

**LME/MCO Solvency Ranges  
Quarter Ending December 31, 2020**

**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**

**February 25, 2022**

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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 receivables 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.

## Background:

The General Assembly has asserted that a viable State- and federally-funded behavioral health system is critical to accomplishing the State's goals for behavioral health, meeting the needs of covered populations, and achieving the desired outcomes detailed in the Department of Health and Human Services' (Department) Strategic Plan for Improvement of Behavioral Health Services. To better assess the viability of the State's behavioral health system, the General Assembly developed a method, outlined in G.S. 122C-125.2, designed to measure the financial standing of local management entities/managed care organizations (LME/MCOs). This method utilizes standard calculations of each LME/MCO's statutorily defined "cash balance" and "solvency range" to evaluate the LME/MCO's financial position.

The General Assembly directed the Department to report quarterly on the statutory solvency calculation for each LME/MCO, identifying which, if any, LME/MCOs have a cash balance that is 5% or more outside its solvency range. Further, the General Assembly directed the Department to develop, in collaboration with an LME/MCO that is 5% or more outside its solvency range, a Corrective Action Plan (CAP) for bringing the LME/MCO back within the range.

The CAP provides an opportunity for the LME/MCO to document how it will address being outside the solvency range. This CAP may include changes to the LME/MCO reinvestment plan, utilization management, and/or capitation or provider rates, to bring the LME/MCO's cash balance within solvency range. Each CAP will include a timeline for implementation of the identified actions. The CAP Process is as follows:

1. The Department notifies the LME/MCO of non-compliance with the solvency standard.
2. The LME/MCO submits the proposed CAP to the Department within 30 days of receiving notice.
3. Either the Department accepts the CAP and the LME/MCO is placed on a quarterly review cycle or the Department provides feedback to help the LME/MCO produce an acceptable CAP.
4. Once the CAP is approved, the Department reviews on a quarterly basis the LME/MCO's progress toward implementing the CAP.
5. The Department sends a letter to the LME/MCO acknowledging completion of the CAP and closing the review or the LME/MCO is placed on monthly monitoring until the CAP is resolved.

## Executive Summary:

The results of the most recent solvency calculations indicate that the following four LME/MCOs are outside the allowable solvency range and are therefore required to submit a proposed CAP using a standard Department-supplied template (see attached Appendix A).

LME/MCOs that are 5% or more above the upper solvency range figure:

- Alliance Health
- Cardinal Innovations
- Partners Behavioral Health
- Vaya Health

It is important to note that these quarterly calculations reflect the effects of supplemental COVID-19 funding, utilization fluctuations, and other factors related to the pandemic. Due to the Public Health Emergency rates were temporarily increased for COVID-19 related services to offset an anticipated surge in expenses. This expected expense fluctuation led to the implementation of a risk corridor arrangement between each LME/MCO and the Department. Under risk corridor arrangements, states and plans agree to share gains or losses (at percentages

specified in plan contracts) if aggregate spending falls above or below specified thresholds (two-sided risk corridor). The Department will also continue to monitor the CAP submissions.

## Calculations:

The results of each statutorily required calculation are presented in tables 1-7, which follow the brief description section below. ***Unless noted, each calculation has been completed exactly as specified in the statutory reporting requirement.*** Where the statute provides Department discretion, as in the projection of operating loss (#5), the report describes the Department's methodology.

As directed in subsection (a) of the reporting requirement, the upper and lower bounds of the solvency range for each LME/MCO is calculated as the sum of the figures calculated in steps 1-6.

**1) Incurred but not reported claims figure. (Table 1)** – 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. (Table 2)** – 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 3)** – 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. (Table 4)** – 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 (*note: the General Assembly specifies these amounts in session law*).

