

# **Supporting Statement for Fiscal Soundness Reporting Requirements (0938-0469)**

## **A. BACKGROUND**

We are requesting re-approval of the following form: CMS-906, Fiscal Soundness Reporting Requirements (FSRR). The revised form combines Part C, Part D, 1876 Cost Plans, Demonstration Plans and the Program of All-Inclusive Care for the Elderly (PACE) programs. The responsibility of financial reporting falls under the auspices of the Division of Finance and Benefits (DFB) in the Medicare Advantage Group (MCAG).

Entities contracting in these programs currently submit all documentation being requested. Specifically, all contracting organizations must submit annual independently audited financial statements one time per year. Part C organizations with a net loss and/or negative net worth must file three quarterly statements. Currently there are approximately 44 Part C organizations filing quarterly financial statements. Part D organizations must also file three unaudited quarterly financial statements. And PACE organizations are required to file 3 quarterly financial statements for the first three years in the program as well as PACE organizations with a net loss and/or negative net worth.

## **B. JUSTIFICATION**

### **1. Need and Legal Basis**

CMS is assigned responsibility for overseeing all Medicare Advantage Organizations (MAO), Prescription Drug Plan (PDP) sponsors and PACE organizations on-going financial performance. Specifically, CMS needs the requested collection of information to establish that contracting entities within those programs maintain fiscally sound organizations and thereby remain a going concern. The authority for this collection is found at Title 18 1857 (d)(4)(A)(i), 42 CFR 422.516(a)(5), 42 CFR 423.514 and 42CFR 460.028.

### **2. Information Users**

In addition to the specific directives mentioned above, the proposed reporting requirements serve four distinct program needs:

- a. Provide CMS information required to effectively monitor the performance of MAOs, PDPs, and PACE organizations that contract to arrange delivery of care to Medicare beneficiaries;
- b. Provide CMS information required to oversee MAOs, PDPs and

PACE organizations continuing compliance with State financial and reserve requirements where applicable;

- c. Provide CMS with a base for evaluating the progress and effectiveness of the various programs; and
- d. Provide statistical data for continued effective oversight.

**3. Use of Information Technology**

CMS is utilizing information technology to minimize filing burden. All organizations log onto the Health Plan Management System (HPMS) from the Web, upload a pdf of their Annual Independently Audited Financial Statements, other required documentation, (if applicable depending upon organization type) and enter 4 data elements from the corresponding financial statements. This allows for 100 percent of the FSRR to be captured electronically. Accordingly, the use of information technology allows CMS the ability to better track the FSRR for compliance. Moreover, the web-based collection has the potential to ensure all organizations have filed the FSRR and identifies the non-compliant organizations. Ultimately, the use of information technology provides superior oversight, more timely access to the information, and significantly improved analytic capabilities.

**4. Duplication of Efforts**

No duplication of efforts.

**5. Small Business**

This collection does not adversely impact small businesses.

**6. Frequency of Collection**

Frequency of collection has not changed for various organization type. Specifically, 515 MCOs file annually, 44 MCOs file quarterly and annually, 100 PDPs file quarterly and annually, 50 PACE Organizations file annually, and 35 PACE Organizations file quarterly and annually

**7. Special Circumstances**

There are no special circumstances in this filing.

**8. Federal Register Notice/Outside Consultation**

The A 60-day Federal Register Notice will be published on [OSORA will complete]. upon the approval of DHHS and EOMB.

No other outside consultation was required in the preparation of this document.

**9. Payments/Gifts to Respondents**

No gifts were made to the respondents.

**10. Confidentiality**

CMS complies with all provisions of the Freedom of Information Act and its Amendments. Under this Act, FSRR records requested in such a manner as to be readily identified are made available unless they fall within one of the specific exemptions of the Act. The FSRR data dealing with MAO's trade secrets and confidential business information as well as any forward looking financial projections are not released for public consumption.

**11. Sensitive Questions**

No questions of a sensitive nature are being asked.

**12. Burden Estimate (Hours & Wages)**

The FSRR is designed to capture financial data the MAOs, PDPs and PACE organizations are required to maintain for managerial, actuarial and clinical purposes. Therefore, the organizations' job is principally one of assembling the required information in the requested format, from its own records.

The estimate of reporting burden is based upon the following assumption. The majority of the FSRR information supplied to CMS has already been required to be collected by appropriate regulatory agencies (e.g., State departments of insurance, Department of Labor, IRS, and/or health agencies).

The following discussion clearly demonstrates the minimal marginal time required to supply CMS with annual financial information.

Estimated Person Hours Per Response.

