

ANNUAL MEDICAL LOSS RATIO REPORT

Health Choice Arizona
(A Division of Health Choice Arizona, Inc.)
AHCCCS Complete Care Program
Year Ended September 30, 2020
With Report of Independent Accountants

Ernst & Young LLP



Health Choice Arizona
(A Division of Health Choice Arizona, Inc.)

AHCCCS Complete Care Program
Annual Medical Loss Ratio Report

September 30, 2020

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Report of Independent Accountants

The Board of Directors
Health Choice Arizona, Inc.

We have examined the accompanying Annual Medical Loss Ratio Report of Health Choice Arizona, Inc. related to the Arizona Health Care Cost Containment System (AHCCCS) Complete Care (ACC) plan (the Subject Matter) for the contract year ended September 30, 2020. Health Choice Arizona Inc.'s management is responsible for the Annual Medical Loss Ratio Report in accordance with the criteria set forth in the Financial Reporting Guide for AHCCCS Complete Care Contractor (the Financial Reporting Guide or the Criteria). Our responsibility is to express an opinion on the Subject Matter based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the Subject Matter is in accordance with the criteria, in all material respects. An examination involves performing procedures to obtain evidence about the Subject Matter. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of the Subject Matter, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion. Our examination does not address other criteria beyond those set forth in the Financial Reporting Guide.

The Member Months reported on the Annual Medical Loss Ratio Report have not been subjected to the procedures applied in the examination, and accordingly, we express no opinion on it.

Information shown in the schedule referred to above was prepared for the purpose of complying with the Criteria, and is not intended to be a complete presentation in conformity with generally accepted accounting principles.

In our opinion, the accompanying Annual Medical Loss Ratio Report for the contract year ended September 30, 2020 is presented in accordance with the criteria set forth in the Financial Reporting Guide, in all material respects.

This report is intended solely for the information and use of Health Choice Arizona, Inc. and the Arizona Health Care Cost Containment System and is not intended to be and should not be used by anyone other than those specified parties.

Ernst & Young LLP

August 5, 2021

Health Choice Arizona
(A Division of Health Choice Arizona, Inc.)

AHCCCS Complete Care Program
Annual Medical Loss Ratio Report

Contract Year Ended September 30, 2020

		Incurred Basis
		CYE20
	Member Months	2,423,292
	Revenue	
	Include	
1	Prospective Capitation	\$ 805,849,105
2	Delivery Supplement	\$ 23,257,022
3	APM 1% Withhold Settlement 42 CFR 438.6(b)(3) and Performance Based Payments (PBP)	\$ 520,295
4	Unpaid Cost Sharing Amounts	\$ –
5	Changes to Unearned Premium Reserves	\$ –
6	Risk Adjustment (Suspended)	\$ –
7	Prospective Tiered or Title XIX/XXI Reconciliation Settlement	\$ (1,507,169)
8	PPC Settlement	\$ –
9	HCBS Settlement	\$ –
10	Share of Cost (SOC) Settlement	\$ –
11	APSI Settlement	\$ –
12	Reinsurance	\$ 28,499,703
13	Health Insurance Providers Fee (HIPF) Revenue	\$ 15,403,649
14	Patient Contributions	\$ –
15	Other Accruals (Explain below)	\$ 467,852
	Deduct	
16	Pass – Through Payments Revenue	\$ –
17	Total Premium Revenue	\$ 872,490,457
	Taxes, Licensing and Regulatory Fees	
18	Federal Income Tax & Federal Tax (include Tax Benefit)	\$ 4,914,463
19	Premium Tax	\$ 16,310,852
20	Health Insurance Providers Fee (HIPF)	\$ 12,168,883
21	Other Federal, State, Local Taxes and Licensing and Regulatory Fees	\$ –
22	Community Benefit Expenses (otherwise exempt from Federal income tax) and Community Reinvestment Expenses meeting requirements of 45 CFR 158.162c	\$ 421,895
23	Total Taxes, Licensing and Regulatory Fees	\$ 33,816,093

Health Choice Arizona
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AHCCCS Complete Care Program
Annual Medical Loss Ratio Report (continued)

Contract Year Ended September 30, 2020

		Incurred Basis
		CYE20
Detail		
Incurred Claims		
Include		
24	Paid Claims – Exception for Subcontractors who provide Medicaid-covered services directly to Medicaid enrollees. The costs of the delegated managed care activities cannot be included in the managed care plan’s medical loss ratio calculation. Contractors who have subcontractors with delegated managed care activities must include these costs in admin unless they are quality improvement activities.	\$ 785,471,177
25	Changes in other claims-related reserves (Change in unpaid claims between the prior year’s and the current year’s unpaid claims (i.e., RBUC) and change in claims incurred but not reported (IBNR) from the prior year to the current year)	\$ (3,102,424)
26	Provider Withholds from Payments	\$ –
27	Provider Incentive/Bonus Payments	\$ –
28	Payments recovered through Fraud Reduction efforts	\$ –
29	Contingent Benefits/ Medical claim portion of lawsuits	\$ –
30	Value Added Services (Explain below)	\$ –
Deduct		
31	Provider/Subcontractor Overpayment Recoveries	\$ (1,705,404)
32	Rx Rebates (received/accrued)	\$ (4,097,516)
33	Pharmacy Performance Guarantee	\$ –
34	TPL, COB, Subrogation Recoveries and recoverable COB claims	\$ (3,739,620)
35	Total Incurred Claims	\$ 772,826,213

