporated into this agreement by reference as Attachment A. Any work requested of TSG by an individual member or a committee of the Arkansas General Assembly, must receive approval of the chairs of the Executive Subcommittee of the Legislative Council (the "Subcommittee") prior to commencement of work on the project by TSG. The Subcommittee may assign its authority under this contract to another committee or task force of the General Assembly upon an affirmative vote of a majority of the members of the Subcommittee.
2. **Deliverables.** In connection with the services to be provided under the SOW, TSG will prepare various documents, including without limitation reports (the "Deliverables") to be provided to the BLR for use by the members and committees of the Arkansas General Assembly. The Deliverables shall include: a report of findings and recommendations regarding the Milliman report; in-person meetings with the Subcommittee or Subcommittee Chairs, upon the request of the Subcommittee Chairs; and attendance at other legislative committee meetings, as authorized by the Subcommittee Chairs.

Except for the following, the BLR will own the Deliverables: (a) working papers of TSG; (b) pre-existing TSG materials or studies used in the provision of the Services and the Deliverables; (c) TSG know-how and processes used in the provision of the Services and Deliverables as well as any and all intellectual property owned by TSG that may be employed in providing the Services and Deliverables. TSG is providing the Services and Deliverables for the use and benefit of the Subcommittee and the Arkansas General Assembly. The Services and Deliverables are not for a third party's use, benefit or reliance, other than members of the General Assembly and as authorized by the Subcommittee Chairs. Except as described in Section 10 of this Agreement, TSG shall not discuss the Services or disclose the Deliverables until such time that the BLR provides TSG notice that the BLR has disclosed the Services and Deliverables to third parties.

3. **Term and Termination.** The term of this Agreement will commence on March 25, 2019, and terminate on April 19, 2019, with an option to renew for an additional six (6) month period upon mutual agreement of the parties if the need of the Subcommittee or the Arkansas General Assembly merits an extension.

Either party may terminate the Agreement by giving ten (10) days prior written notice.

4. **Fees and Expenses.** The Fees and Expenses related to this Agreement are outlined in the Fee Schedule that is incorporated in this Agreement by reference as Attachment B. The maximum amount BLR will pay to TSG for the provision of the Services is Eighteen Thousand Six Hundred and Fifty Dollars (\$18,650.00). This total maximum contract amount includes the time spent in the completion of the Services as set forth in the SOW, as well as other administrative costs including without limitation secretarial, bookkeeping, budget preparation, monitoring and auditing services. The total maximum contract amount will cover any and all expenses for travel related to performing the Services under this Agreement. TSG shall invoice the BLR for the services rendered under this contract and its expenses incurred upon completion of the work. The invoice will include reimbursements for travel related to the field work being performed by TSG. All mileage amounts will be calculated per Mapquest and copies of the Mapquest routes will be provided to the BLR with the monthly invoices, as well as copies of receipts for reimbursement of actual travel expenses.
5. **Governing Law.** This Agreement shall be governed by the laws of the State of Arkansas, without regard to Arkansas's conflict of law principles. TSG agrees that any claims against the BLR whether arising in tort or in contract, shall be brought before the Arkansas Claims Commission as provided by Arkansas law, and shall be governed accordingly. Nothing in this Agreement shall be construed as a waiver of sovereign immunity of the BLR, the Subcommittee, or the Arkansas General Assembly.
6. **Assignment.** This Agreement may not be assigned without the prior written consent of both parties, which either party may withhold for any reason. This Agreement shall be binding upon and inure to the benefit of the Parties hereto and their respective successors and permitted assigns.
7. **Subcontractors.** If at any point during the contract term TSG finds it is necessary to use a subcontractor in performing any of the Services described in the SOW, TSG shall seek prior approval of the Subcommittee before subcontracting any part of the SOW. The Subcommittee shall have the right to require replacement of any subcontractor found to be unacceptable by the Subcommittee.
8. **Amendment.** This Agreement may be amended upon agreement of both parties to the Agreement and the approval of the Subcommittee. Any amendment to this Agreement must be in writing and signed by both parties.
9. **Confidentiality.** "Confidential Information" under this Agreement means non-public information that a party marks as "confidential" or "proprietary" or that otherwise should be understood by a reasonable person to be confidential in nature. Confidential information does not include any information which is (a) rightfully known to the recipient prior to its disclosure; (b) released to any other person or entity (including governmental agencies) without restriction; (c) independently developed by the recipient without use of or reliance on Confidential Information; or (d) later becomes publicly available without violation of this Agreement or may be lawfully obtained by a party from a non-party.

