

MILLIMAN CLIENT REPORT

# SFY 2023 Behavioral Health PIHP Medical Loss Ratio Calculation

State of Michigan, Department of Health and Human Services  
Draft and Confidential

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## I. Background

Milliman, Inc. (Milliman) has been retained by the State of Michigan, Department of Health and Human Services (MDHHS) to develop a medical loss ratio (MLR) reporting template for the calculation and assessment of the MLR standards set forth in the October 1, 2022 through September 30, 2023 (SFY 2023) behavioral health managed care contract with the prepaid inpatient health plans (PIHPs).

The final Medicaid and Children's Health Insurance Program rule (Final Rule), released on May 6, 2016 requires that all Medicaid managed care programs ensure, through contracts for rating periods starting on or after July 1, 2017, that each PIHP calculate and report a MLR in accordance with 42 CFR 438.8, medical loss ratio standards.

In 42 CFR 438.4(b)(9), CMS has proposed that the MLR for PIHPs, as calculated and reported under §438.8, be used in the development of actuarially sound capitation rates effective for rating periods starting on or after July 1, 2019. The MLR is used to assess whether capitation rates are appropriately set by generally illustrating how these funds are spent on claims and quality improvement activities as compared to administrative expenses, demonstrating that adequate amounts under the capitation payments are spent on services for enrollees.<sup>1</sup> CMS has also indicated that MLR reporting standards result in responsible fiscal stewardship of total Medicaid expenditures, ensuring that states have insight and understanding into how capitation payments made for enrollees in managed care programs are being expended.

The reporting requirements and MLR formula for Medicaid managed care programs as set forth in the Final Rule are generally consistent with previously established MLR formulas in the Medicare Advantage (MA) and commercial health insurance market, with a few key notable exceptions (among others):

- States are **not required** to collect capitation rate refunds when PIHP MLRs are below a minimum requirement;
- States can choose the level of aggregation for calculating the MLR (e.g., population level stratifications vs. composite across all population);
- States are given flexibility to determine the minimum MLR requirement, as long as the minimum MLR percentage is **at least as** high as the CMS guidelines of 85%; and,
- Commercial MLR reporting period is a rolling 3-year period, while the MA and Medicaid MLR reporting period is aligned with a single contract year.

The contract between MDHHS and the PIHPs does not include a remittance amount for the SFY 2023 contract if the MLR is below 85%. Instead, the contract employs and outlines the risk corridor arrangement.

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 a PIHP. If a PIHP does not meet the minimum size requirement for full credibility, then their MLR will be increased by a credibility adjustment published by CMS. Plan-reported data as submitted in the Medicaid MLR reporting template will be used to calculate the PIHP's Medicaid MLR.

The Medicaid MLR reporting instructions are to be used in completing and submitting the MLR template for all PIHPs participating in the MDHHS' behavioral health managed care program in SFY 2023. MDHHS and Milliman will rely on the accuracy and completeness of the submitted Michigan Medicaid MLR template for each PIHP based on the attestation of the PIHP executive signing off on this request. During the review and data validation process, we may request additional information or documentation supporting the data on an as-needed basis to gain clarification on any information provided in the Medicaid MLR template.

This Medicaid MLR template should be completed in accordance with 42 CFR 438.8, medical loss ratio standards. Additional information regarding how to treat program specific items in the Medicaid MLR formula is outlined in the contract between MDHHS and the PIHPs. Complete documentation on the CMS regulation establishing the Medicaid MLR guidance can be found in § 438.8 at the following link:

<https://www.federalregister.gov/documents/2016/05/06/2016-09581/medicaid-and-childrens-healthinsurance-program-chip-programs-medicoid-managed-care-chip-delivered>.

