MILLIMAN CLIENT REPORT

# Final CY 2020 HealthChoice Illinois Medicaid Managed Care Medical Loss Ratio Calculations – MCO Results

## State of Illinois

## Department of Healthcare and Family Services

February 21, 2023

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# Background

Milliman, Inc. (Milliman) has been retained by the State of Illinois, Department of Healthcare and Family Services (HFS) to assist HFS in complying with the Medical Loss Ratio (MLR) reporting requirements for calendar year 2020 for the HealthChoice Illinois Medicaid Managed Care Program (HealthChoice). The MLR reporting requirements are outlined in the final *Medicaid and Children's Health Insurance Program (CHIP) Programs; Medicaid Managed Care, CHIP Delivered in Managed Care, and Revisions Related to Third Party Liability* (Final Rule), published May 6, 2016. The Final Rule requires that all Medicaid managed care programs ensure that each managed care organization (MCO) calculate and report an MLR in accordance with 42 CFR §438.8, "Medical loss ratio standards", for rating periods starting on or after July 1, 2017.

The Centers for Medicare & Medicaid Services (CMS) posted an informational bulletin, *Medical Loss Ratio (MLR) Requirements Related to Third-Party Vendors*, dated May 15, 2019, which provided further clarification of the regulations outlined in 42 CFR §438.8.

The Medicaid MLR calculation as documented in this report provides our interpretation of the MLR guidance presented by CMS in the Final Rule. In general, the MLR calculation is defined as the sum of incurred claims and quality improvement expenses divided by premium revenue that is reduced by taxes and regulatory fees. Additionally, a credibility adjustment is applied to this formula to account for random statistical variations related to the number of enrollees in an MCO. If an MCO does not meet the minimum size requirement for full credibility, then their MLR will be increased by a credibility adjustment published by CMS. One MCO participating in the HealthChoice program required a credibility adjustment as the entity ceased operations on June 30, 2020.

HFS has chosen to require the MCOs to report the MLR in composite across all populations covered under the HealthChoice program and require the MCOs to maintain a minimum MLR of eighty-five percent (85%). Additionally, if the calculated MLR falls below the minimum threshold, the MCOs are required to return the portion of the capitation equal to the difference between the calculated MLR and the minimum MLR multiplied by the CY 2020 revenue.

# Introduction

The CMS Final Rule does not set the methodology for calculating remittances and leaves it up to each State to determine if a remittance is required. The MCO contracts for the HealthChoice program require that each MCO maintains a minimum MLR of eight five percent (85%). HFS has elected to use the methodology defined by 42 CFR §438.8 with certain differences, such as including eighteen months of run-out. This report documents the contractually required MLR calculation to be used for remittance with twenty-one months of run-out due to a three month extension granted by HFS in September 2022. A separate report dated April 26, 2022 outlined the results of the CMS compliant MLR calculation, which included nine months of claims run out, and was calculated using data submitted by the MCOs to HFS within twelve months of the end of the MLR reporting year.

To assist with calculating the MLR values and any required remittances, Milliman developed an MLR reporting template within the quarterly cost reports also required to be completed by the MCOs. This cost reporting template, also known as the Encounter Utilization Monitoring (EUM) templates, collects the necessary eligibility, revenue, medical expense, medical expense adjustments, estimated unpaid claim liabilities, quality improvement expenses, operating expenses and MCO assessments and taxes required to calculate the MLR.

The review outlined in this report is intended to provide a reasonableness assessment of the MCO-submitted values used to calculate the MLR. A limited set of reconciliation exercises was performed between the CY 2022 EUM Evaluation Period 4 MCO submissions and various other data sources noted below. It is possible additional data reporting issues may be uncovered with a systematic comparison of the MLR reports to other information provided to HFS. We have made some adjustments to the reported values in the EUM submissions that will require the MCOs to review and confirm their treatment. It is our expectation that this report, the MCO specific results, and the MCO adjustments will be shared with each MCO and that each MCO will carefully review the adjustments made to the reported amounts.

It is ultimately the responsibility of each contracted MCO to ensure the information submitted to HFS in the MLR reports complies with 42 CFR §438.8. This report is considered final unless notification is provided in writing from any MCO with adjustments for their reported information. Upon receipt of notification, HFS will review the MCO's proposed adjustments, if any, for reasonableness. For any additional agreed upon adjustments made, Milliman will update this report to document the final MLR calculations.

# Results

Appendix 1 includes the final medical loss ratio calculation for calendar year 2020 for the plans participating in the HealthChoice program. In general, the Final Rule defines the MLR as incurred claims plus healthcare quality improvement expenses divided by premium revenue less taxes, fees and assessments multiplied by a credibility factor, if applicable.

