

C.4. Financial Security Obligations

- a. Describe how the Vendor will comply with net worth, solvency, and surplus requirements.
- b. Provide documentation of lines of credit that are available, including maximum credit amounts and available credit amount.
- c. Describe any risk arrangements the Vendor proposes to have with providers for contracted services and describe oversight of such arrangements.

Passport Highlights: Financial Security Obligations

How We're Different	Why It Matters	Proof
Passport is a local Kentucky organization with a twenty-two (22) year history of financial stability, now backed by our national owner Evolent while continuing to benefit from provider ownership.	<ul style="list-style-type: none"> We have local executive leadership decision-makers with local provider ownership and national support that provides additional financial oversight and assurance that Passport can and will meet all financial requirements. 	<ul style="list-style-type: none"> Passport is above the one hundred fifty percent (150%) risk-based capital (RBC) requirements and has access to an extensive line of credit availability.
Unlike other nationally based health plans, the Passport local executive leadership team (ELT) has a direct line of accountability down over subcontractor oversight committees and up to our Board of Directors. Staff from key subcontractors also work on-site in our shared Kentucky office space.	<ul style="list-style-type: none"> This allows for more efficient and enhanced oversight, responsiveness and collaboration regarding financial concerns. 	<ul style="list-style-type: none"> Subcontractor reports and issues flagged in weekly operational meetings are reviewed at monthly Delegation Oversight Committee (DOC) meetings. The DOC reports directly to the Compliance Committee, which makes periodic reports to the Board of Directors.

Introduction

Passport recognizes that our ability to provide world class population health solutions to the Department for Medicaid Services and stakeholders is dependent on our ability to ensure a financially stable health plan. Each year Passport implements quality-grounded affordability initiatives intended to increase our level of capital and surplus and grow our financial resources and liquidity to achieve and maintain a statutory RBC ratio of at least one hundred fifty percent (150%) of the National Association of Insurance Commissioners

(NAIC) RBC authorized control level (ACL). These initiatives and ongoing business practices provide for sustained capital levels that maintain adequate solvency in alignment with Department for Medicaid Services (DMS) contract requirements, as well as adhering to all Commonwealth Department of Insurance requirements on solvency protection or RBC.

C.4.a. Describe how the Vendor will comply with the net worth, solvency, and surplus requirements.

Net Worth, Solvency and Surplus Requirements

Passport will comply with net worth, solvency and surplus requirements utilizing the approaches outlined below. As Passport's future projections and operating plan show, we will continue to grow capital and surplus levels (which currently exceed the one hundred fifty percent (150%) of RBC ACL) at a steady pace as a result of (1) continued realization of cost saving initiatives, (2) continued reductions in the medical loss ratio (MLR) through renegotiated third-party administrator (TPA) contracts, provider re-contracting, and clinical/behavioral health cost savings initiatives, and (3) capital support from Passport's owners as needed. Passport will maintain and grow capital and surplus and remain a viable, solvent and thriving business partner with the Commonwealth of Kentucky, as we have since 1997.

Passport has been a financially strong organization over its two decade history of serving the Kentucky Medicaid and foster care populations. Passport realized losses in 2018 as a result of an unexpected rate reduction imposed on Region A, in that year which did not reflect underlying medical expense trend. That year is an anomaly in the context of our 22+ years of operating in the Commonwealth. (If one were to exclude 2018, Passport's gains over 10 years and 23 years is \$95M and \$183M, respectively. These funds were used to both reinvest into the community, and build reserves on the balance sheet. The average annual Net Income, excluding 2018, for 10 and 23 years is \$10.5M and \$8.3M, respectively.) Performance in 2018 does not in any way reflect on either our historical performance or future ability to comply with net worth, solvency, and surplus requirements. As we detail below, the combination of actions taken by Passport and new rates implemented in 2019 resulted in a return to profitability by the third quarter of that year.

