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10.0 COST

RFP Reference: 3.2

CONTINGENCY BASED COMPENSATION

RFP Reference: 1.0, 1.1

The Offeror shall propose contingency fees as a percentage of recoveries for their proposed method of approach. The fee shall be inclusive of all costs associated with the delivery of the service and includes staff time, mileage, insurance, and administrative cost. No additional fees will be paid by AHCCCS.

Please see our completed **Exhibit A: Compensation Table** following this narrative.

Health Management Systems, Inc. (HMS) is pleased to present this Cost Proposal to the Arizona Health Care Cost Containment System Administration (AHCCCS). Our proposal is inclusive of all costs associated with the delivery of the service and includes staff time, mileage, insurance, and administrative cost related to accomplishing the outlined scope of work. The proposed fee, combined with the quality of our work plan, results, and consultative approach offer the best value for AHCCCS.

HMS's pricing is based on a thorough analysis of the anticipated costs required to fully and accurately deliver all of the services and meet the requirements in the RFP over the life of the contract. These costs are based on our solid understanding of the work to be performed, the resources needed to support the project, and in-place processes that have delivered more than $46 million in recoveries and an estimated cost avoidance savings of $681 million to AHCCCS since SFY 2013.

Our model takes into consideration Arizona Medicaid's size, number of claims paid, diversity of claim types, unique State-specific processes, and proportions of the Medicaid population that are served under Managed Care vs. Fee-for-Service (FFS). We have also accounted for the costs of providing a Phoenix office as required in the RFP and for employing qualified, experienced personnel knowledgeable of Arizona and Arizona Medicaid, as well as for the incorporation of advanced systems supplemented by expert clinicians and coders who validate our findings.

Per requirement 1.2.2 Optional Add-on Related Services, HMS has provided separate rates related to Add-on services in a separate proposal.

FIRST PARTY LIABILITY AND THIRD PARTY LIABILITY RECOVERY PROGRAMS AND COMMERCIAL INSURANCE COVERAGE VERIFICATION / DATA MATCH SERVICES

RFP Reference: 1.2, 1.2.1

The Offeror's proposed contingency fees shall be broken down as follows:
A percentage(s) of actual recoveries for the recovery programs described in paragraph 5 of the Scope of Work, which will constitute the total compensation for the services described in both paragraph 5 and 6 of the Scope of Work. The Offeror may, if it chooses, propose graduated percentages based on total amount of Net Recovery to AHCCCS.

Our proposed cost is based on our more than 25 years of AHCCCS-specific experience, paired with comparable pricing and expenses in successful work for 40 Medicaid agencies. In order for HMS to continue to provide AHCCCS with the desired scope of high quality service, as well as the highest level of financial return, the following variables were considered by HMS and are reflected in our proposed cost:

- **Population and expenditure growth.** AHCCCS FFS and Health Plan contractor population grew by 594,000 (46%) members from October 2013 to October 2017, with 82% of the growth coming from Health Plan lives.
- **Expanded Health plan services.** HMS costs associated with supporting the work—including State-specific Health Plan administrative work (casualty total plan cases, Health Plan reinsurance and FFS routine re-validation, and workers' compensation (WC) total plans), TPL identification and verification, have substantially increased along with the number of covered lives:
  - During the current contract, HMS opened, tracked, and closed 67,113 casualty cases, of which only 9,920 (15%) were FFS or joint cases and had recovery opportunity for HMS
  - Since 2013, HMS has delivered 2,107,063 cost avoidance policies. Of that total, 1,717,256 (81.5%) were for managed care participants and only 389,806 (19.5%) were for FFS members
  - HMS has received, matched, and identified over 89,995 WC for AHCCCS Health Plan contractors
- **Added contract scope and requirements.** HMS will continue to deliver high-quality services and maximize results for AHCCCS; however, potential increased scope of work services, more aggressive service level agreements (SLAs), and additional reporting requirements under the new contract term results in increases to costs for contract administration in the next contract term. Additionally, we will absorb additional costs inherent to any business that wants to remain relevant and cutting-edge, including acquiring and maintaining the best staff talent for the delivery of these services. HMS must consider economic risks from the start of the new contract term and factor these into our pricing. For example, HMS has recently started preparing for the new Medicare Beneficiary Identifier (MBI) numbers to be used by Medicare instead of Health Insurance Claims Numbers (HICNs), which contain Social Security numbers for members, and changes instituted by CMS for the file layout and size of Part D recipient files. These changes affect HMS file exchanges, requiring file layout changes and testing to ensure seamless business continuity on behalf of our clients, including AHCCCS.
- **Local Office and Knowledgeable Staffing.** We have also accounted for the costs of providing a Phoenix office as required in the RFP and for employing qualified, experienced personnel

knowledgeable of Arizona and Arizona Medicaid, as well as for the incorporation of advanced systems supplemented by expert clinicians and coders who validate our findings.

