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To: ALL INTERESTED PARTIES

From: Department of Managed Health Care

The following is a brief summary of the comments and events that occurred during the Financial Solvency Standards Board (FSSB) meeting on March 20, 2001.

I. Introduction: Opening remarks by Daniel Zingale, Director

Prior meeting minutes were approved and adopted by the Board members.

II. Update of Status of SB 260 Emergency Regulations

1. The Business, Transportation and Housing Agency approved the draft SB 260 Emergency Regulations on March 9, 2001. Based on that approval the Department of Managed Health Care submitted the regulations to the Office of Administrative Law (OAL). Once the emergency regulations take effect, they will be effective for at least 120 days. The Department will begin the permanent regulations process for which there is a 45-day comment period soon after the OAL approval. Time will be reserved at the end of the May 22 Board meeting for public comment on the emergency regulations.

2. The Department sent letters to approximately 350 provider groups on March 9, 2001 to provide them with an update of the status of the SB 260 regulations and to inform them of their new reporting requirements.

3. The Department is working with California Association of Physician Organizations to distribute information and to assemble workshops for providers to assist them in complying with SB 260 reporting requirements. Workshops are planned for the end of April.

4. The Department contracted with KPMG on March 15 to assist in developing data elements that would be collected from providers and to develop a format for providers to comply with the requirements of SB 260. In addition, KPMG is contracted to conduct workshops to assist providers with the reporting requirements.

Public Comment:
None.

III. Review/Grading Criteria and Corrective Action Plans

1. The difference between the terms "Reviewing" and "Grading" was discussed. Questions were raised as to the definitions of the terms and the intent of SB 260. The Department will draft language on review/grading and corrective action plans for next month's meeting.

Public Comment
Provider focus: (1) grading system is troublesome; (2) would like to participate in the process by forming a small group of experts to look at various components of each of the four criteria; (3) need to define what "Review" means; (4) in favor of Review and not Grading; (5) need to decide if it is a consumer grading system or a regulatory grading system.

Health plan focus: (1) reviewing involves internal analysis and Grading is for the public; (2) positive tangible net equity and positive working capital are worthy indicators to collect; (3) recommends looking at prior report of solvency taskforce that shows various stakeholder positions on provider solvency so as to not repeat discussions on this issue; (4) regulations must include grading and reviewing based on the four criteria in the statute.

Consumer focus: (1) grading may provide incentives to medical groups.

2. Issues were raised concerning what should trigger a corrective action plan; what are the consequences if the provider does not meet its corrective action plan; and should there be a transition or phase-in for corrective action plans.

Public Comment
Health plan focus: (1) there should be an early warning system before a group falls behind; (2) there should be nothing in regulation or statute to preclude a plan from terminating a contract if the enrollee's interest is not being served; (3) should be mindful that the corrective action plan may not be realistic; (4) should be a mediation process on developing corrective action plans; (5) in favor of phase-in process on the working capital pieces, but if the group is not paying claims timely, should implement corrective action plan right away; (6) should consider a 3-year phase-in process for tangible net equity (TNE) standards; (4) should develop milestones along the way within these 3 years and think about corrective action plan if during the 3 years, organization is not meeting milestones.

IV. Discussion Re: Draft Data Elements To Be Collected From Providers

1. Presentation by Chris Ohman, President, CapMetrics – He and his firm are conducting research that is focused on solvency of provider organizations in California. The research study, funded by the California Health Care Foundation, is relevant to the Board in that it is

based on California providers and its goal is to establish meaningful provider solvency standards. CapMetrics is a Berkeley-based research agency that has conducted a number of works in this area.

The research asks three questions:

a. What are the key financial indicators of provider group insolvency?
b. What is the capital shortfall that must be made up for groups to comply with SB 260 standards, specifically the financial standards?
c. To what extent is there a relation between insolvency and the access and quality of health care?

The CapMetrics survey instruments and survey definitions documents were provided to Board members and the public. 350 surveys were distributed to active groups; 50 to closed groups. List of medical groups was provided by Cattaneo and Stroud. Ideal response rate would be 25-30 percent of total number of groups. Thus far, response has been very good, except from very small groups. Only about 3 percent of total have responded.

2. Specific questions related to the study were discussed. To minimize selection bias, CapMetrics staff will assist in filling out survey forms upon providers' request. The California Association of Physician Organizations endorsed the survey and encouraged members to fill out the forms.

Public Comment:
Provider focus: – (1) to what extent does quality of care and access to care come into play; not on CapMetrics' survey; therefore, if you don't have this information, how would you link those issues; (2) if those groups that are going under are not responding to the survey what are the early warning signals for groups that are falling behind; (3) if only the "good" groups are reporting, there is no indication of problems.

3. Brief presentation by Dan Vincent of KPMG – Engagement began on March 15; started independent parallel research not related to CapMetrics. Background work began with reviewing the American Institute of Certified Public Accountants 1996 findings on financial solvency. Recommendation to look at statement of cash flow; claims processing levels and re-insurance levels.

4. A need for data elements and a format for providers to report to the Department was discussed. The next Solvency Board meeting will discuss confidentiality and more specific discussion on which data elements are confidential. April 20 is the target date to produce standard formats for medical groups to report quarterly and annually and to provide guidance to plans to report their quarterly and annual information to the Department.

V. Next Steps/Closing Remarks

Daniel Zingale, Director made closing remarks and the meeting was adjourned.