

Open Information Teleconference for Applicants of the  
Consumer Operated and Oriented Plans (CO-OP) Program  
Funding Opportunity Announcement  
CFDA#: 93.545  
**Transcript- December 16, 2011**

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Coordinator: Welcome and thank you for standing by. At this time all participants are in a listen-only mode. During the question-and-answer session, please press star 1 on your touchtone phone.

Today's conference is being recorded. If you have any objections, you may disconnect at this time.

Now I will turn the meeting over to Ms. Barbara Smith. You may begin.

Barbara Smith: Hi. This is Barbara Smith with the CO-OP Program. And I'm here with Richard Popper -- who is the Director of Insurance Programs -- Anne Bollinger, Ilana Cohen, Heidi Kaczowka and Carla Szasz, all of whom are active on the CO-OP Team.

I wanted to just start by welcoming you. We're very glad you were able to join us today in what is the third Technical Question teleconference.

Since we last spoke, we have issued and amended a Final Rule and amended funding opportunity announcements. The Amended Funding Opportunity Announcement was released on December 9 and the Final Rule was issued on December 8, and Published on December 13.

We would encourage applicants that need to make amendments in their application -- as a result of changes in the Funding Opportunity Announcement or the Final Rule -- to just notify us, if you could, by emailing

Anne Bollinger or Ilana Cohen. I'm going to give you their emails a little later in the program and they're also listed on the Funding Opportunity Announcement. In addition, please indicate to them when approximately you expect to submit the revisions.

As you may remember, the original Funding Opportunity Announcement -- which we call the FOA -- indicated that there may be changes in the FOA pending the resolution of final policies. And that if applicants did need to change their application as a result of that, they would be given time to do so.

I just want to go over briefly some of the key changes in the FOA so that you are aware of what they are. But we do encourage you -- if you have not already -- to take a look at the amended FOA, look at it in detail to see if there is anything that may affect an application as pending or will affect an application that you were planning to submit.

Firstly, all loan applications must be submitted electronically through grants.gov by 8 pm Eastern Time -- this is a change -- 8 pm Eastern Time.

And we would just encourage you not to wait until the last minute to apply. If you have not already registered on grants.gov and you expect to be submitting your application for the next round, you are already running late.

You need to be registered with grants.gov as soon as possible. The system takes time to verify your DUNS numbers and other things and for you to get appropriate numbers that you need to have to register. So we would encourage you -- if you have not already completed that process -- to start today.

We have changed the dates on when the applications are due, mainly to make sure that no applications come in on a Saturday. We want to be sure that there are plenty of people on hand at the help desk for grants.gov.

So we have moved the application dates to the following business day, which will be January 3, April 2, July 2, October 1 and December 31. The next round was originally due on December 31 and is now due on January 3, 2012.

Then there are some additional requirements, technical requirements on how you organize your applications. This is mainly to enable reviewers to have an easier time in working with the application. We are asking that each applicant use a filename for each attachment to indicate what the document is that you're uploading.

We are asking you to include a Table of Contents page with the application that lists all of the required and recommended documents that you are including with your application and to include a header at the top of each of your attachments on every page that indicates what the document is.

So for example, if you have an attachment that is your feasibility study, every page of the feasibility study must have a header that says "feasibility study" and the name of the applicant.

Then if you could number the attachment pages consecutively. So it'll be Feasibility Study Page 1, Feasibility Study Page 2, that kind of thing. Again, these are highly technical, but applications that come without page numbers or labels for the different sections make review very cumbersome.

We would ask that if you have any questions or concerns that you - including requests to file paper applications or Letters of Intent, that this should be sent

to the Project Officers who are Ilana Cohen -- and I'm going to give you their email addresses -- and Anne Bollinger.

Ilana is I-L-A-N-A dot Cohen C-O-H-E-N at cms.hhs.gov (ilana.cohen@cms.hhs.gov). Or Anne Bollinger, and that's A-N-N-E dot B-O-L-L-I-N-G-E-R at cms.hhs.gov (anne.bollinger@cms.hhs.gov). And again, both of their email addresses can be found in the Funding Opportunity Announcement.

In addition, CMS anticipates performing background checks and credit checks on key personnel listed in the application. When we perform such checks, we will contact the applicant by email to request Social Security numbers of key personnel.

Other changes include the fact that Start-up Loans cannot be used to fund clinical costs or physical brick-and-mortar construction of facilities or offices. And they also cannot be used to fund administrative staff associated with clinical functions. For example, appointment personnel, bookkeeping personnel that are basically part of the provider process and infrastructure are not part of startup loans.

These loans are to fund the creation of new health insurance issuers. And so the startup funds and the solvency funds must be used for processes related to providing coverage to people.

The term marketing has been defined in the Amended Funding Opportunity Announcement. We make sure that marketing does not include activities related to community outreach and membership education. What is included in marketing is defined in the FOA, but outreach and community education is not included in that definition.

