



305 – PERFORMANCE BOND AND EQUITY PER MEMBER REQUIREMENTS

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Staff responsible for policy: DHCM Finance

I. Purpose

This policy applies to all AHCCCS Acute Care Contractors (excluding CMDP, CRS, and ALTCS EPD Contractors); and Medicare Advantage Plan Contractors certified by AHCCCS. The purpose of this policy is to establish standards for Contractors to meet the performance bonding and equity requirements. These standards will continue to ensure a Contractor's ability to meet its claims payment obligations, while addressing the individual differences among Contractors and enrollment growth.

II. Definitions

Equity Net Assets that are not designated or restricted for specific purposes.

Performance Bond In general, a performance bond is an instrument that provides a financial guarantee in the amount of one month's capitation or an established amount per enrolled member. Refer to the ACOM Policy 306 for definitions of acceptable instruments.

III. Policy

A. Performance bonding requirements:

Acute Care and CRS Contractors

The initial amount of the Performance Bond shall be equal to 100% of the total capitation payment expected to be paid to the Contractor in the first month of the contract year, or as determined by AHCCCS. For both Acute Care and CRS, the total capitation amount shall be net of premium tax. Acute Care capitation is inclusive of delivery supplemental payments. This requirement must be satisfied by the Contractor no later than 30 days after notification by AHCCCS of the amount required. Thereafter, AHCCCS shall evaluate the capitation amount of the Contractor on a monthly basis to determine if the Performance Bond must be increased. When the amount of the performance bond falls below 90% of one month's capitation, then the amount of the instrument must be increased to at least 100% of one month's capitation. Contractors must increase the amount of the performance bond within 30 days of notice from AHCCCS.



ALTCS EPD Contractors

The initial amount of the Performance Bond shall be equal to 80% of the total capitation payment expected to be paid to the Contractor in the first month of the contract year, or as determined by AHCCCS. The total capitation amount is net of premium tax. This requirement must be satisfied by the Contractor no later than 30 days after notification by AHCCCS of the amount required. Thereafter, AHCCCS shall evaluate the capitation amount of the Contractor on a monthly basis to determine if the Performance Bond must be increased. When the amount of the performance bond falls below 70% of one month's capitation, the amount of the instrument must be increased to at least 80% of one month's capitation. Contractors must increase the amount of the performance bond within 30 days of notice from AHCCCS.

Medicare Advantage Plan Contractors

AHCCCS requires that the Contractor obtain a performance bond specifically for the purpose of the MA Plan in the amount of \$1,050 per MA Dual Eligible Member. DHCM and the Contractor shall work together to project the number of eligibles to establish the initial amount of the performance bond. As it pertains to a Medicare Advantage Plan, AHCCCS will not accept a County Resolution to satisfy the Performance Bond requirement, which is acceptable for other Contractors as noted in the Performance Bond Policy.

B. Equity per member requirements:

Formula:

Unrestricted equity, less on-balance sheet performance bond, divided by the number of members enrolled at the end of the period. For Acute Care, SOBRA Family Planning Extension Program members are excluded.

Acute Care Requirement:

Contractors with 0-99,999 members:	\$170
Contractors with 100,000+ members:	\$115

CRS Requirement

- At least \$260 per member for CYE 2014
- At least \$320 per member for CYE 2015
- At least \$370 per member for CYE 2016 and thereafter

ALTCS EPD Requirement:

All contractors	\$2,000
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Medicare Advantage Plan Requirement

\$50 per member upon commencement of the plan. One year after the MA Plan is established, AHCCCS will require that the equity per member amount increase to \$350 per MA Plan Dual Eligible Member.

C. Remediation when a Contractor fails to meet the equity per member requirement:

If a contractor's equity per member falls below the requirement, AHCCCS will review the causes for the lack of compliance. AHCCCS may require the Contractor to comply with the following measures:

- ✓ Submission of corrective action plan to increase equity
- ✓ Monthly financial reporting, if not already required
- ✓ Increase the amount of the performance bond
- ✓ Capital infusion to bring equity into compliance
- ✓ Enrollment Cap

If the Contractor fails to comply with the above requirements, AHCCCS may apply sanctions as delineated in ACOM Policy 408.

D. Restrictions on equity:

The following asset types will constitute restricted assets, and therefore will be subtracted from a contractor's equity when calculating the equity per member ratio:

1. Assets recorded as "due from affiliates" which are resulting from transactions other than cash/bank account sweep arrangements
2. Goodwill and adjustments to other assets resulting from a purchase, including those resulting from purchases and revaluations recorded in accordance with SFAS No. 141, *Business Combinations* and EITF 88-16, *Basis in Leverage Buyout Transactions*
3. Guarantees of debt
4. On balance sheet performance bonds
5. Other assets determined to be restricted by AHCCCS



E. Requirements for Contractors with restricted equity:

If a Contractor's equity is not supported by unrestricted cash or investments, and the Contractor does not meet the equity per member requirements, then the Contractor may be required to maintain a performance bond in an amount greater than 100% of one month's capitation to cover the amount of the equity necessary to meet the requirements.

IV. Division of Health Care Management (DHCM) Monitoring Responsibilities

1. DHCM financial consultants will be responsible for monitoring compliance with equity per member requirements on a quarterly basis. Analyses will be performed to determine the equity per member sufficiency. Deficiencies and requests for remediation will be communicated in writing to the contractor. The contractor will be required to submit a plan to increase the equity within 30 days.
2. The financial consultant responsible for performance bonds will monitor compliance with performance bond requirements on a monthly basis. AHCCCS will notify the contractor of required changes to the amount of the performance bond. Contractors will have 30 days to comply with new requirements.

V. References

- Acute Care contract
- CRS contract
- ALTCS EPD contract
- ACOM Policy, 408