Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

REVIEW OF MEDICARE PRESCRIPTION DRUG, IMPROVEMENT, AND MODERNIZATION ACT MODIFICATIONS TO CALENDAR YEAR 2004 PROPOSAL – HORIZON HEALTHCARE OF NEW JERSEY, INC.

Daniel R. Levinson
Inspector General

MAY 2006
A-02-05-01015

Office of Inspector General

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May 24, 2006

Report Number: A-02-05-01015

Mr. William J. Frantel
Chief Financial Officer
Horizon Healthcare of New Jersey, Inc.
3 Penn Plaza East, PP-15D
Newark, New Jersey 07105

Dear Mr. Frantel:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG) report entitled "Review of Medicare Prescription Drug, Improvement, and Modernization Act Modifications to Calendar Year 2004 Proposal - Horizon Healthcare of New Jersey, Inc." Should you have any questions or comments concerning the matters commented on in this report, please direct them to the HHS official named below.

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To facilitate identification, please refer to report number A-02-05-01015 in all correspondence.

Sincerely,

James P. Edert

James P. Edert
Regional Inspector General
for Audit Services

Enclosures

Direct Reply to HHS Action Official:

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The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed, as well as other conclusions and recommendations in this report, represent the findings and opinions of the HHS/OIG/OAS. Authorized officials of the HHS divisions will make final determination on these matters.

EXECUTIVE SUMMARY

BACKGROUND

The Balanced Budget Act of 1997 (Public Law 105-33) established Part C of the Medicare program, offering beneficiaries a variety of health delivery models including Medicare+Choice organizations. These organizations assume responsibility for providing all Medicare-covered services except hospice care, in return for a predetermined capitated payment.

The Medicare Prescription Drug, Improvement, and Modernization Act (MMA) revised Medicare Part C, including a program name change from Medicare+Choice to Medicare Advantage. One immediate provision of the MMA included increasing payment rates to Medicare Advantage Organizations (MAOs), effective March 1, 2004. MMA required MAOs with plans for which payment rates increased as a result of MMA to submit revised adjusted community rate (ACR) proposals to show how they would use the increase during contract year 2004.

Section 211 of MMA (and section 604 of the Medicare, Medicaid, and State Children's Health Insurance Program Benefits Improvement and Protection Act of 2000, incorporated by reference) allows MAOs to use MMA payment increases to:

- reduce beneficiary premiums,
- reduce beneficiary cost sharing,
- enhance benefits,
- contribute to a benefit stabilization fund, or
- stabilize or enhance beneficiary access to providers.

Additionally, Federal regulations (42CFR §422.310 (c)(5)) require that MAO proposal rates be supported.

Horizon Healthcare of New Jersey, Inc. (Horizon) submitted a revised proposal for contract year 2004 that reflected an increase of about $9 million in Medicare capitation payments as a result of the MMA legislation. Horizon planned to use the MMA payment increase to reduce beneficiary premiums, enhance benefits, and stabilize and enhance beneficiary access to providers.

OBJECTIVE

The objective of our review was to determine whether Horizon's use of its MMA payment increase was adequately supported and allowable under MMA.

RESULTS OF REVIEW

Horizon's use of its MMA payment increase was adequately supported and allowable under the MMA. Horizon appropriately used the increased Medicare capitation payments to reduce beneficiary premiums, enhance benefits, and stabilize and enhance beneficiary access to

providers. Specifically, Horizon eliminated beneficiary premiums, enhanced benefits by adding vision and prescription benefits, and increased capitation payments to primary care providers. Therefore, this report contains no recommendations.

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INTRODUCTION

BACKGROUND

Medicare Advantage

Under Title XVIII of the Social Security Act, the Medicare program provides health insurance to people age 65 and over, people with permanent kidney failure, and people with certain disabilities. The Centers for Medicare & Medicaid Services (CMS) administers the Medicare program.

The Balanced Budget Act of 1997 (Public Law 105-33) established Part C of the Medicare program offering beneficiaries a variety of health delivery models, including Medicare+Choice organizations. These organizations assume responsibility for providing all Medicare-covered services except hospice care, in return for a predetermined capitated payment.

