

# **ODJFS Methods for Financial Performance Measures**

**Contact: Lisa Graupmann**  
**Issued: January 3, 2012**

## 1. FINANCIAL PERFORMANCE MEASURES AND STANDARDS

Appendix J of the Ohio Medical Assistance Provider Agreement for Managed Care Plans establishes specific expectations concerning the financial performance of MCPs. In the interest of administrative simplicity and non-duplication of areas of the ODI authority, ODJFS' emphasis is on the assurance of access to and quality of care. ODJFS will focus only on a limited number of indicators and related standards to monitor plan performance. The four indicators and standards for this contract period are identified below, along with the calculation methodologies. The source for each indicator will be the NAIC Quarterly and Annual Financial Statements and Supplemental Health Care Exhibit. The report period that will be used to determine compliance will be the annual Financial Statement .and Supplemental Health Care Exhibit.

a. **Indicator: Net Worth as measured by Net Worth Per Member**

*Definition:* Net Worth = Total Admitted Assets minus Total Liabilities divided by Total Members across all lines of business

*Standard:* The Net Worth Per Member (NWPM) standard is the Medicaid Managed Care Capitation amount paid to the MCP during the preceding calendar year, excluding the at-risk amount, expressed as a per-member per-month figure, multiplied by the applicable proportion below:

0.75 if the MCP had a total membership of 100,000 or more during that calendar year

0.90 if the MCP had a total membership of less than 100,000 for that calendar year

If the MCP did not receive Medicaid Managed Care Capitation payments during the preceding calendar year, then the NWPM standard for the MCP is the average Medicaid Managed Care capitation amount paid to Medicaid-contracting MCPs during the preceding calendar year, (including CFC delivery payments) excluding the at-risk amount, multiplied by the applicable proportion above.

b. **Indicator: Medical Loss Ratio (MLR)**

*Definition:* Minimum Medical Loss Ratio = Incurred Medical Claims plus Expenses for Activities That Improve Health Care Quality (as defined in 45 CFR 158) divided by Earned Premiums minus Federal and State Taxes and Licensing or Regulatory Fees.

*Standard:* Minimum Medical Loss Ratio is not to fall below 85%, as determined from the annual Supplemental Health Care Exhibit of the Financial Statement submitted to ODI and ODJFS.

c. **Indicator: Administrative Expense Ratio**

*Definition:* Administrative Expense Ratio = Administrative Expenses minus Sales and Use Tax and estimated HIC Taxes divided by Total Revenue minus Sales and Use Tax and estimated HIC Taxes.

*Standard:* Administrative Expense Ratio not to exceed 15%, as determined from the annual Financial Statement submitted to ODI and ODJFS.

**Note:** HIC taxes are estimated based on 1% of revenue because the collections are not done until after the end of the year.

d. **Indicator: Overall Expense Ratio**

*Definition:* Overall Expense Ratio = The sum of the Administrative Expense Ratio and the Medical Expense Ratio.

Administrative Expense Ratio = Administrative Expenses minus Sales and Use Tax and estimated HIC Taxes divided by Total Revenue minus Sales and Use Tax and estimated HIC Taxes.

Medical Expense Ratio = Medical Expenses divided by Total Revenue minus Sales and Use Tax and estimated HIC Taxes.

*Standard:* Overall Expense Ratio not to exceed 100% as determined from the annual Financial Statement submitted to ODI and ODJFS.

**Note:** HIC taxes are estimated based on 1% of revenue because the collections are not done until after the end of the year.

e. **Indicator: Days Cash on Hand**

*Definition:* Days Cash on Hand = Cash and Short-Term Investments divided by (Total Hospital and Medical Expenses plus Total Administrative Expenses) divided by 365.

*Standard:* Greater than 25 days as determined from the annual Financial Statement submitted to ODI and ODJFS.

f. **Indicator: Ratio of Cash to Claims Payable**

*Definition:* Ratio of Cash to Claims Payable = Cash and Short-Term Investments divided by claims Payable (reported and unreported).

*Standard:* Greater than 0.83 as determined from the annual Financial Statement submitted to ODI and ODJFS.