Although other vendors may submit proposals that include impressive promises of results and lower pricing, actual Medicaid client experience has proven that vendors propose untested solutions that rarely fully deliver the recovery results that our clients have come to rely on, or make sense in the real world of TPL operations. For example, two other Medicaid programs where a lower cost new vendor took over TPL programs resulted in $100 million recovery loss for a large Medicaid program and $7 million recovery loss for a small Medicaid program in the first year. These losses were not delays, but liability that was never identified by the vendor. Our understanding of the Arizona's MCO model and associated processes enables HMS to meet evolving service needs, as we have demonstrated in the current contract with Judicial Foreclosures, website availability for trauma code mailer responses, and automated total plan identification.

Additionally, AHCCCS TPL savings are driven by vendor performance. Selecting a low cost vendor that performs at 90% of HMS high performance solution can result in over $80 million of financial risk to the State. Every percentage point in a low cost vendors inability to perform can results in $8 million of financial risk to the Arizona Medicaid Program over the life of the contract, as illustrated in **Figure 10-1**.

Figure 10.0-1. Contract Performance

	HMS	Low Price Vendor (Fee @ 50% of HMS rate)	Low Price Vendor (Fee @ 50% of HMS rate)
Vendors Ability to Perform	100%	90%	80%
Cost Avoidance Savings	$ 154,000,000	$ 138,600,000	$ 123,200,000
Recoveries	$ 10,746,232	$ 9,671,609	$ 8,596,986
Annual Benefit	$ 164,746,232	$ 148,271,609	$ 131,796,986
Annual Vendor Fee	$ (1,880,591)	$ (940,295.30)	$ (940,295.30)
Net Annual Benefit	$ 162,865,641	$ 146,579,077	$ 130,292,513.12
Savings over Contract life	$ 814,328,207	$ 732,895,386	$ 651,462,566
Risk to State of AZ	**NONE**	**$ (81,432,821)**	**$ (162,865,641)**

In summary, our proposed fees are the collective result of the factors described above. Our proposed fees will continue to offer AHCCCS an exceptional rate of return throughout the contract term to ensure the maximum level of cost savings and recoveries. **We estimate the ROI for the State is $7,755.24 to $1**. In a new contract, we will continue to identify and present new and innovative ways to support the Arizona TPL and payment integrity programs, always with the goal of maximizing the benefits to AHCCCS.

MEDICAID RECOVERY AUDIT CONTRACTOR (RAC) SERVICES

RFP Reference: 1.2, 1.2.3

The Offeror's proposed contingency fees shall be broken down as follows:

Medicaid Recovery Audit Contractor (RAC) Services: A contingency fee for overpayments, and a separate percentage for underpayment, which will constitute the total compensation for the service described in paragraph 7 of the Scope of Work. Compensation for overpayments will be based on the actual amount recovered. The amount will be considered recovered only after AHCCCS receives the payments from the providers and all appeals are resolved. Compensation for underpayments will be based on the amount identified from the improper payment recovery review process and paid to the provider. The accepted percentage rates shall not exceed the highest contingency fee allowable for Medicare RACs services, as published in the Federal Register.

In accordance with federal requirements, the Offeror must include with its proposal sufficient documentation to show how it arrived at the proposed percentage rates.

In our experience working with many state Medicaid agencies and various vendors, we have frequently observed that tiered contingency fees result in an overall reduction in the degree of implementation preparation, program integrity development, and recovery performance.

HMS is keenly aware of, and sensitive to, the lead-time required to implement a successful and comprehensive RAC recovery program. In our pricing model, we take into account that the majority of AHCCCS members (82.4%) are enrolled in Health Plans and the FFS-enrolled members are comprised mainly of the Federal Emergency Services (FES) population and Native Americans. Thus, there will be limited FFS paid claims to support identification and recovery of improper payments. Also incorporated into the fee are the costs associated with providing a skilled and Arizona-licensed Medical Director, Arizona-licensed nurses, physicians, and coders who will be necessary to conduct the audits, as well as increased information technology costs, provider education and service costs, and travel costs. HMS would consider a reduction in price if AHCCCS, with the help of HMS, request an exception from CMS so that Arizona can lean on a panel versus the federally-mandated and costly licensed Medical Director.

