

ANNUAL MEDICAL LOSS RATIO REPORT

Magellan Complete Care of Arizona, Inc.  
AHCCCS Complete Care Program  
Year Ended September 30, 2020  
With Report of Independent Accountants

Ernst & Young LLP



Magellan Complete Care of Arizona, Inc.

AHCCCS Complete Care Program  
Annual Medical Loss Ratio Report

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## Report of Independent Accountants

Board of Directors and Shareholders  
Magellan Complete Care of Arizona, Inc.

We have examined the accompanying Annual Medical Loss Ratio Report of Magellan Complete Care of Arizona, Inc. related to the Arizona Health Care Cost Containment System (AHCCCS) Complete Care plan (the “Subject Matter”) for the contract year ended September 30, 2020. Magellan Complete Care of 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 “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 Non-Claims Costs and Member Months reported on the Adjusted Medical Loss Ratio Rebate Calculation were not included in the scope of the examination.

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 Magellan Complete Care of 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 10, 2021

Magellan Complete Care of Arizona, Inc.

AHCCCS Complete Care Program

Annual Medical Loss Ratio Report

Contract Year Ended September 30, 2020

		<b>Incurred Basis</b>
		<b>CYE20</b>
	<b>Member Months</b>	325,222
<b>Revenue</b>		
<b>Include</b>		
1	Prospective Capitation	\$ 154,242,490
2	Delivery Supplement	\$ 3,520,894
3	APM 1% Withhold Settlement 42 CFR 438.6(b)(3) and Performance Based Payments (PBP)	\$ –
4	Unpaid Cost Sharing Amounts	\$ –
5	Changes to Unearned Premium Reserves	\$ –
6	<b>Risk Adjustment (Suspended)</b>	\$ –
7	Prospective Tiered or Title XIX/XXI Reconciliation Settlement	\$ 11,637,687
8	PPC Settlement	\$ –
9	HCBS Settlement	\$ –
10	Share of Cost (SOC) Settlement	\$ –
11	APSI Settlement	\$ –
12	Reinsurance	\$ 9,690,809
13	Health Insurance Providers Fee (HIPF) Revenue	\$ 1,517,324
14	Patient Contributions	\$ –
15	Other Accruals	\$ (1,043,270)
<b>Deduct</b>		
16	Pass – Through Payments Revenue	\$ –
17	<b>Total Premium Revenue</b>	<b>\$ 179,565,934</b>
<b>Taxes, Licensing and Regulatory Fees</b>		
18	Federal Income Tax & Federal Tax (include Tax Benefit)	\$ (1,402,034)
19	Premium Tax	\$ 3,216,243
20	Health Insurance Providers Fee (HIPF)	\$ 1,486,978
21	Other Federal, State, Local Taxes and Licensing and Regulatory Fees	\$ 22,604
22	Community Benefit Expenses (otherwise exempt from Federal income tax) and Community Reinvestment Expenses meeting requirements of 45 CFR 158.162c	\$ –
23	<b>Total Taxes, Licensing and Regulatory Fees</b>	<b>\$ 3,323,790</b>

Magellan Complete Care of Arizona, Inc.

AHCCCS Complete Care Program

Annual Medical Loss Ratio Report (continued)

Contract Year Ended September 30, 2020

		<b>Incurred Basis</b>
		<b>CYE20</b>
<b>Detail</b>		
<b>Incurred Claims</b>		
<b>Include</b>		
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.	\$ 155,191,762
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)	\$ 5,742,679
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)	\$ –
<b>Deduct</b>		
31	Provider/Subcontractor Overpayment Recoveries	\$ –
32	Rx Rebates (received/accrued)	\$ (11,572)
33	Pharmacy Performance Guarantee	\$ –
34	TPL, COB, Subrogation Recoveries and recoverable COB claims	\$ (89,949)
35	<b>Total Incurred Claims</b>	<b>\$ 160,832,919</b>

Magellan Complete Care of Arizona, Inc.

AHCCCS Complete Care Program

Annual Medical Loss Ratio Report (continued)

Contract Year Ended September 30, 2020

		Incurred Basis
		CYE20
Detail		
<b>Non-Claims Costs</b>		
36	Compensation	\$ 13,346,916
37	Occupancy	\$ 555,649
38	Depreciation	\$ -
39	Care Management/Care Coordination not included in Health Care Quality Improvement Expenses	\$ -
40	Professional and Outside Services	\$ 3,475,689
41	Office Supplies and Equipment	\$ 47,104
42	Travel	\$ 120,492
43	Repair and Maintenance	\$ 410,916
44	Bank Service Charge	\$ -
45	Insurance	\$ 242,977
46	Marketing	\$ 103,596
47	Interest Expense	\$ 122,067
48	Pharmacy Benefit Manager Expenses	\$ 306,996
49	Other Administrative Expenses	\$ 694,273
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	\$ 335,367
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	\$ -
54	Pass – Through Payments	\$ -
55	Loss Adjustment Expense	\$ 184,545
56	<b>Total Non-Claims Costs</b>	<b>\$ 19,946,587</b>

Magellan Complete Care of Arizona, Inc.

