ARIZONA DEMONSTRATION
FACT SHEET
January 2017

Name of Section Demonstration/Waiver: Arizona Health Care Cost Containment System (AHCCCS) 1115 Demonstration

Date New Application Submitted: March 31, 2011
Date Application Approved: October 21, 2011
Date Implemented: October 22, 2011
Date Expires: September 30, 2016

Date Extension Application Submitted: September 30, 2015
Date Extension Application Approved: September 30, 2016
Date Implemented: October 1, 2016
Date Expires: September 30, 2021

Number of Amendments: 10

SUMMARY

Until 1982, Arizona was the only state that did not have a Medicaid program under title XIX of the Social Security Act. In October 1982, Arizona implemented the AHCCCS in the state under section 1115. AHCCCS initially covered only acute care services, however, by 1989, the program was expanded to include the Arizona Long Term Care System (ALTCS), the state’s capitated long term care (LTC) program for people who are elderly and physically disabled (EPD) and individuals with developmental disabilities (IDD). In 2000, the state also expanded coverage to adults without dependent children with income up to and including 100 percent of the federal poverty level (FPL) as well as established the Medical Expense Deduction (MED) program for adults with income in excess of 100 percent of the FPL who have qualifying healthcare costs that reduce their income at or below 40 percent of the FPL. On March 31, 2011, Arizona requested to eliminate the MED program and implement an enrollment freeze on the adults without dependent children population. On April 30, 2011, and July 1, 2011, CMS approved the state’s required phase-out plans for the MED program and the adults without dependent children population, respectively.

In general, the demonstration provides health care services through a prepaid, capitated managed care delivery model that operates statewide for both Medicaid state plan groups.

The demonstration affects coverage for certain specified mandatory state plan eligibles by requiring enrollment in coordinated, cost effective, health care delivery systems. In this way, the demonstration will test the use of managed care entities to provide cost effective care coordination. In addition, the demonstration will provide for payments to IHS and tribal 638 facilities to address the fiscal burden of services provided in or by such facilities. This authority will enable the state to ensure the continued availability of a robust health care delivery network for current and future Medicaid beneficiaries.
On September 30, 2016, CMS approved an extension to the demonstration. The extension provided the authority for the continuation of the state’s Medicaid managed care delivery system for mandatory and optional Medicaid state plan populations and physical and behavioral health integration through regional behavioral health authority (RBHA) and children’s rehabilitative services (CRS) plans. CMS also authorized the state to provide adult dental benefits to Arizona Long Term Care Services (ALTCS) beneficiaries up to $1,000 annually, per person. CMS also approved a new beneficiary engagement initiative, AHCCCS Choice Accountability Responsibility Engagement (CARE), which affects the new adult group population with incomes above 100 percent up to and including 133 percent of the FPL. Under this initiative, the state will link Medicaid benefits to an AHCCCS CARE program that will test the use of incentives to build health literacy, achieve identified health targets and encourage appropriate care.

Under the state’s AHCCCS CARE program, the state may require that Medicaid beneficiaries pay monthly contributions in amounts not more than two percent of household income and utilization-based copayment-like charges on a limited set of services, subject to Medicaid’s aggregate cap of five percent of household income.

The state’s AHCCCS CARE program also includes “Healthy Arizona,” a healthy behaviors component to incentivize beneficiaries to engage in managing preventive healthcare and chronic illnesses. Individuals who meet a healthy behaviors target will qualify for elimination of their monthly contribution for six months as well as have access to incentive payments from their AHCCCS CARE account. CMS and the state will develop an evaluation design that will evaluate the effectiveness of these changes on the impacted Medicaid population.

Participation in AHCCCS CARE is voluntary for individuals with incomes up to and including 100 percent of the FPL, individuals with serious mental illness, individuals who are considered medically frail and American Indians and Alaska natives.

In addition, outside this demonstration, the state aims to encourage employment through referrals to a new state-only work search and job training program called AHCCCS Works. This program, which will help connect beneficiaries to employment supports, is available for AHCCCS CARE beneficiaries who choose to participate. Health coverage provided by the Medicaid program and this demonstration will not be affected by this state initiative.