We have had questions asking us whether marketing can be paid for through other sources or can the sponsor initially provide financing for direct marketing activities. That is, direct sales of insurance products to people.

And the answer to that is yes, absolutely. The statute and the rule do not prohibit marketing activities. They only prohibit using loan money for marketing activities as they are defined in the rule and in the Funding Opportunity Announcement.

So we just wanted to clarify that CO-OPs are certainly not prohibited from marketing their products.

To support CMS's monitoring efforts, we are asking loan applicants and loan recipients who actually receive loans to provide the employment contracts of senior management officials to us so that we can monitor the performance of the loan recipient and the appropriate use of loan funds.

Eligibility criteria have been revised to - obviously to exclude organizations that sponsor a preexisting issuer, that was certainly in the original and the proposed rule as well. But to make sure that the sponsors receive no more than 25% of their total funding from a preexisting issuer -- and we're talking about the sponsors here -- or receive no more than 40% of their total funding in the form of grants or other types of contributions through state and local governments.

We are aware that some sponsors are community organizations and other types of organizations that have from time to time received grants from their state and local governments, their business development organizations. And that would not preclude them from being sponsors of a CO-OP.

We've also provided an additional year to transition to the Operational Board of Directors that is consumer-governed. So elections have to start the first year after coverage is extended to the first life.

But they can be done in a phased-in basis where part of the Board is elected. And then by the end of the second year the entire Board must be elected. So it provides an additional year and a phase-in process for getting to the full operational Board of Directors as envisioned by the statute.

Finally, one of the major issues is that we do allow - we had originally said that solvency loans must be drawn down six months prior to licensure and not before six months prior to licensure.

Because of concerns raised about the length of time that's possibly involved in obtaining licensure after solvency is demonstrated, we're now permitting those solvency loans to be drawn down one year prior to licensure. And then that gives you longer to meet the other requirements. But it's just because they start earlier.

We would just ask that if you do plan to amend your application, for those people that have applications pending, that you let us know if possible by December 19 if you are planning to revise your application in order to conform to the new FOA or the Final Rule.

You can only make amendments that are related to changes in the FOA and changes in the Final Rule. If you have other changes that you want to make in your application -- because you feel that it needs to be stronger or that kind of thing -- then you must wait until January 3 and submit as a new application.

It would be helpful if you are submitting amendments if you would provide a coversheet outlining what you are changing in the application to conform to the new FOA and the Final Rule.

And I think with that we're able to go to questions.

Coordinator: Thank you. We will now begin the question-and-answer session. If you would like to ask a question, please press star 1. You will be prompted to record your name. To withdraw your request, press star 2. Once again, to ask a question, please press star 1.

One moment.

John Morrison, you may ask your question.

John Morrison: Hi Barbara, this is John Morrison. And for those who might not know, I am with the National Alliance of State Health Cooperatives.

Couple of points that I wanted to raise - and I'll just list them both and ask you or the appropriate person to respond based on some feedback that we've gotten from folks in the NASHCO community around the country.

Number one, with respect to the amended applications there's some concern that the necessary changes -- if they are having to be incorporated into a revised application -- could create a lot more expense. And for those who are up against already the limitation on reimbursement for application expenses this, you know, creates some hardship.

And the question is whether those changes can be submitted in a form of an addendum letter perhaps ratified by the firm doing feasibility work or the

other appropriate firm that the developer is working with, as opposed to having to revise the application.

And secondly, on the subject of construction cost and particularly cost of clinical facilities, there are several of the CO-OPs that are trying to fulfill the mission of the CO-OPs to become integrated entities that have the creation of clinics as part of the heart of their strategy. And wondering whether there's any room for negotiation on this point.

For example, if there was a requirement for dollar-for-dollar private matching funds for these kinds of expenses and a requirement of a certain threshold -- say 70% -- of the clinical patients that must be CO-OP members, which would eliminate some of the risks that might otherwise be associated with the use of these funds for these purposes.

And I'll just go back on the phone and listen to your answers. Thank you.

Barbara Smith: Thank you. So with respect to submitting revisions, certainly we do not expect people to have to resubmit their entire application. They only need to submit those things that would be necessary to account for the change so that if -- for example -- there were a change to your feasibility study that could be described clearly and is ratified and it is clear what the sort of waterfall effect would be on the rest of the feasibility study, I think that would be acceptable. We're not asking for resubmissions of entire applications, just those sections that are pertinent to the amendments.

And, you know, I understand that people have run up against the cap on what would be reimbursed. But I think those caps were not changed for those applicants.

Secondly, with respect to clinical costs, I think that it is - as the Advisory Committee recommended -- you know, they had indicated that CO-OPs need to proceed in a way which minimizes their upfront costs.

And engaging in providing their own clinics is something that they can pursue. But clearly it's something that needs to be reflected in the premium, and it needs to be costs that providers bring, and then as part of their salary, you know, it's reflected in their salaries, it's reflected in the reimbursement structure that they charge.