<sup>1</sup> Source: CMS. Final Rule: Medicaid and Children's Health Insurance Program (CHIP) Programs; Medicaid Managed Care, CHIP Delivered in Managed Care, and Revisions Related to Third Party Liability; available at: <https://www.federalregister.gov/documents/2016/05/06/2016-09581/medicaid-and-childrens-health-insurance-program-chip-programs-medicoid-managed-care-chip-delivered>

## II. General Instructions

This section outlines the general instructions for PIHPs to complete the requested information in the accompanying Excel-based Medicaid MLR template. The SFY 2023 Medicaid MLR as defined in Section I will be calculated for each PIHP based on plan-submitted data. It is expected that each PIHP will submit a completed version of the Excel template to MDHHS by **June 30, 2024**. Please note that the MLR is being calculated specific to the behavioral health managed care program. Given the behavioral and opioid health homes are excluded from the capitation rates, these revenues and expenses should be excluded from this template.

The Medicaid MLR Reporting template contains the following tabs:

- Attestation
- Data Collection
- Summary

PIHPs are requested to populate the Attestation and Data Collection tabs. The Summary tab is populated from the PIHP-submitted data and calculates the PIHP-specific Medicaid MLR.

### ATTESTATION

The purpose of the attestation page is to collect company specific data as well as confirmation that the information provided is complete and accurate. On this tab, PIHPs must provide the plan name from the drop-down menu, the preparer's name and contact information, and the attesting officer's name and signature. The PIHPs must also attest that the templates include a separate attachment that compares the plan's audited financial statement to the information provided in the template. The attesting officer must be designated as a CEO, CFO, or COO of the organization. **Failure to complete the attestation will be considered an incomplete submission and will not be accepted by MDHHS.**

### DATA COLLECTION

The Data Collection tab is separated into the five major data elements of the MLR calculation: Incurred Claims, Quality Improvement Expenses, Premium Revenue, Taxes and Fees, and a Credibility Adjustment. This tab also collects information pertaining to the managed care administrative costs of the programs.

$$MLR Formula = \frac{Incurred Claims + Quality Improvement}{Premium Revenue - Taxes and Fees} + Credibility Adjustment$$

The MLR reporting template has been developed to stratify the major elements of the MLR formula, with the intent of identifying key components that should be included and excluded to ensure adherence to the MLR guidance established by CMS in the Final Rule. As documented in Section I, CMS provides specific guidance on inclusions and exclusions for each component of the MLR formula. The inputs outlined below are intended to illustrate compliance with the Final Rule by documenting each item specifically identified in the MLR guidance.

#### Incurred Claims

This section provides guidance on the incurred claims portion of the MLR formula.

#### Line 1.1 - Paid Claims to Providers Incurred October 2022 – September 2023, paid through January 31, 2024

Line 1.1 should reflect total SFY 2023 net paid and incurred claims, with claims run-out through January 31, 2024, consistent with the inclusion and exclusion lists provided below. Please note that the majority of the items excluded from Line 1.1 are specifically requested to be quantified in a subsequent line item in Section 1.

##### Include

- Non-subcapitated claims paid to providers for services covered under the managed care contract during SFY 2023. This includes CCBHC claims for SMI/SED encounters
- Sub-capitation paid attributed to services provided
- Claims expenditures for non-state plan services that the PIHP voluntarily provides through the Medicaid managed care program
- Direct care worker wage increase to providers

## Exclude

- Health home expenses as these are not covered in the capitation rates
- Sub-capitation paid related to delegated managed care administrative expenses
- Unpaid claim liabilities (both in process of being adjusted or incurred but not reported)
- Incentives, bonuses, and withholds paid to providers
- Third party liabilities (coordination of benefits)
- Overpayment recoveries received from network providers
- Net payments or receipts related to state mandated solvency funds
- HRA Pass-Through Payments Paid
- Fraud recoveries and expenses related to fraud recovery activities
- CCBHC expenditures for mild-to-moderate encounters

**Line 1.2 – Sub-capitation paid related to delegated managed care administrative expenses**

The non-benefit expense portion (generally the administrative amount) of sub-capitated amounts paid to providers that **do not** represent direct compensation for medical services provided to an enrollee during SFY 2023 as these amounts will not be used in the MLR calculation.

