

**LME/MCO Solvency Ranges
Quarter Ending September 30, 2018**

Session Law 2018-5, Section 11F.10(c)



Report to

**The Joint Legislative Oversight Committee on
Medicaid and NC Health Choice,**

**The Joint Legislative Oversight Committee on
Health and Human Services,**

and

The Fiscal Research Division

By

North Carolina Department of Health and Human Services

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Reporting Requirements:

Session Law 2018-5; Senate Bill 99, SECTION 11F.10.(b) Part 2 of Article 4 of Chapter 122C of the General Statutes is amended by adding a new section to read:

"§ 122C-125.2. LME/MCO solvency ranges; formula; corrective action plan.

(a) Beginning on September 1, 2018, the Department shall calculate on a quarterly basis a solvency range for each LME/MCO as a sum of the following figures to produce upper and lower range values:

(1) Incurred but not reported claims figure. – The incurred but not reported claims figure shall be calculated by multiplying an LME/MCO's service spending for the preceding 12 months by six and eight-tenths percent (6.8%). If an LME/MCO experiences extenuating circumstances supported by actuarial documentation, then the Department may utilize a percentage other than six and eight-tenths (6.8%) for that LME/MCO.

(2) Net operating liabilities figure. – The net operating liabilities figure shall be calculated by subtracting noncash current accounts receivable from the nonclaims current liabilities, as reported on the LME/MCO's most recent balance sheet. If the noncash accounts receivable are greater than the nonclaim liabilities, then the value for the net operating liabilities figure is zero.

(3) Catastrophic or extraordinary events range. – The catastrophic or extraordinary events range shall be calculated as the range between a lower figure and an upper figure. The lower figure shall be calculated by multiplying an LME/MCO's service expenditures from the preceding 12 months by four and fifteen-hundredths percent (4.15%). The upper figure shall be calculated by multiplying an LME/MCO's service expenditures from the preceding 12 months by eight and three-tenths percent (8.3%).

(4) Required intergovernmental transfers figure. – The required intergovernmental transfers figure is the amount of funds needed by an LME/MCO to make any intergovernmental transfers required by law over the subsequent 24 months.

(5) Projected operating loss figure. – The projected operating loss figure is the projected net loss for an LME/MCO over the subsequent 24 months. In projecting the net loss for an LME/MCO, the Department shall use the net loss of the LME/MCO in the preceding 12 months adjusted for any changes in single-stream funding, intergovernmental transfers, or other factors known to the Department that will impact the LME/MCO's net loss over the subsequent 24 months. If a net profit is projected for an LME/MCO, then this figure is zero.

(6) Reinvestment plan figure. – The reinvestment plan figure is the amount required for all qualifying expenditures contained in an LME/MCO's reinvestment plans over the subsequent 36 months. To qualify as an expenditure under this subdivision, the expenditure must be related to one of the following:

- a. An initiative that supports specific goals or health status outcomes of the State in relation to the State's behavioral health needs.
- b. An initiative that meets a State behavioral health need, as defined in law or by the Department.
- c. Funding for infrastructure that supports the effective and efficient operation of the LME/MCO.
- d. Funding for a facility within the LME/MCO catchment area that is necessary to meet to the needs of the population served by the LME/MCO.
- e. New or expanded initiatives and programmatic improvements to the State behavioral health system.
- f. Working capital to be utilized to fund changes in rates, operations, or programs.