The Medicare Prescription Drug, Improvement, and Modernization Act (MMA) revised Medicare Part C, including a program name change from Medicare+Choice to Medicare Advantage.

Horizon Healthcare of New Jersey, Inc,

Horizon Healthcare of New Jersey, Inc. (Horizon) was established in 1993 and is wholly owned by Horizon Blue Cross Blue Shield of New Jersey. CMS contracted with Horizon as a Medicare Advantage Organization (MAO) to provide health care coverage to approximately 9,000 Medicare enrollees.

Proposal Requirements

At the time of our review, Medicare regulations required each MAO to complete an annual adjusted community rate (ACR) proposal that contains specific information about benefits and cost sharing for each plan participating in the Medicare Advantage program. MAOs had to submit their ACR proposals to CMS before the beginning of each contract period.

CMS used the annual ACR proposals to determine the average rate each MAO would receive per person per month. CMS also used the ACR proposals to determine whether the estimated capitation paid to each MAO exceeded what the MAO would charge in the commercial market for Medicare-covered services, adjusted for the utilization patterns of the Medicare population.

Section 211 of MMA (and section 604 of the Medicare, Medicaid, and State Children's Health Insurance Program Benefits Improvement and Protection Act of 2000, incorporated by reference) allows MAOs to use MMA payment increases to:

- reduce beneficiary premiums,
- reduce beneficiary cost sharing,
- enhance benefits,

- contribute to a benefit stabilization fund, or
- stabilize or enhance beneficiary access to providers.

Additionally, Federal regulations (42CFR §422.310(c)(5)) require that MAO proposal rates be supported.

MMA Requirements

Under MMA, one immediate provision included increasing payment rates to MAOs, effective March 1, 2004. CMS instructions required MAOs with plans whose payment rates increased to submit revised a proposals by January 30, 2004. The CMS instructions for the revised proposals required MAOs to: (1) submit a cover letter summarizing their expected use of the increased payments, and (2) support any entries that changed from the original filing.

Horizon's Revised Proposal

For contract year 2004, Horizon, submitted the required revised proposal for contract number H3154, plan 003. The revised proposal's cover letter reflected an increase of about $9 million, or $99.98 per member per month (PMPM) in Medicare capitation payments, as a result of the MMA legislation.

According to the cover letter, Horizon expected to use the MMA payment increase to:

(1) reduce beneficiary premiums by $51.97 PMPM;
(2) enhance benefits by $45.53 PMPM; and
(3) stabilize and enhance beneficiary access to providers by $2.48 PMPM.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The objective of our review was to determine whether Horizon's use of its MMA payment increase was adequately supported and allowable under MMA.

Scope

Our review covered the $9 million increase in contract year 2004 Medicare capitation payments provided by the MMA legislation for plan 003.

The objectives of our audit did not require an understanding or assessment of the internal control structure of Horizon.

We conducted our audit work at Horizon's office in Newark, New Jersey.

Methodology

To accomplish our objectives, we:

- reviewed applicable Federal laws, regulations, and guidance;
- reviewed the cover letter Horizon submitted with its revised proposal, detailing its expected use of the MMA payment increase;
- compared the initial proposal with the revised proposal to identify the modifications;
- reviewed supporting documentation for the proposed use of the MMA payment increase;
- reviewed supporting documentation for the actual use of the MMA payment increase; and
- interviewed Horizon officials.

We conducted our review in accordance with generally accepted government auditing standards.

RESULTS OF REVIEW

Horizon's use of its MMA payment increase was adequately supported and allowable under the MMA. Horizon appropriately used the increased Medicare capitation payments to reduce beneficiary premiums, enhance benefits, and stabilize and enhance beneficiary access to providers. Specifically, Horizon eliminated beneficiary premiums, enhanced benefits by adding vision and prescription benefits, and increased capitation payments to primary care providers. Therefore, this report contains no recommendations.

ACKNOWLEDGMENTS

This report was prepared under the direction of James P. Edert, Regional Inspector General for Audit Services. Other principal Office of Audit Services staff who contributed include:

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