**(5) Projected operating loss figure. (Table 5)** – 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.

***Notes on Department Methodology for Projected Operating Loss:*** In the initial five quarterly legislative solvency reports, the Department took a conservative approach to forecasting future LME/MCO expenditures by assuming that, going forward, each LME/MCO would expend 100% of its projected Medicaid revenue, net of the required risk reserve. This approach derived from an understanding that the Department funded each LME/MCO with actuarially sound per member per month (PMPM) capitated rates developed and certified by contracted professional actuaries, Mercer Government Human Services Consulting, and approved by the Centers for Medicaid and Medicare Services (CMS) to support LME/MCO services for Medicaid beneficiaries for each given funding period (typically a State fiscal year, but occasionally for portions of a year). Per federal Code of Federal Regulations (CFR) 438.4, "Actuarially sound capitation rates are projected to provide for all reasonable, appropriate, and attainable costs that are required under the terms of the contract and for the operation of

the MCO.” In other words, the funding provided for a given year should enable each LME/MCO to operate at “break even” (i.e., operate without a loss) going forward.<sup>1</sup>

Beginning with the January 15, 2020 report, in light of observed sustained LME/MCO expenditure trends, the Department has shifted to using an LME/MCO-specific “expenditure adjustment factor” that provides more insight into each entity’s projected future Medicaid expenditures. The factor, which is calculated from each LME/MCO’s financial statements, is a ratio of Medicaid expenditures to revenues for the 12 months immediately preceding the quarter that is the subject of the legislative report. The factors for the LME/MCOs for this quarter’s report are as follows:

- Alliance Behavioral Healthcare – 92.13%
- Cardinal Innovations – 92.96%
- Eastpointe Human Services – 96.53%
- Partners Behavioral Health – 96.53%
- Sandhills Center – 97.69%
- Trillium Health Resources – 101.92%
- Vaya Health – 96.17%

The percentage is applied to the projected revenue for the following year to forecast the projected operating expense and resulting loss/profit. The Department notes that the actual operating loss in the subsequent 24 months is likely to vary, particularly in months 12-24, from this projection that is based on data from a point in time. As noted elsewhere in this report, management choices and unforeseen circumstances affecting membership and service intensity could lead actual LME/MCO financial performance, particularly in months 12-24, to vary significantly from the projection.

**(6) Reinvestment plan figure. (Table 6)** – 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.

**(b) Solvency Range. (Table 7)** - 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 timeline for implementation of these actions.

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<sup>1</sup> To the extent that management choices and/or unforeseen circumstances in a given year led to an LME/MCO operating at a loss (i.e., expending >98% of their Medicaid revenue), the entity would need to use fund balances or other funds (such as liquidated long-term investments) to make up for the operating loss. Availability of such additional resources has varied over time and across LME/MCOs.

**(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.**



# Incurred But Not Reported (IBNR)

LME/MCO's service spending for the preceding 12 months assuming a 6.80% average IBNR

|                                | <u>Medicaid</u> | <u>Non-Medicaid</u> | <u>Total</u>  |
|--------------------------------|-----------------|---------------------|---------------|
| Alliance Behavioral Healthcare | \$ 27,245,494   | \$ 7,095,505        | \$ 34,341,000 |
| Cardinal Innovations           | \$ 49,313,727   | \$ 8,715,271        | \$ 58,028,998 |
| Eastpointe Human Services      | \$ 16,498,089   | \$ 3,151,926        | \$ 19,650,016 |
| Partners Behavioral Health     | \$ 20,067,086   | \$ 3,832,200        | \$ 23,899,287 |
| Sandhills Center               | \$ 18,580,430   | \$ 3,664,586        | \$ 22,245,016 |
| Trillium Health Resources      | \$ 28,993,266   | \$ 6,636,462        | \$ 35,629,727 |
| Vaya Health                    | \$ 20,700,220   | \$ 5,765,989        | \$ 26,466,209 |

## Net Operating Liabilities

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

If the noncash accounts receivables are greater than the nonclaim liabilities in total, then this figure appears as zero.

