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## **Guidelines for Conducting Independent Reviews of Risk-Bearing Provider Organizations in Conjunction with the Application for Risk Certificates for the Term Beginning March 1, 2015**

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The Division of Insurance (“Division”) distributes this guidance to identify a process of review that the Division would consider acceptable during the first year of the transition to full implementation of the Risk-Bearing Provider Organization (“RBPO”) certification process in lieu of the submission by RBPOs of formal actuarial certifications pursuant to the requirements set forth in Massachusetts General Laws Chapter 176T and 211 CMR 155.06(2) and 155.07. For applications for Risk Certificates that are effective beginning March 1, 2015, the Division will consider it acceptable if a professional that is independent from the RBPO – an actuary or other financial professional – follows the review process described in this guidance.

This acceptance by the Division of such reviews in lieu of actuarial certifications will *only* be applicable to those RBPOs seeking Risk Certificates for the term March 1, 2015 through February 29, 2016. Beginning with applications for Risk Certificates with terms beginning March 1, 2016 and thereafter, *only* an actuarial certification conducted in compliance with Chapter 176T and 211 CMR 155.07 will be acceptable to the Division from an RBPO seeking to obtain a Risk Certificate.

When the review is completed, the financial professional should complete a statement (“Review Statement”) that is substantially similar to the following:

“I have performed the analysis and reviewed the calculations identified by the Massachusetts Division of Insurance (“Division”) in its Guidelines for Conducting Independent Reviews of Risk-Bearing Provider Organizations, dated September 26, 2014 (“Guidelines”), in conjunction with the Application for Risk Certificates for the Term Beginning March 1, 2015, and based upon this work, I have concluded that [*RBPO’s Name*] has satisfied the review requirements set forth in the Division’s Guidelines for applications for Risk Certificates effective beginning March 1, 2015.”

# Guidelines for Conducting Independent Reviews of Risk-Bearing Provider Organizations in Conjunction with the Application for Risk Certificates for the Term Beginning March 1, 2015

## Information for Reviewer to Collect from the RBPO to Conduct the Review

### Step One

- (1) (a) RBPO reports FY2014 budgeted member months covered under RBPO's Fiscal Year ("FY") 2014 Alternate Payment Contracts with Downside Risk ("APC") by APC.  
(b) RBPO reports FY2014 budgeted amounts covered under RBPO's FY2014 APCs, by APC.  
(c) RBPO calculates the FY2014 Per Member/Per Month ("PMPM") APC budget [(1b)/(1a)]
- (2) (a) DOI supplies Projected Average PMPM Claims Cost for 2014 = \$405.25<sup>1</sup>  
(b) RBPO reports Relative Total Medical Expenses ("RTME") for the RBPO using RTME spreadsheet shown in the Appendix If the RBPO is not shown on the RTME spreadsheet, use 1.00.  
(c) RBPO reports the percentage of covered expenses that are subject to Downside Risk ("DR") if the APCs do not apply to 100% of the covered medical and prescription drug services provided to persons covered under the APCs.  
(d) RBPO calculates RBPO's Projected Average PMPM Claims Cost for 2014 [(2)(a)x(2)(b)x(2)(c)].  
(e) RBPO calculates Projected PMPM Surplus or Loss for RBPO's APCs compared to Division Average [(1)(c) – (2)(d)]
- (3) (a) RBPO reports RBPO risk share percentage by APC.  
(b) RBPO calculates FY2014 Projected Net Surplus or Loss on APCs after Risk Share PMPM by APC – not factoring in caps or stop loss in contract arrangements [(2)(e)x(3)(a)].  
(c) RBPO calculates FY2014 Projected Net Surplus or Loss on APCs after Risk Share by APC [(3)(b)x(1)(a)].  
(d) RBPO calculates total FY2014 Aggregate Net Surplus or Loss on APCs after Risk Share across all APCs.

