

**311 CYE 14 AND FORWARD ACUTE PROGRAM TIERED PROSPECTIVE RECONCILIATION**

EFFECTIVE DATES: 10/01/13, 01/01/14, 10/01/15, 10/01/17

REVISION DATES: 11/08/12, 10/01/13, 11/08/13, 01/15/15, 10/15/15, 05/03/18

**I. PURPOSE**

This Policy applies to Acute Care Contractors. The purpose of this Policy is to outline the process and Contractor requirements regarding the Acute Program Tiered Prospective Reconciliation. The reconciliation applies to dates of service effective on and after October 1, 2013 and is based upon prospective medical expense 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/block purchase expense reports. This reconciliation is performed annually on a contract year basis.

**II. DEFINITIONS****ACCESS TO PROFESSIONAL SERVICE INITIATIVE (APSI)**

Effective October 1, 2017, AHCCCS seeks to provide enhanced support to certain professionals in order to (1) preserve and enhance access to these professionals who deliver essential services to Medicaid recipients in Arizona and (2) support professionals who are critical to professional training and education efforts. APSI is a program to preserve and promote access to medical services through a uniform percentage increase to the Contractor's rates for professional services provided by qualified physicians and non-physician professionals affiliated with designated hospitals who meet the definition outlined in ACOM Policy 325.

**ADMINISTRATIVE COMPONENT**

The administrative component is equal to the administrative Per Member Per Month (PMPM) awarded to the Contractor including any administrative adjustments deemed necessary by AHCCCS during the capitation rate setting process 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.

**HEALTH INSURER FEE  
CAPITATION  
ADJUSTMENT**

An amount equal to the capitation adjustment for the year being reconciled that accounts for the Contractor's liability for the excise tax imposed by section 9010 of the Patient Protection and Affordable Care Act and the premium tax and any other state or federal taxes associated with that portion of the capitation rate.

**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**

The premium tax is equal to the tax imposed pursuant to A.R.S. §36-2905 and §36-2944.01 for all payments made to Contractors for the Contract Year.

**PROSPECTIVE MEDICAL  
EXPENSE**

Prospective expenses reported through **fully adjudicated encounters** and subcapitated/block purchase expense 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) being reconciled. This will exclude Access to Professional Services Initiative (APSI) expenses.

**PROSPECTIVE NET  
CAPITATION**

Prospective capitation, risk adjusted if applicable, plus Delivery Supplemental payments, less the administrative component, the health insurer fee capitation adjustment, APSI capitation and the premium tax component, For CYE 15 and forward, an amount equal to the Quality Contribution shall be deducted from prospective capitation. Refer to ACOM Policy 315 and later for the definition and computation of the Quality Contribution.

**REINSURANCE**

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

**SUBCAPITATED/BLOCK PURCHASE EXPENSE**

Expenses incurred by the Contractor as payments to a provider under a subcapitated or block purchase arrangement. The subcapitated/block purchase 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 and Adult Group above 106% FPL (formerly known as Newly Eligible Adults or NEAD). Effective October 1, 2017, the Adult Group above 106% FPL is included in this reconciliation. 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 and all expenses in a non-capped status (contract type N).

**III. POLICY**

**A. GENERAL**

1. The Acute Program tiered prospective reconciliation shall be based on prospective net capitation less prospective medical expense plus reinsurance payments. 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. The enhanced portion of a payment for Primary Care Enhanced Payment (PCP Parity) that is subject to AHCCCS cost settlement will not be included in the reconciliation; the non-enhanced portion of the payment will be included in the reconciliation. The enhanced portion of a payment for APSI that is subject to a unique reconciliation as outlined in ACOM Policy 325 will also be excluded from this reconciliation.
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%

LOSS	CONTRACTOR SHARE	STATE SHARE	MAX CONTRACTOR LOSS	CUMULATIVE CONTRACTOR LOSS
<= 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 six months after the end of the period to be reconciled, AHCCCS shall perform an initial reconciliation of actual medical cost experience to prospective net capitation and reinsurance, as follows:

Profit/Loss to be reconciled = Prospective Net Capitation – Prospective Medical Expense – Subcapitated/block purchase Expense + Reinsurance payments.

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

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

2. AHCCCS will utilize only prospective medical expense supported by fully adjudicated encounters and subcapitated expense reported by the Contractor to determine the expenses subject to reconciliation. The enhanced portion of a payment for PCP Parity that is subject to AHCCCS cost settlement will not be included in the reconciliation; the non-enhanced portion of the payment will be included in the 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/block purchase expense information to financial statements and other Contractor submitted files for reasonableness. AHCCCS may perform an audit of self-reported subcapitated/block purchase expense included in the reconciliation.
5. AHCCCS will provide the Contractor the data used for the initial reconciliation 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 final reconciliation will be performed no sooner than 15 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 reconciliation will be paid or recouped through a future monthly capitation payment.
8. AHCCCS may include adjustments to the initial reconciliations to account for completion factors.

### **C. CONTRACTOR RESPONSIBILITIES**

1. The Contractor shall submit encounters for prospective medical expenses and those encounters must reach fully adjudicated status by the required due dates. AHCCCS will only utilize fully adjudicated encounters reported by the Contractor to determine the medical expenses used in the reconciliation.
2. 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.
3. 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 and as specified in Contract, Section F, Attachment F3, Contractor Chart of Deliverables.
4. It is the Contractor's responsibility to identify to AHCCCS any encounter data issues or necessary adjustments associated with the initial reconciliation 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 for reconciliations 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.
5. The Contractor shall submit any additional data as requested by AHCCCS for reconciliation purposes (e.g. encounter detail file, reinsurance payments, etc.).
6. The Contractor shall report all subcapitated/block purchase expense in a format requested by AHCCCS. Subcapitated/block purchase encounters should have a CN 1 code of 05 and a paid amount of \$0 for all non-PCP rate parity encounters. All subcapitated/block purchase encounters that have a health plan paid amount greater

than \$0 will be excluded from the reconciliation expenditures. This includes all subcapitated amounts greater than \$0 for PCP Rate Parity that is subject to AHCCCS cost settlement.

7. 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.