|                                | <u>Medicaid</u> | <u>Non-Medicaid</u> | <u>Sum</u>     | <u>Total</u>  |
|--------------------------------|-----------------|---------------------|----------------|---------------|
| Alliance Behavioral Healthcare | \$ 10,554,308   | \$ 12,866,755       | \$ 23,421,063  | \$ 23,421,063 |
| Cardinal Innovations           | \$ (5,756,747)  | \$ (2,452,488)      | \$ (8,209,235) | \$ -          |
| Eastpointe Human Services      | \$ 3,086,578    | \$ 1,852,774        | \$ 4,939,352   | \$ 4,939,352  |
| Partners Behavioral Health     | \$ 11,985,959   | \$ 6,625,882        | \$ 18,611,841  | \$ 18,611,841 |
| Sandhills Center               | \$ 2,288,477    | \$ 2,579,830        | \$ 4,868,307   | \$ 4,868,307  |
| Trillium Health Resources      | \$ 2,753,092    | \$ (521,939)        | \$ 2,231,153   | \$ 2,231,153  |
| Vaya Health                    | \$ 14,036,016   | \$ 6,643,927        | \$ 20,679,943  | \$ 20,679,943 |

# 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>  |
|---------------------------------------|------------------------|-----------------|---------------------|---------------|
| <b>Alliance Behavioral Healthcare</b> | 4.15% EER Lower Figure | \$ 16,627,765   | \$ 4,330,345        | \$ 20,958,110 |
|                                       | 8.30% EER Lower Figure | \$ 33,255,530   | \$ 8,660,690        | \$ 41,916,220 |
| <b>Cardinal Innovations</b>           | 4.15% EER Lower Figure | \$ 30,095,877   | \$ 5,318,879        | \$ 35,414,756 |
|                                       | 8.30% EER Lower Figure | \$ 60,191,755   | \$ 10,637,757       | \$ 70,829,512 |
| <b>Eastpointe Human Services</b>      | 4.15% EER Lower Figure | \$ 10,068,687   | \$ 1,923,602        | \$ 11,992,289 |
|                                       | 8.30% EER Lower Figure | \$ 20,137,374   | \$ 3,847,204        | \$ 23,984,578 |
| <b>Partners Behavioral Health</b>     | 4.15% EER Lower Figure | \$ 12,246,825   | \$ 2,338,769        | \$ 14,585,594 |
|                                       | 8.30% EER Lower Figure | \$ 24,493,649   | \$ 4,677,539        | \$ 29,171,188 |
| <b>Sandhills Center</b>               | 4.15% EER Lower Figure | \$ 11,339,527   | \$ 2,236,475        | \$ 13,576,003 |
|                                       | 8.30% EER Lower Figure | \$ 22,679,055   | \$ 4,472,951        | \$ 27,152,005 |
| <b>Trillium Health Resources</b>      | 4.15% EER Lower Figure | \$ 17,694,420   | \$ 4,050,193        | \$ 21,744,613 |
|                                       | 8.30% EER Lower Figure | \$ 35,388,839   | \$ 8,100,387        | \$ 43,489,226 |
| <b>Vaya Health</b>                    | 4.15% EER Lower Figure | \$ 12,633,223   | \$ 3,518,949        | \$ 16,152,172 |
|                                       | 8.30% EER Lower Figure | \$ 25,266,445   | \$ 7,037,898        | \$ 32,304,343 |

# 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 | 2020-2021 | \$ 2,994,453    | \$ -                | \$ 2,994,453 |
|                                | 2021-2022 | \$ 2,994,453    | \$ -                | \$ 2,994,453 |
| Cardinal Innovations           | 2020-2021 | \$ 4,032,586    | \$ -                | \$ 4,032,586 |
|                                | 2021-2022 | \$ 4,032,586    | \$ -                | \$ 4,032,586 |
| Eastpointe Human Services      | 2020-2021 | \$ 1,701,156    | \$ -                | \$ 1,701,156 |
|                                | 2021-2022 | \$ 1,701,156    | \$ -                | \$ 1,701,156 |
| Partners Behavioral Health     | 2020-2021 | \$ 1,914,860    | \$ -                | \$ 1,914,860 |
|                                | 2021-2022 | \$ 1,914,860    | \$ -                | \$ 1,914,860 |
| Sandhills Center               | 2020-2021 | \$ 1,978,939    | \$ -                | \$ 1,978,939 |
|                                | 2021-2022 | \$ 1,978,939    | \$ -                | \$ 1,978,939 |
| Trillium Health Resources      | 2020-2021 | \$ 3,119,822    | \$ -                | \$ 3,119,822 |
|                                | 2021-2022 | \$ 3,119,822    | \$ -                | \$ 3,119,822 |
| Vaya Health                    | 2020-2021 | \$ 2,286,401    | \$ -                | \$ 2,286,401 |
|                                | 2021-2022 | \$ 2,286,401    | \$ -                | \$ 2,286,401 |

