Gray Davis, Governor
State of California
Business, Transportation and Housing Agency

980 9th Street
Suite 500
Sacramento, CA 95814-2725
916-324-8176 voice
916-322-2579 fax

Date: December 6, 2001

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 November 13, 2001.

I. <u>Introduction: Opening remarks by Scott Syphax, Chair</u>

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

II. <u>Presentation by CapMetrics: Update Regarding Solvency Research</u>

1. Chris Ohman, President and CEO of CapMetrics and Paul Gertler from U.C. Berkeley provided findings from their research regarding California physician group solvency and SB 260.

The study had four objectives: (1) determine the magnitude of the provider solvency problem, (2) determine whether SB 260's standards were effective predictors of solvency, (3) determine the characteristics of provider solvency, and (4) determine what solvency standards will work. Responses were received from 30% of the provider groups (with more than 5,000 covered lives) representing approximately 43% of non-Kaiser managed care enrollment in California.

Highlights of the research results presented are summarized as follows:

- Approximately 50-65% of the providers were in compliance with SB 260 standards.
- SB 260's tangible net equity standard is more of a long-term solvency concept whose value generally is subsumed in the working capital standard.
- A more complimentary near term liquidity criteria would be the adoption of a cash standard.
- The survey revealed that 13.3% of the provider groups reporting positive tangible net equity and working capital maintained a cash ratio of less than 0.2.
- Research confirmed that liquidity was the key predictor of provider solvency.

- Increased dependence on risk pool receivables resulted in less financially stable provider groups.
- While audited financial statements and increased use of employed physicians was associated with better liquidity, higher capitation revenue was not.
- Research was to continue.

Public Comment:
Provider focus: (1) Increased costs in prescription drugs, medical equipment, information technology expansion and overall overhead costs have increased while there has been a decrease in access; (2) have to compare group to group; compare expenses of medical groups in other states; (3) premature to develop standards based on incomplete data.
Health plan focus: (1) Don't lose the tangible net equity standard.
Consumer focus: (1) Solvency is important for patient care; if you take on risk, you have to maintain reserves.

III. Closing Remarks/Next Steps

1. Discussion regarding the Corrective Action Plan language will be the single topic for the December Financial Solvency Standards Board meeting.

2. The tentative schedule for Financial Solvency Standards Board meetings for the first half of 2002 was published.

3. Scott Syphax, Chair made closing remarks and the meeting was adjourned.