

Appendix D

Community HealthChoices Revenue Sharing

This Appendix establishes a requirement for remittance to the Department of any Realized Revenue, as defined in this Appendix, earned by a CHC-MCO in excess of three (3) percent.

The reporting requirements apply collectively to all Community HealthChoices (CHC) zone(s) in which the CHC-MCO operates under this Agreement or a previous Agreement with the Department during the applicable time period. This requirement is specific to the CHC program only and does not include revenue from any other MA managed care program in which the CHC-MCO may operate.

I. **Time Period**

The time period for purposes of reporting CHC program revenue aligns with the Department's CHC program year and the CHC program rating period. The applicable Time Period included in this Appendix will be CHC program year CY2026.

II. **Extent of Calculation**

Revenue sharing calculations will be based on CHC revenue and corresponding costs for all Rate Cells for each rating region and zone as identified in Appendix 3c. The CHC-MCO may not include revenue or costs that are not specific to the CHC program.

III. **Calculation Process**

The revenue sharing calculation will utilize information reported in each applicable annual Medical Loss Ratio Report (Annual Financial Report) for the Time Period. The Department will utilize the Department reviewed and approved Annual Financial Report for each applicable program year within the Time Period and will combine the reported amounts in each referenced section on the Annual Financial Report for each Aggregated Medicaid Eligibility Group for the applicable Time Period.

The following items reference Sections within the Annual Financial Report:

- a. **Capitation Revenue** will be based on "Total Premium Revenue" as reported in Section 4 as follows:
 - i. Capitation revenue will not include CHC-MCO quality incentive payments, such as any received CHC-MCO Nursing Facility Quality Incentive Program funds, as detailed in Exhibit DD(2), or any future Pay-for-Performance initiatives.

- ii. The MCO Assessment will be deducted from Capitation Revenue.
 - iii. Applicable Federal and Pennsylvania State taxes will be deducted from Capitation Revenue.
 - iv. If the CHC-MCO paid a MLR Remittance amount to the Department as calculated on the Annual Financial Report, the MLR Remittance amount paid by the CHC-MCO will be deducted from the Capitation Revenue.
- b. **Medical Expenses** will include paid claims and alternative method payments made by the CHC-MCO for allowable covered services rendered to Participants during the Time Period. Medical Expenses will be based on "Total Incurred Claims" as reported in Section 1. The Department may review a portion of or all of the reported Medical Expenses and may exclude Medical Expenses that do not constitute payment for State Plan services and/or allowed in lieu of services, including but not limited to:
 - i. Any allowance for Unpaid Claim Liability (UCL). The Department has full discretion to modify UCL allowances that, in the professional judgment of the Department's Actuary, overstate projected liabilities; and
 - ii. Payments to Related Parties.
- c. **Activities that improve health care quality** are reported in Section 2 and will be considered in the revenue sharing calculation in a manner consistent with the Medical Loss Ratio calculation in Appendix 3b, as long as they meet one or more of the following criteria:
 - i. CHC-MCO activity that meets requirements of 45 CFR § 158.150(b) and is not excluded under 45 CFR § 158.150(c).
 - ii. CHC-MCO activity related to any External Quality Review related activity as described in 45 CFR § 438.358(b) and (c).
 - iii. CHC-MCO expenditure that is related to Health Information Technology and meaningful use, under 45 CFR § 158.151.
- d. **Administrative Expenses** will include those administrative expenses as reported in Section 6 and determined by the Department to be an allowable program expense.
 - i. The Department will review all payments to parent companies and reserves the right to limit consideration for these payments in the profit calculation.
 - ii. The Department reserves the right to limit total Administrative Expenses to an amount based on assumptions used in the capitation rate development process for this Agreement Period.

