

January 12, 2017

Lorenzo Romero, Director  
Office of Strategic Planning and Budgeting  
1700 West Washington  
Phoenix, Arizona 85007

Richard Stavneak, Director  
Joint Legislative Budget Committee  
1716 West Adams  
Phoenix, Arizona 85007

Dear Mr. Romero and Mr. Stavneak:

Pursuant to Laws 2016, 2<sup>nd</sup> Regular Session, Chapter 117, AHCCCS is reporting on estimates of retroactive capitation rate changes to calendar year 2015 rates for reimbursement of the Affordable Care Act (ACA) health insurer fee. To clarify, it is the Contract Year Ending (CYE) 2016 capitation rates that will be retroactively changed to include the costs of health insurer fee mandate impacting nearly all insurers, including the majority of the AHCCCS contracted Managed Care Organizations (MCOs).

Background

The ACA imposes a tax on most health insurers beginning in calendar year 2014. In the first year the health insurer fee was expected to generate \$8 billion in payments, and the fee increases to total payments of \$14.3 billion by 2018. The tax is imposed on commercial, Medicare and Medicaid insurers with certain exemptions. Those exclusions impacting AHCCCS include:

- Government entities, including independent nonprofit county-organized health system entities that contract with state Medicaid agencies; and
- Nonprofit entities that receive more than 80% of gross revenue from government programs that target low-income, elderly, or disabled populations including Medicare, Medicaid, Children's Health Insurance Plan (CHIP), and dual eligible (Medicare/Medicaid) plans

The 2016 health insurer fee was due by MCOs to the IRS on September 30, 2016. Capitation rates must be actuarially-sound pursuant to 42 CFR §438.6. That is, they must cover the projected costs of the membership, including the costs of doing business such as administrative expenses, and fees and taxes. As such, AHCCCS is amending capitation rates to include the costs of the health insurer fee. Additionally, MCOs will pay federal income taxes and state premium taxes on this revenue.

Capitation Rate Adjustments

The total cost of the health insurer fee, including Arizona premium tax but before federal and state income tax, is approximately \$63.4 million (\$15 million State Match and \$48.4 million Federal Funds). Capitation rate adjustments were developed separately for each MCO based on the MCO's fee liability allocation to each program in which they hold a contract. Federal and state income taxes are estimated to cost an additional \$34.6 million total fund (\$8.2 million State Match and \$26.4 million Federal Funds).

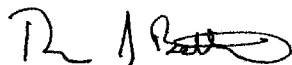
Capitation rates are amended for each of the following AHCCCS programs:

Program	Rates Amended	Contract Year Impacted	TF Fiscal Impact	SM Fiscal Impact	Fed Fiscal Impact	% Impact
Acute Care	October 1 – 31, 2015	CYE 2016	\$76.4 million	\$18.1 million	\$58.3 million	1.52%
Children's Rehabilitative Services (CRS)	October 1 – 31, 2015	CYE 2016	\$6.1 million	\$1.4 million	\$4.7 million	2.58%
Regional Behavioral Health Authority (RBHA)	October 1 – 31, 2015	CYE 2016	\$10.4 million	\$2.5 million	\$7.9 million	0.55%
Arizona Long Term Care System (ALTCS) Division of Developmental Disabilities (DDD)	October 1 – 31, 2015	CYE 2016	\$2.5 million	\$600,000	\$1.9 million	0.20%
ALTCS Elderly & Physically Disabled (EPD)	October 1 – 31, 2015	CYE 2016	\$2.6 million	\$600,000	\$2.0 million	0.24%
Total	October 1 – 31, 2015	CYE 2016	\$98 million	\$23.2 million	\$74.8 million	.94%

Note: the numbers are estimates due to estimated tax rates and estimated member months; actual numbers could differ.

Should you have any questions on these adjustments, please feel free to contact Shelli Silver, Assistant Director, at [shelli.silver@azahcccs.gov](mailto:shelli.silver@azahcccs.gov) or (602) 417-4647.

Sincerely,



Thomas J. Betlach  
 Director

cc: Christina Corieri, Policy Advisor, Office of the Governor  
 Bret Cloninger, Office of Strategic Planning and Budgeting  
 Beth Kohler, Deputy Director, AHCCCS