# AHIP

## Exam Questions AHM-520

Health Plan Finance and Risk Management

**NEW QUESTION 1**
- (Topic 1)
A health plan that capitates a provider group typically provides or offers to provide stop-loss coverage to that provider group.

A. True
B. False

**Answer:** A

**NEW QUESTION 2**
- (Topic 1)
Under the alternative funding method used by the Flair Company, Flair assumes financial responsibility for paying claims up to a specified level and deposits the funds necessary to pay these claims into a bank account that belongs to Flair. However, an insurer, which acts as an agent of Flair, makes the actual payment of claims from this account. When claims exceed the specified level, the insurer pays the balance from its own funds. No state premium tax is levied on the amounts that Flair deposits into this bank account.
From the following answer choices, choose the name of the alternative funding method described.

A. Retrospective-rating arrangement
B. Premium-delay arrangement
C. Reserve-reduction arrangement
D. Minimum-premium plan

**Answer:** D

**NEW QUESTION 3**
- (Topic 1)
The following statements illustrate the use of different rating methods by health plans:
? The Dover health plan established rates for small groups by using a rating method which requires that the average premium in each group cannot be more than 120% of the average premium for any other group. Under this method, all members of each group pay the same premium, which is based on the experience of the group.
? Under the rating method used by the Rolling Hills health plan, the health plan
calculates the ratio of a group's experience to the group's historical manual rate. Rolling Hills then multiplies this ratio by the group's future manual rate. Rolling Hills cannot consider the group's experience in determining premium rates.
From the following answer choices, select the response that correctly indicates the rating methods used by Dover and Rolling Hills.

A. Dover = modified community rating Rolling Hills = factored rating
B. Dover = modified community rating Rolling Hills = adjusted community rating (ACR)
C. Dover = community rating by class (CRC) Rolling Hills = factored rating
D. Dover = community rating by class (CRC) Rolling Hills = adjusted community rating (ACR)

**Answer:** D

**NEW QUESTION 4**
- (Topic 1)
The Brookhaven Company is the parent company of two subsidiaries: an HMO and an insurance company. The headings on Brookhaven's financial statements read "Consolidated Financial Statements of Brookhaven Company." From the following answer choices, select the response that correctly indicates, under the entity concept, whether the HMO and the insurance company are accounted for as separate entities and whether the subsidiaries' financial results would be included in Brookhaven's consolidated financial statements.

A. Accounted for as Separate Entities? = yes Results Included in Brookhaven's Statements? = yes
B. Accounted for as Separate Entities? = yes Results Included in Brookhaven's Statements? = no
C. Accounted for as Separate Entities? = noResults Included in Brookhaven's Statements? = yes
D. Accounted for as Separate Entities? = no Results Included in Brookhaven's Statements? = no

**Answer:** A

**NEW QUESTION 5**
- (Topic 1)
The Caribou health plan is a for-profit organization. The financial statements that Caribou prepares include balance sheets, income statements, and cash flow statements. To prepare its cash flow statement, Caribou begins with the net income figure as reported on its income statement and then reconciles this amount to operating cash flows through a series of adjustments. Changes in Caribou's cash flow occur as a result of the health plan's operating activities, investing activities, and financing activities.
To prepare its cash flow statement, Caribou uses the direct method rather than the indirect method.

A. True
B. False

**Answer:** B

**NEW QUESTION 6**
- (Topic 1)
If the Ascot health plan's accountants follow the going-concern concept under GAAP, then these accountants most likely

A. Assume that Ascot will pay its liabilities immediately or in full during the current accounting period
B. Defer certain costs that Ascot has incurred, unless these costs contribute to the healthplan's future earnings
C. Assume that Ascot is not about to be liquidated, unless there is evidence to the contrary

D. Value Ascot's assets more conservatively than they would under SAP

**Answer:** C

**NEW QUESTION 7**
- (Topic 1)
The Zane health plan uses a base of accounting known as accrual-basis accounting. With regard to this base of accounting, it can correctly be stated that accrual-basis accounting

A. Enables an interested party to view the consequences of obligations incurred by Zane, but only if the health plan ultimately completes the business transaction
B. Is not suitable for measuring Zane's profitability
C. Requires Zane to record revenues when they are earned and expenses when they are incurred, even if cash has not actually changed hands
D. Prohibits Zane from making adjusting entries to its accounting records at the end of each accounting year

**Answer:** C

**NEW QUESTION 8**
- (Topic 1)
This concept, which holds that a company should record the amounts associated with its business transactions in monetary terms, assumes that the value of money is stable over time. This concept provides objectivity and reliability, although its relevance may fluctuate.
From the following answer choices, choose the name of the accounting concept that matches the description.

