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 of today's call you may press star 1 to ask a question. Today's conference is being recorded. At this time I'll turn the call over to Barbara Smith. You may begin.

Barbara Smith: Thank you. This is Barbara Smith. I think it’d be useful to go around the room and let you know who is here to help address your questions. I'm Barbara Smith. I'm the lead on the CO-OP program.

(Tanchica Terry): I’m (Tanchica Terry).

(Reed Cleary): (Reed Cleary).

(Ilana Cohen): (Ilana Cohen).

(Meghan Elrington): (Meghan Elrington).

(Anne Bollinger): (Anne Bollinger).

(Carla Szasz): (Carla Szasz).

Barbara Smith: Okay great. Well we want to first of all welcome you to the call. And then for those of you who have already submitted applications we would like to thank you for the tremendous effort that went into preparing your applications and to the commitment that you demonstrated and the thoughtfulness that was reflected in the applications. I think all of the reviewers were unanimous that each application reflected a great deal of thought, and careful analysis, and planning.

As you are probably aware we have awarded seven awards thus far. They have gone to New Mexico Health Connections, which is obviously in New Mexico, Midwest Members Health which is in Iowa and Nebraska, Freelancers CO-OP of Oregon, Common Ground Health Cooperative which is in Wisconsin, Freelancers CO-OP of New Jersey, and Freelancers Health Service Corporation which is in New York, all of which are separate CO-OPs formed locally in their respective states.

We - I thought it would be useful to describe the process that we went through in evaluating applications and in notifying applicants.
Obviously there were a group of people that were notified outright that they had been selected to receive an award and to enter into loan negotiations. Obviously no award is finalized until there is a signed loan agreement.

In the review process, if there were some applications for which the reviewers felt it would be useful to have some clarifying additional information to be considered in the current round, they sent out a request for additional information.

That information was received and evaluated as part of the current round rather than a subsequent round.

For those people for whom we felt their applications required more analysis, more completeness addressing more complex issues, we asked that they resubmit their applications in a subsequent round, and we provided a description of what we thought were the deficiencies in the application.

All of the applications, all of them, those that were awarded and those that were not, had strengths and weaknesses.

But we thought it would be useful to look at the patterns of success and then also the patterns of weaknesses that caused applications to be requested to be resubmitted.

First of all, the strong applications, the ones that were awarded, typically were built on foundations of community support where they had created strategic alliances with providers, business leaders, community and business organizations.

We felt that this building of community support, this foundation of community support was essential to the ultimate outreach strategy of the co-op and ultimately to its ability to get adequate enrollment and be successful.

This was a strong contrast to people that may have a great deal of expertise but were working together quietly in their own space and were removed from the larger community in which they lived.

Also these co-ops had a clear sense of what they wanted to accomplish. By forming a co-op they had a strong strategic mission identified in their application.

The other strength of these applications were their internal consistency within their proposals, what we would call matching or ticking and tying so that if they were proposing to go statewide their operational infrastructure, their provider network all matched a statewide objective.

Their enrollment projections, their network projections, their marketing strategy, their cost assessments, the relationship of the cost to the premiums and their enrollment strategies all ticked and tied.

In another words, they each validated and reinforced each other. They were consistent with each other. Their budget descriptions, their budget narratives, their financial pro formas, and their feasibility studies were all consistent.
And again they validated and reinforced each other rather than creating inconsistencies that the reviewers were unable to resolve.

The importance of, you know, tying the business plan back to the feasibility study and making sure that all of the elements of the business plan supported what would be a feasible - a feasibly operating plan in their markets -- was a critical dimension of these successful applications.

Another point that I would just talk about briefly is substantiation and justification. And we really cannot emphasize this enough. And this is true for every element of the application.

You know, what is the basis for the enrollment projections? How did you get there? If you’re claiming that you have operational savings, what do they come from? How did you get there? Who are your providers?

How will your outsourcing work and will it add cost or savings? How will these costs be reflected in your ultimate premium projections and in your enrollment projections?

And particularly for the enrollment projections for, you know, these successful applications presented for the most part strong substantiation of how they would achieve their enrollment objectives.

Next we would say that it’s very important to know your market, to know the market in which you will be planning to compete, to understand what the role of the exchanges will be and its impact on your market, to know the level of competition in your market.

For example some applications came from states that are, you know, presently highly competitive markets. There are many players. Consumers have lots of choices already.