(b) Upon calculation of the solvency range for each LME/MCO required by subsection (a) of this section, the Department shall compare the cash balance of each LME/MCO to its solvency range. For purposes of this subsection, the cash balance shall consist of the total of the LME/MCO's cash and investment balances, including its Medicaid Risk Reserve, as reported on the LME/MCO's most recent balance sheet. Upon comparison of an LME/MCO's cash balance to its solvency range, the Department shall take one of the following actions:

- (1) If an LME/MCO's cash balance is five percent (5%) or more below the lower solvency range figure or five percent (5%) or more above the upper solvency range figure, then the Department shall notify the LME/MCO and the Fiscal Research Division of the General Assembly of the comparison results. Within 30 days from providing notice to the LME/MCO, the Department shall develop, in collaboration with the LME/MCO, a corrective action plan for the LME/MCO. The corrective action plan must include specific actions, which may include changes to the LME/MCO's reinvestment plan, utilization management, and capitation or provider rates, to bring the LME/MCO's cash balance within the solvency range, as well as a time line for implementation of these actions.
- (2) If an LME/MCO's cash balance is neither five percent (5%) or more below the lower solvency range figure nor five percent (5%) or more above the upper solvency range figure, then the Department shall notify the LME/MCO and the Fiscal Research Division of the General Assembly of the LME/MCO's solvency range for the quarter and the Department's comparison of the LME/MCO's cash balance to this solvency range. No further action shall be required.

Executive Summary:

Historically, MCO solvency measures have been limited in helping to establish standards in assessing MCO short and intermediate strategic planning. The General Assembly finds that a viable State-funded behavioral health system is critical to accomplishing the State's goals for behavioral health, meeting the needs of the covered populations, and achieving the desired outcomes detailed in the Department of Health and Human Services' Strategic Plan for Improvement of Behavioral Health Services. Integral to assessing the State's behavioral health system is the development of a method to determine the viability of local management entities/managed care organizations (LME/MCOs) and the establishment of short-term and intermediate term solvency standards that provide a uniform analysis of each LME/MCO's financial position, provide a mechanism for ongoing assessment of each LME/MCO's viability, inform the State's funding decisions, and enhance short-term and intermediate term planning by the LME/MCOs.

Beginning August 1, 2013, the Secretary of Health and Human Services must certify whether each LME/MCO is approved to operate the 1915 (b)/(c) Medicaid Waiver are following the requirements of N.C.G.S. § 122C-124.2(b). These certifications are made every six months based upon an internal review by a team comprised of individuals from the Division of Mental Health, Division of Health Benefits and contracted external review by the Carolinas Center for Medical Excellence.

Reporting Results (Observations/Recommendations):

1) Incurred but not reported claims figure. (Table 1) – The incurred but not reported claims figure shall be calculated by using actual IBNR reported on the LME/MCO's most recent balance sheet.

(2) Net operating liabilities figure. (Table 3) – The net operating liabilities figure shall be calculated by subtracting noncash current accounts receivable from the nonclaims current liabilities, as reported on the LME/MCO's most recent balance sheet. If the noncash accounts receivables are greater than the nonclaim liabilities, then the value for the net operating liabilities figure is zero.

(3) Catastrophic or extraordinary events range. (Table 5) – The catastrophic or extraordinary events range shall be calculated as the range between a lower figure and an upper figure. The lower figure shall be calculated by multiplying an LME/MCO's service expenditures from the preceding 12 months by four and fifteen-hundredths percent (4.15%). The upper figure shall be calculated by multiplying an LME/MCO's service expenditures from the preceding 12 months by eight and three-tenths percent (8.3%).

Observation: Using the above range percentages, the LME/MCO would have the equivalent of 15 – 30 days of cash on hand to remain within the range.

Recommendation: Consider using 8.3% for the lower figure and 16.6% for the upper figure. Using the lower figure would align with the current contractual requirements which require at a minimum 30 days of cash (Defensive Interval)

(4) Required intergovernmental transfers figure. (Table 7) – The required intergovernmental transfers figure is the amount of funds needed by an LME/MCO to make any intergovernmental transfers required by law over the subsequent 24 months.

Observation: The required transfer is required by Session Law. The requirement has not been established for SFY 2020, therefore the SFY2019 IGT amounts were used as an estimate for SFY 2020.