A. Measuring-unit concept
B. Full-disclosure concept
C. Cost concept
D. Time-period concept

**Answer:** A

**NEW QUESTION 9**
- (Topic 1)
Under the doctrine of corporate negligence, a health plan and its physician administrators may be held directly liable to patients or providers for failing to investigate adequately the competence of healthcare providers whom it employs or with whom it contracts, particularly where the health plan actually provides healthcare services or restricts the patient's/enrollee's choice of physician.

A. True
B. False

**Answer:** A

**NEW QUESTION 10**
- (Topic 1)
The sentence below contains two pairs of words enclosed in parentheses. Determine which word in each pair correctly completes the statement. Then select the answer choice containing the two words that you have chosen. Purchasing stop-loss coverage most likely (increases / reduces) a health plan's underwriting risk and (increases / reduces) the health plan’s affiliate risk.

A. increases / increases
B. increases / reduces
C. reduces / increases
D. reduces / reduces

**Answer:** C

**NEW QUESTION 10**
- (Topic 1)
The Fiesta Health Plan prices its products in such a way that the rates for its products are reasonable, adequate, equitable, and competitive. Fiesta is using blended rating to calculate a premium rate for the Murdock Company, a large employer. Fiesta has assigned a credibility factor of 0.6 to Murdock. Fiesta has also determined that Murdock's manual rate is $200 PMPM and that Murdock's experience rate is $180 PMPM.
According to regulations, Fiesta's premium rates are reasonable if they

A. vary only on the factors that affect Fiesta's costs
B. are at a level that balances Fiesta's need to generate a profit against its need to obtain or retain a specified share of the market in which it conducts business
C. are high enough to ensure that Fiesta has enough money on hand to pay operating expenses as they come due
D. do not exceed what Fiesta needs to cover its costs and provide the plan with a fair profit

**Answer:** D

**NEW QUESTION 14**
- (Topic 1)
The following statements indicate the pricing policies of two health plans that operate in a particular market:
? The Accent Health Plan consistently underprices its product
? The Bolton Health Plan uses extremely strict underwriting practices for the small groups to which it markets its plan
From the following answer choices, select the response that correctly indicates the most likely market effects of the pricing policies used by Accent and Bolton.

A. Accent = unprofitable business Bolton = high acquisition rate
B. Accent = unprofitable business Bolton = low acquisition rate
C. Accent = high profits Bolton = high acquisition rate

D. Accent = high profits Bolton = low acquisition rate

**Answer:** B

**NEW QUESTION 16**
- (Topic 1)
The physicians who work for the Sunrise Health Plan, a staff model HMO, are paid a salary that is not augmented with another type of incentive plan. Compared to the use of a traditional reimbursement method, Sunrise's use of a salary reimbursement method is more likely to

A. Encourage Sunrise's physicians to perform services that are not medically necessary
B. Completely eliminate service risk for Sunrise's physicians
C. Decrease Sunrise's liability for any negligent acts of the physicians in the plan's network of providers
D. Help stabilize expenses for Sunrise

**Answer:** D

**NEW QUESTION 19**
- (Topic 1)
If Grace Wilson is eligible for benefits under both the Medicare and Medicaid programs, then

A. Medicare is M
B. Wilson's primary insurer
C. A Medicare- or Medicaid-contracting health plan is allowed to lock-in M
D. Wilson's enrollment for a maximum period of 24 months
E. The BBA requires the state to guarantee M
F. Wilson's eligibility for a minimum of 18 months once she enrolls in a health plan network
G. M
H. Wilson can only receive Medicare- or Medicaid-covered services from a provider who participates in a health plan network