Throughout 2019 Passport took the following steps to continue to further solidify our financial security, with a focus on improving our capital position and operating cash flow:

- Leveraged additional executive consultants to help focus the team on reducing operating costs while maintaining the continued high standards of care for Kentucky's Medicaid recipients.
- Initiated several new initiatives focused on further reducing costs and unnecessary spending, driving efficiencies and improving the reliability and availability of financial and nonfinancial information for the new Passport CEO, CFO, ELT and finance team members to make faster fully informed decisions, focus on improving the episode of care for enrolled members and bolster the financial performance of the managed care organization (MCO). These initiatives, which started in Q1 of 2019, have already produced dramatic cost savings, which was evident by the July-December 2019 monthly operating gains reported by Passport as the plan maintained profitable operations.

- Initiated several administrative cost savings initiatives instituting tighter fiscal controls over non-claim disbursements and implementing new processes and reviews over medical claim submissions to ensure accurate and timely claim payment metrics are being met, among others.
- Obtained Evolent’s financial support, in the form of a June 2019 capital infusion of \$40 million (through a surplus note approved by the Kentucky Department of Insurance) that continues to ensure Passport is above the one hundred fifty percent (150%) of RBC ACL.

Second, Passport recently bolstered its financial strength through the acquisition of a seventy percent (70%) ownership in the company by its long-term business partner Evolent Health. The new entity, Passport Health Plan, Inc. (“Passport”) continues to operate as its own independent and legal entity, headquartered in Louisville, Kentucky, with an ELT that is solely focused on Kentucky Medicaid and continues to provide oversight of all subcontractors, including Evolent. On December 30, 2019, having procured all required Commonwealth and federal regulatory approvals, the parties officially completed Evolent’s acquisition of a seventy percent (70%) ownership stake in Passport. The remaining thirty percent (30%) continues to be owned by University of Louisville, Norton Healthcare and other Kentucky-based provider organizations, thus keeping Passport closely tied to its provider-owned Kentucky roots. The University of Louisville is the largest percentage owner and, along with the other provider owners, has an equal say in key issues related to health plan strategy, operations and financial management. This Evolent ownership interest will boost the ability of Passport Health Plan Inc. to access additional credit, as needed, either directly from Evolent or through additional credit lines. Evolent is committed to the successful operation of the health plan, including bolstering financial support to weather future financial difficulties. Evolent provides the backing of a company with a diverse revenue stream, offering shelter for Passport Health Plan Inc. in its single market focus.

Passport adheres to all requirements contained in Kentucky Revised Statute (KRS) Chapter 304 and related administrative regulations regarding protection against insolvency and RBC requirements. Passport will be able to cover the continuation of services to members during any potential insolvency for the duration of the period for which payment has been made, as well as for inpatient admissions up until discharge. Additionally, in the event of insolvency, Passport would not hold its members liable, except for instances as outlined in the contract.

By conducting regular cash flow planning and projections of financial results, we are monitoring our financial performance and ensuring our liquidity is appropriate in relation to our obligations and our commitment to maintain adequate and safe RBC levels (150% or better). We compare actual results to budget on a monthly basis to help us identify and address unfavorable trends in a timely manner. While the request for proposal (RFP) response is due prior to the March 1, 2020, annual statutory financial statement filings, Passport’s projected statutory net worth at the end of 2019 is anticipated to be approximately \$91 million and above the one hundred fifty percent (150%) RBC level.

Reinsurance Coverage

Passport maintains stop-loss reinsurance coverage for hospital inpatient medical expenses (which constitute twenty percent [20%] of our total annual medical spend) with Swiss Re Life & Health America Inc., which has an A+ financial strength rating from A.M. Best. The maximum lifetime reinsurance reimbursement by Swiss Re for each insured member under this reinsurance treaty is \$3 million, subject to certain annual deductibles of \$750,000 (Passport's per claim inpatient medical retention). This reinsurance coverage reduces the financial risk to Passport associated with large inpatient claims.

C.4.b. Provide documentation of lines of credit that are available, including maximum credit amounts and available credit amount.

Passport has obtained a line of credit with a financial institution of up to \$50 million. Please see **Attachment C.4-1_Line of Credit** for documentation on the line of credit that has been made available. Effective February 2020, Passport Health Plan has a line of credit available in the amount of \$50 million through Republic Bank in Louisville, Kentucky. Passport does not have any outstanding draws against the line of credit, which is available if an unanticipated significant cash need arises.

C.4.c. Describe any risk arrangements the Vendor proposes to have with providers for contracted services and describe oversight such arrangements.