Each MCO reported their initial calculation of the MLR in their CY 2022 Encounter Utilization Monitoring (EUM) Evaluation Period 4 submission finalized on December 15, 2022. We reviewed the calculations for reasonableness by comparing the data to other data sources provided by HFS and the MCOs. A reconciliation to each MCO's audited financial statement is included in Appendix 2 except for NextLevel who ceased operations as of June 30, 2020 without completing a reconciliation or audited financial statement. Adjustments to reported values were required for the final CY 2020 risk corridor calculation transfer payments, the actual capitation amounts paid, the non-benefit expense related to MCO tax received and paid, the earned withhold amounts, and the final maternity risk pool transfer payments. These adjustments are explained in more detail in the Methodology section below.

Within Appendix 1, each MCO also has an exhibit with adjustments that require MCO review. HFS expects the MCOs to review the adjusted calculations included in this report and confirm, object, or modify the adjustments to ensure the MLR calculation is consistent with 42 CFR §438.8 within thirty (30) days of receiving this report. If no responses are received within the time period, the report and calculations will be considered final.

# Methodology

The data used in this calculation was provided in the CY 2022 Encounter Utilization Monitoring (EUM) Evaluation Period 4 reports submitted and finalized on December 15, 2022 which includes calendar year 2020 incurred periods paid through September 30, 2022. We reviewed the calculations for reasonableness by comparing the data to other data sources provided by HFS and the MCOs.

The allocation methodology for claims reserve liabilities, non-benefit expenses (including healthcare quality improvement expenses) and revenue was requested as part of the CY 2022 EUM Evaluation Period 4 submissions. The MCO reported allocation methodology was reviewed for reasonableness and discussed with the MCOs as necessary. A summary of the allocation methodologies for each MCO is available in Appendix 3.

The table below describes the items included in each value in the MLR formula. Additionally, although not included in the MLR calculation, the values included in non-claims costs are described below as required by 42 CFR 438.8(e)(2)(v)(A).

**FIGURE 1: LISTING OF ITEMS INCLUDED IN MLR CALCULATION**

| INCURRED CLAIMS | HEALTHCARE QUALITY IMPROVEMENT EXPENSE | FRAUD REDUCTION EXPENSES | NON-CLAIMS COSTS | PREMIUM REVENUE | TAXES, FEES AND ASSESSMENTS |
|---|---|---|---|---|---|
| Direct paid claims and subcapitated proxy paid claims | Expenses to improve health outcomes | Expenses related to fraud reduction efforts up to the amount of fraud recoveries received | Administrative costs such as claims processing, network maintenance, etc. | Net capitation revenue received | Premium tax payments |
| Lump sum provider settlements, provider incentives, provider withholds and provider value-based payments | Expenses to reduce or prevent hospital readmission | | Administrative expenditures for Non-State Plan Services | Calculated Earned Withhold based on capitation revenue received | Federal and State income taxes |
| Direct and subcapitated proxy paid reserves and settlements | Expenses to improve patient safety and reduce medical errors | | | Final CY 2020 risk corridor payments | Other taxes, fees, and assessments |
| Expenditures for Non-State Plan Services | Expenses to promote wellness and health activities | | | | |
| Less recoveries such as third-party liability recoveries and State reimbursed emergency transportation | Expenses for health information technology for healthcare quality improvement | | | | |

The following adjustments were made to the MCO reported amounts:

- MCO reported premium revenue was adjusted to the net capitation payments paid to the MCOs as of December 31, 2022.
- MCO reported revenue was adjusted to include the final CY 2020 risk corridor payments, calculated with data paid through September 30, 2022 and documented in a report dated February 6, 2023.
- MCO earned withhold was adjusted to reflect 100% of the calculated withhold amounts based on the paid capitation as of December 31, 2022.
- MCO reported MCO Tax revenue and expense were excluded from the calculation.

On June 30, 2020, NextLevel Health (NextLevel) ceased operations and all members were acquired by Meridian Health effective July 1, 2020. As a result of NextLevel's closure, HFS submitted a COVID-19 1115(a) waiver to modify the risk-sharing provisions applicable to NextLevel. This waiver was approved by CMS on February 4, 2022.

The NextLevel MLR calculation presented in this report reflects the amended risk sharing arrangements described in our CY 2020 rate amendment dated April 19, 2022. The modification removed NextLevel's requirement to participate in the CY 2020 risk corridor. As such, NextLevel's MLR calculation does not include an adjustment to revenue for a risk corridor settlement. The modification also allowed certain claim settlements associated with dates of service prior to January 1, 2019 to be included in the numerator of the MLR calculation.

Premium revenue does not include directed or pass-through payments because these payments are not part of the effective MCO rate.

