

Department of Legislative Services
Maryland General Assembly
2012 Session

FISCAL AND POLICY NOTE

House Bill 286

(Delegate Hubbard, *et al.*)

Health and Government Operations

Finance

Managed Care Organizations - Medical Loss Ratio Information - Publication

This bill requires the Secretary of Health and Mental Hygiene to publish on the department's website information about the loss ratio for each Medicaid managed care organization (MCO). The information published must include (1) the loss ratio for each year during the most recent three-year period; (2) the amount to be returned to Medicaid, if any, from an MCO for failure to meet a loss ratio; and (3) any amount due to or received by the department from an MCO for each year.

Fiscal Summary

State Effect: The bill's requirements can be handled with existing budgeted resources.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law/Background: In the commercial insurance market, loss ratios are the ratios of incurred claims to premiums earned (the share of premium revenues spent on medical care). Regulators consider loss ratios when evaluating rates to make sure a reasonable amount of premium dollars is allocated to the cost of benefits. Carriers must include loss ratios in their annual reports to the Insurance Commissioner. The Commissioner may require an insurer, nonprofit health service plan, or a health maintenance organization to file new rates if the loss ratio is less than that required.

Under the federal Patient Protection and Affordable Care Act (ACA), effective January 1, 2011, commercial health insurance carriers must provide an annual rebate to each enrollee on a pro rata basis if a health plan's medical loss ratio for the plan year is less than 85% in the large group market or less than 80% in the small group or individual market. States may establish higher medical loss ratios in regulation.

In Medicaid, the loss ratio measures the percentage of premium spent on medical care and is calculated as net medical *and medical management expenses* (i.e., outreach, case management, nurse advice lines, and utilization review) divided by net revenue for the service year. Beginning with calendar 2010 capitation rates, the Secretary, in consultation with the Commissioner, may adjust capitation payments for a Medicaid MCO if the loss ratio is less than 85% in the service year.

Compliance with the 85% benchmark is calculated using HealthChoice Financial Monitoring Reports that are audited by an independent auditor. Under Code of Maryland Regulations 10.09.65.19-5, the Secretary may waive a capitation adjustment either if the loss ratio is less than 85% but at least 80% *and* all of the MCO's scores on core performance measures are in the top two levels of performance; or if the MCO's average annual loss ratio for the prior three-year period is greater than 85%.

For the first year in which an adjustment is made, it may not exceed 50% of the difference between the amount paid to the MCO and the amount that, if paid to the MCO, would have resulted in a loss ratio of 85%. For the second and third consecutive years, the adjustment may not exceed 75% or 100% of this difference, respectively. An MCO may appeal a decision to adjust capitation rates.

As shown in **Exhibit 1**, based on the most recent data (calendar 2009), none of the Medicaid MCOs incurred loss ratios below 85%. However, the department anticipates that some MCOs will fall below 85% in calendar 2010 and 2011. Although the loss ratios have not yet been calculated, the Medicaid budget for fiscal 2012 included cost containment of \$5.3 million (general funds) and the Governor's proposed fiscal 2013 budget includes cost containment of \$3 million (general funds) based on the assumption that some MCOs will not meet loss ratio requirements for calendar 2010 and 2011.

Exhibit 1
Medical Loss Ratios for Medicaid Managed Care Organizations
Calendar 2009

Amerigroup	88%
Coventry	95%
Med Star	92%
JAI	88%
Maryland Physicians Care	88%
Priority Partners	93%
United	96%

Source: Department of Health and Mental Hygiene

Additional Information

Prior Introductions: None.

Cross File: SB 484 (Senator Kelley, *et al.*) – Finance.

Information Source(s): Department of Health and Mental Hygiene, Maryland Insurance Administration, Department of Legislative Services

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ncs/mwc

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