

## **Appendix D**

### **Revenue Sharing**

This Appendix establishes a requirement for remittance to the Department of any Realized Revenue, as defined in this Appendix, earned by a MCO in excess of 3 percent.

The reporting requirements apply collectively to all HealthChoices zone(s) in which the MCO operates under this Agreement or a previous Agreement with the Department during the applicable time period. This requirement is specific to the specific HealthChoices program only and does not include revenue from any other MA managed care program in which the MCO may operate.

#### **I. Time Period**

The time period for purposes of reporting program revenue aligns with the Department's MCO's program year and the rating period. The applicable Time Period included in this Appendix will be program year CY2025 and the two calendar years immediately preceding CY2025.

#### **II. Extent of Calculation**

Revenue sharing calculations will be based on MCO's revenue and corresponding costs for all Rate Cells for each rating region and zone, including maternity care, as identified in Appendix 3f. The MCO may not include revenue or costs that are not specific to the CHC program.

#### **III. Calculation Process**

The revenue sharing calculation will utilize information reported in each applicable annual Medical Loss Ratio Report for the Time Period. The Department will utilize the Department reviewed and approved Annual Financial Report for each applicable program year within the Time Period and will combine the reported amounts in each referenced section on the Annual Financial Report for each Aggregated Medicaid Eligibility Group for the applicable Time Period.

The following items reference Sections within the Annual Financial Report:

- a. **Capitation Revenue** will be based on "Total Premium Revenue" as reported in Section 4 as follows:
  - i. Capitation revenue will not include MCO quality incentive payments, such as any received MCO Pay-for-Performance (P4P).
  - ii. The MCO Assessment will be deducted from Capitation Revenue.
  - iii. Applicable Federal and Pennsylvania State taxes will be deducted from Capitation Revenue.

- iv. If the MCO paid a MLR Remittance amount to the Department as calculated on the Annual Financial Report, the MLR Remittance amount paid by the MCO will be deducted from the Capitation Revenue.
- b. **Medical Expenses** will include paid claims and alternative method payments made by the MCO for allowable covered services rendered to Members during the Time Period. Medical Expenses will be based on “Total Incurred Claims” as reported in Section 1. The Department may review a portion of or all of the reported Medical Expenses and may exclude Medical Expenses that do not constitute payment for State Plan services and/or allowed in lieu of services, including but not limited to:
  - i. Any allowance for Unpaid Claim Liability (UCL). The Department has full discretion to modify UCL allowances that, in the professional judgment of the Department’s Actuary, overstate projected liabilities; and
  - ii. Payments to Related Parties.
- c. **Activities that improve health care quality** are reported in Section 2 and will be considered in the revenue sharing calculation in a manner consistent with the Medical Loss Ratio calculation in Appendix 3h, as long as they meet one or more of the following criteria:
  - i. MCO activity that meets requirements of 45 CFR § 158.150(b) and is not excluded under 45 CFR § 158.150(c).
  - ii. MCO activity related to any External Quality Review related activity as described in 45 CFR § 438.358(b) and (c).
  - iii. MCO expenditure that is related to Health Information Technology and meaningful use, under 45 CFR § 158.151.
- d. **Administrative Expenses** will include those administrative expenses as reported in Section 6 and determined by the Department to be an allowable program expense.
- e. **Taxes and assessments** imposed on the PH-MCO pursuant to law are to be included in Section 5.
- f. **Prohibited Expenses** – the following expenses will not be included as expenses under this Appendix:
  - i. Outreach activities as described in Section V.O.3 of this Agreement
  - ii. Payments described in Section VII.E.14: Prohibited Payments of this Agreement
  - iii. Claims payments covered under a non-risk arrangement(s) include in this s Agreement
  - iv. Premium Deficiency Reserves

- v. Cost of advertisements in mass media
  - vi. Start-up, development or RFA expenses incurred before the Start Date on which the MCO is responsible for the provision of services to Members
  - vii. Any expense related to exiting or terminating operations in a given zone/region under this Agreement
  - viii. Donations
  - ix. Excessive allocation of corporate overhead, as determined by the Department (see also item IV.d.i).
- g. **Percent Limit** will be the maximum retained percentage of certain PH HC revenue, which is 3 percent.
- h. **Maximum Retained Revenue**, or the amount of revenue that may be retained by the MCO, will be calculated by multiplying Capitation Revenue for CY2025 by the Percent Limit.
- i. **Realized Revenue** - the Department will calculate the Realized Revenue for the Time Period as follows:

