

## APPENDIX D – Financial Reporting and Solvency Questionnaire

This Appendix consists of the following sections:

- Section 1:** Financial Organization
- Section 2:** Demonstration of Financial Solvency
- Section 3:** Demonstration of Ability to Achieve the Financial Goals
- Section 4:** Framework Scope of Work

For background and further information, see Chapter 8 of the CCO Implementation Proposal, “Financial Reporting Requirements to Ensure Against Risk of Insolvency.”

### Section 1 - Financial Organization

#### D.1.1. Corporate Organization and Structure

- D.1.1.a.** Provide a certified copy of the applicant’s articles of incorporation as filed with the Oregon Secretary of State.
- D.1.1.b.** Provide listing of ownership or sponsorship, including the percentage control each owner has over the organization.
- D.1.1.c.** Provide a description of any licenses the corporation possesses.
- D.1.1.d.** If applicant is a current MCO, describe any organization changes that will occur to conduct operations as a CCO. Please delineate between current MCO service areas and proposed CCO service areas.
- D.1.1.e.** Provide a list of other contracts the applicant holds, including Oregon Medical Insurance Pool, Healthy Kids/Kids Connect, PEBB, OEBC, CMS.
- D.1.1.f.** Provide a description of any administrative service or management contracts with other parties where the applicant is the provider of the services under the contract. Affiliated contracts are excluded in this item and should be included under item D.1.2.b.

#### D.1.2. Corporate Affiliations, Transactions, Arrangements

- D.1.2.a.** Provide a chart or listing presenting the identities of and interrelationships between the parent, the applicant, affiliated insurers and reporting entities, and other affiliates. For each, identify the corporate structure, two –character state abbreviation of the state of domicile, Federal Employer’s Identification Number and NAIC cocode for insurers, Schedule Y of the NAIC Annual Statement Blank—Health is acceptable.

When interrelationships are a 50/50% ownership, footnote any voting rights preferences that one of the entities may have.

- D.1.2.b.** Provide a description of any expense arrangements with a parent or affiliate organization. Provide detail of the amounts paid under such arrangements for the last two years. Provide

footnotes to the operational budget when budgeted amounts include payments to affiliates for services under such agreements.

### **D.1.3. Demonstrated Experience**

Applicants must describe their demonstrated experience and capacity for:

- Managing financial risk and establishing financial reserves
- Meeting the following minimum financial requirements:
  - Maintaining restricted reserves of \$250,000 plus an amount equal to 50 percent of the entity's total actual or projected liabilities above \$250,000.
  - Maintaining a net worth in an amount equal to at least five percent of the average combined revenue in the prior two quarters of the participating health care entities.

### **Section 2: Demonstration of Financial Solvency**

The following standard applies as of the CCO's Medicaid effective date and/or the the CCO's dual eligible effective date:

**THE APPLICANT SHALL PROVIDE EVIDENCE OF SOLVENCY, INCORPORATE SPECIFIC PROVISIONS AGAINST INSOLVENCY, COMMENSURATE WITH ENROLLMENT (BOTH MEDICAID AND MEDICARE) AND LEVEL OF RISK ASSUMED; DEMONSTRATE FINANCIAL MANAGEMENT ABILITY; AND GENERATE PERIODIC FINANCIAL REPORTS AND MAKE THEM AVAILABLE TO OHA FOR REVIEW BY DCBS AND OHA.**

The specific measurements enumerated below are not intended to be considered in isolation from each other or to be comprehensive. When considered as a whole (and with additional information, as appropriate), they provide a basis for demonstrating general financial solvency and identifying changes to be addressed. The standards in (i) apply to a current MCO converting to a CCO and to a newly formed CCO; (ii) apply to existing insurers and newly formed insurers.

#### **D.2.1. Measurement Standard—Applies to MCOs converting to CCO and newly formed CCO**

To identify if an entity can demonstrate the necessary financial solvency and ability to manage a plan financially, an entity must show that sufficient financial resources are available to provide the needed developmental and operational capital and that an adequate staffing plan is in place to operate the plan effectively.

##### **Financial Solvency Minimum Standard**

- D.2.1.a.** Applicant shall establish and maintain restricted reserve funds per OAR . The restricted reserves must be in place before terminating the Applicant's current MCO contract to beginning operations as a CCO (restricted reserves previously held by an MCO may, with consent of OHA, be transferred to the CCO), and
- D.2.1.b.** Applicant shall maintain, at all times, a level of net worth that will provide for adequate operating capital, per OAR. A minimum acceptable level of net worth is defined as net worth that is greater than or equal to {This needs to be written after we settle on language for the Rule. If the Applicant has a net worth less than the calculated minimum requirement, the

Applicant’s net worth must be increased to an amount greater than or equal to the minimum requirement prior to the award of a contract under this RFA.

