



## 311 – ACUTE PROGRAM TIERED PROSPECTIVE RECONCILIATION POLICY

Effective Date: 10/01/11, 10/01/13

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Staff responsible for policy: DHCM Finance

### I. Purpose

This policy applies to all Acute Care Contractors. The Acute Program Tiered Prospective Reconciliation applies to dates of service effective on and after October 1, 2013 and is based upon prospective expenses and prospective net capitation as described in this policy. AHCCCS will recoup/reimburse a percentage of the Contractor's profit or loss for all risk groups as described below using a tiered approach. All profit/loss sharing is based on adjudicated encounter data and subcapitated expense reports. This reconciliation is performed annually on a contract year basis.

### II. Definitions

#### **Administrative Component**

The administrative component will be equivalent to the amount of administrative expense built into the capitation rate for the year being reconciled. Beginning with contract year ending (CYE) 2014, the administrative component is equal to the administrative PMPM awarded to the Contractor multiplied by the actual prospective member months for the contract year being reconciled. For any rates that are not bid by the Contractor, but are set by AHCCCS, the administrative component is equal to the administrative PMPM built into the capitation rates multiplied by the actual prospective member months for the contract year being reconciled.

#### **Non-Capped Newborn Expenses**

In accordance with the Acute Care contract, Contractors must notify AHCCCS of a newborn born to an AHCCCS mother within one day of the date of birth. When notification is received timely, the Contractor receives capitation retroactive to the birth date. When notification is received late, the Contractor receives capitation beginning on the date of notification, but expenses must be covered by the Contractor back to the date of birth. Encounters for dates of services from the date of birth to the day before a tardy notification are



considered non-capped expenses, and are excluded from capitation rate development and reconciliations.

**Premium Tax Component**

The premium tax component is equal to the tax imposed pursuant to A.R.S. §36-2905 for prospective capitation and Delivery Supplemental payments made for the contract year. The rate of tax imposed under A.R.S. §36-2905 is 2% as of the effective date of this policy, October 1, 2013.

**Prospective Expenses**

Expenses reported through **fully adjudicated encounters** and subcapitated expenses incurred by the Contractor for covered services with dates of service during the contract year (excluding expenses incurred during the prior period coverage (PPC) time period).

**Prospective Net Capitation**

Prospective capitation, risk adjusted if applicable, plus Delivery Supplemental payments, less the administrative and the premium tax components.

**Reinsurance**

For purposes of this reconciliation, reinsurance means the actual reinsurance payments received by the Contractor as the result of prospective expenses incurred by the Contractor for covered services with dates of service during the contract year being reconciled.

**Subcapitated Expenses**

Expenses incurred by the Contractor as payments to a provider under a subcapitated arrangement. The subcapitated expenses used in this reconciliation are reported by the Contractor through quarterly financial reports in the format required by AHCCCS.

**Tiered Reconciliation Risk Groups (or Risk Groups)**

Populations subject to this tiered reconciliation include all prospective risk groups except State Only Transplants. Expenses incurred and revenues received for covered services with dates of service during the PPC timeframe are excluded from this reconciliation, as are non-capped newborn expenses.



**III. Policy**

**A. General**

1. The acute program tiered prospective reconciliation shall be based on prospective net capitation less prospective expenses plus reinsurance payments. For each contract year, the amount due from or due to the Contractor as the result of this reconciliation will be based on aggregated profits and losses across all of the tiered reconciliation risk groups. Individual risk groups will not be reconciled separately.
2. The reconciliation will limit the Contractor's profits and losses to the percent of prospective net capitation according to the following schedule:

<b>Profit</b>	<b>Contractor Share</b>	<b>State Share</b>	<b>Max Contractor Profit</b>	<b>Cumulative Contractor Profit</b>
<= 3%	100%	0%	3%	3%
> 3% and <= 6%	50%	50%	1.5%	4.5%
> 6%	0%	100%	0%	4.5%

<b>Loss</b>	<b>Contractor Share</b>	<b>State Share</b>	<b>Max Contractor Loss</b>	<b>Cumulative Contractor Loss</b>
<= 3%	100%	0%	3%	3%
> 3%	0%	100%	0%	3%

Profits in excess of the percentages set forth above will be recouped by AHCCCS. Losses in excess of the percentages set forth above will be paid to the Contractor.