Each party will protect the confidentiality of Confidential Information that it receives under the Agreement except as required by applicable law, rule, regulation, or professional standard, without the other party's prior

written consent. Due to the BLR being a public entity within the State of Arkansas, all terms of this Agreement, including but not limited to fee and expense structure, are subject to disclosure under the Freedom of Information Act of 1967, Ark. Code Ann. § 25-19-101, *et seq.*

If disclosure of TSG's Confidential Information is required by law, rule, regulation, or professional standard, (including any subpoena or other similar form of process), the BLR shall provide TSG with prior prompt written notice thereof.

In consideration of TSG's and BLR's agreement to provide one another with access to their respective Confidential Information, TSG and BLR each agrees to maintain in confidence all Confidential Information of the other. Except as provided in this Agreement, neither TSG nor BLR shall in any manner disclose any Confidential Information of the other to any person, entity, firm or company whatsoever, without the express written consent of the other. TSG and BLR shall each take all steps necessary to ensure that their respective affiliates, officers, employees, independent contractors, agents and other representatives (collectively "Representatives") maintain the Confidential Information in confidence.

10. **Boycott of Israel.** Pursuant to Arkansas Code § 25-1-503, TSG hereby certifies and agrees that it is not currently engaged in, and agrees for the duration of the Agreement not to engage in, a boycott of Israel.

[SIGNATURES APPEAR ON THE FOLLOWING PAGE]

[Draft: 03/20/2019]

IN WITNESS WHEREOF, TSG and BLR have executed this Agreement this 25th day of March, 2019.

The Stephen Group:

John Stephen, Managing Partner

Date

**BUREAU OF LEGISLATIVE
RESEARCH:**

Marty Garrity, Director

Date

ATTACHMENT A – Statement of Work

It will be the responsibility of TSG to provide the BLR, and, ultimately the members of the Subcommittee and members of the Arkansas General Assembly with a detailed assessment and recommendations final report on the following:

- Review of the Milliman report and provide analysis to the Subcommittee regarding whether there are any shortcomings or gaps in Milliman’s approach or assumptions, including without limitation any identifiable issues that need further attention and analysis;
- TSG will submit a report of its findings no later than April 5, 2019.

ATTACHMENT B – FEE SCHEDULE

The Stephen Group Staff:

<u>DESCRIPTION</u>	<u>PRICE PER HOUR</u>
Supervisor/Project Manager	\$290
Senior Consultants	\$250
Support Staff	\$75
Research Analysts	\$75
Data Analysts	\$75
Actuary	\$200



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milliman.com

March 1, 2019

Mr. Mark White
Deputy Director
Arkansas Department of Human Services
Division for Aging, Adult and Behavioral Health Services
PO Box 1437 Slot S-530
Little Rock, AR 72203-1437

Re: Living Choices Assisted Living Provider Survey Summaries

Dear Mark:

The Arkansas Department of Human Services' (DHS) Division for Aging, Adult and Behavioral Services (DAABHS) engaged Milliman, Inc. (Milliman) to assist in the review of the provider reimbursement rates for the Living Choices Assisted Living (LCAL) waiver.

To assist with the review, a survey was issued to LCAL providers by DHS in January 2019. Responses to the provider surveys were collected in January 2019 with additional follow-up clarifications, as necessary, in February 2019.

The following tables summarize the distribution of the provider responses for key factors used in the rate development. The summaries reflect updates and corrections to provider survey responses we received through February 21, 2019. It is important to note that a given percentile of the per diem costs by facility cannot be developed by using the same percentile values from the assumptions shown below because the specific assumptions may be distributed differently across providers.

In other words, a provider may pay wages at the 75th percentile, offer benefits at the 25th percentile, and have overhead expenses at the 50th percentile. However, we did use the distributions of these key factors to validate that individual assumptions in the rate development model were within a reasonable range.