It would seem to us that, relying on what we would call - even if you're setting up a completely closed system, a closed HMO, they should be doing it on a virtual basis where you are doing it with providers who have the ability to or currently have office space and clinic space that they are using and to bring that to the CO-OP, that would certainly be the most efficient and economical way to do it.

The other thing is that if you are building facilities and renting facilities that are clinical facilities that are not going to be used for some period of time, these are upfront costs that have to be paid back in five years. These are not part of the Solvency loans; they're part of the Start-up loans.

And we had very great difficulty envisioning a scenario whereby those upfront costs -- in the terms of building new clinical space or creating new clinical space -- would be able to be repaid in five years.

So I think that those were some of the concerns around that. And again, we would encourage sort of a flexible, modular approach to creating those delivery systems until you have really built up enough premium revenue to be able to do something that is more in a physical form.

To the extent that you are opening new clinics, we would just encourage you to work with providers to use their existing facilities to do so. And we don't see how building delivery systems are really consistent with the goal of the statute. The statute said to use integrated delivery systems; it does not say to build integrated delivery systems.

So we think that the expenses would not be manageable for the CO-OP in the long run in ways that would affect their viability.

So I hope that explains. Richard, do you have anything to add to that? Okay.

John Morrison: Can you still hear me?

Barbara Smith: Yes, sure.

John Morrison: So if I'm understanding you, it's acceptable under the limitations of the amended FOA -- as you've described them -- for clinical expenses associated with the integration with existing facilities and personnel to be incorporated into operating costs but not the construction of new facilities.

Barbara Smith: No, John, that's not what we're saying. What we're saying is the costs of actual - of your clinical systems, meaning the costs of your doctors, your nurses, your providers, the stethoscopes, the equipment, you know, the waiting room. Whether you rent it or buy it or contract it, those are costs which are the costs of actually delivering care. They are not the costs of creating a health insurance issuer.

And the costs of actually delivering care and the contracts that you have with providers need to be reflected in your premium costs.

And what we do expect - I think to maybe answer your concern - expect might be too strong a word, but what we can envision happening is that in the first few months of a CO-OP's operation that they will not have built up enough revenue to pay all the claims that happen in the first few months because, you know, claims - revenues are intended to cover the - premiums are intended to cover the cost of care over the course of a year.

And so, you know, at that point we could see that CO-OPs -- in the very early months -- might be drawing down on their solvency loans until they're able to build up enough premium revenue not to draw on their solvency loans.

But in terms of startup costs for building or contracting with providers, that's exactly what premiums are for.

John Morrison: Okay. That's what I was getting at, I just hadn't made the distinction with Solvency Loans versus Start-up Loans, but that's helpful. Thank you.

Barbara Smith: Thank you.

Coordinator: Larry Turney, you may ask your question.

(Larry Turney): Yes. As far as submitting amended documents, you kind of talked about using grants.gov, but is that the way you want us to submit the amended - or amended...

Barbara Smith: No, no, no. The amended documents that are amended in order to conform to the Final Rule in the FOA should be submitted directly to Ilana Cohen or Anne Bollinger.

(Larry Turney): Okay, good. Thank you.

Barbara Smith: And their information is in the FOA.

(Larry Turney): Right. Okay. Thank you.

Barbara Smith: Thank you.

Anne Bollinger: Yes. This is Anne Bollinger. I just wanted to add that it's not required to amend a document if you are - if something has changed in the Final Rule but you are not out of compliance.

For example, the governance requirements of transitioning from the Formation Board to the Operational Board, it is now two years in the Final Rule. If you submitted an application saying that your Board would transition within one year, you don't need to amend your documents at this time. You're able to make those amendments after an award has been made.

Barbara Smith: Right. That's absolutely correct. You just need to follow what the FOA requires in terms of reporting and approval, considering those changes. But you don't have to - if you decide down the road that you want to adopt a more permissive structure that's allowed in the Final Rule, you don't need to amend your application now to reflect that.

You only need to follow the amendment process where it would require you to conform to a requirement that you would not otherwise meet if you didn't make the change.

Thanks (Annie).

Any other questions?

Coordinator: (Bill Tillman), you may ask your question.

(Bill Tillman): Thank you. I just had a quick clarification before I get to my question.

From what you've said it sounds like if there's an application on file already you don't need to do an amendment for the technical changes that you talked about, labeling the pages and...

Barbara Smith: No, no, no, no, you don't need to do that.

(Bill Tillman): Okay.

Barbara Smith: Thank you for asking that. That helps.

(Bill Tillman): Sure.

Barbara Smith: We don't want more applications submitted that have already gone through the process just because they need page numbers.

(Bill Tillman): Right.

(Bill Tillman): Thank you. My question has to do with the clarification you added on Page 15 of the FOA regarding CO-OPs that might directly compete with each other.

Barbara Smith: Right.