**B. AHCCCS Responsibilities**

1. No sooner than five and ten months after the end of the period to be reconciled, AHCCCS shall perform initial and interim reconciliations, respectively, of actual medical cost experience to prospective net capitation and reinsurance, as follows:

Profit/Loss to be reconciled = Prospective Net Capitation – Prospective Expenses – Subcapitated Expenses + Reinsurance payments.

Profit/Loss % = Profit/Loss to be reconciled divided by Prospective Net Capitation.

Attachment A to this policy provides an example of the tiered prospective reconciliation calculation.



2. AHCCCS will utilize only prospective expenses supported by fully adjudicated encounters and subcapitated expenses reported by the Contractor to determine the expenses subject to reconciliation.
3. AHCCCS will utilize amounts paid to the Contractor for reinsurance as of the date the reconciliation is processed to determine profit/loss to be reconciled.
4. AHCCCS will compare fully adjudicated encounters and self-reported subcapitated expense information to financial statements and other Contractor submitted files for reasonableness. AHCCCS may perform an audit of self-reported subcapitated expenses included in the reconciliation.
5. AHCCCS will provide the Contractor the data used for the initial and interim reconciliations and provide written notice of the deadlines for review and comment by the Contractor. Upon completion of the review period, AHCCCS will evaluate Contractor comments and make any adjustments to the data or reconciliation as warranted. AHCCCS may then process partial distributions/recoupments through future monthly capitation payments.
6. A third and final reconciliation will be performed no sooner than fifteen months after the end of the period to be reconciled. This will allow for completion of the claims lag, encounter reporting and reinsurance payments. AHCCCS will provide the Contractor the data used for the final reconciliation and written notice of the deadline for review and comment by the Contractor. Upon completion of the review period, AHCCCS will evaluate Contractor comments and make any adjustments to the data or reconciliation as warranted.
7. Any amount due to or due from the Contractor as a result of the final reconciliation that was not distributed or recouped as part of the initial and/or interim reconciliations will be paid or recouped through a future monthly capitation payment.
8. AHCCCS may include adjustments to the reconciliations to account for completion factors.

### **C. Contractor Responsibilities**

1. The Contractor shall maintain financial statements that separately identify all prospective risk group transactions, and shall submit such statements as required by contract and in the format specified in the AHCCCS Financial Reporting Guide for Acute Care Contractors.
2. The Contractor shall monitor the estimated acute program tiered prospective reconciliation receivable/payable and record appropriate accruals on all financial



statements submitted to AHCCCS on a quarterly basis as specified in the AHCCCS Financial Reporting Guide for Acute Care Contractors.

3. It is the Contractor's responsibility to identify to AHCCCS any encounter data issues or necessary adjustments associated with the initial and interim reconciliations by the deadlines for review and comment. It is also the responsibility of the Contractor to have any identified encounter data issues corrected and adjudicated no later than 15 months from the end of the period being reconciled. AHCCCS will not consider any data submitted by the Contractor after these timeframes. Any encounter data issues identified that are the result of an error by AHCCCS will be corrected prior to the final reconciliation.
4. The Contractor shall submit data as requested by AHCCCS for reconciliation purposes (e.g. encounter detail file, reinsurance payments, etc.).
5. The Contractor shall report all subcapitated expenses in a format requested by AHCCCS. Subcapitated encounters should have a subcap code of 01 and a CN 1 code of 05 and a paid amount of \$0. All subcapitated encounters that do not conform to this format and have a health plan paid amount greater than \$0 will be excluded from the reconciliation expenditures.
6. If the Contractor performs recoupments/refunds/recoveries on prospective claims, the related encounters must be adjusted (voided or void/replaced) pursuant to ACOM Policy 412. AHCCCS reserves the right to adjust any previously issued reconciliation results for the impact of the revised encounters and recoup any amounts due AHCCCS. If the Contractor does not submit the revised encounters within the required timeframe, AHCCCS may recoup the estimated impact on the reconciliation and reserves the right to sanction the Contractor.

#### IV. References

- Acute Care Contract
- ACOM Policy 311, Attachment A – Sample Acute Program Tiered Prospective Reconciliation
- ACOM Policy 412
- AHCCCS Financial Reporting Guide for Acute Care Contractors