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Bureau of Financial Management
Family Care, Family Care Partnership and PACE
Financial Summary Overview

Contracted Managed Care Organization Financial Reports

The Family Care (FC), Family Care Partnership (FCP) and Program of All-inclusive Care for the Elderly (PACE) Managed Care Organizations (MCOs) are required to submit financial reporting on a quarterly basis to the Department of Health Services (DHS). The purpose of the reporting is to support fiscal monitoring and analysis, to support follow-up that ensures solvency, and to demonstrate the ongoing ability of the MCO to meet day-to-day obligations and provide continuity of care to the enrolled members.

MCO Funding Methodology

The FC, FCP and PACE managed long-term care programs are risk-based contracts. On an annual basis the Department establishes a prospective risk-based per member per month (PMPM) payment. Rates must be certified by an independent actuary and approved by the Centers for Medicare and Medicaid Services (CMS).

Inherent in the risk-based model, the MCO prospectively agrees to provide services under the contract for the established PMPM rate and the MCO assumes full risk for positive and negative net income that may occur over the contract year. Managing risk requires MCOs meet the DHS contract obligation for the provision of services to meet the outcome-based member centered care plan while ensuring cost effective operations. This requires MCOs identify and adjust to trends, maintain sufficient cash reserves, and maintain a positive equity position during down cycles while managing care over time to assure.

MCO Equity

The term "equity" represents the MCO's interest in the assets of the company and is calculated as total assets less total liabilities at a point in time. A positive equity position, where assets exceed liabilities, is a measure of the general financial health and stability of an entity. Negative equity occurs when total liabilities exceed total assets and is an indicator of inability to sustain continued operations. The equity reported in the MCO financial reporting presents the organization as a whole, to include all operations from FC, FCP and PACE contracted programs, as well as other current or past operations unrelated to the DHS-contracted MCO line of business.

A FC MCO's equity includes restricted funds that ensure the financial stability of the MCO and ability to assume risk for the enrolled members served. Restricted equity includes funds required to satisfy the working capital, restricted reserve, and solvency fund requirements. FCP and PACE MCO's equity includes investments and other assets, presented on a statutory basis of accounting, required to meet the capital requirements regulated by the Office of the Commissioner of Insurance. MCOs with operations outside of the DHS Division of Long Term

Care contracted line of business may have accumulated equity related to those operations. In addition, MCOs may have management and Board of Director-designated plans for accumulated equity to support ongoing business, such as infrastructure enhancements, investment in expansion, and provider network management. Accumulated unrestricted equity that can be liquidated as required is used to sustain operations during years of loss. ***It should not be assumed that all equity is available for investment in or for support of current year operations.***

Comparison Across MCOs

The PMPM section of the summary report is used to compare financial results across MCOs. The PMPM is developed by dividing whole dollars, such as service costs, by the MCO-reported year-to-date member months. The PMPM presentation normalizes the reporting across MCOs for results explained by MCO-specific differences such as target group member mix, acuity, regional-specific differences, and MCO approach for the provision of member services. PMPM trends by MCOs over time are carefully monitored to ensure follow-up by the integrated program and fiscal DHS MCO oversight team is done. It should be noted that MCOs have the flexibility to managed enrolled member services to meet the contractual requirements in the most efficient manner. For example, some MCOs may spend more in care management services to reduce the cost of care in the community. A full understanding of MCO program operations must accompany any PMPM analysis.

Ratios and Care Management

MCO ratios for service costs and care management together present the equivalent to a medical loss ratio (MLR) measure reported by the insurance industry. Care management, which is included in total member service expense for the program long-term care (LTC) ratio calculation, is an identified and significant service in the DHS DLTC FC, FCP, and PACE programs, while it is an insignificant service in the general health insurance industry and reported with the administrative expenses.

Disclaimer

The DHS presentation of FC, FCP and PACE financial results is a subset of the full financial statement reporting required of the MCOs and reviewed for reasonableness. Financial reporting is technical in nature and no party should use, or make assumptions, about the results without a thorough understanding of the programs and health care industry financial reporting.

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