Table 1 shows the distribution of weekly direct care hours per beneficiary by practitioner type. To facilitate comparison to the reimbursement rate development model that was based on an assumption of 50 beneficiaries in a facility, we also included an estimated distribution of full-time equivalent (FTE) direct care staff based on the reported distribution of weekly direct care hours per beneficiary. Very few providers reported any direct care hours for practitioners in an Executive Director position, so we categorized these individuals' costs as Overhead instead of Direct Care.

Table 1 Living Choices Assisted Living Provider Survey Direct Care Hours Per Beneficiary by Practitioner Type			
Weekly Direct Care Hours Per Beneficiary	Personal Care Staff	Licensed Practical Nurse	Registered Nurse
25th Percentile	10.7	0.0	0.0
50th Percentile	13.9	2.1	0.3
75th Percentile	19.9	5.1	0.6
FTE* For Facility with 50 Beneficiaries:			
25th Percentile	13.4	0.0	0.0
50th Percentile	17.4	2.6	0.4
75th Percentile	24.9	6.3	0.7
From March 1, 2019 Rate Letter	18.0	2.5	0.5

** FTE salary is based on a 40-hour work week. The allocation by practitioner type is based on the Direct Care Hours Per Week reported in Exhibit A of the provider surveys.*

Table 2 shows the average full-time equivalent annual wages reported by agencies by practitioner type.

Table 2 Living Choices Assisted Living Provider Survey Full Time Equivalent* (FTE) Wages			
Percentiles Across All Data Points	Personal Care Staff	Licensed Practical Nurse	Registered Nurse
25th Percentile	\$19,240	\$32,240	\$47,840
50th Percentile	\$20,800	\$35,360	\$52,000
75th Percentile	\$23,998	\$43,098	\$57,333
From March 1, 2019 Rate Letter	\$20,800	\$35,360	\$52,000

** FTE salary is based on a 40-hour work week.*

Table 3 illustrates the distribution of benefit loads reported by providers by practitioner type. Providers were asked to include the cost of all non-wage benefits including insurance, taxes, and retirement benefits. Benefit loads exclude the cost of paid time off for vacation, holidays and illness. The benefit load was calculated for each practitioner reported in Exhibit A of the provider surveys, and the percentiles are based on all practitioners included in survey responses.

Table 3 Living Choices Assisted Living Provider Survey Calculated Benefit Load*			
Percentiles Across All Data Points	Personal Care Staff	Licensed Practical Nurse	Registered Nurse
25th Percentile	13.6%	11.7%	10.8%
50th Percentile	19.0%	16.0%	16.2%
75th Percentile	30.0%	24.3%	32.6%
From March 1 2019 Rate Letter	21.0%	15.5%	16.0%

** Calculated as a percent of wages for each practitioner based on the cost of non-wage benefits and either the salary or hourly wage and average total hours worked per week, as reported in Exhibit A of the provider surveys.*

Table 4 summarizes the number of FTE direct care staff per beneficiary, the number of beneficiaries per facility, and the overhead cost. The FTE direct care staff per beneficiary is based on the number of staff per shift, hours per shift, and total number of beneficiaries reported in response to Question 4 of the provider surveys. Overhead percentages exclude costs reported as “room and board” or “occupancy, depreciation, amortization and interest,” since such expenses are not allowable components of rates that receive federal matching funds.

Table 4 Living Choices Assisted Living Provider Survey Other Assumptions for Rate Development			
Percentiles by Provider	FTE* Direct Care Staff Per Beneficiary	Number of Beneficiaries	Overhead Cost as Percentage of Total Practitioner Costs
25th Percentile	0.33	29.3	65.3%
50th Percentile	0.40	41.5	90.5%
75th Percentile	0.55	64.0	117.3%
From March 1, 2019 Rate Letter	0.42	50.0	90.5%

* FTE salary is based on a 40-hour work week as reported in response to Question 4.

Summary of Survey Respondents

We received responses from 31 of the approximately 60 facilities who were provided surveys. Twenty-eight facilities responded prior to the January 15, 2019 deadline communicated by DHS. Three facilities responded after January 15, 2019, and one of the three responded after January 22, 2019. One facility that responded after January 15, 2019 provided only a partial response, with no additional information provided in response to Milliman’s follow-up request; therefore, this facility was excluded from the analysis. The remaining 30 facilities, including two of the three who responded after the January 15, 2019 deadline, were included in the analysis.