Assumption of Risk

Passport assumes overall responsibility for the cost of delivering covered services to its members. Passport identified areas where sharing financial risk with a risk-bearing Medicaid provider or subcontractor allows us to improve the quality and efficiency of care delivery while aligning incentives. However, we do maintain ultimate accountability and oversight of all risk arrangements. **Passport is now paying capitated rates for a set of contracted covered services for behavioral health with Beacon Health Options, oncology and cardiology through Evolent Health, and dental and vision services with Avesis.** Additionally, Passport shares risk with about 120 primary care providers (PCPs) through a capitated payment mechanism. (A case study example of one of our provider risk arrangements is presented at the conclusion of this section.) On a combined basis, these agreements represent twenty-four percent (24%) of Passport's average total claims expense. Initial risk-bearing Medicaid provider or subcontractor selection and ongoing collaboration provide the basis of Passport achieving confidence in its risk arrangements, but contractual elements for reporting, service level requirements and termination provisions allow for ongoing oversight and, if needed, the ability to shape behavior or replace the entity.

Passport describes its risk-bearing provider and subcontractor oversight structure in detail in Section C.1 Subcontracts. Prior to agreeing to shifting risk to providers, Passport reviews prior SLAs, operational metrics, and financials to review for either prior or current financial challenges (e.g., insolvency or

bankruptcy proceedings). This pre-review is done prior to agreeing to contracting on a risk basis. Passport's oversight of these entities and, in particular, those subcontractors to which Passport has shared risk for the delivery of covered services is deeply embedded into the management and organizational structure of Passport. We implement further screening for entities being considered for risk-based contracts. Passport has established a more in-depth structure of governance, accountability and monitoring that shares financial risk.

Governance Provides Strong Oversight of Risk Arrangements

Passport created a governance structure that sets regular checks on risk-bearing provider and subcontractor operational and financial performance by our employees and stakeholders with a range of focus areas. A typical structure requires weekly operational meetings between the entities' and Passport's operational and clinical teams. The organization reports and issues flagged in weekly operational meetings are reviewed at monthly Delegation Oversight Committee meetings. The DOC reports directly to the Compliance Committee, which makes periodic reports to the Board of Directors. The DOC also provides relevant information to Passport's broader functional review committees not directly linked to subcontractor oversight. The DOC presents subcontractor results to Passport's Quality Improvement Committee (QIC), called the Quality Medical Management Committee (QMMC), which is responsible for oversight of all quality programs and reports directly to the Partnership Council.

Passport is unique in that we empower providers and members of the community with real authority at all levels of our governance structure. Passport's Partnership Council and QMMC are fully responsible for ensuring the integration, coordination and holistic nature of our services across behavioral health, physical health, pharmacy, vision, dental and all other services.

Passport's governance structure sets regular reviews of these entities' performance across a range of focus areas and across levels within both Passport and the organization. Sample forums for each organization's financial and operational performance include:

- Weekly, monthly and quarterly meetings with the entity business owners to review service level objectives and overall performance satisfaction. The frequency of meetings can vary based on subcontractor and type of service.
- Weekly operational meetings to track important projects and issues, as needed, with Service Impact and Performance Improvement Plans. Deep discussion and collaboration occur in these sessions to determine next steps and key milestones and to work through any obstacles that may arise. During these forums, organizations are expected to self-report any potential issues of concern.
- Passport compliance has quarterly Compliance Collaboration Calls with their compliance teams to discuss adherence to contracts and share best practices.
- Passport's DOC meets monthly to review metrics and any issues and to make recommendations for corrective actions.
- Passport's and Evolent's compliance teams hold monthly performance reviews with owners of the organizations' relationships and programs.

- Monthly operations review for overall Passport performance service-level agreements (SLAs) to give overarching context and story of where the entity’s performance is supporting or affecting overall SLA achievement and member/provider experience.

Monitoring Enables Effective Oversight

Passport’s monitoring of risk-bearing Medicaid provider activity is supported by how Passport decides to divide the scope of activities with the organization, SLAs measured at regular intervals, reporting requirements, and Passport’s analysis of claims data. Through this information flow and requirements around performance, Passport works to ensure that potential issues are flagged before they create significant risk so that concerns can be quickly identified and addressed.