(Bill Tillman): And you noted that an Actuarial Analysis that indicates whether they would be less likely to repay the loans would be determinative. How would that work? I mean, when you submit the application you don't know if...

Barbara Smith: If somebody else has submitted.

(Bill Tillman): Right.

Barbara Smith: Right, right.

(Bill Tillman): Do you get notice and a chance to respond with an Actuarial Analysis or...

Barbara Smith: Right. I mean, I think that, you know, if the FOA says that if the reviewers need additional information they will contact the applicants and ask for it.

So I think that if they determine, you know, for example - and I have - really I don't know of a case where this exists. But where two applicants were applying for the same service area or significantly overlapping service areas and our review panels are able to do their own actuarial assessments and they determined that this would not be viable. They can certainly contact you and ask for additional information if you were to change your service area or if you didn't include that particular corner of the service area.

So some of this can be dealt with through the application process and request for additional documents and some of it may need to be addressed in a subsequent application submission, and I think it just depends on the nature of the situation.

(Bill Tillman): Okay, thank you. I had a comment on marketing, but I'll get back in line with that.

Barbara Smith: Okay.

Coordinator: Robin Fisk, you may ask your question.

(Robin Fisk): Thanks. My question, the new FOA requires that applicants describe what form of solvency note their state insurance department will accept.

Barbara Smith: Right.

(Robin Fisk): And then it further requires them to get the state's insurance department to certify that the description is correct.

I wanted to know two things. First of all, for previously filed applications, do they have to submit this as well?

And my second question is for a January 3rd applicant, can they have more time to get this completed?

Barbara Smith: The additional time to get this information applies only to applicants that applied on October 17.

(Robin Fisk): Okay.

Barbara Smith: So people who plan to submit on January 3 -- because the 12/31 deadline is now January 3...

(Robin Fisk): Yes.

Barbara Smith: ...they would need to provide that with their application.

The theory is -- let me just explain -- is that you are - telling us that we need to provide a certain amount of money structured a certain way.

And we just need to know (A) that the amount of money that you're asking for is the correct amount of money from the DOI's perspective; and (B) that they will in fact accept the way that you have suggested that we structure it.

(Robin Fisk): Okay, so you'll want a certification not only on the structure but on the amount?

Barbara Smith: Correct.

(Robin Fisk): Okay.

Barbara Smith: Bear with us one second. We're just going to check. Hold on.

I'm sorry, I was wrong, they're on the structure of the loan.

(Robin Fisk): Only the structure?

Barbara Smith: Correct.

(Robin Fisk): Okay, thank you very much.

Barbara Smith: Thank you.

Coordinator: (Jonathan Ader), you may ask your question.

Barbara Smith: Hello?

Coordinator: Please check your mute button. Your line is open.

(Jonathan Ader): This is (Jonathan Ader) working with the folks in Oregon.

One of the things you opened up is the possibility of drawing down a Solvency Loan during 2013. That's not contemplated in our application. Is that something we can talk about if we otherwise get an award? Or do we need to send you a letter saying we'd like to have that conversation?

Barbara Smith: Well in terms of drawing down the solvency loan in 2013, maybe the Oregon Insurance Department is different but most insurance departments require that you post your reserve as the last stage of licensure. You have to have the reserves posted or you don't get your operational license.

And so if you were going to be - if your business plan and your proposal to us includes being operational in the exchanges on January 1, 2014, it means that you would have to be licensed in time to accept enrollment by late summer/early fall of 2013. Which means that you would have to post your solvency reserves prior to that time.

So unless Oregon is very different, we don't see how you cannot draw down on your solvency loans in time to be operational in the exchanges by 2014 if you do not draw them down in 2013.

(Jonathan Ader): And to be clear. We agree with that and we think this is an important clarification. And the only question is do we need to file some sort of formal amendment to our already filed application in order to have that discussion with you?

Barbara Smith: In order to (unintelligible).

(Jonathan Ader): Because our pro-forma that we turned in doesn't reflect an early drawdown because it wasn't clearly permissible under the earlier documents.

Barbara Smith: Okay. Bear with us. Yes, well we said six months before, right, is that what you're referring to? That we said you had to draw it down six months before.

(Jonathan Ader): You know, I'm not sitting here with the rule in front of me, I'm sorry to say.

Barbara Smith: The previous FOA did specify that you could drawdown the solvency loans six months prior to licensure in order to be able to do it. Now we have extended that to a year.

(Jonathan Ader): Okay. And I guess all I'm saying is if it turns out that we'd like to go between the six month and a year period -- which we frankly don't know today -- do we have to formally amend...

Barbara Smith: No.

(Jonathan Ader): ...or is that a subject of discussion across the...

Barbara Smith: No, no, no, no, no. Because the six months has actually made it to - not to permit you to drawdown until six months before getting your licensure was more restrictive. Allowing you to do it a year ahead of time is less restrictive and so you would not need to amend - I can't, you know, it doesn't appear to me from what you're describing.