Milliman reviewed each response for completeness, reasonableness and compliance with the requested formats. Follow-up questions were sent when additional clarification or information was needed. Milliman did not validate the accuracy of the responses.

How Survey Data Was Used

The provider surveys included the following information:

1. Employment information for current direct service practitioners, by person (Exhibit A).
2. Census and overhead information for the facility (Exhibit B).
3. Time spent by direct service practitioners on non-LCAL services (Question 3).
4. Direct service practitioner staff totals by shift (Question 4).

Based on provider responses and conversations Milliman had with some providers, we excluded Question 3 from the analysis. The intent of Question 3 was to determine the extent to which facilities collect revenue from sources other than the LCAL waiver for time spent serving LCAL beneficiaries. Many providers indicated that they do not collect revenue from other sources, with the exception of private pay beneficiaries. Some providers who responded to Question 3 included additional explanations that suggest they interpreted Question 3 to mean something other than what was intended. Therefore, we determined the data collected for Question 3 was at a minimum too inconsistent to be valid, and we could not corroborate that any additional revenue sources would have a material impact on the analysis.

We used the staff counts provided in Question 4 and the census data provided in Exhibit B to evaluate the number of Full-time Equivalent (FTE) staff per beneficiary at each facility, as presented in Table 4. We used the practitioner data in Exhibit A to evaluate the distribution of staff by type of position and the compensation and benefit load for each type of position, as presented in Table 1. In order to compare wages across providers, hourly wages were multiplied by 2,080 hours per year to calculate an annual FTE wage. Benefit loads presented in Table 4 were evaluated based on the benefit amounts provided as a percentage of wages provided in Exhibit A.

The overhead load presented in Table 5 was evaluated based on the total expenses provided in Exhibit B, less the following:

- Room and board expenses
- Occupancy, depreciation, amortization and interest expenses

These expenses are considered to be “room and board” costs, which are not allowable expenses by federal regulation. We calculated the overhead load for each facility as a percentage of the total practitioner costs based on staff counts and practitioner distribution and compensation for each facility, as described above.

We grouped the direct care practitioners shown in Appendix A into the categories shown in Tables 1 to 3 based on licensure, education and wages. Registered Nurses (RNs) and Licensed Practical Nurses (LPNs) were explicitly identified by the providers in the survey responses. Other practitioners with Master’s Degrees were categorized as Executive Directors. All other practitioners were categorized as Personal Care Staff.

CAVEATS AND LIMITATIONS ON USE

Milliman prepared this letter for the specific purpose of presenting a summary of provider survey responses for the Living Choices Assisted Living waiver. This letter should not be used for any other purpose. This letter has been prepared solely for the internal business use of, and is only to be relied upon by, the management of DAABHS in accordance with its statutory and regulatory requirements. Milliman recognizes that materials it delivers may be public records subject to disclosure to third parties; however, Milliman does not intend to benefit, or create a legal duty to, any third party recipient of its work. This letter should only be reviewed in its entirety.

We used responses to the provider surveys with adjustments to ensure consistency and reasonability. If the provider response data used is inadequate or incomplete, the results will be likewise inadequate or incomplete. Actual provider costs associated with delivering these services may vary significantly across providers. As such, DAABHS should consider all stakeholder issues when determining what rate to implement. Provider costs will vary from the estimates in this letter.

We, Alisa C. Gordon and Michael Cook, are actuaries for Milliman, members of the American Academy of Actuaries, and meet the Qualification Standards of the Academy to render the actuarial communication contained herein. To the best of our knowledge and belief, this email 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 email and its use.





Mr. Mark White
Arkansas Department of Human Services
March 1, 2019
Page 5 of 5

Mark, we look forward to discussing these results with you and your team. Please let us know if you require any changes to this letter or the underlying calculations.

Sincerely,

A handwritten signature in black ink that reads "Alisa C. Gordon".

Alisa C. Gordon, FSA, MAAA
Consulting Actuary
alisa.gordon@milliman.com

A handwritten signature in black ink that reads "Michael C. Cook".