**Answer:** A

**NEW QUESTION 21**
- (Topic 1)
The Caribou health plan is a for-profit organization. The financial statements that Caribou prepares include balance sheets, income statements, and cash flow statements. To prepare its cash flow statement, Caribou begins with the net income figure as reported on its income statement and then reconciles this amount to operating cash flows through a series ofadjustments. Changes in Caribou's cash flow occur as a result of the health plan's operating activities, investing activities, and financing activities.
The basic formula for Caribou's income statement is

A. Cash Inflows – Cash Outflows = Net Cash Inflow (Outflow)
B. Revenues – Expenses = Net Income (Net Loss)
C. Sources of Funds – Uses of Funds = Net Change in Cash
D. Assets = Liabilities + Owners' Equity

**Answer:** B

**NEW QUESTION 25**
- (Topic 1)
The Newfeld Hospital has contracted with the Azalea Health Plan to provide inpatient services to Azalea's enrolled members. The contract calls for Azalea to provide specific stop-loss coverage to Newfeld once Newfeld's treatment costs reach $20,000 per case and for Newfeld to pay 20% of the next $50,000 of expenses for this case. After Newfeld's treatment costs on a case reach $70,000, Azalea reimburses the hospital for all subsequent treatment costs.
The maximum amount for which Newfeld is at risk for any one Azalea plan member's treatment costs is

A. $10,000
B. $14,000
C. $30,000
D. $34,000

**Answer:** C

**NEW QUESTION 27**
- (Topic 2)
The Montvale Health Plan purchased a piece of real estate 20 years ago for $40,000. It recently sold the real estate for $80,000 and reported a capital gain of $40,000 on this sale. Even though the purchasing power of the dollar declined by half during this period and Montvale realized no actual gain in purchasing power, Montvale recorded in its accounting records the $40,000 gain from this sale. This situation best illustrates the accounting concept known as the:

A. Measuring-unit concept
B. Time-period concept
C. Full-disclosure concept
D. Concept of periodicity

**Answer:** A

**NEW QUESTION 32**
- (Topic 2)
The Jamal Health Plan operates in a state that mandates that a health plan either allow providers to become part of its network or reimburse those providers at the health plan’s negotiated-contract rate, so long as the non-contract provider is willing to perform the services at the contract rate. This type of law is known as:

A. A fair procedure law
B. A direct access law
C. An any willing provider law
D. A due process law

**Answer:** C

**NEW QUESTION 35**
- (Topic 2)
The Titanium health plan's product has a unit price of $120 PMPM and a unit variable cost of $80 PMPM. Titanium has $100,000 in fixed costs per month. This information indicates that, for its product, Titanium's

A. Unit contribution margin is $80
B. Unit contribution margin is $200
C. Break-even point is 500 members
D. Break-even point is 2,500 members

**Answer:** D

**NEW QUESTION 36**
- (Topic 2)
One way that a health plan can protect itself against case stripping is by requiring:

A. Employees covered by a small group plan to contribute 100% of the cost of the healthcare coverage
B. The small group to have no more than 10 members
C. A minimum level of participation in order for a small group to be eligible for healthcare coverage
D. Its underwriters to consider the characteristics of the employer, but not of the group members, when underwriting the group

**Answer:** C

**NEW QUESTION 38**
- (Topic 2)
A health plan can use a SWOT (strengths, weaknesses, opportunities, and threats) analysis to analyze its relationships with the major providers in each market in which it conducts business.

A. True
B. False

**Answer:** A

**NEW QUESTION 42**
- (Topic 2)
Correct statements about the financial risks associated with benefits that health plans provide to the Medicare and Medicaid markets include:

A. That, because the government sets the payments received by health plans, the health plans cannot easily obtain an increase in those payments even in the face of rising costs
B. That regulators determine which services must be provided under Medicare and Medicaid and which persons are eligible to enroll in a plan
C. That there is typically more provider reluctance to accept risk in connection withproviding services to the Medicaid population than with providing services to the Medicare population
D. All of the above

**Answer:** D

**NEW QUESTION 43**
- (Topic 2)
Costs that can be defined by behavior are most commonly classified as fixed costs, variable costs, and semi-variable costs. From the following answer choices, select the response that correctly indicates a fixed cost and a variable cost for a health plan.