(Jonathan Ader): And we're trying to avoid a bunch of extra burdens, submitting you a bunch of paper about stuff that would be subject to structuring a loan anyway. So I think we're probably okay.

Barbara Smith: Okay.

(Jonathan Ader): Thank you very much.

Barbara Smith: Thank you.

Coordinator: Our next question comes from (Abby Arnold). Your line is open.

(Abby Arnold): Thank you very much. I have four questions, all which are fairly technical.

Barbara Smith: Okay.

(Abby Arnold): First question is that we're submitting that via grants.gov, and I wondered whether you want any documents mailed to you with web signatures or will a totally online submissions (set apply) all the requirements?

Barbara Smith: No, it needs to be the totally online submission.

(Abby Arnold): Wonderful. Secondly, the budget and the budget narrative, do you want - may we submit an Excel workbook to cover the budget for the startup loans? And how many years of narrative detail should we include?

Barbara Smith: Yes, well you can certainly submit an Excel workbook. And I believe that the FOA called for a budget projection for the life of the loan. Is that correct?

(Abby Arnold): Yes, yes. So the budget projection for the life of the loan. But in terms of writing up a budget narrative, do you want 20 years of that, 5 years (unintelligible)?

Barbara Smith: Well, I think that, you know, I think that your budget narrative needs to at least describe and explain what's in your Excel workbook.

(Abby Arnold): Okay.

Barbara Smith: Okay?

Anne Bollinger: And this is Anne Bollinger. I'm just going to add to that that if you do submit an Excel workbook that it needs to be in Version 2007.

(Abby Arnold): Okay.

Anne Bollinger: And that the budget narrative should just include the needed funding to accomplish the goals and milestones. So we don't give a specific timeline within that if you refer to Page 35 in the FOA.

(Abby Arnold): Thank you.

Anne Bollinger: You're welcome.

(Abby Arnold): Then you mentioned that you're going to be asking to see the employment contracts of the executives. Do you want to see those as part of the proposal or will you be - will we be submitting those after the loan is approved?

Barbara Smith: I do not believe they need to be part of the FOA submission.

Anne Bollinger: It's to support the monitoring efforts of CMS.

(Abby Arnold): Okay, that's, I mean, that's logical, but I just wanted to be sure that (unintelligible)...

Barbara Smith: Right. So we'll, you know, we'll be asking...

(Abby Arnold): ...contracts in place until we've got an approved loan and do the hiring, so...

Barbara Smith: Right, exactly.

(Abby Arnold): Great. And then my last question is about the building and construction issues that were raised earlier in the call.

I understand about not using funding for clinical facilities, but what about for administrative facilities?

Barbara Smith: Okay, so if you're talking about administrative facilities for the plan itself, in order words...

(Abby Arnold): Correct.

Barbara Smith: ...non-clinical administrative facilities to do things like have your call centers and your claims people and all of that. The answer to building is no. This is not a construction...

(Abby Arnold): Construction, correct.

Barbara Smith: Construction loans entail a whole set of sort of loan monitoring infrastructure that we have not -- in any way -- provided for in this rule. And if the loan went bad we would not want to have HHS responsible for completing the construction...

(Abby Arnold): Correct.

Barbara Smith: ...of the facility. So construction is - if you want to build your own and you have other sources for it, that's great, that doesn't preclude you. But in terms of what we are willing to finance, we're not financing construction.

(Abby Arnold): I understand that. But we can use the loan to either rent or purchase, you know, either rent or pay the mortgage on a piece of property that is the administration offices of the health plan?

Barbara Smith: Bear with me for one second. Yes.

(Abby Arnold): Okay great, thank you.

Richard Popper: This is Richard Popper. Again, on purchasing, bearing in mind that you have to pay back the startup loans -- as we said earlier in the call -- within five years.

(Abby Arnold): Correct.

Barbara Smith: So we assume that that's a (unintelligible) for purchasing.

(Abby Arnold): Right, right. I understand. Just checking. Thank you.

Barbara Smith: Thank you.

Coordinator: Mark Tozzio, you may ask your question.

Mark Tozzio: Yes. Good afternoon. I'm the Chairman of the BA Health Care Cooperative. And we are wanting to sponsor the formation of a CO-OP.

Barbara Smith: In what state, sir, are you talking about?

Mark Tozzio: Oklahoma.

Barbara Smith: Oklahoma, okay.

Mark Tozzio: And I have three questions. I did submit them in writing as you requested. I wanted to make sure they got answered. Is this the proper time?

Barbara Smith: Sure.

Mark Tozzio: Okay. Well the first one is are there limits on the income for - on the low end and the high end of who can be a member of a CO-OP?

Barbara Smith: No. You mean, who can be beneficiary? Is that what you mean? The people who covered?

Mark Tozzio: Yes. Who can enroll in the CO-OP as a member who can purchase insurance?

Barbara Smith: No, there are no limits.

