ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM

THE FINANCE FLASH

August 27, 2026

MCO Question Related to Encountering and Sub Capitated/Block Expenses

<u>MCO Question</u>: Page 44 If a Contractor decides to forgive a Provider's contractually required encountering percentages, under-encountered amounts should be removed from the Sub Capitated/Block Expenses schedule and recorded as an administrative expense. Other administrative expenses account 83005-01 is the appropriate account for this expense. Disclose in the Financial Reporting Template, Title XIX/XXI Other Account tab.

<u>Comment:</u> Encountering percentages only apply to ACC-RBHA contracts. Could AHCCCS please clarify as such in the Financial Reporting Guide to avoid confusion?

<u>AHCCCS Response:</u> ***It is AHCCCS' expectation that contractual encountering percentages between an MCO and their providers* for all LOBs *would align with MLR requirements (unless the provider is crisis, rural, or there are other extenuating circumstances).*** If a Contractor decides to forgive a Provider's contractually required encountering percentages, under-encountered amounts **shall** be removed from the Sub Capitated/Block Expenses schedule and recorded as an administrative expense or a reduction to profit because it is considered a bad debt expense. Per CMS, bad debt expenses are not to be included in allowable costs in the MLR or for consideration by the Division's actuaries for capitation rate setting purposes. If the forgiveness expense meets the criteria of health care quality improvement per 45 CFR § 158.150, it can be recorded as HCQI. Otherwise, the appropriate account for this expense is Bad Debt Expense account 82605-01.

MCO Question Related to Sub Capitated/Block Expense Reporting

<u>MCO Question:</u> Page 44 The Contractor may only include in the incurred claims for Medicaid covered services the amount that the subcontractor actually pays the medical provider for providing Medicaid covered services to enrollees.

<u>Comment:</u> We agree that the medical portion of Sub Capitated arrangements should be replaced with incurred claims for MLR reporting in accordance with CMS requirements, with an exception when services are provided by their own employees. However, it does not seem appropriate to use incurred claims on the Sub Capitated Supplemental schedule because this schedule is used for the Tiered Profit Reconciliation. ACOM 311 states that the Medical Sub-Capitated/Block Purchase Expenses used in this reconciliation are reported by the Contractor through quarterly or audited financial reports in the format required by AHCCCS. The tiered profit reconciliation uses Sub Capitation paid to the subcontractor, not the amounts paid by the subcontractor to the provider. Could AHCCCS please clarify this language in the FRG?

AHCCCS Response: The Financial Reporting Guides will be revised to reflect the following: Section 4.10, Sub-capitated / Block Expense: The sub-cap/block reports submitted to AHCCCS should include all covered medical expenses that are paid by the MCO to the sub-capitated and block providers. The audited sub-cap/block schedules are used in the reconciliation. There should not be any administrative costs in these amounts, only medical expenses. All encounters are required to be submitted for the sub-capitated and block amounts. Refer to ACOM 311, for additional information regarding sub-capitated / block expense encounters. (https://azahcccs.gov/shared/ACOM/).