A. Fixed Cost = depreciation on computer equipment Variable Cost = selling expenses
B. Fixed Cost = premium processing expenses Variable Cost = rent on a regional office
C. Fixed Cost = the cost for building maintenance Variable Cost = the cost for electricity
D. Fixed Cost = the cost for electricityVariable Cost = fire insurance on the home office facility

**Answer:** A

**NEW QUESTION 44**
- (Topic 2)
The theory of vicarious liability or ostensible agency can expose a health plan to the risk that it could be held liable for the acts of independent contractors. Factors that may give rise to the assumption that an agency relationship exists between a health plan and its independent contractors include:

A. Requiring the providers to supply their own office space
B. Employing nurses and other healthcare professionals to support the physician providers
C. Requiring providers to maintain their own medical records
D. All of the above

**Answer:** B

**NEW QUESTION 49**
- (Topic 2)
The following information was presented on one of the financial statements prepared by the Rouge Health Plan as of December 31, 1998:

This type of financial statement is called:

A. A balance sheet
B. An income statement
C. A statement of owners' equity
D. A cash flow statement

**Answer:** C

**NEW QUESTION 50**
- (Topic 2)
One difference between the internal and external analysis of a health plan's financial information is that

A. Internal analysis of the health plan can be more detailed and more specific than can external analysis
B. Internal analysts are more likely than external analysts to want comparative financial data about the health plan
C. Only internal analysts use trend analysis to analyze the health plan's financial statements
D. Only internal analysts typically conduct the financial analysis of the health planthemselves

**Answer:** A

**NEW QUESTION 54**
- (Topic 2)
The Puma health plan uses return on investment (ROI) and residual income (RI) to measure the performance of its investment centers. Two of these investment centers are identified as X and Y. Investment Center X earns $10,000,000 in operating income on controllable investments of $50,000,000, and it has total revenues of $60,000,000. Investment Center Y earns $2,000,000 in operating income on controllable investments of $8,000,000, and it has total revenues of $10,000,000. Both centers have a minimum required rate of return of 15%.
The following statements are about Puma's evaluation of these investment centers. Select the answer choice containing the correct statement.

A. Investment Center Y's RI is greater than Investment Center X's RI.
B. The ROI for Investment Center X is 16.7%, and the ROI for Investment Center Y is 20.0%.
C. Because Investment Centers X and Y are different sizes, Puma should not use ROI to compare these investment centers.
D. According to the evaluation of ROI, Investment Center Y achieves a higher return on its available resources than does Investment Center X.

**Answer:** D

**NEW QUESTION 59**
- (Topic 2)
The Lindberg Company has decided to terminate its group healthcare coverage with the Benson Health Plan. Lindberg has several former employees who previously experienced qualifying events that caused them to lose their group coverage. One federal law allows these former employees to continue their group healthcare coverage. From the answer choices below, select the response that correctly identifies the federal law that grants these individuals with the right to continue group healthcare coverage, as well as the entity which is responsible for continuing this coverage:

A. Federal law: Consolidated Omnibus Budget Reconciliation Act (COBRA) Entity: Lindberg
B. Federal law: Consolidated Omnibus Budget Reconciliation Act (COBRA) Entity: Benson
C. Federal law: Employee Retirement Income Security Act (ERISA) Entity: Lindberg

D. Federal law: Employee Retirement Income Security Act (ERISA) Entity: Benson

**Answer:** A

**NEW QUESTION 63**
- (Topic 2)
The Amethyst Health Plan uses a budgeting approach that requires each line of business within Amethyst's operation to justify its continued operation. Amethyst begins with the premise that no resources will be allocated for the following period unless each dollar to be spent is justified and is shown to be within departmental plans and corporate goals and objectives. The budgeting approach used by Amethyst is known as:

