

ANNUAL MEDICAL LOSS RATIO REPORT

Health Choice Arizona, Inc.
AHCCCS Complete Care Program
Year Ended September 30, 2023
With Report of Independent Auditors

Ernst & Young LLP



Health Choice Arizona, Inc.
AHCCCS Complete Care Program
Annual Medical Loss Ratio Report

September 30, 2023

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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, 2023. 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 (“AICPA”). (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.

We are required to be independent of Health Choice Arizona, Inc. and to meet our other ethical responsibilities, as applicable for examination engagements set forth in the Preface: Applicable to All Members and Part 1 – Members in Public Practice of the Code of Professional Conduct established by the AICPA.

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, 2023, 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

May 30, 2024

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

AHCCCS Complete Care Program
Annual Medical Loss Ratio Report

Contract Year Ended September 30, 2023

		Incurred Basis
		Restated CYE23
Member Months		2,881,480
Detail		
Revenue		
Include		
1	Prospective Capitation	\$ 1,163,440,549
2	APM 1% Withhold Settlement 42 CFR 438.6(b)(3) and Performance Based Payments (PBP) reimbursed by AHCCCS	\$ 4,729,582
3	Delivery Supplement	\$ 26,474,064
4	Unpaid Cost Sharing Amounts	\$ -
5	Changes to Unearned Premium Reserves	\$ -
6	Risk Adjustment (Footnote Suspended)	\$ -
7	Prospective Tiered	\$ (40,772,036)
8	Reserved	\$ -
9	Other Reconciliation Settlements	\$ 377,923
10	Share of Cost (SOC) Settlement	\$ -
11	Reserved	\$ -
12	Reserved	\$ -
13	Other Income	\$ -
14	Patient Contributions	\$ -
15	Other Accruals (Explain below)	\$ -
16	State Directed Payments Revenue	\$ 234,195,354
17	Total Premium Revenue	\$ 1,388,445,436
Taxes, Licensing and Regulatory Fees		
18	Federal Income & Federal Tax (include Tax Benefit)	\$ 13,062,406
19	Premium Tax	\$ 23,648,688
20	Reserved	\$ -
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	\$ 3,125,099
23	Total Taxes, Licensing and Regulatory Fees	\$ 39,836,193
Incurred Claims		
Include		
24	Include paid claims to providers/subcontractors for Medicaid covered services to Medicaid enrollees. Exclude sub-capitation/block payments related to delegated managed care administrative expenses. The costs of the delegated managed care activities cannot be included in the managed care plan's medical loss ratio calculation. Contractors who have providers/subcontractors with delegated managed care activities must include these costs in admin unless they are quality improvement activities which should be reported in the Expenditures for Activities that Improve Health Care Quality Section.	\$ 1,015,734,325
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)	\$ -

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

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

Contract Year Ended September 30, 2023

		Incurred Basis
		Restated CYE23
Member Months		2,881,480
Detail		
Incurred Claims (continued)		
Include		
26	Provider Withholds from Payments	\$ -
27	Provider Incentive/Bonus Payments (include Unreimbursed PBP)	\$ -
28	Payments recovered through Fraud Recovery efforts less related expenses	\$ 269,472
29	Contingent Benefits/ Medical claim portion of lawsuits	\$ -
30	Value Added Services (Explain below)	\$ -
31	Provider Payments Attributable to State Directed Payments	\$ 234,195,354
Deduct		
32	Reinsurance Recoveries	\$ (35,045,129)
33	Provider/Subcontractor Overpayment Recoveries	\$ (2,080,749)
34	Rx Rebates (received/accrued)	\$ (2,028,248)
35	Pharmacy Performance Guarantee	\$ (3,775,684)
36	TPL, COB, Subrogation Recoveries and recoverable COB claims	\$ (5,385,950)
37	Total Incurred Claims	\$ 1,201,883,391
Non-Claims Costs		
38	Compensation	\$ 52,541,999
39	Occupancy	\$ 2,623,081
40	Depreciation	\$ 295,476
41	Care Management/Care Coordination not included in Health Care Quality Improvement Expenses	\$ 8,595,678
42	Professional and Outside Services	\$ 11,945,160
43	Office Supplies and Equipment	\$ 5,590,630
44	Travel	\$ 111,437
45	Repair and Maintenance	\$ 7,092,724
46	Bank Service Charge	\$ (31)
47	Insurance	\$ 2,099,185
48	Marketing	\$ 553,650
49	Interest Expense	\$ 15,906
50	Pharmacy Benefit Manager Expenses	\$ 1,713,947
51	Amounts paid to third party vendors for secondary network savings	\$ 432,911
52	Amounts paid to third party vendors for network development, administrative fees, claims processing, and utilization management.	\$ 1,427,333
53	Amounts paid, including amounts paid to a provider, for professional or administrative 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)	\$ 189,153
54	Interpretation/Translation Services	\$ 83,381
55	Other Administrative Expenses	\$ 291,746
56	Fines and penalties assessed by regulatory authorities	\$ -
57	Loss Adjustment Expense	\$ -
58	Total Non-Claims Costs	\$ 95,603,366

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

Contract Year Ended September 30, 2023

		Incurred Basis
		Restated CYE23
	Member Months	2,881,480
	Detail	
	Health Care Quality Improvement and Other Expenses	
59	Improvement of health outcomes	\$ 3,558,177
60	Activities to prevent hospital readmission	\$ –
61	Improvement of patient safety and reduce medical errors	\$ –
62	Wellness and health promotion activities	\$ –
63	Health information technology expenses related to improving health care quality	\$ –
64	Activities related to external quality review	\$ –
65	Total Health Care Quality Improvement and Other Expenses	\$ 3,558,177
66	Program Integrity: Fraud, Waste, and Abuse Prevention Expenses	\$ –
67	Credibility Adjustment (If applicable)	0.0%
	Numerator	
68	Incurred Claims	\$ 1,201,883,391
69	Expenditures for activities that improve health care quality	\$ 3,558,177
70	Total	\$ 1,205,441,568
	Denominator	
71	Premium Revenue	\$ 1,388,445,436
72	Taxes, licensing and regulatory fees	\$ 39,836,193
73	Total	\$ 1,348,609,243
74	Medical Loss Ratio	89.4%
75	Medical Loss Ratio with Credibility Adjustment	89.4%

See accompanying notes.

Health Choice Arizona, Inc.

AHCCCS Complete Care Program Notes to Annual Medical Loss Ratio Report

Contract Year Ended September 30, 2023

1. Organization

Health Choice Arizona, Inc. (the Company), is 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, 2023.

Incurred claims represent all claims with dates of service from October 1, 2022 through September 30, 2023 (the Contract Year). This includes actual claims related to the Contract Year that were paid through September 30, 2023, as well as an estimate for unpaid claims as of September 30, 2023 of \$96 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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