Policy:	FF.1006
Title:	**Financial Risk Arrangements**
Department:	Finance
Section:	Not Applicable
CEO Approval:	*/s/ Michael Hunn 08/08/2024*
Effective Date:	09/01/2002
Revised Date:	08/01/2024
Applicable to:	☒ Medi-Cal ☐ OneCare ☐ PACE ☐ Administrative

I. PURPOSE

This policy describes the process by which CalOptima Health ensures that financial risk arrangements set forth in Hospital Risk Pool Arrangements and Other Risk Arrangements are fair, equitable, and appropriately reward Providers for cost-effective, high-quality services to Members assigned to a Physician Hospital Consortium (PHC).

II. POLICY

A. Hospital Risk Pool Arrangements

1. If CalOptima Health requires a PHC to establish a Hospital Risk Pool Arrangement, the PHC shall do so pursuant to the terms and conditions of this Policy.

2. A PHC shall establish a hospital risk pool funded by hospital capitation dollars paid by CalOptima Health.

3. A Primary Physician Group shall be entitled to a minimum of fifty percent (50%) of any hospital risk pool surplus.

4. A Primary Physician Group's downside risk shall be limited to five percent (5%) of the Primary Physician Group's total Capitation Payment.

5. CalOptima Health shall ensure PHC compliance with Hospital Risk Pool Arrangements and may impose Sanctions, including Capitation Payment deductions, in accordance with CalOptima Health Policies HH.2002: Sanctions and HH.2005: Corrective Action Plan.

B. All Hospital Risk Pool Arrangements and Other Risk Arrangements developed by a PHC shall comply with the following:

1. A PHC shall design Hospital Risk Pool Arrangements and Other Risk Arrangements primarily to create incentives for Providers;

2. A PHC shall facilitate a common understanding and high level of trust between the various parties of Hospital Risk Pool Arrangements and Other Risk Arrangements and shall make such

Hospital Risk Pool Arrangements and Other Risk Arrangements as administratively simple as possible;

3. A PHC shall ensure that Hospital Risk Pool Arrangements and Other Risk Arrangements are compliant with federal and state law;

4. A PHC shall not structure Hospital Risk Pool Arrangements or Other Risk Arrangements to deny or limit access or jeopardize quality of care;

5. A PHC shall ensure that each contracting Provider has the administrative and financial capacity to meet its contractual obligations; and

6. A PHC shall have a mechanism to detect and correct under-service by an at-risk Provider, including possible underutilization of specialist services and preventive health care services.

C. A PHC shall ensure that Hospital Risk Pool Arrangements and Other Risk Arrangements are agreed to by written contract and signed by all parties and shall submit signed Hospital Risk Pool Arrangements and Other Risk Arrangements to CalOptima Health and its Contracted Vendor upon initial set-up, following subsequent revisions, and upon request.

D. CalOptima Health or its Contracted Vendor shall review and provide comments, as necessary, on the appropriateness of a PHC's Hospital Risk Pool Arrangements and Other Risk Arrangements pursuant to the terms and conditions of this Policy.

III. PROCEDURE

A. A PHC shall document a Hospital Risk Pool Arrangement in a risk pool agreement. The risk pool agreement shall be agreed to, and signed by, both the Primary Physician Group and Primary Hospital, and shall delineate the following minimum provisions:

1. Risk pool funding sources (i.e., hospital Capitation Payments, reinsurance recoveries, coordination of benefit collections);

2. Services that are debited against the risk pool;

3. Valuation of services debited against the risk pool;

4. Surplus sharing;

5. Deficit sharing;

6. Calculation period and settlements; and

7. Dispute resolution.

B. Calculations and settlements related to Hospital Risk Pool Arrangements

1. A PHC shall perform risk pool settlement calculations on a quarterly basis, and shall obtain signatures from the Primary Physician Group, Primary Hospital, and any other participating entities on the calculations.

2. A PHC shall provide copies of all quarterly or other interim settlement calculations to CalOptima Health, or its Contracted Vendor as requested during any annual financial audits and/or reviews.

3. A PHC shall calculate annual settlements for a given contract year, acquire signatures from representatives of the participating entities, issue payment per the timeline defined in the Hospital Risk Pool Arrangement, and submit the annual settlements and proof of the payments to CalOptima Health or its Contracted Vendor as part of the annual review of the PHC's Medical Loss Ratio calculation.

C. Written communication to a Provider regarding Other Risk Arrangements

1. A PHC shall provide clear, written communication to a Provider regarding Other Risk Arrangements and any risk pool settlements.

2. A PHC shall provide a Provider with a copy of the risk pool settlement calculation, and

a. The calculation of the Provider's particular risk pool dollar share amount; or

b. A written explanation as to why the Provider is not eligible for a distribution under the Other Risk Arrangement.

D. CalOptima Health's oversight of Hospital Risk Pool Arrangements and Other Risk Arrangements

1. CalOptima Health or its Contracted Vendor shall receive and review, upon request or as part of any financial audit and/or review, all settlement calculations and payment distributions to ensure that a PHC is compliant with the terms of the approved Hospital Risk Pool Arrangements and Other Risk Arrangements and the provisions of this policy.