Per the Final Rule, unpaid cost-sharing amounts the MCO could have collected from enrollees under the contract are to be included in the premium revenue calculation. If an MCO makes a reasonable effort to collect the cost-sharing amounts, but those efforts were unsuccessful, the cost-share can be excluded. The full amount of the claim payment is included in the numerator of the MLR calculation. However, effective September 1, 2019, Illinois Code 305 ILCS 5/5-4.1 was changed to no longer require members to pay cost-sharing for services they receive. Therefore, in CY 2020, there is no adjustment for waived copays.

Per CMS guidance published on May 15, 2019, the MCOs reported the amount of administrative costs included in the incurred claims in CY 2022 EUM Evaluation Period 4 submission associated with the MCO's PBM's spread pricing arrangement and any PBM-retained rebates. As of January 1, 2020, none of the MCOs were submitting third party administrative expense in the encounters provided to HFS. Therefore, we have not made an adjustment for this as the administrative expenses are already appropriately excluded.

The medical loss ratio is expressed as a percentage, rounded to the nearest second decimal point. The calculated MLR was compared against the minimum MLR threshold of eighty-five percent (85%). If the calculated MLR was less than the threshold, a remittance amount was calculated as the difference between the calculated MLR and the minimum threshold multiplied by the CY 2020 revenue. No MCOs calculated MLR was below the minimum MLR threshold for CY 2020.

# Limitations and Qualifications

The services provided for this project were performed under the contract between Milliman and HFS dated February 28, 2022.

The information contained in this correspondence, including any enclosures, has been prepared for the State of Illinois, Department of Healthcare and Family Services (HFS) and their advisors to provide the final CY 2020 medical loss ratio calculations for each MCO for the HealthChoice Illinois Medicaid Managed Care Program (HealthChoice) in accordance with the final *Medicaid and Children's Health Insurance Program (CHIP) Programs; Medicaid Managed Care, CHIP Delivered in Managed Care, and Revisions Related to Third Party Liability* (Final Rule), published May 6, 2016. It is our expectation that this report, the MCO specific results, and the MCO adjustments will be shared with each MCO and that each MCO will carefully review the adjustments made to the reported amounts. It is ultimately the responsibility of the contracted MCOs to ensure the information submitted to HFS in the MLR reports complies with 42 CFR §438.8. The data and information presented may not be appropriate for any other purpose.

It is our understanding that the information contained in this report may be utilized in a public document. To the extent that the information contained in this correspondence is provided to any approved third parties, the correspondence should be distributed in its entirety. Milliman does not intend to benefit any third-party recipient of its work product, even if Milliman consents to the release of its work product to such third party.

Milliman has developed certain models to estimate the values included in this correspondence. The intent of the models was to calculate the final MCOs' CY 2020 MLR percentages and final remittances, if any. We have reviewed the models, including their inputs, calculations, and outputs for consistency, reasonableness, and appropriateness to the intended purpose and in compliance with generally accepted actuarial practice and relevant actuarial standards of practice (ASOP). The models rely on data and information as input to the models. We have relied upon certain data and information provided by HFS, and on behalf of HFS, for this purpose and accepted it without audit. To the extent that the data and information provided is not accurate, or is not complete, the values provided in this correspondence may likewise be inaccurate or incomplete. Milliman's data and information reliance includes MCO-reported eligibility and financial experience, as well as information related to HFS' eligibility system, assignment of enrollees to rate cells, and accepted encounter data. The models, including all input, calculations, and output may not be appropriate for any other purpose.

We performed a limited review of the data used directly in our analysis for reasonableness and consistency and have not found material defects in the data. If there are material defects in the data, it is possible that they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable or for relationships that are materially inconsistent. Such a review was beyond the scope of our assignment.

Differences between projections and actual amounts depend on the extent to which future experience conforms to the assumptions made for this analysis. It is certain that actual experience will not conform exactly to the assumptions used in this analysis. Actual amounts will differ from projected amounts to the extent that actual experience deviates from expected experience.

Guidelines issued by the American Academy of Actuaries require actuaries to include their professional qualifications in all actuarial communications. The authors of this report who are actuaries are members of the American Academy of Actuaries and meet the qualification standards for performing the analyses contained herein.

# Appendix 1

# Medical Loss Ratio Calculation

# (Included in Excel)

# Appendix 2

## Reconciliation to Audited Financials by MCO

## (Included in Excel)

# Appendix 3

## Allocation Methodologies by MCO

(Included in Excel)

Milliman is among the world's largest providers of actuarial and related products and services. The firm has consulting practices in life insurance and financial services, property & casualty insurance, healthcare, and employee benefits. Founded in 1947, Milliman is an independent firm with offices in major cities around the globe.

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