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September 6, 2019

The Honorable Stephen Meredith
Co-Chairman, Medicaid Oversight and Advisory Committee
702 Capital Avenue, Room 229
Frankfort, KY 40601

Dear Senator Meredith:

Thank you for inviting Passport Health Plan (Passport) to present before the Medicaid Oversight and Advisory Committee on September 9, 2019 to discuss Passport's financial position, and our ability to meet the needs of Kentucky's Medicaid recipients.

As we recently discussed, I have been looking forward to seeing you again and sharing a thorough and transparent account of Passport's financial position. When we talked, I noted there is currently an ongoing RFP 758 1900000093 ("RFP") procurement to which Passport has responded. As is customary in Commonwealth procurements, a "blackout period" is currently in effect, imposed by the Commonwealth's Procurement office. Entities responding to the procurement should communicate only through a designated contact at the procurement office for matters pertaining to the RFP.

Although, I have been preparing to attend the upcoming hearing in person, I have consulted with Passport's legal and compliance executives and we have determined that in order to avoid any actual or perceived non-compliance with the RFP terms, I will be unable to attend the September 9, 2019 hearing.

In order to remain compliant with Commonwealth procurement rules and regulations, I've elected to write a response for your and the Committee's review while the current RFP remains under review. We are willing to speak with you on this matter and answer your questions but the timing of such public discussions and testimony is problematic and places Passport at risk. I would be happy to present at a hearing after the awards are announced this fall. Until then, I hope the information provided in this letter satisfies the needs of the Committee in lieu of my in-person participation. We are confident that the information provided herein should satisfy your inquiry until such time that we are able to delve into more detail with your Committee after the RFP process has concluded.

Introduction

By way of background, the Passport board of directors hired me this spring to make adjustments based on my 20 years of healthcare experience, more than 10 of which were in President or CEO roles at Medicaid health plans. I focused my career on improving access and quality care to the most underserved and fragile populations within the government health care space.

On January 23, 2019 at the Interim Joint Committee on Health, Welfare and Family Services, Passport's prior leadership reported that premium rate changes to the Managed Care Organizations (MCOs) created pressures on the health plan. I am pleased to report that Passport is in a significantly stronger financial standing today. Over the past months, we have made transformational adjustments to the organization.



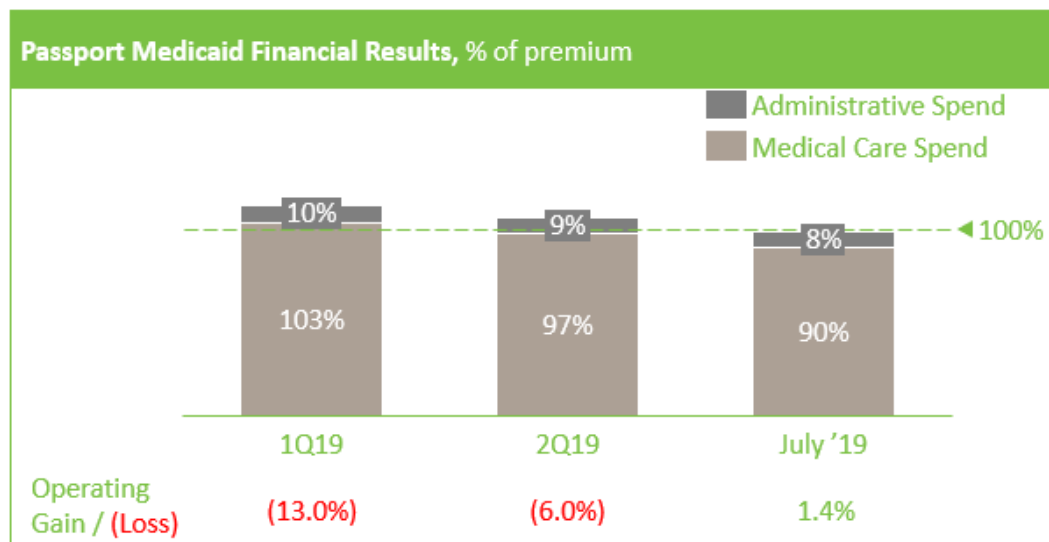
Below, I will outline how Passport has resolved the concerns regarding our financial stability that were reported to the Committee on Health and Welfare and Family Services in January 2019. A combination of capability and infrastructure investments over the past two years and additional initiatives put in place during 2019 are driving the transformation of Passport's financial performance.

