

**316 CYE 14 AND FORWARD – ADULT GROUP ABOVE 106% FEDERAL POVERTY  
LEVEL RECONCILIATION**

EFFECTIVE Date: 10/01/13, 01/01/2014

REVISION DATE: 01/15/15

STAFF RESPONSIBLE FOR POLICY: DHCM FINANCE

**I. PURPOSE**

This Policy applies to Acute Care Contractors for Contract Year Ending (CYE) 14 and forward.

Beginning January 1, 2014, the State of Arizona will expand Medicaid eligibility to certain adults aged 19-64, without Medicare, with income greater than 106% of the Federal Poverty Level (FPL) through 133% FPL. This population is known as Adult Group above 106% FPL (Adults > 106%) (formerly known as Newly Eligible Adults or NEAD).

Due to the uncertainty regarding actual utilization and medical cost experience of the Adults > 106% population, AHCCCS intends to limit the financial risk to its Contractors. AHCCCS will isolate the Adults > 106% population revenue and expenses and reconcile Contractor prospective and Prior Period Coverage (PPC) profits and losses to 1% for CYE 14 and forward.

The Adults > 106% reconciliation applies to dates of service from January 1, 2014 through September 30, 2014 for CYE 14 and October 1 to September 30 thereafter, and is based upon prospective and PPC net capitation and expenses as described in this Policy. All profit/loss sharing is based on adjudicated encounter data and subcapitated expense reports.

**II. DEFINITIONS**

**ADMINISTRATIVE COMPONENT** The administrative component will be equivalent to the amount of administrative expense built into the capitation rate for the year being reconciled. The administrative component is equal to the administrative Per Member Per Month (PMPM) rate built into the capitation rate multiplied by the actual prospective and PPC 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.

**PPC CAPITATION**

Capitation payment for the period of time from the first day of the month of application or the first eligible month, whichever is later, to the day a member is enrolled with the Contractor.

**PRIOR PERIOD COVERAGE (PPC)**

The period of time prior to the member's enrollment, during which a member is eligible for covered services. The timeframe is from the effective date of eligibility to the day a member is enrolled with a Contractor. Refer to 9 A.A.C. 22 Article 1. If a member made eligible via the Hospital Presumptive Eligibility (HPE) program is subsequently determined eligible for AHCCCS via the full application process, prior period coverage for the member will be covered by AHCCCS fee for service and the member will be enrolled with the Contractor only on a prospective basis.

**PPC MEDICAL EXPENSE**

Total expenses covered under the Acute Care Contract for services provided during the PPC time period.

**PPC NET CAPITATION**

PPC capitation less the administrative component, premium tax, and the health insurer fee capitation adjustment.

**PREMIUM TAX**

The premium tax is equal to the tax imposed pursuant to A.R.S. §36-2905 for all payments made to Contractors for the contract year.

**PROSPECTIVE MEDICAL EXPENSE**

Expenses reported through **fully adjudicated encounters** and subcapitated expense incurred by the Contractor for covered services with dates of service during the contract year (excluding expenses incurred during the PPC time period).

**PROSPECTIVE NET CAPITATION**

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

Expenses incurred by the Contractor as payments to a provider under a subcapitated arrangement. The subcapitated expense used in this reconciliation is reported by the Contractor through quarterly financial reports in the format required by AHCCCS.

**III. POLICY**

**A. GENERAL**

1. The Adults > 106% reconciliation shall relate solely to fully adjudicated Adults > 106% prospective and PPC medical expenses. The amount due from or due to the Contractor as a result of this reconciliation will be based on aggregated profits and losses across both prospective and PPC risk groups. 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.
2. The reconciliation will limit the Contractor's profits and losses to 1% (See Attachment A for calculation). Any losses in excess of 1% will be reimbursed to the Contractor, and likewise, profits in excess of 1% will be recouped.

**B. AHCCCS RESPONSIBILITIES**

1. No less than six months after the contract year to be reconciled, AHCCCS shall perform an initial reconciliation. The reconciliation will be calculated as follows:

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

Attachment A to this Policy provides an example of the Adults > 106% reconciliation calculation.

2. AHCCCS will utilize only expenses 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 expense information to financial statements and other Contractor submitted files for

- reasonableness. AHCCCS may perform an audit of self-reported subcapitated expense included in the reconciliation.
5. AHCCCS will provide to the Contractor the data used for the initial reconciliation and provide a set time period 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 a future monthly capitation payment.
  6. A second and final reconciliation will be performed no sooner than 15 months after the end of the contract year to be reconciled. This will allow for completion of the claims lag and encounter reporting. AHCCCS will provide to the Contractor the data used for the final reconciliation and provide a set time period 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 reconciliation to account for completion factors.

### **C. CONTRACTOR RESPONSIBILITIES**

1. The Contractor shall submit encounters for Adults > 106% prospective and PPC 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 Adults > 106% prospective and PPC 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 Adults > 106% reconciliation receivable/payable and record appropriate accruals on financial statements submitted to AHCCCS on a quarterly basis as specified in the AHCCCS Financial Reporting Guide for Acute Care Contractors.
4. It is the Contractor's responsibility to identify to AHCCCS any encounter data issues or necessary adjustments by the initial reconciliation due date provided. It is also the responsibility of the Contractor to correct (including adjudication of corrected encounters) any identified encounter data issues no later than 15 months after the end of the contract year being reconciled. AHCCCS will not consider any data for reconciliations submitted by the Contractor after these timeframes. Reconciliation 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 expense in a format requested by AHCCCS. Subcapitated encounters should have a CN 1 code of 05 and a paid amount of \$0 for all non-PCP rate parity encounters. All subcapitated 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 are subject to AHCCCS cost settlement.
7. If the Contractor performs recoupments/refunds/recoveries on any 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.

#### **IV. REFERENCES**

- Acute Care Contract, Section D
- Attachment A, Health Plan Adult Group above 106% FPL Reconciliation - Example
- ACOM Policy 412
- AHCCCS Financial Reporting Guide for Acute Care Contractors
- Section 9010 of the Patient Protection and Affordable Care Act
- A.R.S. §36-2905
- 9 A.C.C. 22 Article 1

**ATTACHMENT A, HEALTH PLAN ADULT GROUP ABOVE 106% FEDERAL POVERTY LEVEL  
RECONCILIATION – EXAMPLE**

**SEE THE ACOM WEBPAGE FOR ATTACHMENT A OF THIS POLICY**