(5) Projected operating loss figure. (Table 9) – The projected operating loss figure is the projected net loss for an LME/MCO over the subsequent 24 months. In projecting the net loss for an LME/MCO, the Department shall use the prior 12 months net loss of the LME/MCO adjusted for any changes in single-stream funding,

intergovernmental transfers, or other factors known to the Department that will impact the LME/MCO's net loss over the subsequent 24 months. If a net profit is projected for an LME/MCO, then this figure is zero.

Observation: The projected operating expenses for the Medicaid expenditures includes reinvestment spending as per the submitted reinvestment plans. These amounts are adjusted based on annualized current spend for the fiscal year in progress. Additionally, when projecting the expenditures for SFY 2020, Medicaid did not use the historical expenditure trend because the trend would not consider the potential changes necessary for required program changes or trend adjustments.

Projected losses on the Medicaid side of the business for SFY19 were due to several factors including but not limited to: overall decrease in member months, increases in utilization of high cost services, and increases in administrative expenses. The loss in membership has reduced revenue but not equal expense reduction as these individuals are lower cost users. Claims data has also shown upward trends in several service areas which equated to higher levels of spend than was initially anticipated. Increases in administrative expenses relate to care coordination spend, TCLI settlement costs, preparation for Tailored Plan rollout, and one-time expenses that although excluded from rate setting process, factor in to net profit/loss.

(6) Reinvestment plan figure. (Table 11) – The reinvestment plan figure is the amount required for all qualifying expenditures contained in an LME/MCO's reinvestment plans over the subsequent 36 months.

Observation: The reinvestment plans submitted by the LME/MCO are recommendations to their respective Boards and have only been approved for SFY2019. Projected spend has been adjusted based on annualized current spend for the fiscal year in progress.

(b) Solvency Range. (Table 13) - Upon calculation of the solvency range for each LME/MCO required by subsection (a) of this section, the Department shall compare the cash balance of each LME/MCO to its solvency range. For purposes of this subsection, the cash balance shall consist of the total of the LME/MCO's cash and investment balances, including its Medicaid Risk Reserve, as reported on the LME/MCO's most recent balance sheet.

Upon comparison of an LME/MCO's cash balance to its solvency range, the Department shall take one of the following actions:

(1) If an LME/MCO's cash balance is five percent (5%) or more below the lower solvency range figure or five percent (5%) or more above the upper solvency range figure, then the Department shall notify the LME/MCO

and the Fiscal Research Division of the General Assembly of the comparison results. Within 30 days from providing notice to the LME/MCO, the Department shall develop, in collaboration with the LME/MCO, a corrective action plan for the LME/MCO. The corrective action plan must include specific actions, which may include changes to the LME/MCO's reinvestment plan, utilization management, and capitation or provider rates, to bring the LME/MCO's cash balance within the solvency range, as well as a time line for implementation of these actions.

(2) If an LME/MCO's cash balance is neither five percent (5%) or more below the lower solvency range figure nor five percent (5%) or more above the upper solvency range figure, then the Department shall notify the LME/MCO and the Fiscal Research Division of the General Assembly of the LME/MCO's solvency range for the quarter and the Department's comparison of the LME/MCO's cash balance to this solvency range. No further action shall be required.

Observation: Calculation uses Risk Reserve determining the solvency range.

Recommendation: In accordance with G.S. 122C-124.2(e)(3), the risk reserve's purpose is to pay outstanding liabilities (unpaid claims) to Providers in cases of insolvency and not intended to be used for operating costs. Because these resources are not readily available for payment of non-provider claims and may not be accessed by the LME/MCO without written consent is granted by DHHS, the Risk Reserve should be removed from this calculation.

Corrective Action Plan:

The Department is currently in collaboration with the LME/MCO's to develop a corrective action plan which may include changes to the LME/MCO reinvestment plan, utilization management, and capitation or provider rates, to bring the LME/MCO's cash balance within solvency range, as well as a time line for implementation of these actions.

