



Transfer of Risk Reserve and Fund Balance Accompanying County Disengagement

July 30, 2021

Executive Summary

The below and attached information is provided in response to SL 2021-62, Section 3.5A, which directs the NC Department of Health & Human Services (NCDHHS) to develop a formula or formulas to govern distribution of Risk Reserve and Fund Balance when a county or counties disengage from one LME/MCO and is/are received by another. In response to this directive, NCDHHS has developed a set of formulas that address considerations relevant to three different disengagement scenarios. The formulas and scenarios are as follows:

- 1) Risk Reserve distribution for any single county disengagement
- 2) Fund Balance distribution
 - a) For multi-county disengagement from Cardinal Innovations (or an LME/MCO that is winding down)
 - b) For a single county disengagement from an LME/MCO.

The attached slides lay out each of the formulas and demonstrates how they might distribute funds, using fictional Risk Reserve and Fund Balance amounts for illustrative purposes only. Background on each of the formulas is provided below.

Risk Reserve – Any County Disengagement

This formula intends to preserve for the receiving LME/MCO an amount of risk reserve that is proportionately and approximately sized to reflect the service liability moving from the prior LME/MCO. Risk reserve is generated as a percentage of capitation revenue, which is determined in large part by the historical cost of serving a particular cohort of LME/MCO members. The formula for parsing out and distributing the risk reserve for disengaging counties therefore uses service costs – specifically, the % of the LME/MCO's total annual calendar year 2019 (CY 2019) service costs attributable to members of a disengaging county (excluding expenditures for populations required to enroll in Standard Plan PHPs). This data is actual (ie, final) and should serve as a reasonable pre-COVID basis for estimating the “steady state” population and service cost liability moving between LME/MCOs.

Fund Balance – Multi-County Disengagement from Cardinal Innovations

This formula reflects the different/special situation of multiple disengagements from an LME/MCO (Cardinal Innovations) that is winding down and will cease operations in its prior form. This formula focuses on addressing the following three main issues:

- 1) Ensuring that all Cardinal Innovations liabilities will be paid from the available fund balance, so that no additional state funds will be required.
- 2) Providing for reasonable one-time expenses associated with the consolidation of Vaya/Cardinal.
- 3) Providing for an equitable distribution of the remaining fund balance, recognizing both that fund balance is used for one-time investments in LME/MCOs and that smaller counties face different infrastructure challenges than larger counties.

Cardinal will provide an audited financial statement to DHHS by a date still to be established. The DHHS Office of Internal Audit will evaluate the audit and any supplemental information needed to determine the amount of Fund Balance that must be retained to meet all of Cardinal's obligations prior to any fund balance transfer with counties.

DHHS will work with Cardinal/Vaya to determine reasonable one-time costs associated with consolidation and will set aside from the identified Fund Balance an amount to cover those costs.

DHHS will also estimate an amount of Contingency Funds to set aside to address any estimated potential variance in outstanding liabilities (for example, if the actual outstanding claims liability exceeds what is projected/booked in the first step above). This amount will be a percentage of identified outstanding liabilities.

Finally, the formula for distributing the remaining Fund Balance to transfer with disengaging and consolidating counties will be based primarily (80% of funds) on the same proportional distribution as is used for Risk Reserve, but will also include a component (20% of funds) that will increase the relative share that transfers with smaller counties. The latter portion of the balance will be prorated based on county population for counties with populations less than 100,000.

Any funds remaining after all liabilities of the winding down LME/MCO have been resolved will be distributed in accordance with the FB formula.

Fund Balance – Single County Disengagement

This formula is identical to the formula for Risk Reserve, transferring proportionally the remaining fund balance attributable to each county that disengages and is received by another area authority.