**D.2.1.c.** An applicant must also have sufficient working capital above the minimum in order to maintain the minimum net worth requirement at all times.

**Required Response**

**D.2.1.d.** Provide current financial statements of the applicant entity that demonstrates that the applicant currently possess funds equal to the financial solvency minimum standard. The financial statements should be prepared using Statutory Accounting Procedures as described in OAR using the format set forth in EXHIBIT. In addition, provide the most recent audited financial statements of the applicant entity, if available (GAAP basis is acceptable). If capitalization of the applicant has not yet occurred, please describe when start-up capitalization will occur and prepare the required financial statements on a “pro forma” basis. Additionally, provide contractual verification of all owners of entity, stipulating the degree to which each owner's resources are available to cover the entity's developmental costs and potential operational losses. If any other entity (such as an affiliate, a state or local government agency, or a reinsurer, but not including contracting providers) will guarantee the CCO’s ultimate financial risk, in full or in part, please furnish a copy of the guarantee documents.

**D.2.1.e.** Provide a monthly developmental budget delineating all expenses prior to beginning operation using the table below as a model. Replace “Month 1” with the month’s name in which you anticipate starting business as a CCO in the proposed initial service area.

If the resources required to develop the CCO business are less than 10% of the applying entity’s current net worth, you may provide written assurances that current operating funds will be sufficient to cover the developmental expenses.

	Mo. 1	Mo. 2	Mo. 3	Mo. 4	Mo. 5	Mo. 6	Mo. 7	Mo. 8	Mo. 9	Mo. 10	Mo. 11	Mo. 12	YTD
<b>CAPITAL SOURCES:</b>													
Source 1:													
Source 2:													
Source 3:													
Other sources													
Total Capital													
<b>DEVELOPMENTAL EXPENSES:</b>													
Research & Planning													
Actuarial													
Consulting													
Legal													
Accounting													
Business Plan													

	Mo. 1	Mo. 2	Mo. 3	Mo. 4	Mo. 5	Mo. 6	Mo. 7	Mo. 8	Mo. 9	Mo. 10	Mo. 11	Mo. 12	YTD
Formation													
Liability Insurance													
Setup of Systems													
Administrative Services													
Setup of Reserves													
Total Developmental Expenses													

**D.2.1.f.** Provide a monthly operational budget covering the initial two years of operation using the table below as a model. Replace “Month 1” with the month’s name in which you anticipate starting business as a CCO in the proposed initial service area.

The budget should factor in projected utilization levels by key categories of service, and projected expenditures reflecting health systems transformation responsibilities required by HB 3650 and any alternative payment methodologies implemented. A separate worksheet presenting this detail may be used, but the financial results should be included in the operational budget.

If the resources required to fund provision of services to the expansion members (will the meaning of “expansion members” need explanation) are anticipated to be less than or equal to a 10% increase of the applicant’s current health services expenses, you may provide written assurances that your current operating funds will be sufficient to cover the increase in operating expenses. Be sure to examine the per member per month increase difference between the transformation/demonstration/::members and your current MCO members (if any).

Operational Expenses	Mo. 1	Mo. 2	Mo. 3	Mo. 4	Mo. 5	Mo. 6	Mo. 7	Mo. 8	Mo. 9	Mo. 10	Mo. 11	Mo. 12	YTD
Revenue													
Premiums													
Fee-For-Service													
Other													
Total Revenue													
Total Medical/Hospital/Health expenses													
Reinsurance													
Administrative Expenses													
Compensation													
Marketing													

Liability Insurance													
Legal and professional													
Claims processing													
Office expenses													
Utilities													
Other expenses													
Total Administrative Expenses													
Total Expenses													
Budget Surplus/Deficit													

**D.2.1.g.** Provide a monthly staffing plan for the last three months of the CCO developmental or planning budget and the initial three years of the CCO operational budget using the table below as a model. Express the staffing requirements in Full-Time-Equivalents (FTEs).

If the staffing resources required to provide services to the transitional/demonstration members are anticipated to be less than or equal to a 10% increase of current staffing, you may furnish written assurances that your current staffing level will be sufficient to cover providing services to the anticipated increase in members and effectively administering the CCO.