Michael C. Cook, FSA, MAAA
Principal and Consulting Actuary
michael.cook@milliman.com

ACG/MCC/zk



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March 1, 2019

Mr. Mark White
Deputy Director
Arkansas Department of Human Services
Division for Aging, Adult and Behavioral Health Services
PO Box 1437 Slot S-530
Little Rock, AR 72203-1437

Re: 2020 Living Choices Assisted Living Waiver Rates

Dear Mark:

The Arkansas Department of Human Services' (DHS) Division for Aging, Adult and Behavioral Services (DAABHS) engaged Milliman, Inc. (Milliman) to assist in the review of the provider reimbursement rates for the Living Choices Assisted Living (LCAL) waiver that are expected to be phased in by 2020. Milliman modeled a daily composite rate for Assisted Living services based on input from providers and other sources as described below.

The proposed methodology explained below is consistent with previous recommendations and discussions between DAABHS and Milliman. The assumptions used to model the rates are based on a review of responses to the provider surveys distributed in January 2019, publicly available information, previous Milliman rate development exercises, and input from DAABHS.

The modeled rate is the result of multiple sets of assumptions. Actual service delivery costs may vary significantly across providers. The modeled rates are highly sensitive to the individual assumptions used.

Table 1
Arkansas Division of Aging and Adult Services
Living Choices Assisted Living Waiver

	Current Rate	January 1, 2019 Rate	Rate Change
Living Choices Assisted Living	\$80.33 per day ¹	\$68.51 per day	-14.7%

¹ Current Assisted Living rate is aggregated to a composite average rate across the service tiers based on the calendar year 2017 claim count distribution.

Exhibit 1 includes additional details on the assumptions and methodology used to calculate the rate.

METHODOLOGY AND ASSUMPTIONS

A daily rate was developed for Assisted Living using a facility-based method developed from the following rating variables:

- Direct service provider salaries and benefits
- Direct service-related expense and overhead costs
- Average number of beneficiaries served each day

These variables were combined using the following formula to determine a daily rate, as outlined in Exhibit 1.

$$Daily\ Rate = \frac{Total\ Salaries\ of\ All\ Practitioners \times (1 + Benefit\ Load) \times (1 + Overhead\ Load)}{365 \times Average\ Number\ Beneficiaries\ Served\ Per\ Day}$$

No adjustment was made in the model for practitioner overtime costs because overtime hours reported by providers were not material in aggregate. Across all practitioners in the survey responses, the 50th percentile of overtime hours per week was 0.03 hours.

The current Assisted Living daily rates vary based on the tier assigned to each beneficiary. The tier is based on an assessment performed by DAABHS to determine the level of need, with a higher Assisted Living rate for beneficiaries with a higher level of need. Clinical determinations play a significant role in distinguishing the level of care that is expected to be provided to beneficiaries in each tier. Therefore, we did not evaluate the rates for each tier level. The rate provided for Assisted Living represents a program-wide average rate, and any rate differentials by tier should aggregate to this program-wide average rate to ensure that the final rates are budget-neutral to the State. We are available to work with DAABHS to ensure budget-neutrality is maintained if DAABHS continues to reflect tier differentials going forward.

For purposes of calculating the current rate, we composited the current tier-based rates based on the distribution of units paid by tier during calendar year 2017. The 2017 distribution is shown in Table 2.

Table 2 Arkansas Division of Aging and Adult Services Tier Distribution Assumption	
Tier	Percentage of Assisted Living Claims
Tier 1	5.8%
Tier 2	28.5%
Tier 3	39.7%
Tier 4	26.0%

Rate Assumptions

The rating variable assumptions were developed using multiple data sources, including provider surveys, the Bureau of Labor Statistics (BLS), and DAABHS and Milliman experience.

Direct service practitioner mix

Different practitioner types can provide the same services to beneficiaries, and a variety of practitioner types are involved in providing services in a facility setting. Assisted Living services were built up from the average facility practitioner cost. Table 3 illustrates the assumed full-time equivalent (FTE) practitioner mix or distribution for Assisted Living services for a facility serving 50 beneficiaries. These assumptions are consistent with the range of results seen in provider surveys and more than the level required to comply with service regulations.