A. Bottom-up budgeting
B. Top-down budgeting
C. Zero-based budgeting
D. Master budgeting

**Answer:** C

**NEW QUESTION 68**
- (Topic 2)
The following information relates to the Hardcastle Health Plan for the month of June:
? Incurred claims (paid and IBNR) equal $100,000
? Earned premiums equal $120,000
? Paid claims, excluding IBNR, equal $80,000
? Total health plan expenses equal $300,000
This information indicates that Hardcastle's medical loss ratio (MLR) for the month of June was approximately equal to:

A. 40%
B. 67%
C. 83%
D. 120%

**Answer:** C

**NEW QUESTION 69**
- (Topic 2)
Health plans have access to a variety of funding sources depending on whether they are operated as for-profit or not-for-profit organizations. The Verde Health Plan is a for-profit health plan and the Noir Health Plan is a not-for-profit health plan. From the answer choices below, select the response that correctly identifies whether funds from debt markets and equity markets are available to Verde and Noir:

A. Funds from Debt Markets: available to Verde and Noir Funds from Equity Markets: available to Verde and Noir
B. Funds from Debt Markets: available to Verde and Noir Funds from Equity Markets: available to Verde only
C. Funds from Debt Markets: available to Verde only Funds from Equity Markets: available to Noir only
D. Funds from Debt Markets: available to Noir only Funds from Equity Markets: available to Verde only

**Answer:** B

**NEW QUESTION 73**
- (Topic 2)
The Fairway health plan is a for-profit health plan that issues stock. The following data was taken from Fairway's financial statements:
? Current assets.....$5,000,000
? Total assets.....6,000,000
? Current liabilities.....2,500,000
? Total liabilities.....3,600,000
? Stockholders' equity.....2,400,000
Fairway's total revenues for the previous financial period were $7,200,000, and its net income for that period was $180,000.
For the previous financial period, Fairway's net profit margin was

A. 2.50%
B. 3.00%
C. 3.60%
D. 7.50%

**Answer:** A

**NEW QUESTION 77**
- (Topic 2)
The Danner Bank loaned money to the CareWell Health Plan to fund an expansion of a healthcare facility. With respect to the type of financial information user Danner represents to CareWell, it is correct to say that Danner is an:

A. Internal user with a direct financial interest
B. Internal user with an indirect financial interest
C. External user with a direct financial interest
D. Case-mix adjustment

**Answer:** C

**NEW QUESTION 80**

- (Topic 2)
The Arista Health Plan is evaluating the following four groups that have applied for group healthcare coverage:
? The Blaise Company, a large private employer
? The Colton County Department of Human Services (DHS)
? A multiple-employer group comprised of four companies
? The Professional Society of Daycare Providers
With respect to the relative degree of risk to Arista represented by these four companies, the company that would most likely expose Arista to the lowest risk is the:

A. Blaise Company
B. Colton County DHS
C. Multiple-employer group
D. Professional Society of Daycare Providers

**Answer:** A

**NEW QUESTION 83**
- (Topic 2)
The following statements are about the Health Insurance Portability and Accountability Act (HIPAA) as it relates to the small group market. Three of these statements are true and one statement is false. Select the answer choice containing the FALSE statement:

A. A health plan that participates in the small group market is required to issue a contract to any employer that requests healthcare benefits, as long as the employer meets the statutory definition of a small group.
B. A small group must consist of more than 10 employees in order to be underwritten on a group, rather than an individual, basis.
C. A health plan is prohibited from canceling a small group’s healthcare coverage because of poor claims experience.
D. A health plan that participates in the small group market is limited in placing restrictions such as waiting periods and pre-existing conditions exclusions to individuals in high risk categories.