As a leading RAC and program integrity vendor, we understand the varying complexities involved in pursuing all recovery paths, and have chosen to submit one flat rate across the entire array of Medicaid RAC scenarios. HMS has taken the following approach in proposing our fees:

- HMS does not anticipate any additional costs, or lower costs, in recovering higher volumes of overpayments.
- HMS has presented a uniform fee because we believe that increasing fees for higher recovery thresholds could put both AHCCCS and HMS in a sensitive position with the provider community, perhaps giving the perception that the RAC reimbursement rates are more lucrative based on the volume of overpayments recovered.
- A high level of resources are consistently allocated at all stages of contract duration.
- Contract administration is streamlined and more easily managed.

Ultimately, we believe that the proposed fee combined with the quality of our work plan, results, and consultative approach, offer the best value for the State.

EXHIBIT A: COMPENSATION TABLE

RFP Reference: 3.2.1, 1.3

The evaluation of the category of Cost shall be based on the contingency fees, as indicated on the EXHIBIT A: Compensation Table submitted with Offeror's proposal.

The Offeror shall complete and submit the following table with their proposal:

CONTRACT PRICING – TPL SERVICES:

First Party Liability and Third Party Liability Recovery Programs and Commercial Insurance Coverage Verification / Data Match Services described in paragraph 5 and 6 of the Scope of Work	Percentage Fee
Recovery, Verification and Data Match Services	19%
Optional Add On Services	
- Base Solution: MC-Track Software and Implementation Services	See Add-on Proposal
- TMV	See Add-on Proposal

CONTRACT PRICING – FEE FOR SERVICE RAC SERVICES:

Medicaid Recovery Audit Contractor (RAC) Services as described in paragraph 7 of the Scope of Work	Percentage Fee
RAC Services - Overpayments	17.5%
RAC Services - Underpayments	12.5%

INVOICES

RFP Reference: 2.0

SUBMISSION OF MONTHLY INVOICES

RFP Reference: 2.1, 2.2, 2.2.1, 2.2.2, 2.2.3, 2.2.4

2.1 The successful Offeror shall submit a monthly invoice to the address listed below for the administrative fees associated with this contract.

2.2 Each invoice shall provide the following information, as applicable:

- 2.2.1 AHCCCS' assigned contract number
- 2.2.2 description of services performed for each fee
- 2.2.3 name of AHCCCS contact person for this agreement
- 2.2.4 date(s) services were performed

HMS will continue to work with AHCCCS to ensure that all invoices and reports comply with contract requirements and accurately reflect our TPL, CI/Data Match, and RAC recovery activities. In our current contract, we have demonstrated our ability to produce comprehensive and reliable invoices and reports that comply with the AHCCCS's requirements regarding content, format, and frequency of delivery. Currently, we submit monthly invoices based on the scope of work outlined in this RFP based solely on net monthly recoveries, in addition to a variety of periodic and ad hoc accounts payable (A/P) and accounts receivable (A/R) reports. In a new contract term, we will review our current invoicing and reporting processes and deliverables with the State to determine that we continue to meet the AHCCCS's needs. We will incorporate any necessary modifications into our process and obtain AHCCCS's approval regarding format, content, and frequency of delivery of our project invoices and reports. Please see samples invoices provided in **Attachment 3**.

SUPPORTING DOCUMENTATION

RFP Reference: 2.3

2.3 Each invoice shall have adequate supporting documentation attached to allow proper expense reimbursement.

We understand the importance of accurate, timely invoices. Invoice errors create an unnecessary workload for the AHCCCS personnel processing the invoice as well as for HMS team members. Our invoicing process includes quality checks to decrease the risk of errors. As we have done in the current contract, we will create and submit service invoices that respond to unique client needs, including AHCCCS, in both electronic and hard copy formats.

Our invoices include a cover page for a typical project invoice created for and submitted to AHCCCS. The cover page includes the Purchase Order number, HMS's vendor ID, the date span for the recoveries invoiced, and the net recovered amount. As documentation for each monthly invoice, we provide the following reports to validate the invoiced amount:

- Financial Summary All Projects
- Financial Detail for All Projects
- Financial Program Category Report
- Financial Program Code Report

- Financial Health Plan Disbursement Summary
- Financial Health Plan Disbursement Detail
- Financial Disburse to Other Summary
- Financial Disburse to Other Detail
- HMS Individual Invoices

ALL FINAL CONTRACTOR INVOICES ADDRESS FOR SUBMISSION

RFP Reference: 2.4

Invoices shall be submitted to:
AHCCCS
Accounts Payable, MD 5400
701 E. Jefferson Street
Phoenix, AZ 85034

Upon contract award, HMS will submit all invoices to AHCCCS Accounts Payable, MD 5400, 701 E. Jefferson Street, Phoenix, AZ 85034.

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