

311 CYE 20 AND FORWARD – TIERED CAPITATION RECONCILIATION

EFFECTIVE DATE: October 1, 2019

REFERENCES: A.R.S. § 36-2905, AHCCCS Financial Reporting Guide; Section 9010 of the Patient Protection and Affordable Care Act, Section F3, Contractor Chart of Deliverables

This Policy applies to the Division’s Administrative Services Subcontractor (AdSS). The purpose of this Policy is to outline the process and AdSS requirements regarding the DDD Health Plan Tiered Prospective Reconciliation. The reconciliation applies to dates of service effective on and after October 1, 2019 and is based upon total medical expenses and net capitation as described in this Policy. The Division will recoup/reimburse a percentage of the AdSS 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.

Definitions

- A. Administrative Component - The administrative component is equal to the administrative Per Member Per Month (PMPM) awarded to the AdSS including any administrative adjustments deemed necessary by the Division 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 AdSS, but are set by the Division, 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.
- B. Health Insurer Fee Capitation Adjustment - An amount equal to the capitation adjustment for the year being reconciled that accounts for the AdSS’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.
- C. Non-Capped Newborn Expenses - In accordance with the contract, AdSS must notify the Division of a newborn born to an ALTCS mother within one day of the date of birth. When notification is received timely, the AdSS receives capitation retroactive to the birth date. When notification is received late, the AdSS receives capitation beginning on the date of notification, but expenses must be covered by the AdSS 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.
- D. Premium Tax - The premium tax is equal to the tax imposed pursuant to A.R.S. §36- 2905 for all payments made to AdSS for the contract year.
- E. Prospective and Prior Period Coverage Medical Expense - Prospective expenses reported through fully adjudicated encounters and subcapitated/block purchase expense incurred by the AdSS for covered services with dates of service during the contract year (including expenses incurred during the Prior Period Coverage (PPC) time period) being reconciled.
- F. Net Capitation – Prospective and PPC capitation, risk adjusted if applicable, plus Delivery Supplemental payments, less the administrative component, the health insurer fee capitation adjustment and the premium tax component.

- G. **Reinsurance** - For purposes of this reconciliation, reinsurance means the actual reinsurance payments received by the AdSS as the result of prospective medical expense incurred by the AdSS for covered services with dates of service during the contract year being reconciled.
- H. **Subcapitated/Block Purchase Expense** - Expenses incurred by the AdSS 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 AdSS through quarterly financial reports in the format required by the Division.

General

- A. The tiered prospective reconciliation shall be based on net capitation less prospective and PPC medical expense plus reinsurance payments. The amount due from or due to the AdSS as the result of this reconciliation will be based on aggregated profits and losses across all of the tiered reconciliation 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.
- B. The reconciliation will limit the AdSS profits and losses to the percent of net capitation according to the following schedule:

PROFIT	AdSS SHARE	STATE SHARE	MAX AdSS PROFIT	CUMULATIVE AdSS PROFIT
<= 1%	100%	0%	1%	1%
>1%	0%	100%	0%	1%

LOSS	AdSS SHARE	STATE SHARE	MAX AdSS LOSS	CUMULATIVE AdSS LOSS
<= 1%	100%	0%	1%	1%
> 1%	0%	100%	0%	1%

Note: Profits in excess of the percentages set forth above will be recouped by the Division. Losses in excess of the percentages set forth above will be paid to the AdSS.

Division Responsibilities

- A. No sooner than six months after the end of the period to be reconciled, the Division shall perform an initial reconciliation of actual medical cost experience to net capitation and reinsurance, as follows:

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

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

Note: ACOM 311, Attachment A provides an example of the tiered reconciliation calculation.

- B. The Division will utilize only total medical expense supported by fully adjudicated encounters and subcapitated expense reported by the AdSS 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.
- C. The Division will utilize amounts paid to the AdSS for reinsurance as of the date the reconciliation is processed to determine profit/loss to be reconciled.
- D. The Division will compare fully adjudicated encounters and self-reported subcapitated/block purchase expense information to financial statements and other AdSS submitted files for reasonableness. The Division may perform an audit of self-reported subcapitated/block purchase expense included in the reconciliation.
- E. The Division will provide the AdSS the data used for the initial reconciliation and provide written notice of the deadlines for review and comment by the AdSS. Upon completion of the review period, the Division will evaluate AdSS comments and make any adjustments to the data or reconciliation as warranted. The Division may then process partial distributions/recoupments through future monthly capitation payments.
- F. 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. The Division will provide the AdSS the data used for the final reconciliation and written notice of the deadline for review and comment by the AdSS. Upon completion of the review period, the Division will evaluate AdSS comments and make any adjustments to the data or reconciliation as warranted.
- G. Any amount due to or due from the AdSS 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.
- H. The Division may include adjustments to the reconciliations to account for completion factors.

AdSS Responsibilities

- A. The AdSS must submit encounters for prospective and PPC medical expenses and those encounters must reach fully adjudicated status by the required due dates. The Division will only utilize fully adjudicated encounters reported by the AdSS to determine the medical expenses used in the reconciliation.
- B. The AdSS must maintain financial statements that separately identify all group transactions, and shall submit such statements as required by contract and in the format specified in the AHCCCS Financial Reporting Guide.
- C. The AdSS must monitor the estimated program tiered reconciliation receivable/payable and record appropriate accruals on all financial statements submitted to the Division on a quarterly basis as specified in the AHCCCS Financial Reporting Guide and as specified in *Contract, Contractor Chart of Deliverables*.

- D. It is the AdSS responsibility to identify to the Division 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 AdSS to have any identified encounter data issues corrected and adjudicated no later than 15 months from the end of the period being reconciled. The Division will not consider any data for reconciliations submitted by the AdSS after these timeframes. Any encounter data issues identified that are the result of an error by the Division will be corrected prior to the final reconciliation.
- E. The AdSS must submit any additional data as requested by the Division for reconciliation purposes (e.g. encounter detail file, reinsurance payments, etc.).
- F. The AdSS must report all subcapitated/block purchase expense in a format requested by the Division.
- G. If the AdSS performs recoupments/refunds/recoveries on prospective claims, the related encounters must be adjusted (voided or void/replaced) pursuant to AdSS Operations Manual, Policy 412. The Division reserves the right to adjust any previously issued reconciliation results for the impact of the revised encounters and recoup any amounts due the Division. If the AdSS does not submit the revised encounters within the required timeframe, the Division may recoup the estimated impact on the reconciliation.