



# Medicaid Managed Care Organizations Report: Overview

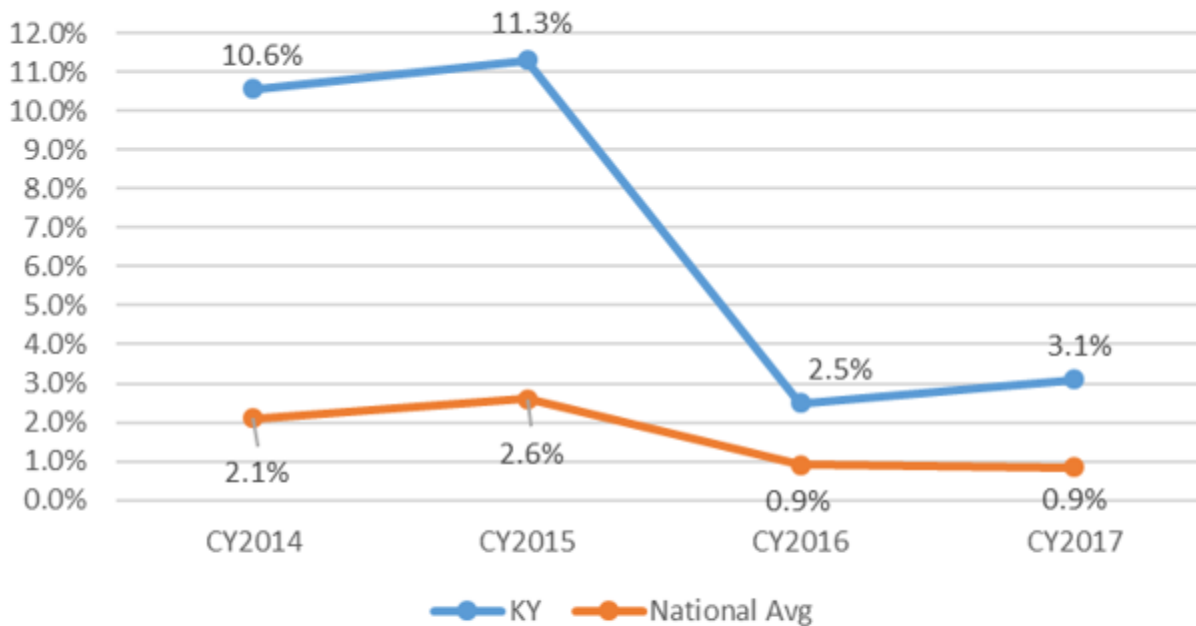
Prepared for the Medicaid Oversight and Advisory Committee

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# MCO PROFIT MARGINS

### Estimated Profit Margin - Milliman Reports



Est. Profit Margin	KY	National Avg
CY2014	10.6%	2.1%
CY2015	11.3%	2.6%
CY2016	2.5%	0.9%
CY2017	3.1%	0.9%

**1) According to the Milliman Report, Kentucky had the highest Estimated Profit Margins in the Nation in CY2015**

- Kentucky was reported as having an estimated profit margin of 11.3%, compared to the national average of 2.6%

**2) What actions did the Department and Cabinet take to address the profit margins?**

- An independent contractor (McKinsey) conducted a thorough analysis of the rates and rate-setting methodologies
- DMS required the MCOs to strengthen the accuracy and completeness of encounters, which are now solely used to develop the rates.
- DMS implemented a minimum MLR requirement
- This resulted in the Milliman report showing the estimated profit margins for Kentucky's MCOs has decreased significantly

**3) The CY2017 Milliman report shows an estimated profit margin for MCOs in Kentucky at 3.1% compared to the 0.9% National Average.**