	Capitation Revenue
LESS:	Medical Expenses
LESS:	Expenses for Activities that improve health care quality
LESS:	Administrative Expenses
LESS:	Retention of Excess Revenue from Prior Program Years
LESS:	Revenue Recovery Amount from Prior Program Years
EQUALS:	Realized Revenue

NOTE – Prior Program Years included in this Realized Revenue calculation is defined as the two calendar years immediately preceding CY2025.

The Department will determine the Realized Revenue Percentage by dividing the Realized Revenue by the Capitation Revenue. The Department will apply this Realized Revenue Percentage to the CY2025 Capitation Revenue to determine the CY2025 Realized Revenue.

- j. **Revenue Recovery Amount** - If the CY 2025 Realized Revenue is greater than the Maximum Retained Revenue, the Revenue Recovery Amount will be the difference between the Realized Revenue and Maximum Retained Revenue. If this amount is greater than zero (0), then the Revenue Recovery Amount is an obligation due from the MCO to the Department. The Department will recover this obligation due from the MCO by offsetting a future payment due to the MCO under this

Agreement. The Department will notify the MCO of the future payment that will be offset in advance of that scheduled payment.

- k. **Retention of Excess Revenue** – The MCO may retain fifty percent (50%) of the Realized Revenue in excess of the Maximum Retained Revenue with express written approval from the Department if the MCO agrees to expend the remaining fifty percent (50%) of funds in excess of the Maximum Retained Revenue on initiatives that align with the Department's goals of improving access and provider retention; investments in social determinants of health such as housing, employment and food insecurity; achieving health equity; and programs that focus on community development.
  - i. A MCO shall submit to the Department a written expenditure proposal for any funds in excess of the Maximum Retained Revenue.
  - ii. This proposal shall be submitted within thirty (30) days of receiving the preliminary calculation per Section V, below.
  - iii. When the Department accepts the MCO's proposal, the Department will decrease the Revenue Recovery Amount to zero (0).

#### **IV. Risk of Insolvency**

If the MCO decides not to invest excess revenue as described in Section III.k of this Appendix, and the Department determines that payment of a Revenue Recovery Amount by the MCO would result in the MCO being put at significant risk of insolvency, the Department may at the Department's discretion, waive all or a portion of the Revenue Recovery Amount owed by the MCO.

#### **V. Communication and Timing of Revenue Sharing Administration**

The Department will notify each MCO of the preliminary revenue sharing calculation and associated Revenue Recovery Amount within ninety (90) days following the date the Department completes the review and approves the Annual Financial Report for CY2025. The MCO will have thirty (30) days from the notification date to provide additional documentation or supplemental information to the Department regarding the calculation, including the reported amounts in the Annual Financial Report<sup>42</sup>. The Department will have up to sixty (60) days to review the additional documentation and

supplemental information submitted by the MCO and to finalize the Revenue Recovery Amount calculation. If the Revenue Recovery Amount is greater than zero (0), the Department will recover this amount per Section IV of this Appendix.

**VI. Final Revenue Sharing Notification and Remittance**

The Department will provide the MCO with written notification of the final Revenue Recovery Amount and the date when the amount due to the Department will be recovered, if applicable.

**VII. Documentation of PH-MCO Expenses**

At the request of the Department, the PH-MCO shall make available all books, accounts, documents, files and information that relate to the PH-MCO's PH HC transactions within ten (10) business days after the request was made. The PH-MCO shall cooperate with the Department and any representatives of the Department.

**VIII. Continuation**

If CMS issues regulation(s) that revises or replaces the requirements in this appendix, the revised or replacement requirements will apply. The Department at its discretion may choose to waive any or all requirements of this Appendix. If the requirements of this Appendix are waived in full or in part, the Department will notify the PH-MCO in writing of the waived Sections.