# Projected Operating Loss

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

If a net profit is projected for an LME/MCO for either funding stream or in total, then this figure will appear as zero.

|                                       |                                              | <u>Medicaid</u> | <u>Non-Medicaid</u> | <u>Total</u>    |
|---------------------------------------|----------------------------------------------|-----------------|---------------------|-----------------|
| <b>Alliance Behavioral Healthcare</b> | Net Operating Loss over prior 12 months      | \$ -            | \$ -                | \$ -            |
|                                       | Net Operating Loss over subsequent 24 months | \$ -            | \$ -                | \$ -            |
| <b>Cardinal Innovations</b>           | Net Operating Loss over prior 12 months      | \$ -            | \$ -                | \$ -            |
|                                       | Net Operating Loss over subsequent 24 months | \$ -            | \$ -                | \$ -            |
| <b>Eastpointe Human Services</b>      | Net Operating Loss over prior 12 months      | \$ -            | \$ (1,875,365)      | \$ (1,875,365)  |
|                                       | Net Operating Loss over subsequent 24 months | \$ -            | \$ (3,750,730)      | \$ (3,750,730)  |
| <b>Partners Behavioral Health</b>     | Net Operating Loss over prior 12 months      | \$ -            | \$ -                | \$ -            |
|                                       | Net Operating Loss over subsequent 24 months | \$ -            | \$ -                | \$ -            |
| <b>Sandhills Center</b>               | Net Operating Loss over prior 12 months      | \$ -            | \$ -                | \$ -            |
|                                       | Net Operating Loss over subsequent 24 months | \$ -            | \$ -                | \$ -            |
| <b>Trillium Health Resources</b>      | Net Operating Loss over prior 12 months      | \$ (8,975,920)  | \$ (310,723)        | \$ (9,286,643)  |
|                                       | Net Operating Loss over subsequent 24 months | \$ (17,951,840) | \$ (621,446)        | \$ (18,573,287) |
| <b>Vaya Health</b>                    | Net Operating Loss over prior 12 months      | \$ -            | \$ (3,136,661)      | \$ (3,136,661)  |
|                                       | Net Operating Loss over subsequent 24 months | \$ -            | \$ (6,273,321)      | \$ (6,273,321)  |

# Reinvestment Plan

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

|                                       |              | <u>Projected Spend</u> |
|---------------------------------------|--------------|------------------------|
| <b>Alliance Behavioral Healthcare</b> | 0-12 months  | \$ 15,347,057          |
|                                       | 13-24 months | \$ 10,212,302          |
|                                       | 25-36 months | \$ 500,000             |
|                                       |              | <u>\$ 26,059,359</u>   |
| <b>Cardinal Innovations</b>           | 0-12 months  | \$ 27,718,190          |
|                                       | 13-24 months | \$ 6,831,215           |
|                                       | 25-36 months | \$ 5,781,215           |
|                                       |              | <u>\$ 40,330,620</u>   |
| <b>Eastpointe Human Services</b>      | 0-12 months  | \$ 12,975,362          |
|                                       | 13-24 months | \$ 12,975,362          |
|                                       | 25-36 months | \$ 12,975,362          |
|                                       |              | <u>\$ 38,926,085</u>   |
| <b>Partners Behavioral Health</b>     | 0-12 months  | \$ 11,794,326          |
|                                       | 13-24 months | \$ 8,875,775           |
|                                       | 25-36 months | \$ 6,278,501           |
|                                       |              | <u>\$ 26,948,602</u>   |
| <b>Sandhills Center</b>               | 0-12 months  | \$ 15,960,897          |
|                                       | 13-24 months | \$ 28,522,898          |
|                                       | 25-36 months | \$ 32,075,898          |
|                                       |              | <u>\$ 76,559,693</u>   |
| <b>Trillium Health Resources</b>      | 0-12 months  | \$ 3,650,534           |
|                                       | 13-24 months | \$ 13,736,000          |
|                                       | 25-36 months | \$ 13,816,000          |
|                                       |              | <u>\$ 31,202,534</u>   |
| <b>Vaya Health</b>                    | 0-12 months  | \$ 1,405,000           |
|                                       | 13-24 months | \$ 4,705,000           |
|                                       | 25-36 months | \$ 12,805,000          |
|                                       |              | <u>\$ 18,915,000</u>   |