Examples of those would be Oregon and Wisconsin. And yet those applications were awarded loans because they indicated that they understood what was going on in those markets and they had a strategy to get to their enrollment goal within that competitive context.

It’s also important to know the diversity of your populations both geographically and demographically.

The products that you are proposing to offer have to match your market. So product development that was consistent with the enrollment strategy and the target market was again a strength of these applications.

All of them, I would say all of the applications offered some element of improved care, improved coordination of care, use of more integrated care, use of medical homes, use of bundling of payments, increased use of pay for performance.

They didn’t all do the same thing but they all did something that created incentives for positive delivery reform in the way that they were - would be delivering care to their members.

In addition, they showed an understanding of what it means to be an insurance company as opposed to a care delivery system or a system of clinics or individual providers or community organizations.
They understood the essence of being an insurance company. This means having diverse risk pools, having enrollment systems, not necessarily in place, but understanding where those systems would fit into the picture.

Understanding the importance of coverage meaning that they not only provided for in-network coverage but they provided for out-of-network coverage, out-of-area coverage, because we live in a mobile world.

Insurance companies have to provide coverage to people as they travel, as they go between different places, between work and home, and all of these aspects of the coverage were reflected in their projected costs and their premiums, and their premiums accurately reflected their costs.

So what it means to be an insurance company was appropriately reflected in the successful application.

They demonstrated a strong management team with insurance talent, business expertise, health expertise, a mission focus, but, you know, strong insurance background which would indicate that these people - that they will be running insurance companies and they have the wherewithal to do that.

They also demonstrated a clear compliance with the letter and the spirit of the law. They proposed robust presence in the exchanges.

They understood the line between outreach and education compared to marketing, which cannot be funded by loan funds, whereas outreach and education can be. And I would just advise you to be careful in your use of terminology there.

They understood guaranteed issue and the fact that they would be opening to all comers and engaged in the appropriate use of wellness programs as a way to improve - provide preventive health and improve the health of their members and not use it as a proxy for discrimination based on having a medical condition.

They reflected good coordination with their departments of insurance or state regulators and an understanding of the licensure process.

And again these are just, you know, highlights that successful applicants employed and that they - things that they did well. Nobody did it perfectly, but they did it well.

I think some of the pitfalls that we could see in the unsuccessful applications were what I would call “biting off more than you can chew.”

So if you say you're going to be statewide, you have to have the whole package to go with it. You have to have the operational infrastructure, you have the provider networks to be truly statewide.

You can't say we're statewide and then skip over chunks of the state. You have to just have the full package to go with it.

So if you're not able to have all of the elements to support a statewide application you're better off saying we’re going to operate in the following six areas.
Be sure that all of your infrastructure and all of your supports do support the scope of your application.

Secondly, what I would call the matching, the ticking and tying of the financial pro formas to the operational costs, to the enrollment projections, to the premiums, the tying of the business plans to the feasibility studies, tended to be weaker in the applications that were not successful in the first round.

Some of them were completely inconsistent. The financial pro formas were inconsistent with the budget narratives.

Again, reviewers can’t choose which one is right, so we would ask you to be very careful in your re-submissions to be sure that all of the elements of your application validate and reinforce each other and are consistent across the different domains.

Substantiate your enrollment projections, your costs, and your cost savings. If you’re claiming that you’re going to get cost savings you have to show how.

If you’re saying that you’re going to hold down provider costs, you have to show that you have a beneficial deal with third party administrators or providers or that you have delivery system reforms that are going to bring down costs.

All of these things are going to be reflected in the premium. And of course the price of your premiums is going to determine what level of enrollment you're going to get and how successful you're going to be.

We talked earlier about the importance of understanding your market. In some of the less successful applications we did see a lack of awareness of the various characteristics of the individual market in the enrollment projections.

And again as I indicated before, folks in the room who may have a lot of talent but don't have connections to their community are going to have a much harder time because they're not going to be able to demonstrate that they have the capacity to execute their enrollment strategies because they don't have the connections to their communities to make those enrollment strategies work.

Some of the pitfalls in applications of course are inadequate business plans, unrealistically high and unsubstantiated enrollment projections, inadequate detail on the backgrounds and expertise of your management team, a lack of evidence of any contact with your state regulators, unrealistic debt to equity ratios, inadequate risk-based capital understanding, having consultants be your management team rather than a true management team that is in place and accountable.

