Statutory Issue Paper No. 107

Certain Health Care Receivables and Receivables Under Government Insured Plans

STATUS
Finalized August 8, 2001

Original SSAP and Current Authoritative Guidance: SSAP No. 84

Type of Issue:
Common Area

SUMMARY OF ISSUE

1. *SSAP No. 4—Assets and Nonadmitted Assets* (SSAP No. 4) provides the definition of admitted and nonadmitted assets.

2. Pharmaceutical rebates are arrangements between pharmaceutical companies and reporting entities in which the reporting entities receive rebates based upon the drug utilization of its subscribers at participating pharmacies. Reporting entities use different ways to record pharmacy rebates on their financial statements. These rebates are sometimes recorded as receivables by reporting entities using estimates based upon historical trends which should be adjusted to reflect significant variables involved in the calculation, such as number of prescriptions written/filled, type of drugs prescribed, use of generic vs. brand-name drugs, etc. In some cases, the reporting entity determines the amount of the rebate due based on the actual use of various prescription drugs during the accumulation period and then invoices the pharmaceutical company. In other cases, an affiliated or unaffiliated pharmacy benefits management company may determine the amount of the rebate based on a listing (of prescription drugs filled) prepared for the reporting entity's review. The reporting entity will confirm the listing and the pharmaceutical rebate receivable. The pharmacy benefits management company will then collect the amount due from the pharmaceutical company for remittance to the reporting entity. Some reporting entities do not participate in rebate arrangements at all but receive similar benefits through contracted discounts on pharmaceutical purchases. Current statutory accounting guidance does not specifically address the admittance of pharmaceutical rebates.

3. Claim overpayments may occur as a result of several events, including but not limited to claim payments made in error to a provider. Reporting entities often establish receivables for claim overpayments. Claim overpayments may meet the conditions for the right of offset as defined in *SSAP No. 64—Offsetting and Netting of Assets and Liabilities* (SSAP No. 64). Since claim overpayments are not specifically identified as an admitted asset within the Accounting Practices and Procedures Manual effective January 1, 2001 they would be reported as nonadmitted.

4. A health entity may make loans or advances to large hospitals or other providers. Such loans or advances are supported by legally enforceable contracts and are generally entered into at the request of the provider. In many cases, loans or advances are paid monthly and are intended to represent one month of fee-for-service claims activity with the respective provider. At least for large hospitals with many sources of cash flow, an offset for these loans and advances exists in the reporting entity's combined reported and unreported claims liability and claims reserve. Additionally, such loans and advances are generally reconciled quarterly against actual claim utilization (allowing for adequate run-out of such claims) pursuant to contractual terms. In such cases, the reconciled differences are settled and the advance payments for future months may be adjusted based upon the materiality of reconciled differences. Current

statutory guidance in *SSAP No. 25—Accounting for and Disclosures about Transactions with Affiliates and Other Related Parties* (SSAP No. 25) is limited to loans and advances to related parties.

5. The glossary to the statements of statutory accounting principles contained in the Accounting Practices and Procedures Manual effective January 1, 2001, defines a capitation arrangement as a compensation plan used in connection with some managed care contracts in which a physician or other medical provider is paid a flat amount, usually on a monthly basis, for each subscriber who has elected to use that physician or medical provider. Risk-sharing agreements are contracts between reporting entities and providers with a risk-sharing element based upon

immaterial amounts of furniture, fixtures, equipment, or supplies, can be expensed when purchased.

10. Pharmaceutical rebate receivables, claim overpayment receivables, loans and advances to

Claim Overpayment Receivables

16. A claim overpayment shall not be recorded as a receivable until invoiced. To the extent that the claim overpayment meets the setoff conditions in SSAP No. 64 and the overpayment is a specific identifiable payment and not an estimate, the receivable may be admitted up to the amount of the payable to the provider for reported claims (i.e., excluding incurred but not reported claims). The receivable and payable shall be reported gross rather than netted on the balance sheet. Evaluation of the collectibility of claim overpayment receivables shall be made periodically. If in accordance with SSAP No. 5, it is probable the balance is uncollectible, any uncollectible receivable shall be written off and charged to income in the period the determination is made. Amounts in excess of that written off that do not meet the right of offset conditions shall be nonadmitted as they are not available to satisfy policyholder obligations.

