

Report in Brief

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U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES
OFFICE OF INSPECTOR GENERAL



Why OIG Did This Review

Private health insurers, Medicare Advantage plans, and Medicare Part D sponsors are required to spend a fixed percentage of premium dollars to provide medical services and health quality improvement activities. This percentage is known as a medical loss ratio (MLR). This report is part of a series of OIG reviews conducted to determine whether the Medicaid program could have achieved savings if States had required Medicaid managed care organizations (MCOs) to meet a minimum MLR standard and pay remittances if the MLR standard was not met.

Our objective was to determine the potential Medicaid program savings if Pennsylvania (1) required its Medicaid managed care contracts and grants to meet a minimum MLR standard similar to the Federal standards for certain private health insurers and Medicare Advantage plans and (2) required remittances if that MLR standard was not met.

How OIG Did This Review

We reviewed 2014 cost and premium revenue data for 27 contracts and grants with 15 Pennsylvania Medicaid MCOs. We determined the MLR for the same period for each contract and grant and for each rating category within these contracts and grants. We also determined the amount the MCOs would have had to return if Pennsylvania required MCOs to meet MLR standards similar to those for private insurers and Medicare Advantage plans.

Review of Pennsylvania Medicaid Managed Care Program Potential Savings With Minimum Medical Loss Ratio

What OIG Found

We determined that Pennsylvania's Medicaid managed care program, known as HealthChoices, could have saved between \$8 million (\$4.3 million Federal share) on a contract and grant basis and \$81.4 million (\$42.3 million Federal share) on a rating category basis in 2014 if Pennsylvania (1) required its MCOs to meet a minimum MLR standard similar to the Federal standards for certain private insurers and Medicare Advantage plans and (2) required remittances when MCOs did not meet the MLR standard. Because States have the flexibility to choose to calculate MLRs and remittances either on a contract basis or a rating category basis, we calculated MLRs and remittances using both methods.

Of the 27 contracts and grants that we reviewed, we calculated that 6 had MLRs that were less than 85 percent (the minimum MLR standard for large private insurers) during 2014. Pennsylvania through its actuary must certify the final capitation rate paid per rate cell under each risk contract and document the underlying data assumptions and methodologies supporting that specific capitation rate. Each of the 27 contracts included 7 rating categories for a total of 189 rate cells. Pennsylvania calculates a capitation rate for each of the 189 rate cells. Of the 189 rate cells that we reviewed, 57 had MLRs that were less than 85 percent during 2014. After our review but before the issuance of our report, the Centers for Medicare & Medicaid Services (CMS) published a final rule requiring Medicaid MCOs to achieve a minimum MLR for rate setting purposes.

What OIG Recommends and Pennsylvania Comments

We recommend that Pennsylvania (1) incorporate into its contracts and grants with Medicaid MCOs the MLR standards adopted in the CMS final rule and (2) consider implementing into its Medicaid MCO contracts and grants a remittance requirement if appropriate. In written comments on our draft report, Pennsylvania agreed with our recommendations. Pennsylvania stated that it incorporated the CMS MLR reporting requirements into its grant agreements beginning in 2017 for its physical health MCOs and into behavioral health managed plan agreements effective July 1, 2017. Pennsylvania will incorporate a remittance requirement consistent with the CMS final rule beginning with its 2018 grant agreements for its physical health MCOs but will not incorporate a remittance requirement for its behavioral health managed care plans because its current reinvestment sharing arrangement with behavioral health MCOs captures and returns excess profits.