And of course if you fail to include a repayment schedule or any plan to repay the loans, I would say the probability of your receiving a loan would be extremely low.

There were some particular weaknesses from the provider groups that we feel confident can be corrected in the next round. They tended to be consistent across some of the provider groups that were not successful. And we wanted to bring that particularly to your attention.

The first is that you - that the provider groups tended to be extremely reliant on their own employee base rather than being sufficiently robust in the exchanges or reaching out to a diverse risk pool.
The management and understanding of the insurance side of the business: it is important to remember at all times that what you are setting up is an insurance company so that you have to have robust enrollment strategies.

You have to have, as I said before, coverage for out-of-network and out-of-area care. You have to be sure that you are aligning all of your costs accurately to your premium projections and you have to have sufficient operational systems. The lack of adequate operational systems including enrollment, premium tax credit management, IT systems basically that are appropriate for the individual and small group markets, contractor oversight, these are elements that are essential to operating a successful insurance company. And they tended to be less present in provider applications.

Again, we think that by including appropriate leaders on your management team who have specific insurance company experience at the executive level and not just health system or provider system executive experience will help overcome a lot of those difficulties.

There are some issues regarding the disbursement schedule. As you know you were asked to fill out milestones. And a disbursement schedule is part of the application.

I’m going to turn this over to (Anne Bollinger) and (Megan Elrington) to describe a little bit more about the disbursement schedule detail that would be useful in the application.

**Woman:** Thanks Barbara. As stated in the FOA and as Barbara just mentioned, all applicants have to propose milestones and corresponding loan draw downs in their business plan.

Together, those create a detailed disbursement schedule which serves as a roadmap to how you intend to become a viable operational co-op.

That schedule eventually will be included as an appendix in your loan agreement and therefore must identify the milestones for your start-up loan requests and the funding that you believe you’re going to need for each of those milestones.

This schedule should tie directly to the activities in your business plan as well as some line items in your budget.

And the dispersals of the funds will be based on the amount that’s included in that schedule and subject to the objective and documented completion of key milestone.

Just wanted to give you a sense of what some of the core milestone should look like in your schedule.

Generally, you’re looking for milestones that would be from one to three quarters in terms of completion and they should address some of the - the following kind of major categories for you to think about.

One would be business structure such as, you know, developing a project plan for your organization, setting up your bank accounts.

And the second would be business operations, for instance establishing your physical facilities for where you’ll operate, your plan for hiring staff and developing policies and procedures.
The establishment of claim systems, enrollment systems and of course your general plan operations such as contracting with the TPA. That's what your strategy is or developing a monitoring plan, et cetera.

Also, you should think about establishment of provider networks, member communication, and of course licensure certification.

So these are just kind of examples of areas that you should be thinking about as you're developing your disbursement schedule in terms of milestones that you want to include.

In addition your milestone schedule should also include a separate milestone for your - to indicate the reimbursable cost of - for the preparation of your feasibility study and your business plan.

In your milestones, in your disbursement schedule, in addition to the milestones and funding amounts, should also include a timeframe for how long you intend you believe it will take to complete that milestone, a description of the evidence that your organization will provide to demonstrate that you’ve completed that milestone and also indicating which other milestones must be completed prior to each of those milestones on your schedule.

We understand that requires a large level of detail, and we hope to provide additional information soon such as a template and additional information about milestones that should be included in your schedule.

In addition we hope to provide a template of the loan agreement on our Web site in the next couple of weeks. Thanks.

**Barbara Smith:** And I just - this is Barbara again, I just wanted to say that there are a number of states for whom we have received no applications or letters of intent.

We would like to make you aware of that, in the event that anybody would be interested in applying in those states or you are aware of organizations in those states that might be suitable for forming co-ops.

If so, please do put them in contact with us. We would love to have a conversation with them and to help them start the process.

Those states are North Dakota, South Dakota, Ohio, Arkansas, New Hampshire, Rhode Island and Alaska.

In addition, we would ask those of you who were asked to resubmit another application in the later rounds, we would appreciate hearing from you as soon as possible regarding your intent to reapply or not.

And as we - if we do not hear within a reasonable amount of time we will decide whether there’s reasonable interest in the state or not and add those states to the list of those in which we would like to see additional activity.

With that I think that we can open it up to questions.
Coordinator: Thank you. We’ll now begin the question and answer session. If you would like to ask a question please press star 1 and record your name clearly. Again just press star 1 to ask a question and one moment for our first question.

