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Green Mountain Care Board
Attn: Judy Henkin, General Counsel
89 Main Street
Montpelier, VT 05620

RE: Solvency Monitoring – Accountable Care Organizations

The Green Mountain Care Board (GMCB) has asked the Department of Financial Regulation (DFR) to update a previous memo dated August 8, 2013 and to comment on the Vermont Accountable Care Organization Risk Arrangements related to solvency monitoring. Per Act 113, the ACO must have mechanisms in place to conduct ongoing assessments of its legal and financial vulnerabilities and a financial guarantee sufficient to cover any potential losses. The current shared risk arrangement with the ACO would assume various upside and downside risk caps of the total cost of care.

The Department of Financial Regulation – Company Licensing and Examination section is responsible for the granting of licenses and the solvency monitoring of risk bearing entities, whether they be traditional insurers or other arrangements authorized by Vermont Statutes. DFR provides the following observations, based on previous and current discussions:

- Consumer risk appears minimal or non-existent in the event of an ACO's inability to meet its financial obligation, since the presence of an ACO arrangement does not relieve the insurer from its duty to the insured (consumer).
- Credit risk is present for the participating insurers (the risk that an ACO will fail to pay its portion of unfavorable claim development). All health insurers operating in Vermont have adequate surplus to adsorb this risk at the level of risk sharing proposed. These insurers

are also familiar and experienced with how to mitigate any credit risk in this type of arrangement.

To the extent that GMCB wishes to further mitigate any solvency concerns, here is a list of potential mechanisms that can be put into place:

- Requirement for the ACO to produce pro-forma financial statements showing different scenarios (shock testing) to display that the capital or access to capital is sufficient to meet its obligations under the ACO arrangement.
- Use of a bond, letter of credit, withhold arrangements or similar security to ensure payment to the insurer.
- Solvency monitoring should be placed on the ACO itself, and not the underlying providers.
- Both the GMCB and DFR should better understand how the risk sharing will impact the insurer's rate filings and how it will impact the liabilities on their financial statements.

Please let me know if you have questions or are looking for any other input and assistance regarding solvency monitoring of the ACO program.

Regards,

Chris Rouleau

Christina R. Rouleau
Deputy Commissioner of Insurance