Incurred But Not Reported (IBNR)

LME/MCO's actual IBNR

	<u>Medicaid</u>	<u>Non-Medicaid</u>	<u>Total</u>
Alliance Behavioral Healthcare	\$ 28,029,135	\$ 3,609,273	\$ 31,638,408
Cardinal Innovations	\$ 30,158,575	\$ 2,693,202	\$ 32,851,777
Eastpointe Human Services	\$ 17,603,928	\$ -	\$ 17,603,928
Partners Behavioral Health	\$ 12,307,453	\$ -	\$ 12,307,453
Sandhills Center	\$ 15,537,368	\$ -	\$ 15,537,368
Trillium Health Resources	\$ 32,019,395	\$ 3,839,029	\$ 35,858,424
Vaya Health	\$ 16,626,501	\$ 440,407	\$ 17,066,907

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Table 1

Net Operating Liabilities

LME/MCO's current liabilities excluding IBNR minus noncash current accounts receivable

	<u>Medicaid</u>	<u>Non-Medicaid</u>	<u>Total</u>
Alliance Behavioral Healthcare	\$ -	\$ 8,676,203	\$ 7,581,367
Cardinal Innovations	\$ 6,416,908	\$ 4,675,403	\$ 11,092,311
Eastpointe Human Services	\$ 6,063,453	\$ 8,827,293	\$ 14,890,746
Partners Behavioral Health	\$ 4,807,331	\$ 8,063,028	\$ 12,870,359
Sandhills Center	\$ -	\$ -	\$ -
Trillium Health Resources	\$ -	\$ 47,794	\$ -
Vaya Health	\$ 5,229,377	\$ 5,991,537	\$ 11,220,915

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Table 2

Catastrophic Events Range

LME/MCO's service spending for the preceding 12 months multiplied by 4.15% and 8.30% to calculate an upper and lower range respectively

		<u>Medicaid</u>		<u>Non-Medicaid</u>		<u>Total</u>
Alliance Behavioral Healthcare	4.15% EER Lower Figure	\$ 15,396,933	\$	4,060,337	\$	19,457,270
	8.30% EER Lower Figure	\$ 30,793,867	\$	8,120,674	\$	38,914,541
Cardinal Innovations	4.15% EER Lower Figure	\$ 26,656,825	\$	5,058,031	\$	31,714,856
	8.30% EER Lower Figure	\$ 53,313,651	\$	10,116,062	\$	63,429,712
Eastpointe Human Services	4.15% EER Lower Figure	\$ 9,114,580	\$	1,519,986	\$	10,634,566
	8.30% EER Lower Figure	\$ 18,229,160	\$	3,039,972	\$	21,269,132
Partners Behavioral Health	4.15% EER Lower Figure	\$ 10,029,020	\$	2,141,580	\$	12,170,600
	8.30% EER Lower Figure	\$ 20,058,040	\$	4,283,160	\$	24,341,200
Sandhills Center	4.15% EER Lower Figure	\$ 9,692,841	\$	2,186,198	\$	11,879,040
	8.30% EER Lower Figure	\$ 19,385,683	\$	4,372,397	\$	23,758,080
Trillium Health Resources	4.15% EER Lower Figure	\$ 14,719,850	\$	2,973,313	\$	17,693,163
	8.30% EER Lower Figure	\$ 29,439,700	\$	5,946,627	\$	35,386,327
Vaya Health	4.15% EER Lower Figure	\$ 12,088,288	\$	3,489,721	\$	15,578,009
	8.30% EER Lower Figure	\$ 24,176,576	\$	6,979,443	\$	31,156,019

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Table 3

Intergovernmental Transfers

Funds needed by an LME/MCO to make any intergovernmental transfers required by law over the subsequent 24 months