**Answer:** B

**NEW QUESTION 85**
- (Topic 2)
The following statement(s) can correctly be made about a health plan's cash receipts and cash disbursements budgets:

A. To predict both the timing and the amount of its cash receipts, a health plan constructs the cash receipts budget using data from its sales forecast and investment forecasts.
B. A health plan uses a cash disbursements budget in order to establish the amount, but not the timing, of all of its cash disbursements.
C. Both A and B
D. A only
E. B only
F. Neither A nor B

**Answer:** B

**NEW QUESTION 87**
- (Topic 2)
The amount of risk for health plan products is dependent on the degree of influence and the relationships that the health plan maintains with its providers. Consider the following types of managed care structures:
? Preferred provider organization (PPO)
? Group model HMO
? Staff model health maintenance organization (HMO)
? Traditional health insurance
Of these health plan products, the one that would most likely expose a health plan to the highest risk is the:

A. preferred provider organization (PPO)
B. group model HMO
C. staff model health maintenance organization (HMO)
D. traditional health insurance

**Answer:** C

**NEW QUESTION 88**
- (Topic 2)
The Puma health plan uses return on investment (ROI) and residual income (RI) to measure the performance of its investment centers. Two of these investment centers are identified as X and Y. Investment Center X earns $10,000,000 in operating income on controllable investments of $50,000,000, and it has total revenues of $60,000,000. Investment Center Y earns $2,000,000 in operating income on controllable investments of $8,000,000, and it has total revenues of $10,000,000. Both centers have a minimum required rate of return of 15%.
One likely way in which Investment Center X or Y could effectively increase its ROI is by

A. Focusing only on increasing its total revenues
B. Increasing its controllable investments
C. Increasing total revenues, accompanied by a proportionate increase in operating income
D. Increasing expenses in order to increase operating income

**Answer:** C

**NEW QUESTION 90**
- (Topic 2)

An investor deposited $1,000 in an interest-bearing account today. That sum will accumulate to $1,200 two years from now. One true statement about this transaction is that:

A. The process by which the original $1,000 deposit grows to $1,200 is known as compounding
B. $1,200 is the present value of the $1,000 deposit
C. The $200 increase in the deposit's value is its incremental cash flow
D. The $200 difference between the original deposit and the accumulated value of the deposit is known as the deposit's discount

**Answer:** A

**NEW QUESTION 95**
- (Topic 2)
Residual trend is the difference between total trend and the portion of the total trend caused by changes in provider reimbursement levels.
Consider the following events that could affect an health plan's provider reimbursement levels:
Event 1 — The disenrollment of a large group with unusually high utilization rates
Event 2 — The introduction of a new treatment for infertility
Event 3 — A serious flu epidemic
Event 4 — A shift in inpatient medical services from obstetrical care to neonatal intensive care
One cause of residual trend is change in intensity, which would be represented by:

A. Event 1
B. Event 2
C. Event 3
D. Event 4

**Answer:** D

**NEW QUESTION 96**
- (Topic 2)
The Rathbone Company has contracted with the Jarvin Insurance Company to provide healthcare benefits to its employees. Under this contract, Rathbone assumes financial responsibility for paying 80% of its estimated annual claims and for depositing the funds necessary to pay these claims into a bank account. Although Rathbone owns the bank account, Jarvin, acting as Rathbone's agent, makes the actual claims payments from this account. Claims in excess of Rathbone's contracted percentage are paid by Jarvin. Rathbone pays to Jarvin a premium for administering the entire plan and bearing the costs of claims in excess of Rathbone's obligation. This premium is substantially lower than would be charged if Jarvin were providing healthcare coverage under a traditional fully insured group plan. Jarvin is required to pay premium taxesonly on the premiums it receives from Rathbone. This information indicates that the type of alternative funding method used by Rathbone is known as a:

A. Premium-delay arrangement
B. Reserve-reduction arrangement
C. Minimum-premium plan
D. Retrospective-rating arrangement

**Answer:** C

**NEW QUESTION 98**
- (Topic 2)
The following statements are about the capital budgeting technique known as the payback method. Select the answer choice containing the correct statement:

A. The main benefit of the payback method is that it is simple to use.
B. The payback method measures the profitability of a given capital project.
C. The payback method considers the time value of money.
D. The payback method states a proposed project's cash flow in terms of present value for the life of the entire project.