Table 3 Arkansas Division of Aging and Adult Services Practitioner Mix Assumptions	
Practitioner Type	Number of FTE Practitioners
Personal Care Staff	18.0
Licensed Practical Nurses	2.5
Registered Nurses	0.5

For the modeled facility serving 50 beneficiaries, this total of 21 FTE practitioners equates to 0.42 FTE direct care practitioners per beneficiary. Based on the provider survey results, the 50th percentile of FTE direct care practitioners per beneficiary is 0.40. The number of FTE practitioners in the rate development allows for additional staff to cover up to 13.0 days of paid time off and training per FTE, which is slightly more than the average 12.3 days of paid time off and training per practitioner reported in the provider surveys.

Direct service practitioner salaries and benefits

Table 4 illustrates the baseline annual salaries and benefit loads for each practitioner type utilized in rate development. These annual salaries represent current wages as reported in the provider surveys, and they were projected to calendar year 2020 (CY 2020) as described below.

Table 4 Arkansas Division of Aging and Adult Services Baseline Salary and Benefit Assumptions		
Practitioner	Annual Salary	Benefit Load
Personal Care Staff	\$20,800	21.0%
Licensed Practical Nurses	\$35,360	15.5%
Registered Nurses	\$52,000	16.0%

The practitioner types and average annual salaries were developed giving consideration to feedback from DAABHS, Office of Long Term Care (OLTC) regulations, BLS salary data for Arkansas, and the responses from the provider surveys. The average annual salaries for all direct care practitioners were ultimately based on the 50th percentile of the provider surveys results. We compared these average annual salaries to data from the Bureau of Labor Statistics (BLS) to check for reasonableness.

With the exception of Personal Care Staff assumed to be impacted by the minimum wage increase, as described below, each salary was increased by 2.8% annually. This increase is consistent with recent BLS experience, and is applied for one and a half years to bring it to a CY2020 level, as shown in Exhibit 1.

In lieu of the 2.8% annual cost of living increase, the salaries for some Personal Care Staff were adjusted to account for the impact of legislated increases in the minimum wage. The minimum wage in Arkansas increased from \$8.50 to \$9.25 effective January 1, 2019, and it is scheduled to increase to \$10.00 effective January 1, 2020. The minimum wage adjustment assumes Personal Care Staff, whose wages in the provider survey are within 40% of the 2018 minimum wage, will receive increases equivalent to the percentage increase in the minimum wage from 2018 to 2020. More than 75% of the Personal Care Staff included in the provider surveys have wages within 40% of the 2018 minimum wage. Wages for these individuals were increased by 17.65%, equivalent to the difference between the 2018 minimum wage and the 2020 minimum wage. The 7.6% minimum wage adjustment factor in Exhibit 1 is the weighted average of the impact of the minimum wage adjustment across all direct care practitioners.

The benefit loads were then added to account for all mandatory Arkansas and Federal benefits (unemployment insurance and Social Security), as well as retirement benefits and estimated minimum employer costs for health insurance. We estimated Bronze level single premiums for Arkansas individual insurance to be \$350 per month, based on publicly available 2018 data, and we estimated a monthly employee premium of \$150 per month to ensure the coverage is deemed affordable for the lowest reimbursed employees. Therefore, the assumed health insurance premium cost borne by employers is \$200 per month.

To be more comparable to the total benefit levels indicated in the provider survey responses, retirement benefits for Registered Nurses were assumed to be 3.0 percent of salary. The benefit loads methodology described above resulted in assumptions that were more generous than indicated in the provider surveys for Personal Care Staff and comparable to the provider surveys for LPNs, so no adjustments were made for retirement benefits for these practitioners. The composite benefit load across all practitioners of 19.9% in the rate development model is higher than the composite load based on the 50th percentile of benefit loads in the provider surveys of 18.4%.

Direct service expense and overhead load

An overhead load of 90.5% was applied to the direct practitioner costs to account for non-direct care service expense and overhead costs. Since most provider survey responses did not indicate that Executive Director-level practitioners are involved in direct care, compensation costs for Executive Directors are assumed to be included in overhead costs. Overhead costs do not include expenses for room and board, or occupancy, depreciation, amortization and interest, since such expenses are not allowable components of rates that receive federal matching funds. Overhead costs reported in the provider survey responses vary substantially by provider, but the 50th percentile of the overhead loads reported in the provider survey responses with the same cost exclusions is 90.5%.