Mark Tozzio: Okay. So they can be low income, moderate and high income or all high income or all low income?

Barbara Smith: No, no. Well, you are - the CO-OP is required - there are no limits on who can enroll in the CO-OP.

In other words, when you open your CO-OP for business, anybody who - and assuming that you don't also choose to be in Medicaid Managed Care Plan, anybody who is eligible in the exchanges or in the individual or small group

market to, you know, to come to you for private insurance can do that. You cannot restrict your membership to certain income levels.

So for example, you could not say this plan is available to people over 400% of poverty or this plan is available only to people between 100 and 400% of poverty or 133% and 400% of poverty.

Mark Tozzio: Okay, that answers my question. Thank you.

Barbara Smith: Okay.

Mark Tozzio: The other question is assuming it could take two or three years to establish enough members in the CO-OP to cash flow the organization, you say we have to pay the loan back in five years, but when does that payback start? When you're cash flowing or - how do we determine when we start paying back?

Barbara Smith: So the Final Rule and the FOA both say that the payback schedule is something that you should propose in your business plan and demonstrate how the payback schedule will work with the rest of your - with your business plan. And it anticipates that there will be grace periods and it would be possible to have balloon payments or partial balloon payments.

And so you will be able to submit a proposal -- a proposed structure or schedule of payments -- with your business plan.

Mark Tozzio: Okay.

Barbara Smith: And of course the time when you have to repay is measured from the time of disbursement.

So if you have a startup loan of a certain number of dollars, you won't pull it all down at once. You'll pull it down as you meet milestones and you need it.

And so each due date -- the five year due date -- will be from the time of each disbursement. So if you drawdown your startup loan in five disbursements, then each one of those disbursements triggers its own five-year repayment period.

Mark Tozzio: Okay, thank you. That's an important clarification.

My last question, we are a health care cooperative, which is different than a CO-OP.

Barbara Smith: Right.

Mark Tozzio: But we are wanting to sponsor the formation of a CO-OP and we're a 501(c)(3). The CO-OP would be a 501(c)(29). Is that okay?

I mean, I guess I'm just wondering since the CO-OP doesn't exist and we're going to put it together over the period of a year, you have to have a sponsor. And we want to make sure we can be a sponsor of the CO-OP.

Barbara Smith: So if I could just ask you a few questions pertaining to your current status as a cooperative. Are you currently - is your cooperative licensed as a health insurance issuer?

Mark Tozzio: No, it is not.

Barbara Smith: It is not, okay. Then I don't see any barrier to you. And just one other question just for my own edification. When you say you're a health cooperative, does this mean that you purchased insurance from issuers for the benefit of your members?

Mark Tozzio: No, we do not.

Barbara Smith: Okay, okay.

Mark Tozzio: We provide other services but not insurance.

Barbara Smith: I see, okay. No, I don't see any barrier in the rule to your sponsorship of the CO-OP.

Mark Tozzio: Okay, thank you very much.

Barbara Smith: Thank you.

Coordinator: (Larry Turney), you may ask your question.

(Larry Turney): My question actually has been answered, so I'll pass.

Coordinator: (Cliff Gold), you may ask your question.

(Cliff Gold): Thank you Barbara. I represent the CO-OP forming in Iowa and Nebraska. I have two questions for you.

One involves the logical extension of something earlier. If the ability to drawdown money begins at a year instead of six months, do any changes need to be made on spreadsheets that have already been sent to you? Realizing this

means that this is less restrictive rather than more restrictive. We were hoping to avoid having to resubmit all of the spreadsheets.

Barbara Smith: No. I mean, if your plan is based on getting your money six months ahead of time, you know, the one year solvency thing would improve -- I would think - - your cash flow, except that your cash flow situation, except that, you know, these are reserves that have to be posted to the satisfaction of your state insurance commissioner.

(Cliff Gold): Right, that's fine. That answers my question.

The second is -- and maybe the timing on this is too tight -- but the work being done in Congress right now related to funding for the CO-OPs, how does that affect the \$3.8 billion that the number was as of a day or two ago?

Barbara Smith: So we don't know what the final reconciliation is in Congress and as of the time of getting on this call at least we had received no definitive information on that. I would just say that we fully anticipate having sufficient money to fund CO-OP applicants.

(Cliff Gold): Great. Thank you very much.

Coordinator: (Bill Tillman), you may ask your question.

(Bill Tillman): Thank you. I guess it's more of a comment on the change in the marketing restrictions on Page 37. One of the restrictions is that it can't be used to explain on a product to a specific customer. And I think we've raised this issue in the past of, you know, that being sort of a basic customer service item for a health plan of - having a member call in and say, "Is this covered?"

And I assume that wouldn't be considered marketing, but I'm just trying to understand the meaning of that change.

Barbara Smith: So the amended FOA actually does make it clear that explaining the benefit structure to an existing customer is not considered marketing. It would be - what we are referring to is, you know, basically the kind of direct marketing done on a one-on-one basis with prospective customers, with prospective beneficiaries.

