MILLIMAN CLIENT REPORT

Final CY 2021 HealthChoice Illinois Medicaid Managed Care Medical Loss Ratio Calculations – MCO Results

State of Illinois

Department of Healthcare and Family Services

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Paul R. Houchens, FSA, MAA
Jill S. Herbold, FSA, MAA
Jason Melek, FSA, MAAA
Amber L. Kerstiens

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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 2021 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.

HFS has chosen to require the MCOs to report the MLR in composite across all populations covered under the HealthChoice and YouthCare programs 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 calendar year (CY) 2021 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 the MCO's maintain 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. The purpose of this report is to document the contractually required MLR calculation to be used for remittance with eighteen months of run-out. A separate report dated May 4, 2023 documents the CMS compliant MLR calculation, which included nine months of 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 in accordance with the Final Rule, Milliman developed an MLR reporting template located within the quarterly cost reports 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 2023 EUM Evaluation Period 3 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 the contracted MCOs 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, we will update this report to document the final MLR calculations.

Results

Each MCO reported their initial calculation of the MLR in their CY 2023 EUM Evaluation Period 3 submission finalized on November 3, 2023. We reviewed the calculations for reasonableness by comparing the data to other data sources provided by HFS and the MCOs. Adjustments to reported values were required for the estimated transfer payments for the CY 2021 risk corridor, capitated premium revenue, earned withhold amounts, and the transfer payments for the CY 2021 final maternity risk pool. These adjustments are explained in more detail in the Methodology section of this report.

Appendix 1 includes the final medical loss ratio calculation for CY 2021 for the plans participating in the HealthChoice and YouthCare programs. 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. Appendix 1 details the MLR calculation and information on the adjustments that require MCO review and possibly correction of the MLR reporting template. 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 is from the CY 2023 EUM Evaluation Period 3 reports submitted and finalized on November 3, 2023, which included calendar year 2021 incurred periods paid through June 30, 2023. We reviewed the calculations for reasonableness by comparing the data to other data sources provided by HFS and the MCOs. Additionally, the MCOs were required to prepare a reconciliation between the data requested in the EUM submission to their annual CY 2021 NAIC financial statements. A reconciliation for each MCO's CY 2021 NAIC financial statements is included in Appendix 2.

The allocation methodology for corporate expenses, claims reserve liabilities, non-benefit expenses (including healthcare quality improvement expenses) and revenue was requested as part of the CY 2023 EUM Evaluation Period 3 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.

Figure 1 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	Earned withhold representing 1.5% based on HFS May 2, 2023 report; Calculated earned withhold representing 0.5% 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 2021 risk corridor transfer 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 June 30, 2023
- MCO reported earned withhold was adjusted to reflect 100% of the calculated withhold amounts based on the HFS provided earned withhold representing 1.5% from the May 2, 2023 report; and earned withhold representing 0.5% calculated based on paid capitation as of June 30, 2023.
- MCO reported risk corridor settlements were adjusted to reflect the final CY 2021 risk corridor payments, calculated with data paid through June 30, 2023 and documented in a report dated November 6, 2023.
- MCO reported MCO Tax revenue and expense were excluded from the calculation.

Premium revenue does not include payments that are not part of the effective MCO rate (i.e., directed payments, pass-through payments, or MCO tax). The medical loss ratio is expressed as a percentage, rounded to the nearest second decimal point.

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 2021, 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 2023 EUM Evaluation Period 3 submission associated with the MCO's pharmacy benefit manager's (PBM's) spread pricing arrangement and any PBM-retained rebates. As of January 1, 2021, 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 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 2021 revenue. No MCO's calculated MLR was below the minimum MLR threshold for CY 2021.

Limitations and Qualifications

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 2021 medical loss ratio calculations for each MCO for the HealthChoice Illinois Medicaid Managed Care Program (HealthChoice) and YouthCare program 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 third parties, the correspondence should be distributed in its entirety. Milliman makes no representations or warranties regarding the contents of this report to third parties. Likewise, third parties are instructed that they are to place no reliance upon this report prepared for HFS by Milliman that would result in the creation of any duty or liability under any theory of law by Milliman or its employees to third parties. 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 2021 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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