

ANNUAL MEDICAL LOSS RATIO REPORT

Banner University Family Care
AHCCCS Complete Care Program
Years Ended September 30, 2020
With Report of Independent Accountants

Ernst & Young LLP



Banner University Family Care
AHCCCS Complete Care Program
Annual Medical Loss Ratio Report

September 30, 2020

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Report of Independent Accountants

The Board of Directors
Banner University Family Care

We have examined the accompanying Annual Medical Loss Ratio Report of Banner University Family Care 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. Banner University Family Care’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 has 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 Banner University Family Care 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.

May 28, 2021

Banner University Family Care

AHCCCS Complete Care Program
Annual Medical Loss Ratio Report

Contract Year Ended September 30, 2020

| | | Incurred Basis |
|----|---|-------------------------|
| | | CYE20 |
| | Member Months | 2,748,437 |
| | | |
| | Revenue | |
| | Include | |
| 1 | Prospective Capitation | \$ 996,254,246 |
| 2 | Delivery Supplement | \$ 30,639,532 |
| 3 | APM 1% Withhold Settlement 42 CFR 438.6(b)(3) and Performance Based Payments (PBP) | \$ (9,863,903) |
| 4 | Unpaid Cost Sharing Amounts | \$ — |
| 5 | Changes to Unearned Premium Reserves | \$ — |
| 6 | Risk Adjustment (Suspended) | \$ — |
| 7 | Prospective Tiered or Title XIX/XXI Reconciliation Settlement | \$ — |
| 8 | PPC Settlement | \$ — |
| 9 | HCBS Settlement | \$ — |
| 10 | Share of Cost (SOC) Settlement | \$ — |
| 11 | APSI Settlement | \$ — |
| 12 | Reinsurance | \$ 38,012,460 |
| 13 | Health Insurance Providers Fee (HIPF) Revenue | \$ — |
| 14 | Patient Contributions | \$ — |
| 15 | Other Accruals (Explain below) | \$ — |
| | Deduct | |
| 16 | Pass - Through Payments Revenue | \$ — |
| 17 | Total Premium Revenue | \$ 1,055,042,335 |
| | | |
| | Taxes, Licensing and Regulatory Fees | |
| 18 | Federal Income Tax & Federal Tax (include Tax Benefit) | \$ — |
| 19 | Premium Tax | \$ 20,340,597 |
| 20 | Health Insurance Providers Fee (HIPF) | \$ — |
| 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 | \$ 1,048,677 |
| 23 | Total Taxes, Licensing and Regulatory Fees | \$ 21,389,274 |
| | | |

Banner University Family Care
 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. | \$ 937,410,178 |
| 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) | \$ 15,407,000 |
| 26 | Provider Withholds from Payments | \$ - |
| 27 | Provider Incentive/Bonus Payments | \$ - |
| 28 | Payments recovered through Fraud Reduction efforts | \$ 741,228 |
| 29 | Contingent Benefits/ Medical claim portion of lawsuits | \$ - |
| 30 | Value Added Services (Explain below) | \$ - |
| Deduct | | |
| 31 | Provider/Subcontractor Overpayment Recoveries | \$ (3,025,070) |
| 32 | Rx Rebates (received/accrued) | \$ (2,494,484) |
| 33 | Pharmacy Performance Guarantee | \$ - |
| 34 | TPL, COB, Subrogation Recoveries and recoverable COB claims | \$ (1,144,618) |
| 35 | Total Incurred Claims | \$ 946,894,234 |

Banner University Family Care
 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 | \$ 27,174,130 |
| 37 | Occupancy | \$ 190,469 |
| 38 | Depreciation | \$ 664,840 |
| 39 | Care Management/Care Coordination not included in Health Care Quality Improvement Expenses | \$ 1,564,414 |
| 40 | Professional and Outside Services | \$ 2,054,035 |
| 41 | Office Supplies and Equipment | \$ (209,205) |
| 42 | Travel | \$ 83,785 |
| 43 | Repair and Maintenance | \$ 6,655,342 |
| 44 | Bank Service Charge | \$ 14,074 |
| 45 | Insurance | \$ 376,485 |
| 46 | Marketing | \$ 351,978 |
| 47 | Interest Expense | \$ 1,393,236 |
| 48 | Pharmacy Benefit Manager Expenses | \$ 3,090,950 |
| 49 | Other Administrative Expenses | \$ 5,711,769 |
| 50 | Amounts paid to third party vendors for secondary network savings | \$ 1,302,854 |
| 51 | Amounts paid to third party vendors for network development, administrative fees, claims processing, and utilization management | \$ 54,766 |
| 52 | 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) | \$ - |
| 53 | Fines and penalties assessed by regulatory authorities | \$ 992,460 |
| 54 | Pass - Through Payments | \$ - |
| 55 | Loss Adjustment Expense | \$ - |
| 56 | Total Non-Claims Costs | \$ 51,466,382 |

Banner University Family Care

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 | \$ 847,189 |
| 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 | \$ 847,189 |
| | | – |
| 64 | Program Integrity: Fraud, Waste, and Abuse Prevention Expenses | \$ – |
| | | – |
| 65 | Credibility Adjustment (If applicable) | 0.0% |
| | | – |
| Numerator | | |
| 66 | Incurred Claims | \$ 946,894,234 |
| 67 | Expenditures for activities that improve health care quality | \$ 847,189 |
| 68 | Total | \$ 947,741,423 |
| Denominator | | |
| 69 | Premium Revenue | \$ 1,055,042,335 |
| 70 | Less: taxes, licensing and regulatory fees | \$ 21,389,274 |
| 71 | Total | \$ 1,033,653,061 |
| 72 | Medical Loss Ratio | 91.7% |
| 73 | Medical Loss Ratio with Credibility Adjustment | 91.7% |

Banner University Family Care
AHCCCS Complete Care Program
Notes to Annual Medical Loss Ratio Report
Year Ended September 30, 2020

1. Organization

Banner University Family Care (BUFC) provides health-plan services to enrollees under contracts with the Arizona Health Cost Containment System (AHCCCS) in various counties in Arizona. Banner Health is the sole corporate member of BUFC.

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 \$15,407,000. Premium revenue includes the revenue related to the Contract Year. This excludes any settlements recorded in the Contract Year related to prior contract years. Additionally, reinsurance recoveries are presented as premium revenue as opposed a reduction of incurred claims, as compared to the presentation in the Audited Financial Statements.