		<u>Medicaid</u>		<u>Non-Medicaid</u>		<u>Total</u>
Alliance Behavioral Healthcare	SFY19	\$ 3,007,817	\$	-	\$	3,007,817
	SFY20	\$ 3,007,817	\$	-	\$	3,007,817
Cardinal Innovations	SFY19	\$ 4,144,723	\$	-	\$	4,144,723
	SFY20	\$ 4,144,723	\$	-	\$	4,144,723
Eastpointe Human Services	Nash Adj.	\$ 193,943	\$	-	\$	193,943
	SFY19	\$ 1,731,831	\$	-	\$	1,731,831
	SFY20	\$ 1,731,831	\$	-	\$	1,731,831
Partners Behavioral Health	SFY19	\$ 1,960,283	\$	-	\$	1,960,283
	SFY20	\$ 1,960,283	\$	-	\$	1,960,283
Sandhills Center	SFY19	\$ 1,918,643	\$	-	\$	1,918,643
	SFY20	\$ 1,918,643	\$	-	\$	1,918,643
Trillium Health Resources	Nash Adj.	\$ 193,943	\$	-	\$	193,943
	SFY19	\$ 2,931,104	\$	-	\$	2,931,104
	SFY20	\$ 2,931,104	\$	-	\$	2,931,104
Vaya Health	SFY19	\$ 2,333,816	\$	-	\$	2,333,816
	SFY20	\$ 2,333,816	\$	-	\$	2,333,816

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Table 4

Projected Operating Loss

LME/MCO's net profit/(loss), adjusted to include any known changes including single stream funding cuts and IGT payments for that subsequent 24 month period

			Medicaid		Non-Medicaid		Total
Alliance Behavioral Healthcare	Proj. Net Op. Loss over 12 months	\$	(7,564,323)	\$	(13,913,632)	\$	(21,477,955)
	Proj. Net Op. Loss over 24 months	\$	-	\$	(13,913,632)	\$	(8,112,368)
Cardinal Innovations	Proj. Net Op. Loss over 12 months	\$	(19,816,648)	\$	(16,110,612)	\$	(35,927,260)
	Proj. Net Op. Loss over 24 months	\$	-	\$	(16,110,612)	\$	(4,825,647)
Eastpointe Human Services	Proj. Net Op. Loss over 12 months	\$	(3,574,433)	\$	(3,990,484)	\$	(7,564,917)
	Proj. Net Op. Loss over 24 months	\$	-	\$	(3,990,484)	\$	(629,630)
Partners Behavioral Health	Proj. Net Op. Loss over 12 months	\$	(15,715,405)	\$	(878,993)	\$	(16,594,399)
	Proj. Net Op. Loss over 24 months	\$	-	\$	(878,993)	\$	-
Sandhills Center	Proj. Net Op. Loss over 12 months	\$	(6,487,779)	\$	(6,137,477)	\$	(12,625,256)
	Proj. Net Op. Loss over 24 months	\$	-	\$	(6,137,477)	\$	(2,591,103)
Trillium Health Resources	Proj. Net Op. Loss over 12 months	\$	(8,614,011)	\$	-	\$	(8,614,011)
	Proj. Net Op. Loss over 24 months	\$	-	\$	-	\$	-
Vaya Health	Proj. Net Op. Loss over 12 months	\$	(11,737,724)	\$	(5,899,601)	\$	(17,637,325)
	Proj. Net Op. Loss over 24 months	\$	-	\$	(5,899,601)	\$	(1,592,941)

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Table 5

Reinvestment Plan

Amount required for all expenditures over the next 3 years related to specific initiatives noted in the LME/MCO's reinvestment plans