**Answer:** A

**NEW QUESTION 100**
- (Topic 2)
Assume that the Lambda, Mesa, and Novella health plans are equal in every way except that the health plans have obtained equal amounts of net cash inflows from different sources, as shown below:
HealthPlan Source LambdaFinancing activities MesaInvesting activities NovellaOperating activities
From the following answer choices, select the response which indicates the health plan that would most likely be the most attractive to a potential plan sponsor, to a potential creditor, and to a potential investor.

A. Potential Plan Sponsor = Lambda Potential Creditor = Mesa Potential Investor = Novella
B. Potential Plan Sponsor = Lambda Potential Creditor = Novella Potential Investor = Mesa
C. Potential Plan Sponsor = Novella Potential Creditor = Lambda Potential Investor = Mesa
D. Potential Plan Sponsor = Novella Potential Creditor = Novella Potential Investor = Novella

**Answer:** D

**NEW QUESTION 105**
- (Topic 2)
The Northwest Company offers its employees the option of choosing to receive their
healthcare benefits from an HMO or from a traditional indemnity plan. The premiums for the HMO are lower than for the traditional indemnity plan. In this situation, it is correct to assume that:
* 1.Individual low utilizers are more likely to enroll in the traditional indemnity plan 2.Individual high utilizers are more likely to enroll in the HMO

A. Both 1 and 2

B. 1 only
C. 2 only
D. Neither 1 nor 2

**Answer:** D

**NEW QUESTION 107**
- (Topic 2)
The Longview Hospital contracted with the Carlyle Health Plan to provide inpatient services to Carlyle's enrolled members. Carlyle provides Longview with a type of stop-loss coverage that protects, on a claims incurred and paid basis, against losses arising from significantly higher than anticipated utilization rates among Carlyle's covered population. The stop-loss coverage specifies an attachment point of 130% of Longview's projected $2,000,000 costs of treating Carlyle plan members and requires Longview to pay 15% of any costs above the attachment point. In a given plan year, Longview incurred covered costs totaling $3,000,000. Carlyle most likely is responsible for paying Longview for the claims incurred before Longview has actually paid the medical expenses.

A. True
B. False

**Answer:** B

**NEW QUESTION 109**
- (Topic 2)
The Proform Health Plan uses agents to market its small group business. Proform capitalizes the commission expense relating to this line of business by spreading the commissions over thepremium-paying period of the healthcare coverage. This approach to expense recognition is known as:

A. Systematic and rational allocation
B. Matching principle
C. Immediate recognition
D. Associating cause and effect

**Answer:** D

**NEW QUESTION 114**
- (Topic 2)
The Essential Health Plan markets a product for which it assumed total expenses to equal 92% of premiums. Actual data relating to this product indicate that expenses equal 89% of premiums. This information indicates that the expense margin for this product has:

A. a 3% favorable deviation
B. a 3% adverse deviation
C. an 11% favorable deviation
D. an 11% adverse deviation

**Answer:** A

**NEW QUESTION 118**
- (Topic 2)
The following information was presented on one of the financial statements prepared by the Rouge health plan as of December 31, 1998:

When calculating its cash-to-claims payable ratio, Rouge would correctly divide its:

A. Cash by its reported claims only
B. Cash by its reported claims and its incurred but not reported claims (IBNR)
C. Reported claims by its cash
D. Reported claims and its incurred but not reported claims (IBNR) by its cash

**Answer:** B

**NEW QUESTION 121**
- (Topic 2)
The following statements are about state health coverage reinsurance programs.

A. The reinsurance offered through these programs is administered on a for-profit basis by the federal government.
B. The purpose of these programs is to reinsure MCOs and other carriers who offer guaranteed healthcare plans to small employers.
C. These programs must reinsure only an entire small group, not specific individuals within a group.
D. Any shortfalls in the pool established by these programs are funded by the state government.

**Answer:** B

**NEW QUESTION 124**
- (Topic 2)
If the operational budget prepared by the Satilla health plan is typical of most operational budgets, then

A. Its purpose is to track Satilla's operations and short-term profitability
B. The key information source for this operational budget is Satilla's external environment
C. The time frame for this operational budget is three to five years
D. Its focus is on the threats that Satilla faces from its external environment

**Answer:** A

**NEW QUESTION 127**
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