Division of Activities

Even for subcontractors that take on financial risk, Passport maintains control over critical activities. Among other benefits, this prevents a subcontractor from making decisions under financial pressure that could put member welfare at risk and lowers the hurdle of Passport shifting vended services in-house if needed. For example, Passport maintains the network contracts and utilization management (UM) authority related to work for Beacon’s behavioral health services. This requires Passport’s direct involvement in areas that most directly affect stakeholders, as well as Passport’s proactive involvement in the main levers that affect subcontractor financial outcomes.

Passport’s retention of key activities in contracts with risk-sharing entities would also enable Passport to either take these services back in-house or more quickly transition to another organization if the need arises because Passport’s in-house capabilities and legal agreements are maintained.

Subcontractor SLAs

Passport includes subcontractor obligations in its contracts to ensure its ability to monitor delivery of care and services, receive information and intervene as needed. As part of this process, Passport’s staff reviews and ensures that all subcontractors have adequate stop-loss coverage. SLAs put in place for risk-sharing subcontractors require regular reporting of financial and operational metrics and allow for subcontractor termination if subcontractors face defined financial challenges (e.g., insolvency or bankruptcy proceedings). SLAs are an integral portion of each subcontractor agreement and vary based on the services being performed and the DMS contractual requirements. Regular reporting expectations to Passport from subcontractors extend beyond SLAs and cover a variety of operational indicators such as:

- Authorization Decision Timeliness
- Authorization Decision Notice Timeliness
- Authorization Volume
- Service Authorization Outcomes
- Call Center Metrics
- Financial
- Credentialing Activity
- Claims Data
- Care Management
- Network Status
- Utilization
- Appointment Availability and Access

All Passport risk arrangement agreements include language committing the entity to compliance with all DMS requirements and commitment to implementing and administering DMS required changes. They are required to provide data and reporting to the health plan, which is reviewed for completeness, accuracy and compliance.

Annual Risk Assessment

Passport's Compliance Department conducts an annual delegate risk assessment to identify the functional areas that face the highest risk of issues of noncompliance and the functional areas that face the highest risk of regulatory scrutiny. Passport's Compliance Department collaborates with business owners overseeing the delegate to assess the types and levels of risk.

Passport develops a Risk Remediation Plan based on findings from the delegate risk assessment. Operational areas to review are prioritized based upon the delegate risk assessment. Passport's risk assessment and Risk Remediation Plan include the delegates that will be reviewed each year, as well as the scope of the review methodology. Passport then shares a summary of the results of the risk assessment with applicable business partners and the DOC, QIC and Compliance Committee.

Passport's Compliance Department shares this Risk Remediation Plan internally with business owners of the functional areas, affected business partners and affected downstream entities. Affected business partners will also be provided with thirty (30) days advance notice of any subsequent changes to the review schedule.

Regular Audits and Surveys

All delegated entities that are contracted to deliver services to Passport members are subject to our formal subcontractor oversight process that ensures subcontractors comply with all federal and Commonwealth credentialing and recredentialing requirements. Passport formally reviews each subcontractor at least once a year, consistent with National Committee for Quality Assurance (NCQA) standards. Passport uses standardized audit tools to conduct annual delegation audits. During this evaluation, a subcontractor must make its premises, physical facilities, equipment, books, records, contracts, and computer or other electronic systems relating to its Medicaid Members available for our audit. We verify that the subcontractor follows all applicable Medicaid laws and regulations, including applicable subregulatory guidance and contract provisions. Our auditors prepare an audit report that details the findings and any deficiencies or opportunities for improvement. These findings are reported to the QIC.

SLAs and operational metrics are reviewed at monthly DOC meetings. The DOC advises if any items are out of compliance and the action plan to mitigate. Passport may then continue to contract with the delegate, continue to contract with the delegate so long as it agrees to a corrective action plan (CAP) to resolve any deficiencies identified during the annual audit, or terminate the contract. Any decision to terminate a subcontractor will be submitted to DMS for review no less than thirty (30) calendar days of Passport's desire to terminate a subcontract.

Passport implemented subcontractor surveys to gain a better understanding of operations and process. These surveys help us remain compliant with contractual and Commonwealth requirements.