Health Choice Arizona
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AHCCCS Complete Care Program
Annual Medical Loss Ratio Report (continued)

Contract Year Ended September 30, 2020

		Incurred Basis
		CYE20
Detail		
Non-Claims Costs		
36	Compensation	\$ 30,765,103
37	Occupancy	\$ 2,785,612
38	Depreciation	\$ –
39	Improvement Expenses	\$ 9,307,270
40	Professional and Outside Services	\$ 8,020,692
41	Office Supplies and Equipment	\$ 1,651,166
42	Travel	\$ 82,311
43	Repair and Maintenance	\$ 216,108
44	Bank Service Charge	\$ 3,050,943
45	Insurance	\$ –
46	Marketing	\$ 913,241
47	Interest Expense	\$ 95,693
48	Pharmacy Benefit Manager Expenses	\$ 732,840
49	Other Administrative Expenses	\$ 2,107,250
50	Amounts paid to third party vendors for secondary network savings	\$ –
51	Amounts paid to third party vendors for network development, administrative fees, claims processing, and utilization management	\$ –
52	services that do not represent compensation or reimbursement for covered services provided to an enrollee. (e.g., Non-Medical (Administrative component) of Sub-Capitated or Block Payments)	\$ –
53	Fines and penalties assessed by regulatory authorities	\$ –
54	Pass – Through Payments	\$ –
55	Loss Adjustment Expense	\$ –
56	Total Non-Claims Costs	\$ 59,728,229

Health Choice Arizona
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AHCCCS Complete Care Program
Annual Medical Loss Ratio Report (continued)

Contract Year Ended September 30, 2020

		Incurred Basis
		CYE20
Detail		
Health Care Quality Improvement and Other Expenses		
57	Improvement of health outcomes	\$ 2,254,574
58	Activities to prevent hospital readmission	\$ –
59	Improvement of patient safety and reduce medical errors	\$ –
60	Wellness and health promotion activities	\$ –
61	Health information technology expenses related to improving health care quality	\$ –
62	Activities related to external quality review	\$ –
63	Total Health Care Quality Improvement and Other Expenses	\$ 2,254,574
		\$ –
64	Program Integrity: Fraud, Waste, and Abuse Prevention Expenses	\$ –
		\$ –
65	Credibility Adjustment (If applicable)	0.0%
		\$ –
Numerator		
66	Incurred Claims	\$ 772,826,213
67	Expenditures for activities that improve health care quality	\$ 2,254,574
68	Total	\$ 775,080,787
Denominator		
69	Premium Revenue	\$ 872,490,457
70	Taxes, licensing and regulatory fees	\$ 33,816,093
71	Total	\$ 838,674,364
72	Medical Loss Ratio	92.4%
73	Medical Loss Ratio with Credibility Adjustment	92.4%

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AHCCCS Complete Care Program
Notes to Annual Medical Loss Ratio Report

Contract Year Ended September 30, 2020

1. Organization

Health Choice Arizona (the Division or Health Choice) is a division of Health Choice Arizona, Inc. (the Company), a wholly owned subsidiary of Veritage LLC (Veritage). Veritage is an Arizona limited liability company owned solely by Blue Cross Blue Shield of Arizona (BCBSAZ).

The Company is a managed care organization and insurer that delivers healthcare services to members through multiple health plans, accountable care networks and managed care solutions. The Company subcontracts with hospitals, physicians and other medical providers within Arizona and surrounding states to provide services to its members in the service area counties. The Company operates a prepaid Medicaid managed health plan through an AHCCCS Complete Care contract (the Plan) with the Arizona Health Care Cost Containment System (AHCCCS) to provide specified healthcare services to qualified Medicaid enrollees through contracts with providers. AHCCCS is the state agency that administers Arizona's Medicaid program, including the AHCCCS Complete Care program.

2. Medical Loss Ratio

The Plan is required by the contract with AHCCCS to maintain a minimum medical loss ratio (MLR) for each contract year of at least 85%. The MLR numerator is defined by the Financial Reporting Guide for AHCCCS Complete Care Contractor as incurred claims and expenditures for activities that improve health care quality and the denominator is defined as premium revenue less taxes and licensing and regulatory fees. The accompanying annual MLR report is as of the contract year ending September 30, 2020.

Incurred claims represent all claims with dates of service from October 1, 2019 through September 30, 2020 (the Contract Year). This includes actual claims related to the Contract Year that were paid through December 31, 2020, as well as an estimate for unpaid claims as of December 31, 2020 of \$13.0 million.

Premium revenue includes the revenue related to the Contract Year. This excludes any settlements recorded in the Contract Year related to prior contract years.

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