(Bill Tillman): Okay, and that makes sense with the, you know, the word promote in that sentence. It's just that, you know, do you explain the (benefit) structure seems to be a separate (cause).

Barbara Smith: No, so that was - again, explaining your benefit structure to your existing membership would not be considered marketing, marketing that is prohibited under the rule and the statutes.

(Bill Tillman): Thank you.

Barbara Smith: Thank you.

Coordinator: (Kathy Ostraight), you may ask your question.

(Kathy Ostraight): Thank you. We are in Arizona. And I wanted to go back to the requirement to determine what's at stake, what level of solvency they will accept, and then a letter certifying the structure of the solvency loan being acceptable.

Barbara Smith: Right.

(Kathy Ostraight): I think potentially we could have two issues. (Tier 1), I'm not sure they will do it and I don't know if they're mandated to do it, but we have been unsuccessful getting anything documented from them. They have advised us that when we submit our applications they'll let us know.

So we've not had great success on that front. And the other is candidly with the holiday I am also concerned how realistic it's going to be. I mean, we will try. But I guess my question is that there is no - if the states receives as a certification letter, what is our recourse on that?

Barbara Smith: So bear with us just a second, okay? We're just going to converse here a minute.

So if you could just - if you can just get even an email response to us that you provide that says the documents, their refusal to provide the certification. If they won't even do that, if you send them an email request for it and they don't respond by email...

(Kathy Ostraight): Okay.

Barbara Smith: ...so you can't get a request, if you could provide some certification that you have - that the state has refused to provide that, okay.

(Kathy Ostraight): Okay.

Richard Popper: And we would only ask during if you're able to submit your application by the upcoming early January deadline. And if you hear from them later in January or February to advise us and update your application accordingly.

(Kathy Ostraight): Okay, great. Thank you.

Barbara Smith: Thank you.

Coordinator: (Melissa Duffy), you may ask your question.

(Melissa Duffy): Hi, thanks Barbara and HHS for making time for the call.

I just want to be sure that I understand where the line is on the clinical issue. Is it okay for a proposed CO-OP to use startup dollars to help consumers reduce their health risk, such as, you know, a typical insurance company health promotion or (sign) type of thing?

Barbara Smith: Again, those are - we would not consider those startup costs. So this is something that happens once you have enrolled covered lives, right?

(Melissa Duffy): Uh huh.

Barbara Smith: Okay, so we would view that as part of your actual clinical cost of providing care, including preventive care.

(Melissa Duffy): Okay.

Barbara Smith: So, you know, to the extent that your premiums enable you to provide those services, it seems to me that one of the things that you have to do in pricing your premiums and in describing how you will price your premiums to make sure that you have accurate premium pricing is to consider what services you want to include in that.

And then as we stated before, if in the first couple of months before you have revenue actually start to build up, CO-OPs need to drawdown solvency funds

to pay provider claims, you know, that's anticipated. But again, that's part of your clinical services and should be, you know, described in your benefit package as part of your preventative benefits.

(Melissa Duffy): Okay. And then what about staff that will be working to contract with providers, which would definitely happen, you know, in the startup phase.

Barbara Smith: Of course. And that would be considered - and it's actually specifically described in the FOA as an acceptable...

(Melissa Duffy): Right. Okay, thanks.

Barbara Smith: Okay, thank you.

Richard Popper: And some of the startup costs may still be incurred after you've become operational...

Barbara Smith: Right.

Richard Popper: ...and as you continue to try to expand your plan's network, so...

Barbara Smith: Right. And I think, you know, that's a really good point, Richard, that there's not a point at which startup costs just stop and solvency costs begin. Because startup costs, adding to your claims system, adding to your call center, increasing your sales force, all of those are sort of startup - well except the sales force wouldn't be included in the loan.

But other types of startup activities can continue onto the period after you actually have enrolled lives. And, you know, as I said, adding to your IT systems, adding management staff, adding other types of personnel. Those

sort of administrative costs of running a plan will continue even after you have begun to enroll lives.

(Melissa Duffy): Okay, thank you.

Coordinator: (Jeff Green), you may ask your question.

(Jeff Green): Thank you. Just a clarification on the question about construction. If we move into an existing office but need to do some internal build-out...

Barbara Smith: Right.

(Jeff Green): ...is that permitted?

Barbara Smith: Yes.

(Jeff Green): Great, thank you.

Coordinator: (Elias Metakus), you may ask your question.

(Elias Metakus): Thank you. This relates to form SF424. With respect to Section A for startup applicants there would not be any entry for new or revised budgets I'm assuming. Is that correct?

Anne Bollinger: (Elias), this is Anne Bollinger. I think it would probably be best to maybe go over that form together offline just so that I can have it in front of me and have a better idea of what you're asking.

(Elias Metakus): Okay, thank you.

