

September 5, 1991

SUBJECT: INSURANCE

Circular Letter No. 14(1991)
September 5, 1991

TO: ALL PUBLIC HEALTH LAW ARTICLE 44 HEALTH MAINTENANCE ORGANIZATIONS EXCEPT ARTICLE 44 HEALTH MAINTENANCE ORGANIZATIONS WHICH ARE A LINE OF BUSINESS OF A CORPORATION LICENSED PURSUANT TO ARTICLE 43 OF THE INSURANCE LAW

RE: PROPER METHOD TO RECORD THE ESCROW DEPOSIT ACCOUNT AND CONTINGENT RESERVE FUND

The Health and Insurance Departments' review of financial statements filed by the captioned Health Maintenance Organizations (HMOs) reveals that there is a need to clarify the proper way to report the above captioned accounts on the balance sheets of such HMOs.

The Health and Insurance Departments reviewed this matter and have determined that the methodology as described below is an acceptable method for calculating and reporting the captioned accounts, which are mandated by Health Department Regulation (10 NYCRR Part 98.11(d) and (e)).

The Premium Revenues used to calculate the Contingent Reserve Fund are the aggregate amount for Premiums, Drug and Other Riders, Title XIX-Medicaid (State and Federal), and Title XVIII - Medicare revenues pertaining to Medicare risk contracts only. These revenues are set forth on page NY4 of the New York Data Requirements Blank, on lines 1.1, 1.2, 1.3, 1.4, 4 and the appropriate portion of line 3.

The amounts calculated each year for the Contingent Reserve Fund should be recorded on page 3, line 1901 of the New York Data Requirements Blank.

In the calculation of the amount of the escrow deposit account, the estimated expenditures for health care services represents the projected costs for hospital and medical care for the coming year as set forth in Report # 3 - "Projected Revenues and Expenses" on page NY6, line 21.1 of the New York Data Requirements Blank. The amount of the the escrow deposit account should be redetermined annually.

The HMO's balance sheet should reflect the amounts established for the escrow deposit requirement as Restricted Cash and Other Assets on page NY2, line 9 of the New York Data Requirements Blank. A corresponding amount should be recorded on page NY3, line 19 Contingency Reserves.

A federally-qualified HMO should include amounts calculated for the HCFA Reserve Requirement as Restricted Assets on page NY2, line 9, and Contingency Reserves on page NY3, line 19. The amount included on Page NY3, line 19 should be further detailed on page NY3, line 1903 "US HCFA Reserve Requirement."

In the event that the Contingent Reserve Fund grows to exceed the Escrow Deposit, the Contingent Reserve Fund alone will be reported on page NY3, line 19, and page NY3, line 1901. Restricted Cash and Other Assets on page NY2, line 9, will continue to equal 100% of the calculated annual Escrow Deposit. No balance, however, will be reported on page NY3, line 1902 "N.Y.S. Escrow Deposit."

The calculation of the required Escrow Deposit and the Contingent Reserve Fund should be disclosed on page NY25 (Overflow Page).

Kindly confirm management's understanding of the above and its intent to apply the proper reporting method in all future statements filed with the Insurance and Health Departments.

Send such confirmation to the following person:

Eugene Bienskie, CIE
Principal Insurance Examiner
Health Care Finance Unit
Property Companies Bureau
New York State Insurance Department
160 West Broadway
New York, New York 10013

Very truly yours,

[SIGNATURE]

SALVATORE R. CURIALE

SUPERINTENDENT OF INSURANCE