# 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/<br/>Risk Reserve</u> | <u>Threshold \$ (<math>\pm 5\%</math>)</u> | <u>Threshold % (<math>\pm 5\%</math>)</u> |         |
|------------|-------------|-----------------------|-------------------------------------------|--------------------------------------------|-------------------------------------------|---------|
| Alliance   | Lower Range | \$104,779,532         | \$190,978,905                             | \$99,540,555                               | 82.3%                                     | OK      |
|            | Upper Range | \$125,737,642         | \$190,978,905                             | \$132,024,524                              | 51.9%                                     | CONCERN |
| Cardinal   | Lower Range | \$133,774,374         | \$271,555,091                             | \$127,085,655                              | 103.0%                                    | OK      |
|            | Upper Range | \$169,189,130         | \$271,555,091                             | \$177,648,586                              | 60.5%                                     | CONCERN |
| Eastpointe | Lower Range | \$79,258,472          | \$87,611,854                              | \$75,295,548                               | 10.5%                                     | OK      |
|            | Upper Range | \$91,250,761          | \$87,611,854                              | \$95,813,299                               | -4.0%                                     | OK      |
| Partners   | Lower Range | \$84,045,324          | \$132,107,348                             | \$79,843,058                               | 57.2%                                     | OK      |
|            | Upper Range | \$98,630,918          | \$132,107,348                             | \$103,562,464                              | 33.9%                                     | CONCERN |
| Sandhills  | Lower Range | \$117,249,019         | \$128,916,836                             | \$111,386,568                              | 10.0%                                     | OK      |
|            | Upper Range | \$130,825,021         | \$128,916,836                             | \$137,366,272                              | -1.5%                                     | OK      |
| Trillium   | Lower Range | \$109,381,313         | \$117,974,157                             | \$103,912,248                              | 7.9%                                      | OK      |
|            | Upper Range | \$131,125,926         | \$117,974,157                             | \$137,682,223                              | -10.0%                                    | OK      |
| Vaya       | Lower Range | \$88,486,645          | \$139,673,059                             | \$84,062,313                               | 57.8%                                     | OK      |
|            | Upper Range | \$104,638,817         | \$139,673,059                             | \$109,870,758                              | 33.5%                                     | CONCERN |



## LME/MCO Solvency Corrective Action Plan Review

|                   |  |
|-------------------|--|
| PLAN NAME:        |  |
| REVIEW PERFORMED: |  |

### CORRECTIVE ACTION PLANS OVERVIEW:

This Corrective Action Plan template has three sections. The first is where you document what you know about the area in need of improvement. The second section is where you map out, step-by-step, how you are going to accomplish your goal of correcting the problem or making other improvements. The third section is where you can write down the results of the Corrective Action Plan.

This form can be printed and completed manually or downloaded as a Microsoft Word document and completed electronically. This document is not protected. Table cells will automatically expand to accommodate any amount of text. Additional rows will be added if you hit the "TAB" key in the last cell of the last row of tables.