And my only other question is that is it permissible to have a business plan where solvency loans would be drawn down substantially in advance of the regulatory requirement as beneficiaries ramp up so as to not put the CO-OP at risk? Or is the expectation that solvency loans would be drawn down substantially contemporaneous with the growth of the enrollment?

The challenge being that as you go on exchanges you don't know how well you're going to do and you don't know how much money you may need based on risk adjustments that would be assessed or experienced in the operating years.

Barbara Smith: Sure. So the way that the FOA is structured and what we've asked of your applications is for you to describe milestones for drawing down loans. Those milestones would certainly be - one of them would be enrollment related.

So let's say you start off in the first year and you expect 5000 people to enroll -- I'm just making up numbers, okay -- but in fact, 8000 people enroll. What would happen is that the - according to the way the loan agreement is set out and your business plan is set out, you would be able to drawdown money as you reach targeted milestones in enrollment.

(Elias Metakus): So that accelerated achievement would enable the applicant to an accelerated drawdown.

Barbara Smith: Right. So that if, for example, you projected that ultimately you're going to have 100,000 people enrolled in your plan, you know, five years from - 2014 by 2020. But it turns out that you get to 50,000 much sooner than you expected, you would be able to drawdown loans as you needed to meet solvency projections. And certainly as your DOI is requiring you to conform.

But your business plan should be tied to - solvency disbursement should be tied to enrollment projections.

And I would just say that, I mean, you know, we look forward to that scenario where CO-OPs are getting more enrollment than anticipated and we look forward to rational growth of the CO-OPs. So we would certainly do that.

But I would just say that as a matter of CMS oversight and monitoring, if there were concerns that you were growing so fast that it indicated that maybe your premium wasn't being accurately priced, it's conceivable that CMS would come in and look at your experience more closely to make sure that this huge spurt in enrollment was appropriate.

(Elias Metakus): Thank you.

Coordinator: (Larry Turney), you may ask your question.

(Larry Turney): Yes, I had a question. The new requirement that you have to provide certification of how your state's going to handle the solvency loan.

Barbara Smith: Right.

(Larry Turney): Do the CO-OPs that submitted their application in October have to do anything with that?

Barbara Smith: Bear with us one second.

So it's possible that you may get a request for additional information to provide that. I think to the extent that you were able to get that, it would be

useful for you to send it on because it's very difficult for us to know how to structure the loan for your loan agreement unless we have that information.

(Larry Turney): Okay, thank you. That answers my question.

Coordinator: (Bill Tillman), you may ask your question.

(Bill Tillman): Thanks. On the same subject, our Commissioner submitted a letter of comment on the proposed CO-OP regulations stating that, you know, the solvency loan would have to satisfy (SSAP) number 41 to qualify as capital. Is that - can we give a copy of that as our certification?

Barbara Smith: Sure.

(Bill Tillman): Thank you.

Barbara Smith: And what state is that, (Bill)?

(Bill Tillman): That's Wisconsin.

Barbara Smith: Okay, thank you.

Coordinator: (Clinton Mays), you may ask your question.

(Clinton Mays): Yes. On the \$100,000 for completing the feasibility study and the business plan, I know you have a maximum of \$300,000. Is the \$100,000 included in that \$300,000 if you're doing a multistate CO-OP?

Barbara Smith: Yes. So the \$300,000 is the maximum. So it gives you \$100,000 for one state and then \$50,000 for each additional state up to a maximum of four states -- I

think -- five - four states, up to - well, five states - up to a maximum of five states. I'm sorry, I'm trying to do the math.

So it's \$100,000 for your sort of base state, and then \$50,000 for every other state that's added up to a maximum of \$300,000.

If you are planning to do a multistate CO-OP that includes more than five states, what you need to do in your feasibility study for those additional states is a cost that the sponsors would have to bear.

(Clinton Mays): Okay, thank you.

Barbara Smith: And I just want to remind everybody that this reimbursement is contingent on a successful award, a successful application.

Okay, does that answer your question?

(Clinton Mays): Yes, I'm sorry. I said, "Thank you."

Barbara Smith: Thank you.

Coordinator: (Tony Zabel), you may ask your question.

(Tony Zabel): Hi. Will there be a published list of the awards made available in January?

Barbara Smith: The department will announce the awards. I don't know what the format will be, but the department will announce the awards.

(Tony Zabel): Okay, thank you.

Barbara Smith: And we would just like to remind those of you who may be successful applicants that it is the department who will announce the awards and not the applicants who will announce the awards.

So at the point in which an award is made, we would urge you to refrain from calling your local newspaper or your relatives.

Anything else?

Coordinator: Once again, to ask a question press star 1.

And there are no further questions.

Barbara Smith: Okay, that's excellent. Thank you. Those were really excellent questions. I think they helped facilitate and explain the application of the Final Rule and the FOA very well, so we very much appreciate your participation.

And we look forward to being in touch in the future. Thanks so much.

Coordinator: Thank you for participating in today's conference. You may disconnect at this time.

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