2. If a PHC is non-compliant with any of the provisions in Section II of this policy, CalOptima Health shall require a PHC to submit a Corrective Action Plan (CAP) as appropriate, in accordance with CalOptima Health Policy HH.2005 Corrective Action Plan. CalOptima Health may impose Sanctions, including Capitation Payment deductions, in accordance with CalOptima Health Policy HH.2002: Sanctions, if PHC continues to be non-compliant with any of the provisions in Section II of this policy.

IV. ATTACHMENT(S)

Not Applicable

V. REFERENCE(S)

A. CalOptima Health, Health Network Service Agreement
B. CalOptima Health Policy HH.2002: Sanctions
C. CalOptima Health Policy HH.2005: Corrective Action Plan
D. Title 28, California Code of Regulations (C.C.R.), §§1300.70(b)(2)(H)(1) and (2)a.

VI. REGULATORY AGENCY APPROVAL(S)

None to Date

VII. BOARD ACTION(S)

Date	Meeting
06/04/2020	Regular Meeting of the CalOptima Board of Directors

VIII. REVISION HISTORY

Version	Date	Policy	Policy Title	Program(s)
Effective	01/01/2002	FF.1006	Financial Risk Arrangements	Medi-Cal
Revised	03/01/2003	FF.1006	Financial Risk Arrangements	Medi-Cal
Revised	07/01/2007	FF.1006	Financial Risk Arrangements	Medi-Cal
Revised	01/01/2008	FF.1006	Financial Risk Arrangements	Medi-Cal
Revised	08/01/2010	FF.1006	Financial Risk Arrangements	Medi-Cal
Revised	09/01/2014	FF.1006	Financial Risk Arrangements	Medi-Cal
Revised	08/01/2016	FF.1006	Financial Risk Arrangements	Medi-Cal OneCare Connect
Reviewed	05/01/2017	FF.1006	Financial Risk Arrangements	Medi-Cal OneCare Connect
Revised	07/01/2018	FF.1006	Financial Risk Arrangements	Medi-Cal OneCare Connect
Revised	06/04/2020	FF.1006	Financial Risk Arrangements	Medi-Cal OneCare Connect
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Revised	12/31/2022	FF.1006	Financial Risk Arrangements	Medi-Cal
Revised	07/01/2023	FF.1006	Financial Risk Arrangements	Medi-Cal
Revised	08/01/2024	FF.1006	Financial Risk Arrangements	Medi-Cal

IX. GLOSSARY

Term	Definition
Aid Code	The two (2) character code, defined by the State of California, which identifies the aid category under which a Member is eligible to receive Medi-Cal Covered Services.
Capitation Payment	The monthly amount paid to a Health Network by CalOptima Health for delivery of Covered Services to Members, which is determined by multiplying the applicable Capitation Rate by a Health Network's monthly enrollment based upon Aid Code, age and gender.
Capitation Rate	The per capita rate set by CalOptima Health for the delivery of Covered Services to Members based upon Aid Code, age, and gender.
Corrective Action Plan (CAP)	A plan delineating specific identifiable activities or undertakings that address and are designed to correct program deficiencies or problems identified by formal audits or monitoring activities by CalOptima Health, the Centers for Medicare & Medicaid Services (CMS), Department of Health Care Services (DHCS), or designated representatives. FDRs and/or CalOptima Health departments may be required to complete CAPs to ensure compliance with statutory, regulatory or contractual obligations and other requirements identified by CalOptima Health and its regulators.
Covered Services	Those health care services, set forth in W&I sections 14000 et seq. and 14131 et seq., 22 CCR section 51301 et seq., 17 CCR section 6800 et seq., the Medi-Cal Provider Manual, the California Medicaid State Plan, the California Section 1115 Medicaid Demonstration Project, the contract with DHCS for Medi-Cal, and DHCS APLs that are made the responsibility of CalOptima Health pursuant to the California Section 1915(b) Medicaid Waiver authorizing the Medi-Cal managed care program or other federally approved managed care authorities maintained by DHCS. Covered Services do not include: 1. Home and Community-Based Services (HCBS) program as specified in the DHCS contract for Medi-Cal Exhibit A, Attachment III, Subsections 4.3.15 (Services for Persons with Developmental Disabilities), 4.3.20 (Home and Community-Based Services Programs) regarding waiver programs, 4.3.21 (In-Home Supportive Services), and Department of Developmental Services (DDS) Administered Medicaid Home and Community-Based Services Waiver. HCBS programs do not include services that are available as an Early and Periodic Screening, Diagnosis and Treatment (EPSDT) service, as described in 22 CCR sections 51184, 51340 and 51340.1. EPSDT services are covered under the DHCS contract for Medi-Cal, as specified in Exhibit A, Attachment III, Subsection 4.3.11 (Targeted Case Management Services), Subsection F4 regarding services for Members less than twenty-one (21) years of age. CalOptima Health is financially responsible for the payment of all EPSDT services; 2. California Children's Services (CCS) as specified in Exhibit A, Attachment III, Subsection 4.3.14 (California Children's Services), except for Contractors providing Whole Child Model (WCM) services;