### CORRECTIVE ACTION PLAN (CAP) PROCESS:

**Step 1:** The LME/MCO receives notification from the Department regarding non-compliance.

**Step 2:** The LME/MCO submits the CAP to the Department.

**Step 3:** Either the Department accepts the CAP and the LME/MCO is placed on a quarterly routine review cycle or an additional CAP is requested if information is lacking or incorrect.

**Step 4:** The Department sends a letter closing the review or the LME/MCO is placed on accelerated monitoring.



**SECTION I: DEFINING THE ISSUE**

Use this section to clearly define the problem or deficiency, how the activity should be done, where to go for information, and a broad overview of how you are going to make an improvement for that issue. Use one CAP for each individual problem or deficiency.

| CORRECTIVE ACTION PLAN – DEFINING THE ISSUE                                                                                                      |  |
|--------------------------------------------------------------------------------------------------------------------------------------------------|--|
| Provide a clear, descriptive statement of each non-conformance problem / deficiency.                                                             |  |
| What is the corrective action(s), including supporting documentation?                                                                            |  |
| How will ongoing compliance be maintained? Identify preventative measures that will be taken to improve or prevent occurrences of noncompliance. |  |

**SECTION II: DEFINING THE STEPS FOR IMPROVEMENT**

List the specific steps you will take to correct the problem and when they should be completed.

- The Milestone should be a specific task to complete. Each Milestone should progress logically toward the completion of the desired goal.
- Although multiple people might work on a single step, there should be one person responsible for ensuring the step is done on time.
- Designate a Due Date for the Milestone that is realistic and attainable.
- Comments can be made at the time the CAP is developed and can be made as the work is done to mark progress.
- If done electronically (i.e. in Word), you can add rows to this table by hitting the “Tab” key while in the lower right-hand cell.

| CORRECTIVE ACTION PLAN: DEFINING THE STEPS FOR IMPROVEMENT |           |                                     |          |          |
|------------------------------------------------------------|-----------|-------------------------------------|----------|----------|
| #                                                          | Milestone | Responsible<br>[Name(s) & Title(s)] | Date Due | Comments |
|                                                            |           |                                     |          |          |
|                                                            |           |                                     |          |          |
|                                                            |           |                                     |          |          |
|                                                            |           |                                     |          |          |

## SECTION III: EVALUATING THE PROCESS

Once all milestones have been met, evaluate the process. Look for proof that the milestones were, in fact, completed, that the cause of the problem has been identified, and that the problem has been addressed.

|   | CORRECTIVE ACTION PLAN: EVALUATING THE PROCESS                                                                                                                                                                                                                                                                                                                                                                           |          |
|---|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|
| X | Results                                                                                                                                                                                                                                                                                                                                                                                                                  | Comments |
|   | <b>Acceptance</b><br><br><div style="border-bottom: 1px solid black; margin-bottom: 10px;"></div> Financial Analyst                      Date<br><br><div style="border-bottom: 1px solid black; margin-bottom: 10px;"></div> Associate Director                      Date<br><br><div style="border-bottom: 1px solid black; margin-bottom: 10px;"></div> Chief Financial Officer                      Date             |          |
|   | <b>Provisional Acceptance</b><br><br><div style="border-bottom: 1px solid black; margin-bottom: 10px;"></div> Financial Analyst                      Date<br><br><div style="border-bottom: 1px solid black; margin-bottom: 10px;"></div> Associate Director                      Date<br><br><div style="border-bottom: 1px solid black; margin-bottom: 10px;"></div> Chief Financial Officer                      Date |          |

| CORRECTIVE ACTION PLAN: EVALUATING THE PROCESS |                                                                                                                                                                                                                         |          |
|------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|
| X                                              | Results                                                                                                                                                                                                                 | Comments |
|                                                | <b>Rejection of the CAP</b><br><br><div> <div>Financial Analyst</div> <div>Date</div> </div> <div> <div>Associate Director</div> <div>Date</div> </div> <div> <div>Chief Financial Officer</div> <div>Date</div> </div> |          |