

Arizona Health Care Cost Containment System

Manual: Division of Health Care Management - Finance
Policy and Procedures

Effective Date: October 1, 2001
Revision Date: October 1, 2004

Subject: Title XIX Waiver Reconciliation Policy

Authorized Signature:

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I. Purpose

Because of the programmatic change and the uncertainty regarding actual utilization and medical cost experience of the TWG population, AHCCCSA intends to limit the financial risk to its contractors. The policy will define the elements of the reconciliation.

AHCCCSA will offer a reconciliation process for contractors whose total Title XIX Waiver Group (TWG) cost experience (net of reinsurance) is more than the total TWG reimbursement (net of administration).

For CYE '02 and CYE '03, AHCCCS will reimburse 100% of a contractor's reasonable costs in excess of the contractor's elected risk band percentage as determined by reported encounter data and subcapitated expense reports. AHCCCS will recoup from any contractor, profit amounts in excess of the contractor's elected risk band.

For contract years CYE '04 and later, AHCCCS will reimburse 100% of a contractor's reasonable costs in excess of a 2% profit or loss, as determined by reported encounter data and subcapitated expense reports.

This policy applies to all AHCCCS acute care contractors.

II. Definitions

Title XIX Waiver Group Member (TWG): All Medical Expense Deduction (MED) members, and adults or childless couples at or below 100% of the Federal Poverty Level (Non-MED) who are not categorically linked to another Title XIX program.

Contractor: An acute care health plan that has contracted with AHCCCS to provide medical services for the TWG population.

Hospitalized Kick Payment: Targeted reimbursement paid to a contractor for a member who is hospitalized on the date of application.

PPC Capitation: Capitation payment for the period of time from the 1st day of the month of application or the 1st eligible month, whichever is later, to the day a member is enrolled with the

Contractor. Also, the period of time between the date a MED member was approved and the date the member met spenddown, or 1st day of the month the member reduced resources, whichever is later.

Prospective Capitation: Capitation payments for member months during a member’s prospective enrollment with a health plan. Prospective enrollment is from the date of eligibility determination to the date a member is determined no longer eligible.

Risk Band: Percentage of risk the health plan will elect. Profits and losses in excess of the elected percentages will either be recouped or reimbursed by AHCCCSA in the reconciliation.

III. Policy

General

1. The reconciliation shall relate to PPC and prospective reported medical expenses net of reinsurance for the TWG population. Administrative, premium tax and non-operating expenses shall be excluded. The amount of the reimbursement to be reconciled against will be *net of the administrative and premium tax components included in the capitation rate.
2. For the first two contract years (CYE ‘02 and CYE ‘03), AHCCCSA intends to limit the financial risk to its Contractors. This reconciliation will limit the Contractor’s losses to 2% and profits to 4% of the Contractor’s TWG capitation. Any losses in excess of 2% will be reimbursed to the Contractor, and likewise, profits in excess of 4% will be recouped. The Contractor may choose to elect an alternative risk sharing methodology to have AHCCCS recoup profits in excess of 1% and reimburse losses in excess of 1%.
3. For contract years CYE ‘04 and later, the reconciliation will limit the Contractor’s profits and losses to 2% of the Contractor’s TWG capitation. Any losses in excess of 2% will be reimbursed to the Contractor, and likewise, profits in excess of 2% will be recouped.

AHCCCSA Responsibilities

1. Approximately six months after the contract year to be reconciled, AHCCCSA shall perform an interim reconciliation of actual medical cost experience to capitation and reinsurance paid in order to monitor the status of the risk sharing arrangement:

PPC Capitation + Prospective Capitation + Hospital Supplement Payment +
 Maternity Supplement payment + HIV/AIDS payment - administration % -
 premium tax %

Less: Total medical expenses (net of reinsurance)

Equals: Profit/Loss to be reconciled according to risk band elections

2. AHCCCS will utilize encounters and subcapitated expenses reported by the Contractor to determine the medical expenses reported.