- e. **Taxes and assessments** imposed on the CHC-MCO pursuant to law are to be included in Section 5.
- f. **Prohibited Expenses** – the following expenses will not be included as expenses under this Appendix:
 - i. Outreach activities as described in Section V.O.3 of this Agreement
 - ii. Payments described in Section VII.E.14: Prohibited Payments of this Agreement
 - iii. Claims payments covered under a non-risk arrangement(s) included in this CHC Agreement
 - iv. Premium Deficiency Reserves
 - v. Cost of advertisements in mass media
 - vi. Start-up, development or RFA expenses incurred before the Start Date on which the CHC-MCO is responsible for the provision of services to Participants
 - vii. Any expense related to exiting or terminating operations in a given zone/region under this Agreement
 - viii. Donations
 - ix. Excessive allocation of corporate overhead, as determined by the Department (see also item IV.d.i).
- g. **Percent Limit** will be the maximum retained percentage of certain CHC revenue, which is three (3) percent.
- h. **Maximum Retained Revenue**, or the amount of revenue that may be retained by the CHC-MCO, will be calculated by multiplying Capitation Revenue by the Percent Limit.
- i. **Realized Revenue** - the Department will calculate the Realized Revenue for the Time Period as follows:

	Capitation Revenue
LESS:	Medical Expenses
LESS:	Expenses for Activities that improve health care quality
LESS:	Administrative Expenses
EQUALS:	Realized Revenue
- j. **Revenue Recovery Amount** - If the Realized Revenue is greater than the Maximum Retained Revenue, the Revenue Recovery Amount will be the difference between the Realized Revenue and Maximum Retained Revenue. If this amount is greater than zero (0), then the Revenue

Recovery Amount is an obligation due from the CHC-MCO to the Department. The Department will recover this obligation due from the CHC-MCO by offsetting a future payment due to the CHC-MCO under this Agreement. The Department will notify the CHC -MCO of the future payment that will be offset in advance of that scheduled payment.

- k. **Retention of Excess Revenue** – The CHC-MCO may retain fifty percent (50%) of the Realized Revenue in excess of the Maximum Retained Revenue with express written approval from the Department if the CHC-MCO agrees to expend the remaining fifty percent (50%) of funds in excess of the Maximum Retained Revenue on initiatives that align with the Department’s goals of improving access and provider retention; investments in social determinants of health such as housing, employment and food insecurity; achieving health equity; and programs that focus on community development.
 - i. A CHC-MCO shall submit to the Department a written expenditure proposal for any funds in excess of the Maximum Retained Revenue.
 - ii. This proposal shall be submitted within thirty (30) days of receiving the preliminary calculation per Section V, below.
 - iii. After the Department accepts the CHC-MCO’s proposal, the Department will decrease the Revenue Recovery Amount to zero (0).

IV. Risk of Insolvency

If the CHC-MCO decides not to invest excess revenue as described in Section III.k of this Appendix, and the Department determines that payment of a Revenue Recovery Amount by the CHC-MCO would result in the CHC-MCO being put at significant risk of insolvency, the Department may at the Department’s discretion, waive all or a portion of the Revenue Recovery Amount owed by the CHC-MCO.

V. Communication and Timing of Revenue Sharing Administration

The Department will notify each CHC-MCO of the preliminary revenue sharing calculation and associated Revenue Recovery Amount within ninety (90) days following the date the Department completes the review and approves the Annual Financial Report for CY2026. The CHC-MCO will have thirty (30) days from the notification date to provide additional documentation or supplemental information to the Department regarding the calculation, including the reported amounts in the Annual Financial Report. The

Department will have up to sixty (60) days to review the additional documentation and supplemental information submitted by the CHC-MCO and to finalize the Revenue Recovery Amount calculation. If the Revenue Recovery Amount is greater than zero (0), the Department will recover this amount per Section IV of this Appendix.

VI. Final Revenue Sharing Notification and Remittance

The Department will provide the CHC-MCO with written notification of the final Revenue Recovery Amount and the date when the amount due to the Department will be recovered, if applicable.

VII. Documentation of CHC-MCO Expenses

At the request of the Department, the CHC-MCO shall make available all books, accounts, documents, files and information that relate to the CHC-MCO's transactions within ten (10) business days after the request was made. The CHC-MCO shall cooperate with the Department and any representatives of the Department.

VIII. Continuation

If CMS issues regulation(s) that revises or replaces the requirements in this appendix, the revised or replacement requirements will apply. The Department at its discretion may choose to waive any or all requirements of this Appendix. If the requirements of this Appendix are waived in full or in part, the Department will notify the CHC-MCO in writing of the waived Sections.