	Mo. 1	Mo. 2	Mo. 3	Mo. 4	Mo. 5	Mo. 6	Mo. 7	Mo. 8	Mo. 9	Mo. 10	Mo. 11	Mo. 12
Director												
Office Manager												
Health Plan Specialist												
Enrollment Services												
Claims Processors												
Member Services												
Accounting Services												
Secretarial and Receptionist												
Other												
Total staffing in FTEs												

**D.2.1.h.** Provide pro forma balance sheet, income statement (p&l) and cash flow schedules reflecting anticipated assets, capital, revenue, expense, and cash flow. The pro forma financial

statements should reflect corporate-wide activity. The amounts/expenses included in the monthly developmental, operational and staffing budgets from b., c., and d. above should be included in and reconcile to the projected pro forma financial statements. The pro forma projections are to include projection of risk-based capital as calculated using the NAIC risk-based capital forecasting package. Provide an analysis of the capital requirements to cover the expenses of developing and operating the start-up entity or expansion, and the first five years of operations, including documentation of capital sources. This analysis should supplement the monthly projections under b., c. and d. above to form an overall account of the projected required capital for the CCO's development and first five years of operation

## **D.2.2. Measurement Standard**

Demonstration of financial solvency is satisfied if the applicant CCO possess an Oregon Certificate of Authority issued by DCBS with the authorization class of health or health care services.

### **Required Response**

- D.2.2.a.** The certificate of authority must be issued to the corporate legal entity that is applying for the CCO contract. Provide a copy of the certificate of authority issued by DCBS. Provide the insurer's NAIC code and if a member of a holding company system, the name of the holding company system and the NAIC group number. OHA and DCBS will utilize the insurer's most recent financial statements on file with DCBS to verify financial condition for purposes of the application process.
- D.2.2.b.** Provide monthly developmental budget delineating any additional expenses the insurer will incur to fulfill its obligations as a CCO. See required response item 1(b) above for instructions.
- D.2.2.c.** Provide monthly operational expenses the insurer will incur to fulfill its obligations as a CCO. See required response item 1(c) above for instructions.
- D.2.2.d.** Provide monthly staffing plan related to fulfillment of the insurer's CCO operations. See required response item 1(d) above for instructions.
- D.2.2.e.** Provide pro forma financial statements as outlined in 1(e) above. The pro forma financial statements should reflect corporate-wide activity.

## **Section 3 - Demonstration of Ability to Achieve the Financial Goals**

### **D.3.1. General Questions Relating to Financial Management**

- D.3.1.a.** Describe how the Applicant uses best practices in the management of finances, contracts, claims processing, payment functions and provider network administration.
- D.3.1.b.** Provide information relating to assets and financial and risk management capabilities, including:

- Access to capital and ability to generate capital growth to fulfill restricted reserve and net worth requirements
- Risk management measures
- Delegated risk; risk sharing arrangements. Provide copy of risk-sharing contract, or term sheets for such arrangements. Describe the extent to which these arrangements reduce the risk borne by the CCO.
- Reinsurance and stop loss. Provide a copy of the reinsurance policy or terms sheet. Describe the extent to which the reinsurance or stop loss policy will reduce the risk borne by the CCO.
- Development of adequate Incurred but not reported (IBNR) and unpaid claims reserves given the CCOs expected enrollment level and its mix of covered lives/rate category. This actuarial determination should reflect health systems responsibilities required by HB 3650 as well as the effects of alternative payment methodologies implemented by the CCO in its payments to hospitals, physician groups, or other providers and risk-sharing arrangements.
  - Claims payment
  - Participation in the All Payer All Claims reporting program
  - Internal auditing and financial performance monitoring
  - Administrative cost allocation across books of business (including Medicaid, Medicare, and commercial). Describe in detail any cost allocation arrangements with affiliates.

### **D.3.2. Questions Relating to Licensed Health Carrier Status**

**D.3.2.a.** If Applicant is not a Licensed Health Carrier, submit the following financial information consistent with that required for insurers, including the use of statutory accounting principles (SAP), on a pro forma basis as of the requested effective date of Applicant's Medicaid contract:

- Statement of financial position using the annual statement form developed by the National Association of Insurance Commissioners (NAIC), including all applicable schedules;
- Annual actuarial certification of unpaid claim reserves,
- Annual calculation of risk-based capital;
- Holding company information consistent with that required for insurers.

**D.3.2.b.** Will any other entity (such as an Affiliate, a state or local government agency, or a reinsurer, but not including contracting providers) guarantee the CCO's ultimate financial risk, in full or in part? If so, furnish a copy of the guarantee documents.