Operating Margin Improvement

The forthcoming financial details presuppose Passport's primary objective to support the best possible care for Kentuckians so that we can improve health outcomes as a Commonwealth.

Passport's financial results are significantly improved and put the plan on stable financial footing. Passport is beginning to see results from infrastructure and capability investments made over the past two years. We are also beginning to see savings from performance initiatives implemented during 2019. As a result of these factors, as well as rate increases and risk adjustments, our operating margin improved from Q1 2019 to Q2 2019. As an important reflection of our transformation, the month of July 2019 showed further improvement and the first positive operating margin in about a year, as outlined in the chart below.

Chart 1: Passport Medicaid Financial Results for Q1, Q2, and July 2019



Our positive operating margin for July 2019 demonstrates a dramatic turnaround of over 14 points from Q1 2019. It is a 20-point improvement from the month of January. Most importantly, we continue to track along the path that we projected for the Department of Insurance (DOI). We have been working closely with the DOI to show the health plan remains well-capitalized and maintains strong financial reserves.

Performance Drivers

About half of the 2019 financial performance improvement is attributed to the state payment rate increase and risk adjustment that took effect April 1, 2019 and July 1, 2019. We appreciate that the Commonwealth's independent actuaries have been collaborative with the MCOs to develop rates that more closely reflect medical trends.

The remainder of Passport's financial improvement is the result of our intense focus on reducing the plan's administrative costs and ensuring the investment in medical care remains at sustainable levels relative to total



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premium. These improvements are the result of initiatives enacted within this year, as well as payoff from prior long-term investments. These long-term infrastructure improvements have been focused on:

1. Expanding our efforts to better manage the health of our members through an extensive and holistic population health approach and infrastructure.
2. Tightening our operating costs that were already low relative to industry benchmarks.
3. Expanding our efforts to collaborate with and support providers in their transition to value-based care.

The financial improvements Passport has achieved from ongoing investments and new performance initiatives can be broken out by their impact on administrative and medical cost.

Administrative Cost

In 2019 we have seen improvement in our administrative cost structure. Despite starting from a low administrative cost baseline, Passport has seen a double-digit percent reduction in administrative cost compared to one year ago. These improvements are the result of both reductions in fees Passport pays to its subcontractors, including our largest sub-contractor, and generating additional administrative efficiencies in the health plan staffing model and general administrative costs. Our current administrative spend is close to 8 cents on the dollar.

Medical Cost

With respect to spending on health care services, Passport has been highly focused on fully scaling and expanding care management. We have seen a reduction in medical trend, largely driven by a material reduction in unnecessary inpatient utilization as a result of our clinical approach.

Targeted clinical community-based initiatives have contributed to the financial health of Passport. As I look now at how to best serve our members, I am confident that Passport is meeting their needs within the predictable revenue provided by the state.

Conclusion

In summary, Passport is on stable footing, and in a stronger financial position today. We will continue to prioritize and improve upon our strengths and address areas where we have opportunities.

Thank you for the opportunity to provide this update on Passport's financial position. I look forward to traveling to the Committee members' home districts to introduce myself and to speak at a future Medicaid Oversight and Advisory Committee hearing.

Sincerely,

A handwritten signature in black ink, appearing to read "Scott A. Bowers".

Scott A. Bowers
Chief Executive Officer and President, Passport Health Plan



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Cc: Medicaid Oversight and Advisory Committee

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