Other changes made to the demonstration as part of the extension include:

- The authorities that restrict individuals from disenrolling from managed care without cause have been time limited to align with the new managed care regulations. Beginning October 1, 2017, beneficiaries will be allowed 90 days to change managed care plans without cause.
- The expenditure authorities have been updated to reflect continuation of the phase-out of the safety net care pool (SNCP) for Phoenix Children’s Hospital. Currently the state is allowed to claim up to $110,000,000 total computable through the end of
calendar year 2016. For calendar year 2017, the state is allowed to claim up to $90,000,000 total computable before a complete phase out of the SNCP.

- The waiver of retroactive eligibility under section 1902(a)(34) of the Act that expired on December 31, 2013 has been removed.
- The waiver authority for disproportionate share hospital (DSH) payment requirements is revised to allow a one-year transition period to change its authority for its DSH payments to the Medicaid state plan in accordance with section 1923 of the Act.
- The expenditure authority to relieve the state of disallowances under section 1903(u) of the Act based on Medicaid Eligibility Quality Control (MEQC) findings because the state will follow current MEQC recoveries processes.
- The expenditure authority for outpatient drugs otherwise not allowable under section 1903(i)(23) of the Act expired November 1, 2012 and has been removed.
- The expenditure authority related to the tribal facility payments has been updated to clarify that the authority is for services to Medicaid eligible individuals.

On January 18, 2017, an amendment was approved which established the “Targeted Investments Program.” The state will direct its managed care plans to make specific payments to certain providers pursuant to 42 CFR 438.6(c), with such payments incorporated into the actuarially sound capitation rates, to incentivize providers to improve performance. Specifically, providers will be paid incentive payments for increasing physical and behavioral health care integration and coordination for individuals with behavioral health needs.

The Targeted Investments Program will:

- Reduce fragmentation that occurs between acute care and behavioral health care,
- Increase efficiencies in service delivery for members with behavioral health needs, and
- Improve health outcomes for the affected populations.

**POPULATIONS**

All populations that derive their eligibility from the Arizona Medicaid state plan, including the elderly and the disabled who receive long term care services, participate in the demonstration. The only population that is not mandatorily enrolled into the demonstration is the American Indian/Alaskan Native population who can elect to remain in Arizona’s fee-for-service program, or can elect to participate in the demonstration to receive their benefits through a managed care delivery system.

**AMENDMENTS**

Number of Amendments: 9

**Amendment #1:** Provides the state with the authority to: establish the KidsCare II program which provides coverage to children with family income up to 175 percent of
the FPL; establish the Safety Net Care Pool; and make uncompensated care payments to Indian Health Services’ facilities as well as to “638” facilities.

Date Amendment #1 Submitted: Outstanding Items from the State’s March 31, 2011 section 1115 demonstration application Date Amendment #1 Approved: April 6, 2012
Date Amendment #1 Effective: April 6, 2012

Amendment #2: Provides authority for the state to integrate behavior and physical health for the SMI population and children enrolled in the state’s Children’s Rehabilitative Services program. Amendment also makes technical corrections to the state’s DSH methodology to reflect 2013 DSH amounts as well as technical changes to the SNCP protocols in order to add 3 new hospitals and mid-level practitioner costs.

Date Amendment #2 Submitted: February 7, 2012
Date Amendment #2 Approved: January 31, 2013
Date Amendment #2 Effective: January 31, 2013

Amendment #3: State has request authority to create a statewide medical home project for the AI/AN population to promote care coordination for the FFS AI/AN beneficiaries. This amendment was not approved as part of the 1115 demonstration. The state has a Medicaid state plan amendment for a primary care case management (PCCM) program for the AI/AN population that was approved on June 14, 2017.

Date Amendment #3 Submitted: August 11, 2011
Date Amendment #3 Approved: N/A
Date Amendment #3 Effective: N/A

Amendment #4: State has requested authority to continue its expenditure authority to provide coverage to the adults without children population through September 30, 2016. The amendment request was withdrawn on December 9, 2013. The amendment was no longer needed since the coverage was continued via state law.