We do have a question from (Abby Arnold). You may ask your question.

(Abby Arnold): I wondered how many applications you received in the second round of applications?

Woman: At this point we - the department does not (disclose) the number the applications because it is a competitive process.

However, we can state that we received a very robust number that was roughly equivalent to the number that we received in the first round.

(Abby Arnold): Thank you.

Woman: So we are still seeing a strong showing of applications.

Coordinator: Thank you. Again if you have a question press star 1 at this time. At this time I’m showing no further questions. Again if you have a question just press star 1.

Barbara Smith: All right we - (Shirley) we did receive a question from - through email that we can provide an answer to at this time, which is again the question that has come up on a recurring basis in a number of the calls, which is whether we will be awarding multiple co-ops in the same state?

And the answer to that is yes. As we have indicated where we feel that there is a sufficiently different target population, that there is enough of a market available given their enrollment projections and the way that they’re targeting their plan, co-ops, multiple co-op will be awarded in states. And at this time we certainly have, you know, adequate funding to award one co-op in each state and multiple co-ops in a number of states.

Coordinator: We do have several questions at this time if you’d like to take them?

Barbara Smith: Yes.

Coordinator: We do have a question from (Kurt Fackler). You may ask your question.

(Kurt Fackler): Yes, do you have a proposed date yet for the second round of funding?

Barbara Smith: For the announcement of the second round of funding you mean?

(Kurt Fackler): Yes.

Barbara Smith: No. We are hoping that it will be late March or early April. But, you know, we are still in the process of reviewing the applications that were submitted on January 3. The applications have turned out to be quite lengthy, much lengthier than we originally anticipated. And therefore it is taking us much longer to review them.
(Kurt Fackler): Thank you.

Coordinator: Thank you. Our next question comes from (Bill Young). You may ask your question.

(Bill Young): Yes, on the marketing exclusions there’s always some confusion of what is marketing as opposed to consumer education, et cetera. Are you putting more clarifying paragraphs to tell us what we can and cannot do under marketing versus consumer education?

Woman: We have provided additional information on that on the frequently asked questions on our Web site.

And the preamble of our rule provides - oh, in the FOA, I’m sorry, the funding opportunity announcement provides some indication of that so that things like, you know, making the public aware of the co-op option, that there is a new player in town, that this is a consumer orientated and governed organization, outreach meetings, community meetings, that would not be considered marketing.

But any activities related to the sale of a specific product to a specific customer would be marketing. Direct advertising would be marketing. Direct mail would be marketing. Does that help you?

(Bill Young): Yes, thank you. That clarifies it.

Woman: Good.

Coordinator: Thank you. Our next question comes from Utah. (Dale Young) you may ask your question.

(Dale Young): Yes, hello. I'm not sure that I understood in the beginning when you described the process. If you - if we received questions, follow-up questions are you saying that those applications have been closed as well?

Woman: Okay, so the process is as follows. Some organizations, some people that submitted applications may have received a request for additional information which required them to submit that additional information within 21 days of receiving the letter.

That would mean that that request for additional information would be received within and evaluated within the current round of applications.

If you were asked to resubmit your application at a subsequent date and were given, you know, detailed descriptions of the deficiencies in your application at a subsequent round then that would mean that you would need to resubmit your entire application, hopefully a revised, substantially revised application in either the April 2 round or the rounds following April 2 on a quarterly basis.

(Dale Young): Could you - can I ask another question please?

Woman: Of course.

(Dale Young): So if we submitted the follow-up information within the 21 day time frame can you address how quickly you will be able to respond back to us?
Woman: So we would hope within the next couple of weeks to be able to respond back.

(Dilly Young): Okay, thank you very much. You've been very helpful.

Woman: Thank you.

Coordinator: Thank you. Our next question comes from (Gerry). You may ask your question.

(Gerry): My question was regarding the - just the timing.

Man: But we also had a question regarding the life insurance requirements.

Barbara Smith: I'm sorry, regarding what, I'm sorry?

Woman: Life insurance as a milestone?

Man: That confused us.

Woman: Not life insurance.

Woman: Not life insurance.

Woman: Not life insurance.

Woman: Licensure.

Woman: Licensure.

((Crosstalk))

Woman: State licensure.

Man: Oh got you. Sorry about that.

Woman: That was it.

Man: Thank you. Makes sense now.

Woman: Yes, yes.

Woman: It sounded like life insurance.

Man: Thanks.