Focused Audits and Annual Delegation Reviews

Passport reviews the delegated activities as recorded on the Delegate Master List. The risk assessment is used to identify those delegates to be placed on the annual Risk Remediation Plan. However, audits may be added at any time based on newly identified risks from compliance actions, routine monitoring or ad hoc audits.

The Compliance Department will conduct annual reviews of selected delegates through a combination of on-site and desk audits according to the audit schedule. Annual reviews are performed on the delegate's compliance program (if applicable) and on operation performance of the delegated function.

The Risk Remediation Plan includes the following information:

- The number of delegates that are reviewed each year
- How the delegates are identified for auditing
- The number and name of delegates that are subject to on-site versus desk audits
- The prioritization of reviews

Passport will share the Risk Remediation Plan with affected business partners and provide them thirty (30) days advance notice of any subsequent changes in the review schedule.

Ongoing Monitoring for Potential Violations and Noncompliance

Passport's delegation oversight activities include an ongoing evaluation of delegates related operational activities to detect and correct potential violations at the lowest level of noncompliance through the use of the following:

- Baseline risk assessment and updates to the risk assessment
- Development of an annual Risk Remediation Plan that is updated as additional areas of risk are identified (This Risk Remediation Plan includes an annual delegation review and compliance review of delegates.)
- Routine ongoing monitoring of operational risk areas
- Focused audits based on results of the risk assessment

Oversight and Improving Performance Through Corrective Action Plans

Passport's risk arrangement agreements contain escalating action steps for noncompliance with contractual obligations and can include placing the subcontractor under a Letter of Concern (LOC), requiring a CAP with specific remediation requirements, or imposing financial penalties. By establishing the expectations at the time of contracting, Passport supports the risk-bearing entity's fulfillment of obligations to fully comply with DMS requirements.

LOCs or CAPs are specifically used to communicate best practices, deficiencies, significant deficiencies or material weaknesses. Issues are identified through any of the oversight parties, including Passport’s DOC, subcontract operations manager, executive sponsors, business owners or other leadership. Metric and SLA reporting are reviewed for patterns and trends on a monthly, quarterly and annual basis to track subcontractor performance. If organizations have a pattern of missing SLAs, we will issue a LOC or CAP if no improvements are seen quickly. Passport’s delegation oversight representative will work with the entity to ensure adoption of best practices and to track and remediate all levels of deficiencies identified. Effective reporting allows all layers of accountable oversight to view status and identified issues and trends.

Accountability

To ensure our commitments to DMS are met, a straight line of accountability exists within the Passport organizational structure, beginning at the highest level with our Board of Directors to our CEO and ELT, Partnership Council and QMMC and continuing down to the employees directly managing our risk-bearing entities. Passport builds accountability into its employee roles and governance committees for all performance, aspects of member and provider services, quality and satisfaction across the full continuum of care, whether the service is delivered internally or by a subcontractor. Authority and accountability remain solely within Passport and its oversight committees. A core tenet of Passport’s ELT duties is appropriate, compliant performance of its responsibilities to its members, providers, and DMS. Our organizational structure supports a comprehensive, holistic approach to meeting our quality goals. Our commitment flows from our Board of Directors through the CEO and spreads throughout the organization. Members of ELT have a specific role in oversight of subcontractors, as shown in **Exhibit C.4-1**.

Exhibit C.4-1: Oversight Accountability Table

COO— Shawn Elman	CMO— Dr. Stephen Houghland	CCO— David Henley	CFO— Scott Worthington
Oversight of contractual requirements for nonclinical services <ul style="list-style-type: none"> • SLAs • Ensures delegates meet the nonclinical needs of member, provider and Agency • Builds relationships for operational effectiveness • Sets operational expectations 	Oversight of contractual requirements for clinical services <ul style="list-style-type: none"> • Ensures delegates meet the clinical needs of member, provider and Agency • Builds relationships for clinical effectiveness • Clinical collaboration • Sets clinical expectations • Escalates concerns 	Oversight of the delegated services model <ul style="list-style-type: none"> • Delegated services manager • Reports plan schedule and outcomes • CAPs • Escalates concerns • Reports through Compliance Committee and Board 	Oversight of all fiscal requirements of delegated services <ul style="list-style-type: none"> • Solvency review and oversight, including review of financial metric reports • Risk and bond requirements • Oversight and validation of subcapitation savings rebate reporting