Loans and Advances to Providers

17. Loans or advances to providers who meet the definition of related parties in SSAP No. 25 shall follow the guidance in that statement. To the extent a loan or advance to a non-related party provider

Disclosures

26. The financial statements shall disclose the method used by the reporting entity to estimate pharmaceutical rebate receivables. Furthermore, for the most recent three years and for each quarter therein, the reporting entity shall also disclose the following:

a. Estimated balance of pharmacy rebate receivables as reported on the financial statements;
b. Pharmacy rebates as invoiced or confirmed in writing; and
c. Pharmacy rebates collected.

An example of this disclosure is shown in Exhibit A to this issue paper.

27. The financial statements shall disclose the method used by the reporting entity to estimate its risk-sharing receivables. If any receivable and payable balances with the same provider are netted, the reporting entity shall disclose the gross receivable and payable balances in the notes to the financial

c. The reporting party intends to setoff; and

d. The right of setoff is enforceable at law.

35. SSAP No. 25 paragraphs 7 and 8 include the following guidance for loans or advances by a reporting entity:

> 7. Loans or advances by a reporting entity to all other related parties shall be evaluated by management and nonadmitted if they do not constitute arm's-length transactions as defined in paragraph 10. Loans or advances made by a reporting entity to related parties (other than its parent or principal owner) that are economic transactions as defined in paragraph 10 shall be admitted. This includes financing arrangements with providers of health care services with whom the reporting entity contracts with from time to time. Such arrangements can include both loans and advances to these providers. Evaluation of the collectibility of loans or advances shall be made periodically. If, in accordance with SSAP No. 5, it is probable the balance is uncollectible, any uncollectible receivable shall be written off and charged to income in the period the determination is made.
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> 8. Any advances under capitation arrangements made directly to providers, or to intermediaries that represent providers, that exceed one month's payment shall be nonadmitted assets.

Generally Accepted Accounting Principles

36. The AICPA Audit and Accounting Guide: Health Care Organizations states the following:

> 5.01. Receivables may include amounts due for (*a*) health care services from patients, residents, third-party payors, and employers; (*b*) premiums and stop-loss insurance recoveries; (*c*) intercompany transactions; (*d*) promises to give in future periods (pledges); and (*e*) amounts due from employees, physicians, or others. All loans, such as loans to physicians, should be evaluated periodically for impairment. Loans that are included in the scope of *FASB Statement No. 114*, *Accounting by Creditors for Impairments of a Loan*, should be evaluated based on the provisions of that statement. A loan is impaired when, based on current information and events, it is probable that the provider will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the loan agreement. If the provider measures an impaired loan using a present value amount, the creditor should calculate that present value based on an estimate of the expected future cash flows of the impaired loan, discounted at the loan's effective interest rate.

RELEVANT LITERATURE

Statutory Accounting

- Statutory Accounting Principles Statement of Concepts and Statutory Hierarchy
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ISSUE PAPER NO. 107 – EXHIBIT A – ILLUSTRATION OF PHARMACEUTICAL REBATE RECEIVABLES
(000 omitted)

Quarter	Estimated Pharmacy Rebates as Reported on Financial Statements	Pharmacy Rebates as Invoiced/ Confirmed	Actual Rebates Collected Within 90 Days of Invoicing/ Confirmation	Actual Rebates Collected Within 91 to 180 Days of Invoicing/ Confirmation	Actual Rebates Collected More Than 180 Days After Invoicing/ Confirmation

ISSUE PAPER NO. 107 – EXHIBIT B – ILLUSTRATION OF RISK-SHARING RECEIVABLES
(000 omitted)

Calendar Year	Evaluation Period Year Ending	Risk-Sharing Receivable as Estimated and Reported in the Prior Year	Risk-Sharing Receivable as Estimated and Reported in the Current Year