Woman: Sure, no, our pleasure. Thank you.

Coordinator: Our next question comes from (Amyssa Sanghvai). You may ask your question.
(Amyssa Sanghvai): You've already answered it. Thank you.

Coordinator: Thank you. Our next question then comes from (Mike Sturm). You may ask your question.

(Mike Sturm): Barbara, you listed seven states earlier including North Dakota, South Dakota, et cetera, that you were requesting a letter of intent or somebody to form a co-op there.

Is it fair to say that in the first and second rounds then that the 43 other states plus the District of Columbia you - you’ve received at least one application to become a co-op in?

Barbara Smith: It just - no, I don't think you could draw that conclusion. But it may because there are other states that are still in play where we have letters of intent or other things. Whether or not people are actually in the end going to come in, whether people are going to resubmit their applications, is unclear. We suspect a number of people will be resubmitting their applications. We expect that some will not. And so we don't want to indicate those states as having no activity until we get greater clarity on that.

(Mike Sturm): Okay, thank you.

Coordinator: Thank you. Again just press star 1 to ask a question. Our next question comes from (Rob Rausch). You may ask your question.

(Rob Rausch): Hello, Barbara. You talked about the successful applications tying a lot of the different pieces together. I'm curious to know if the evaluators get to see the application in total or do you divide it up in terms of relevant sections for them to look at?

Barbara Smith: No, they see it both ways. In other words subject matter experts look at different aspects of it in detail and then they look at it in total as well. And so the deficiencies, if there is a deficiency where there are inconsistencies for one part of the application, the marketing strategy doesn't validate for example the enrollment projection, that would come across in the application in total. Does that answer your question?

(Rob Rausch): Yes. Thank you.

Barbara Smith: Thank you.

Coordinator: Thank you. Our next question comes from (Ed Clements). You may ask your question.

(Ed Clements): Hello. I have the question regarding governance structure of the co-ops that have been awarded and what the tone is in terms of how especially large states are dealing with the voting of members to be on the operational board?

Barbara Smith: Right. And so I think that all - for all of the ones that were awarded they all got high marks on their governance and particularly on their transition from the formation board to the development board. For even in large states, you know, basically the infrastructure is the same. They have to have elections for all of their members. They have to have contested elections. They have to at least transition to the elected board after the first year and complete it by no later than the second year.
And some of them did a particularly good job of having consumers engaged in the development side of the co-op even before elections are required which would make that transition easier.

(Ed Clements): Have any of the co-ops looked at any kind of a representative structure from different subsections of a state?

Barbara Smith: I...

(Ed Clements): We’re looking at a model where we’re taking a look at care committees coming from different regions of the state and that each of those care committees would nominate somebody to represent their region on the board?

Barbara Smith: Yes, I mean I don’t think that there would be any problem with that. It sounds like a very good approach. We - I don’t think we’ve seen that thus far. But it seems, you know, it seems like a perfectly reasonable approach particularly for a large state and or for a multistate co-op if you are operating in more than one state. And I think that’s a useful approach. And you would just need to explain it very carefully and how it would operate to ensure consumer participation on the board because it’s a different model than the review committees have seen.

(Ed Clements): Okay great.

Barbara Smith: Thank you.

Coordinator: Thank you. At this time I’m showing no further questions. Again if you’d like to ask a question at this time just press star 1. One moment please. We do have another question from (Mike Sturm). You may ask your question.

(Mike Sturm): Hi, it's me again. You've been very clear about taking apps through 12-31-12. I've heard rumors that about possibly shutting it down earlier or slowing down. Can you speak to the possibility of slowing down as the year goes on or do you anticipate going at it 100% through 12-31?

Woman: Well, since we have been going at it about 200% up to now, we anticipate continuing to go at it at 200% through 12-31.

(Mike Sturm): Good. Thank you.

Coordinator: Thank you. And at this time I’m showing no further questions.

Barbara Smith: Okay I just have just one other item. Just to emphasize again that as we become aware, as people let us know their intentions regarding re-submissions, we will be posting additional states where we are looking for activity in our frequently asked questions as that information becomes available.

Woman: Okay.

Coordinator: And at this time I’m showing no further questions.
Barbara Smith: Okay. Well thank you very much. We appreciate your assistance with the call and we very much appreciate everyone's participation in the call. Bye-bye.

Coordinator: And that does conclude today's conference. We thank you for your participation. At this time you may disconnect your line.

END