Take a look at the attached…I did a couple things here. First, I think I recreated in Excel the methodology that you described. I also added a couple rows to show the net effect of this withhold/bonus policy on a "% of premiums" and a "per member month" basis, since I think they're helpful for comparison's sake. Then I highlighted one dark blue cell, which shows the net effect of this policy on the agency's bottom line. My attempt to recreate the current model is Tab V2.

Take a quick look at the other tabs, though. I took the same methodology and tested it against alternate numbers of failures and successes for the plans. In V2A, I made each plan's performance marginally better (fewer failures and more successes) – the net effect is that we would actually have to pay out $3.4M more than the total amount we withheld in the first place. Then in V2B, I didn't change Select Health at all, but made the performance for both of the other plans a little better. In this case, we also had to pay more than we originally withheld, but in this case, only by about $100k.

Tab V2C is especially interesting because the only change I made was to take Select Health from one "< 25th" failure to two of them…in this case, they go from earning $2.9M to losing $5.1M.

I point this out, first just to see if I understand the methodology correctly, but then, to make a couple of observations:

•You don't have to be too creative to come up with a set of (in some cases, fairly likely) scenarios in which we ultimately pay out more than the total amount originally withheld, which I suspect we don't

really want to do. For instance, if Absolute Total Care would have had one <25th measure instead of three and there were no other changes in performance for the other plans, that one change alone would have wiped out the $3.4M that the agency would retain under the current model.

•The "nightmare" scenario (from a financial, not a performance standpoint) would be one in which each plan had no failures and 16 successes, in which case they would receive the full original 1.5% withhold back, plus an extra 1.5% in bonus payments (another $19.7M). Performance will never actually be that uniformly good, but at the same time - that's a lot of extra risk we'd be taking on at that point.

•The Critical Fail cliff is probably too steep right now. If Select Health would have had one more measure in the <25th category, it would have cost them $8M, which feels like too much when you look at how gradual much of the rest of the model is.

If that math is right and you interpret this the same way, then I have a couple ideas about how we might tweak this, which I can run by you when you have a couple minutes to discuss. Thanks.

CLS