



## *Division of Behavioral Health Services*

*Office of the Deputy Director*

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JANICE K. BREWER, GOVERNOR  
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July 12, 2013

Richard Clarke, Ph.D.  
Chief Executive Officer  
Magellan Health Services of Arizona  
4801 East Washington Street, Suite 100  
Phoenix, Arizona 85034

Dear Dr. Clarke:

This letter is in response to Magellan's notification to providers of intended recoupments for Fiscal Year 2012 and Fiscal Year 2013 (FY12 and FY13) and funding reductions for the 5<sup>th</sup> quarter of FY 13. I am requesting a timely meeting with you and key staff to review the implications of this action. Until such time that ADHS is satisfied that these actions will not create contractual violations including member access and network sufficiency I am directing that Magellan immediately suspend taking recoupment action and applying funding reductions.

### **Background:**

ADHS was notified on June 28, 2013, via a letter from the Maricopa Consumers Advocates and Providers (MCAP) that Magellan notified providers of its intent to recoup FY12 funding for under encountering and deferred revenue not encountered in FY13, and to reduce funding for 5<sup>th</sup> quarter (July –September 2013). Of particular concern to ADHS was MCAP's assertion that this action represented a significant change in practice for Magellan on very short notice, placing providers in a financially vulnerable position, and thus jeopardizing the behavioral health system in Maricopa County. A significant number of providers have advised ADHS that this action will result in layoffs, service reductions and program closures.

Magellan's statements to ADHS in response to the concerns raised by affected providers is that Magellan is holding their contractors accountable, requiring providers to demonstrate encountering to 100% for Standard Block, 95% for Child Provider Network Organizations and a lesser amount for Crisis providers as stipulated within the terms of their respective contracts. Magellan further asserted that in determining recoupment amounts, they have taken additional factors into consideration to ensure individual provider and system solvency. Magellan has noted that providers by contract are allowed a maximum profit of 4% and such contractual provision does not guarantee that the provider will earn it.

Magellan has indicated that the recoupment and reduction in funding are necessary to re-deploy funding to providers who had over-encountered and were in a loss situation, cover higher fee-for-service utilization trends, invest in lower cost residential options, and to strengthen Magellan's overall financial position in managing fee for service costs.

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**ADHS Concerns:**

ADHS is particularly concerned with Magellan's notifications to providers of intended recoupments and funding reductions, from multiple perspectives: approach, the appearance of inequity, insufficient and untimely information provided to ADHS of Magellan's intention to recoup and change provider funding levels, and lack of details to demonstrate that such actions would not negatively impact the service delivery system or care to members.

ADHS recognizes Magellan's authority under its subcontracts to hold providers accountable for encountering for services, just as ADHS has the authority to recoup from Magellan the difference between demonstrated encounter value and 95% threshold under the terms of our contract. However, ADHS expects that Magellan's approach in doing so reflect fairness in dealing in partnership with its network of providers. Magellan's proposed approach, placing providers in a position to break even while Magellan stands to not only earn but increase their profit margin, seems at best fundamentally unfair. Should ADHS choose to apply the same contractual recoupment threshold for FY12, Magellan would be required to return \$24 million dollars.

Most importantly, Magellan's actions must be tempered by Magellan's responsibility to ensure the viability of the service system, the stability and continuity of the provider network and sufficient service level and types to member. The Magellan contract is an at-risk contract and requires that member access and network sufficiency come before corporate profits.

**Magellan Actions Required:**

Magellan is contractually obligated to notify ADHS when there is a change in payments for providers, and obtain written approval from ADHS when that change may affect service delivery, availability or capacity, and has failed to do so. Accordingly, ADHS requests Magellan representatives meet with ADHS representatives on July 23, 2013 at 10:00am to discuss these issues. Prior to the meeting Magellan shall provide this office with the following information:

1. Demonstration of an assessment of Network Sufficiency impact to individual provider agencies due to recoupment and 5<sup>th</sup> quarter reductions.
2. Detailed reasoning and reallocation plans for all funds being recouped under the contract.
3. Detailed accounting of anticipated provider loss/profits margins and amounts for FY12 and FY13.
4. Detailed accounting of Magellan's anticipated loss/profit margins and amounts for FY13.
5. Authority for Magellan to recoup at the 100% level versus the contractually defined 95% encounter level.

Sincerely,



Cory Nelson  
Deputy Director