		Planned Reinvestment	Annualized Spend		Actual Spend	Projected Spend
Alliance Behavioral Healthcare	SFY19	\$ 18,769,500	\$ 1,197,903	\$ 299,476	\$ 898,427	
	SFY20	\$ 11,335,000	\$ -	\$ -	\$ 11,335,000	
	SFY21	\$ 11,335,000	\$ -	\$ -	\$ 11,335,000	
					\$ 23,568,427	
Cardinal Innovations	SFY19	\$ 5,000,000	\$ 36,542,940	\$ 9,135,735	\$ 27,407,205	
	SFY20	\$ 7,500,000	\$ -	\$ -	\$ 7,500,000	
	SFY21	\$ 7,500,000	\$ -	\$ -	\$ 7,500,000	
					\$ 42,407,205	
Eastpointe Human Services	SFY19	\$ 13,171,968	\$ 672,253	\$ 168,063	\$ 504,190	
	SFY20	\$ 13,171,968	\$ -	\$ -	\$ 13,171,968	
	SFY21	\$ 13,171,968	\$ -	\$ -	\$ 13,171,968	
					\$ 26,848,125	
Partners Behavioral Health	SFY19	\$ 12,076,328	\$ 1,651,020	\$ 412,755	\$ 1,238,265	
	SFY20	\$ 14,578,594	\$ -	\$ -	\$ 14,578,594	
	SFY21	\$ 12,533,860	\$ -	\$ -	\$ 12,533,860	
					\$ 28,350,719	
Sandhills Center	SFY19	\$ 41,034,688	\$ 4,065,291	\$ 2,032,646	\$ 2,032,646	
	SFY20	\$ 22,057,848	\$ -	\$ -	\$ 22,057,848	
	SFY21	\$ 19,107,464	\$ -	\$ -	\$ 19,107,464	
					\$ 43,197,958	
Trillium Health Resources	SFY19	\$ 5,950,000	\$ -	\$ -	\$ 4,462,500	
	SFY20	\$ 19,250,000	\$ -	\$ -	\$ 19,250,000	
	SFY21	\$ 12,500,000	\$ -	\$ -	\$ 12,500,000	
					\$ 36,212,500	
Vaya Health	SFY19	\$ 3,555,000	\$ -	\$ -	\$ 2,666,250	
	SFY20	\$ 2,515,000	\$ -	\$ -	\$ 2,515,000	
	SFY21	\$ 2,515,000	\$ -	\$ -	\$ 2,515,000	
					\$ 7,696,250	

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Table 6

Solvency Measures Summary

Comparison of an LME/MCO's cash balance to its solvency range; if cash balance is $\pm 5\%$ of the upper or lower solvency range, a corrective action plan must be developed

		<u>Solvency Range</u>	<u>Cash/Investments/ Risk Reserve</u>	<u>Threshold \$ ($\pm 5\%$)</u>	<u>Threshold % ($\pm 5\%$)</u>	
Alliance	Lower Range	\$114,772,368	\$131,629,713	\$109,033,750	14.7%	OK
	Upper Range	\$134,229,638	\$131,629,713	\$140,941,120	-1.9%	OK
Cardinal	Lower Range	\$158,819,056	\$240,015,091	\$150,878,103	51.1%	OK
	Upper Range	\$190,533,912	\$240,015,091	\$200,060,608	26.0%	CONCERN
Eastpointe	Lower Range	\$78,171,913	\$108,370,229	\$74,263,317	38.6%	OK
	Upper Range	\$88,806,478	\$108,370,229	\$93,248,802	22.0%	CONCERN
Partners	Lower Range	\$82,293,530	\$103,301,982	\$78,178,853	25.5%	OK
	Upper Range	\$94,464,130	\$103,301,982	\$99,187,336	9.4%	CONCERN
Sandhills	Lower Range	\$109,900,031	\$137,987,860	\$104,405,029	25.6%	OK
	Upper Range	\$121,779,071	\$137,987,860	\$127,868,024	13.3%	CONCERN
Trillium	Lower Range	\$98,378,099	\$123,012,012	\$93,459,194	25.0%	OK
	Upper Range	\$116,071,262	\$123,012,012	\$121,874,825	6.0%	CONCERN
Vaya	Lower Range	\$70,792,347	\$98,911,709	\$67,252,730	39.7%	OK
	Upper Range	\$86,370,356	\$98,911,709	\$90,688,874	14.5%	CONCERN