Date Amendment #4 Submitted: November 9, 2012
Date Amendment #4 Approved: N/A
Date Amendment #4 Effective: N/A

**Amendment #5:**
State has requested authority to add additional hospitals to the SNCP and expand the KidsCare II program.

Date Amendment #5 Submitted: January 29, 2013
Date Amendment #5 Approved: April 16, 2013
Date Amendment #5 Effective: April 16, 2013

**Amendment #6:**
Arizona had several requests outstanding. CMS approved two: to open enrollment to Medicaid for certain childless adults with incomes at or below 199 percent of the FPL who have pending disability reviews financed by the SNCP, and to continue coverage for children with incomes above 133 percent of the FPL in the KidsCare II program.

Date Amendment #6 Submitted: November 1, 2013
Date Amendment #6 Approved: November 27, 2013
Date Amendment #6 Effective: December 1, 2013

**Amendment #7:**
CMS approved amendments that were outstanding from previous requests: extending uncompensated care payments to Phoenix Children’s Hospital and continue uncompensated care payments to IHS and 638 Tribal facilities.

Date Amendment #7 Submitted: August 30, 2013
Date Amendment #7 Approved: December 26, 2013
Date Amendment #7 Effective: December 26, 2013

**Amendment #8:**
CMS approved amendments that were outstanding from previous requests: Expands the integration of physical and behavioral health services for individuals with SMI in Greater Arizona, a one year extension of the use of the SNCP for uncompensated care payments to Phoenix Children’s Hospital, continued uncompensated care payments to HIS and 638 Tribal facilities and expenditures for all Medicaid covered services through HPE for pregnant women.

Elements of Arizona’s request that are addressed in this approval were disapproved by CMS on June 22, 2015: 1) allowing a $200 copayment for non-emergency use of the emergency room for individuals in the Adult Group above 100 percent of the FPL; and 2)
authority to allow for Federal Financial Participation (FFP) for services provided by Tuba City Regional Health Care Corporation for inmates of the Navajo Detention Center.

**Date Amendment #8 Submitted:** February 2014  
**Date Amendment #8 Approved:** December 15, 2014  
**Date Amendment #8 Effective:** December 15, 2014

**Amendment #8**

CMS approved an amendment to extend Arizona’s expenditure authority for its safety net care pool for Phoenix Children’s Hospital until the end of the demonstration, September 30, 2016. With the amendment, CMS and Arizona also agreed in principle that the state would phase out use of the safety net care pool within two years. Upon extension of the demonstration in 2016, CMS will finalize the remainder of the two year phase out in the expenditure authority and the special terms and conditions.

**Date Amendment #9 Submitted:** October 22, 2015  
**Date Amendment #9 Approved:** December 23, 2015  
**Date Amendment #9 Effective:** January 1, 2016

**Amendment #9**

CMS approved the state’s Targeted Investments Program, that allows the state to leverage 42 CFR 438.6(c) to direct its managed care plans to make specific payments to providers to incentive them for improved performance and increased physical and behavioral health care integration and coordination for children, adults and individuals who have transitioned from correctional facilities. The state may spend up to $300 million total computable for incentive payments to providers over the course of 5 years and risk statewide penalties via reduced designated state health plan (DSHP) funding if statewide improvement targets are not achieved.

**Date Amendment #10 Submitted:** September 26, 2016  
**Date Amendment #10 Approved:** January 18, 2017  
**Date Amendment #10 Effective:** January 18, 2017

**Amendment #10**

Arizona requests to amend its AHCCCS demonstration to allow federal match for the cost of services provided to Medicaid beneficiaries, ages 21-64 who are patients receiving inpatient services in an institution for mental disease (IMD). In addition, the state would like to permit its managed care
organizations (MCO) to cover inpatient services for these beneficiaries beyond the 15 day period that is allowed in the managed care regulations at 438.6(e) and authority to claim federal financial participation (FFP) to pay monthly capitation to their MCOs that cover these services.

Date Amendment #11 Submitted: April 12, 2017
Date Amendment #11 Approved: Under CMS Review
Date Amendment #11 Effective: Under CMS Review

**DELIVERY SYSTEM**

Acute care services are provided by private or county-owned health plans, which are selected through a competitive bidding process. To help ensure that AHCCCS beneficiaries have access to appropriate medical care, health plan contracts stipulate specific provider networks, ensuring provider availability in both urban and rural locations.