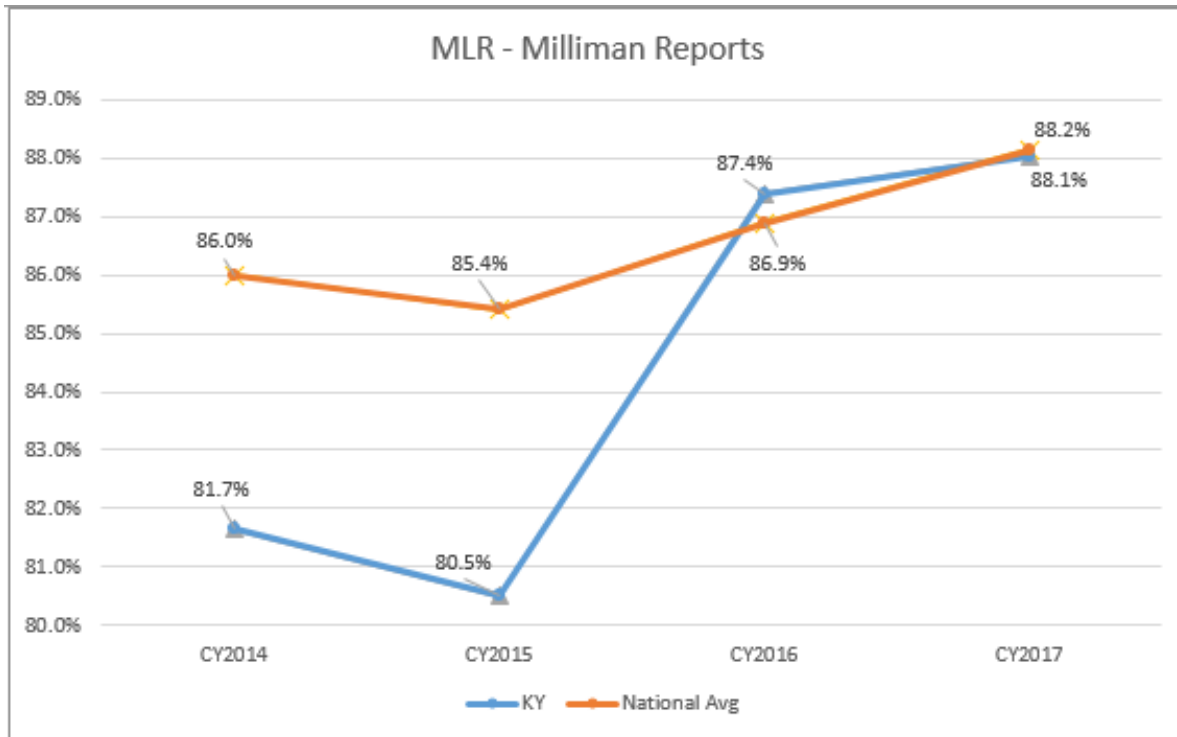
- Although we have seen significant drops reported as the estimated profit margins in Kentucky, the national average has also decreased.
- This national average decrease can be explained based on the number of plans across the nation that reported a loss, driving the overall average down.
- 71 out of the 186 plans (38.2%) used in the CY2017 Milliman report showed as experiencing a loss in profit margin, which is higher than the 27.2% experience in the CY2015 report

CY	Plans with a loss	Total Number of plans	National Avg
CY2015	52	191	27.2%
CY2016	64	189	33.9%
CY2017	71	186	38.2%

- The CY2017 Milliman Report shows a national average MCO profit margin at 0.9%. However, when the impact of federal and state taxes and fees are removed, the national average profit margin increases to 3.2%.
- The adjustment removing taxes and fees from the equation changes the estimated profit margin for Kentucky from 3.1% to 3.8%. This is very comparable to the adjusted national average of 3.2%

**4) The MCO rates assume a 1% margin but MCOs can obtain higher profitability through administrative cost efficiencies**

# MEDICAL LOSS RATIO (MLR)



MLR	KY	National Avg
CY2014	81.7%	86.0%
CY2015	80.5%	85.4%
CY2016	87.4%	86.9%
CY2017	88.1%	88.2%