Estimates of respondent hours may vary among organizations as result of (1) membership size, (2) staffing patterns, (3) the type of management information system(s) utilized and (4) variance in frequency of reporting. The time required preparing the requested information is related to State-filing requirements or other Federal agencies (the burden is created by those agencies or departments). The only additional burden to an organization is to log into the Fiscal Soundness Reporting Requirements module located in HPMS, upload required documentation and four data elements. HPMS staff has established the total annual burden for the data upload and entry at 20 minutes per organization. There are a total of

559 MAOs, 1876 Cost Plans and Demonstration Plans. From that total, 515 file once a year taking 20 minutes to file at a cost of \$35 per hour ( $515 * 1 * .3333 * 35$ ) with the total dollar burden being \$6,008 (Total burden hours:  $515 * .3333 = 172$ ). The remaining 44 organizations file 4 times a year, which takes 20 minutes to file at \$35 per hour ( $44 * 4 * .3333 * 35$ ) or \$2,100 (Total burden hours:  $44 * 4 * .3333 = 59$ ) PDPs and Employer/Union Direct Contract sponsors total 100 organizations. Those organizations file quarterly so the burden would be 100 organizations filing 4 times a year taking 20 minutes a filing at \$35 per hour ( $100 * 4 * .3333 * 35$ ) or \$4,700 total burden dollars (Total burden hours:  $100 * 4 * .3333 = 134$ ). There are 85 PACE organizations. From that total 35 are required to file 4 times a year taking 20 minutes to file at \$35 per hour ( $35 * 4 * .3333 * 35$ ) for a total burden of \$1,633 (Total hourly burden:  $35 * 4 * .3333 = 47$ ). The remaining PACE organizations file 1 time per year taking 20 minutes to file at \$35 per hour ( $50 * 1 * .3333 * 35$ ) or \$583 (Total hourly burden:  $50 * 1 * .3333 = 17$ ) By combining the burden of MAOs, 1876 cost Plans, Demonstration Plans, PDPs, Employer/Union Direct Contract PDPs and PACE organizations the **total cost burden of the FSRR is \$15,024 annually. This represents an increase of \$2,903 over the 2010 annual burden of \$12,121. There is 429 burden hours, and 1,281 total filings. The increase in these metrics is due to the increase in the number of organizations participating in the Medicare Advantage Program (See the table on the following page as well as the five OMB 83i Disclosure Statement II Filings for further understanding**

	Respondents	Number of Responses per Respondent	Annual Responses	Burden hour per response	Annual Burden Hours
	50	1	50	.33333	17
	515	1	515	.33333	172
	44	4	176	.33333	59
	4	100	400	.33333	133
	35	4	140	.33333	47
<b>Total</b>	<b>648</b>		<b>1,281</b>		<b>428</b>

### 13. Capital Costs

There are no costs for capital and start-up cost components, or costs associated with operation and maintenance, and purchase of service(s) components.

### 14. Estimate of Cost to Federal Government

**The annual cost to the Federal Government for processing the FSRR is \$45,525.** The figure was derived from the following assumptions:

1,281 total filings, X .5 hours per review X \$50 (approximate hourly rate for GS 13 = \$45,525 per year

### 15. Changes to Burden

There is no material increase or decrease to burden. However, for PACE organizations only, CMS is requesting the submission of one additional data element: Total Subordinated Liabilities. The addition of the new data element will actually reduce the time to analyze the financial standing of POs because we will no longer have to contact the POs to establish whether or not the PO's total liabilities calculation includes subordinated debt.

Pursuant to section 460.80 (a) of the Code of Federal Regulations (CFR), "a PACE organization must have a fiscally sound operation as demonstrated by the following: (1) Total assets greater than total unsubordinated liabilities. (2) Sufficient cash flow and adequate liquidity to meet obligations as they become due. (3) A net operating surplus or a financial plan for maintaining solvency that is satisfactory to CMS and the State administering agency."

Subordinated debt is defined as an unsecured debt whose repayment to its parent company ranks below all other outstanding debt of the PACE

Plan. Specifically, in the event the subsidiary files for bankruptcy, the Parent agrees to be the last to be paid—even accepting nothing if there are no assets remaining after the other creditors have been paid. In an effort to ensure all PACE organizations are reviewed appropriately, CMS will ensure that all subordinated debt is removed from the PACE liabilities prior to making the final fiscal soundness determination. Accordingly, it is the responsibility of the PACE organization to demonstrate which liabilities, if any are subordinated and the value of the subordinated debt.

**Accordingly, DFB is adding the collection of one additional data element-- Subordinated Debt. This element only applies to the current and future PACE organizations. DFB's research established the adding of this element poses no material increase in reporting burden.**

**16. Publication/Tabulation Dates**

There are no publication or tabulation dates.

**17. Expiration Date**

We are not seeking exemption for displaying the expiration date.

**18. Certification Statement**

There is no exception to the "Certification for Paperwork Reduction Act Submissions", of OMB Form 83-1.