Annual practitioner hours at work and productivity

We did not explicitly adjust the Assisted Living rate development for hours at work or productivity assumptions because the rates are paid each day for each beneficiary receiving services, regardless of the number of staff hours worked. However, the staffing levels in the rate development model accommodate coverage of paid time off and training.

Annual units of service provided to beneficiaries

Since Assisted Living services are covered by a daily rate, the average number of beneficiaries served each day is a key assumption required to estimate the annual units of service provided by a facility. The rate development assumes an average of 50 beneficiaries per day with staffing levels appropriate for this program size. This assumption is between the 50th and 75th percentile of beneficiaries served in each facility based the provider survey responses.



Mr. Mark White
Arkansas Department of Human Services
March 1, 2019
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CAVEATS AND LIMITATIONS ON USE

Milliman prepared this letter for the specific purpose of presenting draft rates and assumptions for the Living Choices Assisted Living waiver. This letter should not be used for any other purpose. This letter has been prepared solely for the internal business use of, and is only to be relied upon by, the management of DAABHS, in accordance with its statutory and regulatory requirements. Milliman recognizes that materials it delivers may be public records subject to disclosure to third parties; however, Milliman does not intend to benefit, or create a legal duty to, any third party recipient of its work. This letter should only be reviewed in its entirety.

We relied on salary, expense, and other assumptions from the Bureau of Labor Statistics, conversations with DAABHS and information from provider surveys. If the underlying assumptions used are inadequate or incomplete, the results will be likewise inadequate or incomplete. Actual provider costs associated with delivering these services may vary significantly across providers. As such, DAABHS should consider all stakeholder issues, in addition to these modeled rates, when determining what rate to implement. Provider costs will vary from the estimates in this letter. Similarly, the modeled rates are highly sensitive to the individual assumptions used, especially those pertaining to the volume of services billed. DAABHS should closely monitor changes in costs and make adjustments accordingly.

We, Alisa C. Gordon and Michael C. Cook, are actuaries for Milliman, members of the American Academy of Actuaries, and meet the Qualification Standards of the Academy to render the actuarial communication contained herein. To the best of our knowledge and belief, this email 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 email and its use.



Mark, we look forward to discussing these results with you and your team. Please let us know if you require any changes to this letter or the underlying calculations.

Sincerely,

Alisa C. Gordon, FSA, MAAA
Consulting Actuary
alisa.gordon@milliman.com

Michael C. Cook, FSA, MAAA
Principal and Consulting Actuary
michael.cook@milliman.com

ACG/MCC/zk

Attachment



EXHIBIT

Exhibit 1
Medicaid Living Choices Assisted Living Waiver Fee Development
Effective January 1, 2020

Assisted Living

A.1. Baseline Direct Service Practitioner Wages

<u>Practitioner Type</u>	<u>Positions</u>	<u>Wages</u>
Personal Care Staff	18.0	\$20,800
Licensed Practical Nurse	2.5	\$35,360
Registered Nurse	0.5	\$52,000
Total Cost	21.0	\$488,800

A.2. Direct Service Practitioner Wages Increased to 2020 basis

Annual Wage Increase Percentage (applied for 1.5 years)	2.8%
Adjustment for Increase in Minimum Wage	7.6%
Increased Wages	\$548,074

B. Practitioner Benefit Load (Excluding PTO)

Total Benefit Load	19.8%
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C. Total Practitioner Costs

A.2 * (1 + B)	\$656,335
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D. Non-Practitioner Staff and Other Overhead Costs

Overhead Load	90.5%
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E. Service Provision Assumptions

Average Beneficiaries Served	50	E1
Annual Days of Operation	365	E2

F. Total Program Costs

C * (1 + D)	\$1,250,318
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G. Annual Cost Per Billable Unit

Cost per Day	\$68.51	F / E1 / E2
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H. Increase from Current Rate

		<u>T2031</u>
Current rate		\$80.33
Per		per day
Rate Change	(G / H) - 1	-14.7%