Term	Definition
	3. Specialty Mental Health Services as specified in Exhibit A, Attachment III, Subsection 4.3.12 (Mental Health Services); 4. Alcohol and SUD treatment services, and outpatient heroin and other opioid detoxification, except for medications for addiction treatment as specified in Exhibit A, Attachment III, Subsection 4.3.13 (Alcohol and Substance Use Disorder Treatment Services); 5. Fabrication of optical lenses except as specified in Exhibit A, Attachment III, Subsection 5.3.7 (Services for All Members); 6. Direct Observed Therapy for Treatment of Tuberculosis (TB) as specified in Exhibit A, Attachment III, Subsection 4.3.18 (Direct Observed Therapy for Treatment of Tuberculosis); 7. Dental services as specified in W&I sections 14131.10, 14132(h), 14132.22, 14132.23, and 14132.88, and EPSDT dental services as described in 22 CCR section 51340.1(b). However, CalOptima Health is responsible for all Covered Services as specified in Exhibit A, Attachment III, Subsection 4.3.17 (Dental) regarding dental services; 8. Prayer or spiritual healing as specified in 22 CCR section 51312; 9. Educationally Necessary Behavioral Health Services that are covered by a Local Education Agency (LEA) and provided pursuant to a Member's Individualized Education Plan (IEP) as set forth in Education Code section 56340 et seq., Individualized Family Service Plan (IFSP) as set forth in California Government Code (GC) section 95020, or Individualized Health and Support Plan (IHSP). However, CalOptima Health is responsible for all Medically Necessary Behavioral Health Services as specified in Exhibit A, Attachment III Subsection 4.3.16 (School-Based Services); 10. Laboratory services provided under the State serum alpha-feto-protein-testing program administered by the Genetic Disease Branch of California Department of Public Health (CDPH); 11. Pediatric Day Health Care, except for Contractors providing Whole Child Model (WCM) services; 12. State Supported Services; 13. Targeted Case Management (TCM) services as set forth in 42 USC section 1396n(g), W&I sections 14132.48 and 14021.3, 22 CCR sections 51185 and 51351, and as described in Exhibit A, Attachment III, Subsection 4.3.11 (Targeted Case Management Services). However, if Members less than twenty-one (21) years of age are not eligible for or accepted by a Regional Center (RC) or a local government health program for TCM services, CalOptima Health must ensure access to comparable services under the EPSDT benefit in accordance with DHCS APL 23-005; 14. Childhood lead poisoning case management provided by county health departments; 15. Non-medical services provided by Regional Centers (RC) to individuals with Developmental Disabilities, including but not limited to respite, out-of-home placement, and supportive living; 16. End of life services as stated in Health and Safety Code (H&S) section 443 et seq., and DHCS APL 16-006; and

Term	Definition
	17. Prescribed and covered outpatient drugs, medical supplies, and enteral nutritional products when appropriately billed by a pharmacy on a pharmacy claim, in accordance with DHCS APL 22-012.
Health Network	A Physician Hospital Consortium (PHC), physician group under a shared risk contract, or health care service plan, such as a Health Maintenance Organization (HMO) that contracts with CalOptima Health to provide Covered Services to Members assigned to that Health Network.
Hospital Risk Pool Arrangements	A risk arrangement contractually required by CalOptima Health between a physician and hospital partner funded by hospital capitation dollars paid by CalOptima.
Member	Medi-Cal eligible beneficiary as determined by the County of Orange Social Services Agency, the California Department of Health Care Services (DHCS) Medi-Cal Program, or the United States Social Security Administration, who is enrolled in the CalOptima Health program.
Other Risk Arrangements	A risk arrangement between Health Network partner or Health Network participants outside of a Hospital Risk Pool Arrangement.
Physician Hospital Consortium (PHC)	A Physician Group or Physician Groups contractually aligned with at least one (1) hospital, as described in CalOptima Health's Contract for Health Care Services.
Primary Hospital	A hospital contracted with CalOptima Health on a capitated and delegated basis as the hospital partner of a Physician Hospital Consortium (PHC).
Primary Physician Group	A physician group contracted with CalOptima Health on a capitated and delegated basis as the physician partner of a Physician Hospital Consortium (PHC).
Program	Any of CalOptima's programs including the CalOptima Health Medi-Cal Program, OneCare, PACE, or the Multipurpose Senior Services Program.
Provider	Any individual or entity that is engaged in the delivery of services, or ordering or referring for those services, and is licensed or certified to do so.
Sanction	An action taken by CalOptima Health including, but not limited to, restrictions, limitations, monetary fines, termination, or a combination thereof, based on an FDR's or its agent's failure to comply with statutory, regulatory, contractual, and/or other requirements related to CalOptima Health Programs.