**1) In the SFY2016 MCO Contracts, DMS implemented a minimum MLR requirement of 85%.**

- Below 85%, premium refund of 80% of the difference between actual MLR and 85%

**2) In the SFY2017 MCO Contracts (section 11.4), DMS implemented a minimum MLR requirement of 90%.**

- Between 86% to 90%, premium refund of 75% of the difference between actual and 90%
- Below 86%, premium refund of 100% of difference between actual and 86%
- The 90% Minimum requirement is the most aggressive in the nation. Other states require 85%-88%

**3) Things to note when considering the MLR calculations in the Milliman report (as noted in Appendix 2):**

- Actuaries and financial analysts use the MLR as a measure of premium adequacy.
- The MLR alone is NOT sufficient to compare MCO financial results among various states and programs.
- There may be reporting differences among MCOs as to what is classified as medical expense versus administrative expense.
- The Milliman report is based upon a calendar year, while DMS monitors based on a contract year which is currently on a SFY basis

**4) Based on data obtained by DMS Actuaries, the MCOs had a composite MLR of 93.4% in SFY2017**

- The formula in Appendix B is consistent with the Centers for Medicare and Medicaid Services (CMS) methodology, which is different from the Milliman MLR formula.
- The formula allows for some exclusions of specific items such as:
  - 1) Federal and State taxes and licensing and regulatory fees. (Health Insurer's Fee is an example)
  - 2) Pass-through Payments made under 42 CFR 438.6(d)
- The formula in Appendix B results in the following MLR calculations for SFY2017:

MCO	SFY17 MLR
Aetna	92.7%
Anthem	92.7%
Humana	95.7%
Passport	95.1%
Wellcare	91.9%

KY Medicaid Medical Loss Ratio Reconciliation Worksheet

MCO: **Composite**  
 Region: **Statewide**

Incurred July 1, 2016 - June 30, 2017; Paid through June 30, 2018

	Aetna	Anthem	Humana	Passport	WellCare	Composite
<b>Membership</b>						
Member Months	3,151,014	1,416,724	1,679,305	3,660,217	5,371,490	15,278,750
i = incurred claims	\$1,045,754,746	\$533,363,447	\$786,532,415	\$1,677,082,292	\$2,255,687,450	\$6,298,420,350
q = expenditures on quality improving activities	\$18,588,737	\$12,054,301	\$9,493,851	\$8,999,039	\$32,368,211	\$81,504,139
s = issuer's transitional reinsurance receipts	\$0	\$0	\$0	\$0	\$0	\$0
p = earned premiums	\$1,220,880,734	\$609,973,170	\$832,009,539	\$1,773,440,370	\$2,535,045,129	\$6,971,348,943
t = Federal and State taxes	\$72,502,672	\$21,493,148	\$403,649	\$0	\$46,213,375	\$140,612,844
f = licensing and regulatory fees	\$0	\$0	\$0	\$0	\$0	\$0
n = issuer's risk corridors and risk adjustment related payments	\$0	\$0	\$0	\$0	\$0	\$0
r = issuer's risk corridors, and risk adjustment related receipts	\$0	\$0	\$0	\$0	\$0	\$0
c = credibility adjustment, if any.	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Numerator = (i + q - s + n - r)	\$1,064,343,483	\$545,417,749	\$796,026,265	\$1,686,081,331	\$2,288,055,660	\$6,379,924,488
Denominator = (p + s - n + r) - t - f - (s - n + r)	\$1,148,378,062	\$588,480,022	\$831,605,890	\$1,773,440,370	\$2,488,831,754	\$6,830,736,099
Preliminary Adjusted MLR = (Numerator/Denominator) + c	92.7%	92.7%	95.7%	95.1%	91.9%	93.4%
Preliminary Rebate Amount (75% of amount between 86%-90%)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Preliminary Rebate Amount (100% of amount less than 86%)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Total Preliminary Rebate Amount	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00





# QUESTIONS?