**D.3.2.c.** Will the Applicant enter into contracts with hospitals, physician groups, or other providers to share in the financial risk (and rewards) associated with the difference between targeted or projected expenditures and actual expenditures, or other provider risk-sharing arrangements? If so, furnish a copy of the risk-sharing contract documents, or if contract

documents are not yet available then the term sheets for such arrangements. To what extent will these arrangements reduce the risk borne by the CCO itself?

- D.3.2.d.** Will the Applicant purchase reinsurance to cap its risk exposure on either a case-by-case or aggregate basis? If so, furnish a copy of the reinsurance policy. How will this reinsurance limit the financial risk of the CCO?
- D.3.2.e.** Provide an actuarial determination that the CCO will have an adequate amount of liquid assets to satisfy claims liability based on the CCO's expected enrollment level and its mix of covered lives based on rate category. This actuarial determination should reflect health systems responsibilities required by HB 3650 as well as the effects of alternative payment methodologies implemented by the CCO in its payments to hospitals, physician groups, or other providers.
- D.3.2.f.** What medical loss ratio (computed as required under the Affordable Care Act) does the CCO expect to achieve in its first year? In years two through five?
- D.3.2.g.** Describe the projected annual operating budget for the first three years of the CCO's operations, including projected revenue and investments, projected utilization levels by key categories of service, and projected expenditures reflecting health systems transformation responsibilities required by HB 3650 and any alternative payment methodologies implemented.
- D.3.2.h.** Outline, by category, administrative expenses relating to provision of services under its CCO contract, following the NAIC annual statement form's schedule of expenses by expense category. This expense schedule must delineate CCO expenses for all enrolled populations - those incurred under its CCO contract as well as contracts for other populations including Medicare, PEBB, OEBC, and other commercial insurance.
- D.3.2.i.** Provide information about expense arrangements with a parent or affiliate organization and detail amounts paid for such service arrangements in the form of the schedules and note disclosures required by the NAIC annual statement form.

#### **Section 4 – Proposed Scope of Work**

***Applicant is invited and encouraged to submit a proposed scope of work to address the part of the Contract governing the health services transformation strategies and model of care described within the scope of this questionnaire. Exhibit A to this questionnaire offers a Framework Scope of Work containing provisions that Applicant may, but is not required to, include in its proposed scope of work. Please see RFA Section 3.2 for further information about Applicant's proposed scope of work.***

#### **Exhibit A: Framework Scope of Work**

#### **Financial Reporting Requirements to Ensure Against Risk of Insolvency**

1. Contractor will submit financial information required under this Section to the Department of Consumer and Business Services. The following section provides an overview of proposed requirements related to the above items and addresses additional information on organizational structure, corporate status and structure, existing contracts and books of business, and risk management capacities that CCOs shall report.
2. CCOs must submit financial information to DCBS consistent with that required for insurers, including the use of statutory accounting principles (SAP) and financial information reported on a corporate-wide basis. Application of these principles would allow for standardization of accountability and solvency assurances across health plans enrolling Medicaid, Medicare, and commercial populations and will address the CMS's interest in having organizations that enroll Medicare beneficiaries regulated by the state's Insurance Division.
3. The filing requirements include: quarterly and annual statements of financial position using the form developed by the National Association of Insurance Commissioners (NAIC); annual actuarial certification of unpaid claim reserves; annual calculation of risk-based capital; quarterly management discussion and analysis (plain-language narrative of financial statements; annual audited financial statements; annual holding company registration statement (which includes description of any management, service or cost-sharing arrangements and an annual consolidated audited financial statement). Contractor is subject to periodic on-site financial examinations consistent with those performed on insurers. Contractor will pay the costs of such examination.
4. Contractor understands that, to the extent permissible under law, financial information collected as required by HB 3650 should be transparent and made available online. This kind of transparency will enable the community to evaluate Contractor's financial condition and increase confidence in the effectiveness of its governance. A high level of transparency will also enable the Contractor board to take early corrective actions. It is critical that Contractor provide understandable, comprehensive and reliable information about their financial status and performance.
5. Contractor should provide detailed information about how it is legally organized. Emphasis should be given to how the entity will guarantee the Contractor's ultimate financial under the Contract.
6. If Contractor is an MCO that plans to convert to a CCO, the Contractor should provide detailed information on how this will be accomplished, including but not limited to assets that will be transferred, how operating systems will be transferred or used by the new entity, disposition of the current MCO restricted reserve account.
7. Contractor understands that information from the NAIC financial reports will be used by financial analysts from DCBS and OHA, including OHA's Actuarial Services Unit, to track the financial solvency of Contractor as it gains (or loses) enrollment over time. Contractor should describe its plan for risk sharing arrangements. Such arrangements include but not limited to reinsurance, stop loss coverage, capitation arrangements and risk sharing arrangements. Contractor will need to demonstrate in its pro forma projections how these initiatives reduce the CCO's risks undertaken by this Contract. Adequate reinsurance and risk sharing arrangements have the effect of lowering a CCO's liabilities, but will not exempt the CCO from maintaining the minimum capital and surplus required by OAR 410-141-3340 through 410-141-3395.
8. Contractor must describe an annual operating budget including projected revenue and investments, projected utilization levels by key categories of service, and projected expenditures reflecting any alternative payment methodologies implemented. The operating budget should reflect CCO expenses for all of its populations - those incurred under its CCO contract as well as contracts for other populations including Medicare, PEBB, OEBB, and other commercial insurance. This operating budget will serve both to indicate the financial soundness of the Contractor to demonstrate that the Contractor has developed its budget to reflect the requirements and objectives of health systems transformation.