The ALTCS program is managed by AHCCCS through program contractors who are responsible for the EPD delivery system. Program contractors are responsible for providing all acute care services covered under AHCCCS to LTC eligibles and they are paid a capitation rate for each enrollee. The Arizona Department of Economic Security is the sole program contractor for the DD population statewide.

There are two separate delivery systems for behavioral health services in Arizona: one for persons enrolled in the acute care program and one for persons enrolled in the long term care program. All behavioral health services for enrollees in the acute care program are administered through Regional Behavioral Health Authorities (RBHAs) and ribal RBHAs (TRBHAs) located throughout the state. The RBHAs are responsible for client evaluation and diagnosis, service and treatment planning, case management, coordination with the Health Plan, and providing all behavioral health services through subcontracts with behavioral health providers. For ALTCS enrollees, services are administered through the Program Contractors. The Program Contractors may contract for behavioral health services through providers or the RBHAs. For adults a Serious Mental Illness (SMI), the RBHA will provide both physical and behavioral health services. For children enrolled in the state’s Children’s Rehabilitative Services (CRS) program, CRS will provide both physical and behavioral health services.

**BENEFITS**

The AHCCCS program covers inpatient and outpatient hospital services, emergency room care, physician services, outpatient health services, lab, X-ray, pharmacy, behavioral health services, and several other services.

Additional benefits covered under ALTCS include acute care services as well as Nursing Facility days, Intermediate Care Facility for Individuals with Developmental Disabilities
(ICF/IDD) days, case management, behavioral health services, and HCBS. HCBS covered by ALTCS include home health care, homemaker services, personal care, adult day health, hospice, respite care, transportation, attendant care, environmental modification, life line alert, and home-delivered meals. Habilitation and day-care services are also covered for the IDD population.

The behavioral health services provided are primarily outpatient. They include individual and group therapy and counseling, emergency crisis behavioral health care, partial care, psychotropic medications, behavior management, and psychosocial rehabilitation. Inpatient psychiatric hospital services are available for persons under 21 years of age. For adults 21 through 64, behavioral health services are covered in three types of inpatient facilities: psychiatric health facilities, detoxification facilities, and crisis stabilization facilities.

QUALITY AND EVALUATION PLAN

New demonstration evaluation requirements are also added to measure outcomes of the AHCCCS CARE premiums, cost sharing and healthy behaviors requirements.

COST SHARING

In accordance with waivers granted to the State of Arizona, copayments may be imposed on covered services.

Arizona will charge premiums for individuals in the new adult group with incomes above 100 percent of the FPL. Premiums are up to 2 percent of household income, or $25 per month, whichever is lesser. The AHCCCS CARE members will have a two month grace period to pay monthly premiums. Individuals above 100 percent of the FPL may be disenrolled for non-payment, but may not be locked out. If a beneficiary in the AHCCCS CARE program is disenrolled for non-payment of premiums, they will be able to re-enroll within 90 days without filing a new application.

Strategic Coinsurance

In order to steer beneficiary behavior to seek the right care in the right setting, Arizona will implement a “strategic” coinsurance structure. Essentially a member of AHCCCS CARE would be subject to no cost sharing if care is received in accordance with the CARE guidelines. No coinsurance is assessed for preventive services, wellness visits, services to manage chronic illness and mental illness, primary care and/or OB-GYN services, prescriptions and specialist services with a referral. Coinsurance will be charged for non-emergency use of the emergency department, seeing a specialist without a referral and use of brand name drugs when there is an available generic. The strategic coinsurance levels are within the state plan permissible levels. Coinsurance charged to beneficiaries will be no more than 3 percent of household income, so that, together with the 2 percent premiums, they do not exceed the regulatory cap of 5 percent of household income, per quarter. The state will charge coinsurance retrospectively on a monthly basis. Utilization will be reviewed every six months and quarterly invoices based on that utilization will be sent to the beneficiary. The quarterly invoice will notify the beneficiary
of their monthly copay amount for the next three months that must be paid to through the account.

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