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To: ALL INTERESTED PARTIES

From: Department of Managed Care

The following is a brief summary of the comments and events that occurred during the Financial Solvency Standards Board (FSSB) meeting held on February 8, 2005.

I. Opening Remarks and Adoption of Meeting Minutes

A. The meeting minutes summary from the February 8, 2005 Financial Solvency Standards Board meeting was unanimously approved by the Board members.

B. The Department reported it met with stakeholders multiple times to understand all the concerns of the constituent groups, and reread all the comments. Those meetings were fruitful, resulting in regulations that are close to being finalized for submission to the Office of Administrative Law (OAL). As a part of the regulations, the cash standard is essential. The revisions in this document reflect a balance of the competing needs of the various stakeholders in regards to issues concerning the cash ratio and confidentiality.

II. Overview of Revisions to Regulatory Text

A. The Department staff overviewed the changes/revisions made to the draft SB260 Regulations.

B. Comments

1. Health Plan Perspective

- The Department does have a role to play in oversight and to directly be able to look at RBO finances. However, health plans are concerned that Section 1300.75.4.7 (iv) is open ended in terms of the Department's ability to go directly to a medical group and audit its processes outside of the financial realm. The health plan needs to be involved in discussions if there are quality issues, delays in referrals, and delays in care. Health plans do not want direct regulation without their involvement.

- CAP process needs to be streamlined.

- Concern was expressed regarding provider transitions under 1300.75.4.5. Under the regulations, health plans are limited in their ability to transition enrollees from a group subject to CAP. The revised regulations impair the health plan's ability to walk away form a medical group, yet the same is not true of medical group's ability to walk away.

2. Provider Group Perspective

- Although the SB 260 standards should increase the stability of groups, one caveat is that there is little experience with collecting this cash ratio information and it's not information that would normally come out of an audited report or monthly financials, and slightly non-standard definitions are used. The FSSB should review the appropriateness and specific definitions of the standards after two reporting periods are completed.

- The auditor's opinion includes the representation that the books and records are fairly stated in all material respects. The regulation requires that any qualification must be explained in the opinion letter. Concern was expressed that an auditor may not be willing to modify an opinion letter to account for one specific item.

- Suggestion that certain items be specifically identified as being kept confidential, including the Statement of Organization.

- Regulation should define the term "covered life." If the "covered life" count is to be measured on December 31 of each year, that should be clearly specified. The term "day" should also be clearly defined (calendar or working) and whether day one counts as a "day."

- 1300.75.4.2(c) makes reference to "the organization's annual audited financial statement prepared by an independent certified public accountant." Some concern was expressed regarding this language because CPA's do not prepare financial statements.

- Although the language in Section 1300.75.4.4(a) was tightened to provide " . . unless the Director determines that the information can be released in a manner that does not adversely affect the integrity of the contract negotiation process", it should be further tightened by adding a requirement that the Director demonstrate that such release will not cause financial or business harm to the RBO. Section 1300.75.4.2(g) should also be kept confidential.

- Concern was expressed regarding the time frames to correct certain deficiencies under a CAP, such as for TNE and working capital. However, it was pointed out there would be an opportunity for a proactive waiver if there is a reason the RBO did not meet the specified criteria.

3. California Medical Association Perspective

- Concern was expressed that regarding the use of term "adversely impact the negotiation process", which is too narrow and could result in excluding certain items.

- Concern was also expressed regarding CAP and whether it would be disclosed to all contracting health plans. This relates to whether an RBO would only have one CAP for all health plans. A standardized CAP containing confidential information could be problematic if distributed to all contracting health plans.

III. Additional Comments

Board Motion. A motion was made to finalize the current "Draft of Financial Solvency Regulation (SB 260) and prepare the regulations for submission to the Office of Administrative Law (OAL) to commence the finale rulemaking process. All Board members voted yes to move this document forward to OAL.

IV. Closing Remarks/Next Steps

The next meeting of the Financial Solvency Standards Board will be on April 12, 2005 at the Sheraton Grand Sacramento, 1230 "J" Street, Sacramento, California. There is a new meeting schedule that will skip March and then meet every other month.

Future Goals/Topics:

- The Department would like to bring in a representative from Ingenix to explain how their usual and customary methodology works and allow people to ask questions.
- Follow-up regarding the impact of AB 1455.
- Readdress the SB 260 process as we get into the formal process.
- Develop a work group regarding the corrective action processes.
- Impact of the change in Medi-Cal and Medicare reimbursement on medical groups and health plans.
- The direction of these trends and their impact on IPAs.
- The growing migration to consumer directed plans, the emergence of skinny PPO benefits and their impact. Also, the impact of changes to the Medicare Advantage program and Part B Medicare.