AHCCCS Complete Care Program

Annual Medical Loss Ratio Report (continued)

Contract Year Ended September 30, 2020

		<b>Incurred Basis</b>
		<b>CYE20</b>
<b>Detail</b>		
<b>Health Care Quality Improvement and Other Expenses</b>		
57	Improvement of health outcomes	\$ 1,976,259
58	Activities to prevent hospital readmission	\$ 1,383,787
59	Improvement of patient safety and reduce medical errors	\$ 699,501
60	Wellness and health promotion activities	\$ 978,396
61	Health information technology expenses related to improving health care quality	\$ 250,379
62	Activities related to external quality review	\$ –
63	<b>Total Health Care Quality Improvement and Other Expenses</b>	<b>\$ 5,288,322</b>
		–
64	Program Integrity: Fraud, Waste, and Abuse Prevention Expenses	\$ 186,403
65	Credibility Adjustment (If applicable)	1.2%
<b>Numerator</b>		
66	Incurred Claims	\$ 160,832,919
67	Expenditures for activities that improve health care quality	\$ 5,288,322
68	<b>Total</b>	<b>\$ 166,121,241</b>
<b>Denominator</b>		
69	Premium Revenue	\$ 179,565,934
70	Taxes, licensing and regulatory fees	\$ (3,323,790)
71	Total	\$ 176,242,144
72	<b>Medical Loss Ratio</b>	<b>94.3%</b>
73	<b>Medical Loss Ratio with Credibility Adjustment</b>	<b>95.5%</b>

# Magellan Complete Care of Arizona, Inc.

## AHCCCS Complete Care Program

### Notes to Annual Medical Loss Ratio Report

Contract Year Ended September 30, 2020

#### **1. Organization**

Magellan Complete Care of Arizona, Inc. (the “Company”) was a wholly owned subsidiary of Magellan Health Services of Arizona, Inc. (“MHS of AZ”). MHS of AZ was a wholly owned subsidiary of Magellan Healthcare, Inc. (“Magellan Healthcare”), which is a wholly owned subsidiary of Magellan Health, Inc. (“Magellan”). Magellan is engaged in the healthcare management business, and is focused on delivering innovative specialty solutions for the fastest growing, most complex areas of health including special populations, complete pharmacy benefits, and other specialty areas of healthcare.

On December 31, 2020, Molina Healthcare, Inc. (“Molina”) closed on its acquisition of 100% of the outstanding equity interests of the Magellan Complete Care (“MCC”) line of business of Magellan, which included the Company. The MCC Business was Magellan’s business of contracting with state Medicaid agencies and the U.S. Centers for Medicare and Medicaid Services to manage total medical benefits or long-term support services for Medicaid and dual eligible Medicaid and Medicare populations.

The Company operates a prepaid Medicaid managed health plan that derives a majority of its revenue 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. A credibility adjustment is added, when applicable, to the overall calculation. The credibility adjustment for the contract year ended September 30, 2020 impacted by the MLR ratio by approximately 1.2% as shown within the annual MLR report. The accompanying annual MLR report is for the contract year ended September 30, 2020.

#### *Numerator*

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



Magellan Complete Care of Arizona, Inc.

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Notes to Annual Medical Loss Ratio Report

Contract Year Ended September 30, 2020

through December 31, 2020, as well as an estimate for unpaid claims as of December 31, 2020 of \$5,742,679.

Expenditures for activities that improve health care quality include administrative expenses related to case management, care coordination, chronic disease management, and medication and care compliance initiatives.

The Non-Claims Costs are not included in the numerator for purposes of determining the reported on Adjusted Medical Loss Ratio Rebate Calculation.

*Denominator*

Premium revenue included within the annual MLR report includes the revenue related to the Contract Year. This excludes any changes in estimates recorded in the Contract Year related to prior contract years. Additionally, reinsurance recoveries are presented as premium revenue as opposed to a reduction of incurred claims. Taxes included within the annual MLR report include the provision for income taxes for the period, including taxes associated with the Health Insurance Providers Fee and premium taxes. The presentation within this MLR report is consistent with the guidelines included within the Criteria for such report; however, this presentation differs from that included within the Audited Financial Statements prepared in conformity with generally accepted accounting principles.

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