- a.** Contractor demonstrates to OHA through proof of financial responsibility, in accordance with OAR 410-141-0340, 42 CFR 438.106, 42 CFR 438.116 and Exhibit H, that it is able to perform the Work required under the Core Contract efficiently, effectively and economically and is able to comply with the requirements of this Contract.
- b.** If Contractor expects to change any elements of the Solvency Plan or solvency protection arrangements, Contractor provides written advance notice to OHA, at least 90 calendar days before the proposed effective date of change. Such changes are subject to written approval from OHA.
- c.** Contractor notifies OHA of its intent to update or change its data transaction systems that interface with OHA's data systems or transactions not later than 30 days before making such update or change in order to allow appropriate compatibility testing of any data interfaces with OHA, if necessary; and
- d.** Failure to comply with financial responsibility documentation requirements, including solvency protection specified pursuant to the requirements of applicable administrative rules and this Contract shall be grounds for termination or sanction under this Contract, at OHA's sole discretion.
- e.** Failure to maintain adequate financial solvency, including solvency protections specified pursuant to the requirements of administrative rules and this Contract, shall be grounds for termination, reduction in Service Area or Enrollment, or sanction under this Contract, at OHA's sole discretion.
- f.** In the event that insolvency occurs, Contractor remains responsible for providing Covered Services for Members through the end of the period for which it has been paid and for its hospitalized Members until discharge.
- g.** Contractor understands and agrees that in no circumstances will a Member be held liable for any payments for any of the following:
  - (1)** The Contractor's or Subcontractors' debt due to Contractor's or Subcontractors' insolvency;
  - (2)** Capitated Services authorized or required to be provided under this Contract to the Member, for which:
    - (a)** The State does not pay the Contractor; or
    - (b)** The Contractor does not pay a Provider or Subcontractor that furnishes the services under a contractual, referral, or other arrangement; or
  - (3)** Payments for Covered Services furnished under a contract, referral or other arrangement with Contractors, to the extent that those payments are in excess of the amount that the Member would owe if the Contractor provided the services directly.

- h.** Contractor may operate a Practitioner Incentive Plan only if no specific payment is made directly or indirectly under the plan to a physician or physician group as an inducement to reduce or limit Medically Appropriate Covered Services furnished to an individual Member. Contractor discloses to OHA information about Practitioner Incentive Plans (PIP), which is defined to mean “any compensation to pay a physician or physician group that may directly or indirectly have the effect of reducing or limiting services furnished to a Member.” These Contract requirements implement federal law and regulations to protect Members against improper clinical decisions made under the influence of strong financial incentives.
- i.** If at any time OHA believes that Contractor has incorrectly computed the amounts related to these requirements, or that the coverage or protection amounts obtained by Contractor are insufficient to meet these requirements, OHA may notify Contractor of changes it requires. Within 30 days of any notice by OHA under this section, Contractor either makes the required changes or requests an Administrative Review as defined in OAR 410-120-1580(4)-(5). In the event an Administrative Review is requested and pending disposition of that review, OHA may require that Contractor take such actions as will assure financial responsibility and solvency or PIP stop-loss protections as may be determined necessary.
- j.** Contractor shall not seek recourse against OHA for Covered Services provided during the period for which CCO Payments were made by OHA to Contractor even in the event Contractor becomes insolvent.