

# **ODM Methods for Financial Performance Measures**

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## 1. FINANCIAL PERFORMANCE MEASURES AND STANDARDS

Appendix J of the Ohio Department of Medicaid (ODM) 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 Ohio Department of Insurance authority, ODM's emphasis is on the assurance of access to and quality of care. ODM will focus only on a limited number of indicators to monitor plan performance. The five indicators and standards are identified below, along with the calculation methodologies. The source for each indicator will be the NAIC Quarterly and Annual Financial Statements and the Modified Supplemental Health Care Exhibit. The measurement period that will be used to determine compliance will be the annual Financial Statement and Modified Supplemental Health Care Exhibit.

a. **Indicator: Current Ratio**

*Definition:* Current Ratio = Current Assets divided by Current Liabilities. (Current assets includes any long-term investments that can be converted to cash within 24 hours without significant penalty. Significant penalty is a penalty greater than 20%).

*Standard:* The Current Ratio must not fall below 1.00 as determined from the annual Financial Statement submitted to ODI and ODM.

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 must not fall below 85%, as determined from the annual Modified Supplemental Health Care Exhibit submitted to ODM.

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 must not exceed 15%, as determined from the annual Financial Statement submitted to ODI and ODM.

**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 (Less Adjustment Due to Prior Years) divided by Total Revenue minus Sales and Use Tax and estimated HIC Taxes.

The Adjustment Due to Prior Years calculates the net effect of IBNP adjustments from prior years. The amount is calculated by subtracting the Estimated Claim Reserve and Claim Liability as of December 31<sup>st</sup> of the Prior Year from the Claims Incurred in Prior Years as of the current quarter. The source used for the calculation is the Underwriting and Investment Exhibit Analysis of Claim Unpaid-Prior Years-Net of Reinsurance, column 5, line 13 minus column 6, line 13.

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

**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: Defensive Interval**

*Definition:* Defensive Interval = Cash plus cash equivalents divided by Operating Expenses minus Non-Cash Expense divided by the Period measured in days.

*Standard:* The Defensive Interval must not fall below 30 days as determined from the annual Financial Statement submitted to ODI and ODM.