If FY2014 Aggregate Projected Net Surplus/Loss on APCs is *positive*, then the reviewer may stop the review and issue the Review Statement.

- (4) RBPO provides financial statements and highlights net working capital (current assets less current liabilities) and/or resources available to obtain capital that could pay for potential APC losses.
- (5) RBPO identifies any parental guarantees that offer protection from potential APC losses. If the reviewer finds it necessary, the RBPO provides financial statements of the parent that highlight funds that could pay for potential APC losses. The reviewer will be responsible for seeing that parental surplus funds are allocated among RBPOs with APCs.

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<sup>1</sup> Derived from information reported to the federal Center for Consumer Information and Insurance Oversight for 2012 annual rebate calculations for fully insured commercial business. The calculated PMPM Claims Cost for 2012 was inflated at a 3.6% annual increase for 2013 and 2014 to calculate the \$405.25 amount. Please note that the reviewer may agree to use a different projected claims cost figure if the RBPO provides adequate justification that explains the reasons to adjust the estimate.

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Compare FY2014 Aggregate Projected Net Loss on APCs after Risk Share (3)(d) to the combination of RBPO's (4) net working capital (current assets less current liabilities) and/or resources available to obtain capital and (5) any allocated funds available from corporate parent for those with parental guarantees [obtained from corporate parent's financial statements (5)]. *If* the combination of RBPO's (4) and (5), is *greater* than FY2014 Aggregate Projected Net Loss on APCs after Risk Share (3)(d), then the reviewer may stop the review and issue the Review Statement.

### ***Step Two***

If FY2014 Aggregate Projected Loss on APCs after Risk Share (3)(d) is *greater* than the combination of the RBPO's (4) net working capital (current assets less current liabilities) and/or resources available to obtain capital and any (5) allocated funds available from corporate parent for those with parental guarantees [obtained from corporate parent's financial statements], the reviewer should collect the following information from the RBPO:

- (6) Terms in APCs that limit DR, including any caps on losses and any stop-loss terms within APCs that limit potential losses;
- (7) Details about insurance coverage that may limit RBPO's losses on APCs; and
- (8) Any other protections that may mitigate RBPO losses on APCs.

The reviewer should examine the terms in the RBPO's insurance coverage, or other protections that limit FY2014 potential losses on APCs [(6) through (8)] and adjust the FY2014 Aggregate Projected Loss on APCs after Risk Share (3d) to develop a Limited FY2014 Aggregate Projected Loss on APCs after Risk Share. *If* the combination of RBPO's (4) and (5) is *greater* than Limited FY2014 Aggregate Projected Loss on APCs after Risk Share, then the reviewer may stop the review and issue the Review Statement.

### ***Step Three***

If the Limited Aggregate Projected Loss on APCs after Risk Share is greater than the RBPO's (4) net working capital (current assets less current liabilities) and/or resources available to obtain capital and (5) any allocated funds available from corporate parent for those with parental guarantees [obtained from corporate parent's financial statements], the reviewer should collect the following information from the RBPO:

- (9) Management controls in place to monitor APCs, highlighting the following:
  - Manager or department responsible to monitor utilization/claims for those members who are covered under the terms of RBPO's APCs;
  - Type, frequency and content of management information associated with RBPO's APCs;
  - Ability to track and measure claims incurred but not paid;
  - Ability to track and manage large claims;and
- (10) Terms in APCs that permit the RBPO to terminate the APC in case of significant levels of financial losses.

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The reviewer should review company management controls (9) and any terms that permit early cancellation of APC contracts (10). *If* it is reviewer's determination that the controls that are in place and the relevant contract terms appear sufficient, then the reviewer may stop the review and issue the Review Statement.

If there are any questions regarding this guidance, please consider contacting Kevin Beagan, Deputy Commissioner, Health Care Access Bureau, at [kevin.beagan@state.ma.us](mailto:kevin.beagan@state.ma.us).

*Dated:* September 26, 2014