3. AHCCCS will compare encounter and subcapitated expense information to financial statements for reasonableness.
4. Distributions will be made to contractors after all contractors have agreed to the reconciliation amount.
5. In the event a contractor is required to reimburse AHCCCS, such reimbursement will be collected by AHCCCS through a reduction to the Contractor's prospective capitation payments upon issuance of the second and final reconciliation.
6. A second and final reconciliation will be done approximately 15 months after the end of the contract year to be reconciled. This will allow for completion of the claims lag and encounter reporting. Any amount over or underpaid as a result of the initial reconciliation will be recouped or reimbursed, respectively, at this time.
7. AHCCCSA may perform an audit of self-reported subcapitated expenses included in the reconciliation.

Contractor Responsibilities

1. Contractor shall maintain financial statements that separately identify Title XIX Waiver Group transactions, and shall submit such statements as required by contract and in the format specified in the Reporting Guide.
2. Contractor shall report all encounters and adjustments accurately and timely.
3. Contractor shall report all subcapitated expenses in a format approved by AHCCCSA.

IV. References

- Acute Care Contract, Section D, Paragraph 53, *Compensation*

* Administration percentage by contract year:

- CYE '02 – 10%
- CYE '03 – 10%
- CYE '04 – 9%
- CYE '05 – 9%

* Premium tax – 2%

* Attachment – Sample TWG Reconciliation

**Health Plan
Title XIX Waiver Group Reconciliation - EXAMPLE
For Contract Year Ended 9/30/04**

	Non-Med	MED	TOTAL
Gross TWG Revenue (1)	\$ 130,000,000.00	\$ 26,500,000.00	\$ 156,500,000.00
Premium Tax	\$ (2,598,980.79)	\$ (529,792.24)	\$ (3,128,773.03)
Admin %	\$ (10,519,350.21)	\$ (2,144,329.08)	\$ (12,663,679.29)
TWG Revenue Net of Admin and Premium Tax	\$ 116,881,669.00	\$ 23,825,878.68	\$ 140,707,547.68
HP Paid Encounters (2)	\$ (129,886,000.00)	\$ (26,800,000.00)	\$ (156,686,000.00)
HP Reported Subcapitated Expenditures (3)	\$ (2,518,000.00)	\$ (105,000.00)	\$ (2,623,000.00)
Exclusion of Subcap Code 01 Encounters (6)	\$ 5,108,000.00	\$ 548,000.00	\$ 5,656,000.00
Reinsurance Paid (4)	\$ 9,462,000.00	\$ 3,225,000.00	\$ 12,687,000.00
Net Profit/(Loss)	\$ (952,331.00)	\$ 693,878.68	\$ (258,452.32)
% of Rev Net of Admin	-0.81%	2.91%	-0.18%
MM (5)	380,000	60,000	440,000

Net Capitation \$ 140,707,547.68
Total Profit/(Loss) \$ (258,452.32)

Risk Band Corridor - 2% or (2%) \$ (2,814,150.95)

CYE 04 TWG Amount Due To (From) Health Plan \$ -

Assumptions:

- (1) Gross TWG includes all reimbursement paid for the period 10/1/03 - 9/30/04.
- (2) Health Plan Encounters includes all encounters submitted for the period 10/1/03 - 9/30/04.
- (3) Subcapitated Expenditures is data submitted by the Health Plans.
- (4) Reinsurance Paid includes all payments to the Health Plan for the period of 10/1/03 - 9/30/04.
- (5) Member Months are actual member months paid for the period of 10/1/03-9/30/04.
- (6) Subcap Code 01 Encounters have been excluded from the data because the health plans are required to self report sub-capitated expenses as noted in #3 above. Subcap Code 01 Encounters for the period of 10/1/03 - 9/30/04.

Source: TWG Cap and MM Paid - DOS, ReportAHAHG296
TWG Medical Expenses - DOS, Report AHAHG294
Health Plan Self Reported Subcapitated Expenses
TWG Reinsurance Paid from DBF