COO— Shawn Elman	CMO— Dr. Stephen Houghland	CCO— David Henley	CFO— Scott Worthington
<ul style="list-style-type: none"> • Assesses delegates • Creates strong culture of compliance 	<ul style="list-style-type: none"> • SLAs for clinical service performance • Oversees quality program and ensures adherence by subcontractors • Assesses delegates • Creates strong culture of compliance 	<ul style="list-style-type: none"> • Notifies DMS <p>Ensures delegates adhere to compliance expectations, including:</p> <ul style="list-style-type: none"> • Applicable laws • Regulations • Guidelines • Compliance program requirements • Assesses delegates • Creates strong culture of compliance 	<ul style="list-style-type: none"> • Assesses delegates • Creates strong culture of compliance

The accountable ELT member is supported by an oversight committee for each risk-bearing provider. These oversight committees consist of the applicable:

- Passport executive sponsor
- Passport business owner
- Operational leadership
- Compliance liaison
- Subcontractor manager employed for direct oversight of the entities’ performance and adherence to contractual requirements

Passport Health Plan as Ultimate Owner of Covered Services to Members

Even with oversight and monitoring of direct financial results (e.g., subcontractor MLR versus capitated payments) and indirect signals of potential financial distress (e.g., pay timeliness), financial stability issues could potentially arise, and Passport stands ready to step in and take over the operational and financial obligations of subcontractors that take delegated risk. In the unlikely event of insolvency of one of our risk sharing partners, Passport will be primarily responsible for continuation of services to covered members for the duration of the related coverage. Based on our financial modeling, we are confident in our ability to grow our capital over the proposed Medicaid contract period, remain solvent and meet the minimum capital and surplus requirements throughout the contract period. Additionally, we will not hold our members liable for our debts; covered services provided to our members; covered services for which DMS does not pay Passport; covered services provided to members for which DMS or Passport does not pay the individual or

health care provider under a contract, referral, or other arrangement; or covered services furnished under a contract, referral, or other arrangement if those payments exceed the amount a member would owe if Passport provided the services.

Under risk-based reimbursement agreements, providers are required to submit all claims, regardless of whether they yield additional payment or not, so that encounters may be submitted. Providers are evaluated on a regular basis to ensure that quality is maintained.

In addition to these risk-based payment initiatives, Passport also has a value-based payments strategy, which includes a suite of models that meet providers where they are on the value-based continuum. We work with providers to help assess whether they can take on an appropriate level of risk and consult with them as part of our partnership. In cases where they are unable to manage a certain risk level, we will alleviate that commitment from their contract. As part of this program, select providers are eligible for a performance bonus based on quality score improvements year over year. This bonus is paid in addition to their base payment. All payments are made once performance is verified to ensure quality gains were achieved. Passport actively and deliberately seeks feedback from both providers participating in one of its models as well as those who are not. We do this through a variety of forums, both formal and informal, including our Partnership Council, Care Conferences, Joint Operating Meetings, as well as ad hoc dialogue through the normal course of our relationships. We seek input from providers on how our models could be improved upon now and how we can continue to iterate on them in the future to advance our shared interest in improving care delivery and outcomes in Kentucky. Advancement can take many forms, including refinement of quality targets, modifying earning mechanisms, and supporting technology.

Conclusion

Passport has the appropriate governance, oversight, staff, monitoring and reporting to manage its financial performance. Through an effective infrastructure and operating model, we monitor our operating financial results and balance sheet ratios. Our strict pro forma planning process and real-time review of key performance metrics enables us to comply with appropriate net worth, solvency and surplus levels and requirements. Further, our provider ownership empowers local decisions to be made here in Kentucky by our ELT, but with the comfort of knowing that our financial owners are supporting regulatory financial requirements; lines of credits are available, as needed. Through a keen focus on compliance, we ensure oversight of risk-arrangements as we review short- and long-term performance of these entities. Passport's stable financial position ensures risk is managed effectively to coordinate quality care for the Medicaid Members it serves now and into the future.

Passport has been honored to serve the Kentucky Medicaid and foster care populations for 22 years and will continue to comply with all provisions of the Medicaid Managed Care Contract and Appendices (including Kentucky SKY) as we continue to serve them in the future.