**Line 1.3 – Unpaid Claim Liabilities**

Unpaid claim liabilities reflect the estimated outstanding liabilities for all behavioral health services for SFY 2023. This includes items such as incurred but not reported (IBNR) claims, claims in course of settlement (ICOS), and claims that are adjudicated but not yet paid. Provide the total reserve balance held on January 31, 2024 for the SFY 2023 time period. The January 31, 2024 reserve balance for other fiscal years should not be included in this amount.

**Line 1.4 – Incentives, Bonuses, Withholds, and Other Settlements Paid to Providers**

Incentive, bonus, withhold, and other settlement amounts paid to participating providers specific to the SFY 2023 time-period. For payments that have not yet been measured and paid out, PIHPs should provide an estimate of the associated payments.

**Line 1.5 – Third Party Liability (Coordination of Benefits) Recoveries**

Recoveries received as a result of determining that another insurance plan has primary payment responsibility. This should be inclusive of what has been recovered as well as an estimate of any future Coordination of Benefits expected to be received. This amount should be entered as a negative.

**Line 1.6 – Overpayment Recoveries Received from Network Providers**

Recoveries received as a result of overpayment to a network provider. This amount should be entered as a negative.

**Line 1.7 – Net Payments (or Receipts) Related to State Mandated Solvency Funds**

Market stabilization payments (or receipts) required by the state to provide protection to members in the event of health plan insolvency specific to SFY 2023. We are not aware of any state-mandated solvency funds for purposes of SFY 2023.

**Line 1.8 – Hospital Reimbursement Assessment (HRA) Pass-Through Payments Paid**

The HRA pass-through payments made to inpatient psychiatric hospital providers. This amount is expected to be exactly equal to the premium revenue for HRA payments as reported in Line 3.7.

**Line 1.9 – Allowable Claims Recovered Through Fraud Reduction Efforts**

Fraudulent claim payments recovered as a result of fraud reduction efforts.

**Line 1.9a – Total Fraud Recoveries Expense**

Costs of Medicaid Verification Teams or Staff performing Provider audits looking at claims for validation.

**Line 1.9b – Total Fraud Recoveries that Reduced Paid Claims in Line 1.1**

Results of paybacks from providers that would offset claims, include Medicaid Verification recoupments.

**Line 1.9c – Total Fraud Recoveries Added Back to Incurred Claims**

Fraud recoveries up to total fraud recoveries expense as reported in Line 1.9.a are included in the incurred claims calculation.

**Line 1.10 – CCBHC Mild-to-Moderate claims**

Claim payments made for individuals identified as mild-to-moderate severity

**Administrative Costs**

Although administrative expenses (under subsection 2.1) are not used in the MLR calculation, consistent with last year, we are capturing the managed care administrative expenses in this template. This information will be reviewed for purposes of developing the non-benefit expense assumptions in the SFY 2025 capitation rate development.

**Line 2.1 – Incurred Expenses (including managed care administrative costs delegated to the CMHSPs and other sub-capitated entities)**

We would like the managed care administrative expenses to be broken into the following components. Please include any costs incurred by CMHSPs or other sub-capitated entities for managed care administrative costs delegated to them by the PIHP. These would include expenses reported under Line 1.2.

- a. Mental Health Admin
- b. SUD Admin
- c. Autism Admin
- d. 1915(c) Waiver (CWP, HSW, SED) Admin
- e. Other Admin

It should be noted that “CCBHC Admin Attributable to Behavioral Health Managed Care Program” expenses are not listed as a distinct item under Line 2.1. CCBHC-only administrative costs should be included under the “Other Admin” item.

**Quality Improvement Expenses**

This section provides guidance on the quality improvement expenses portion of the MLR formula in accordance with the provisions in 45 CFR 158.150(b) and 42 CFR 438.358(b) and (c).

**Line 2.2 – Incurred Health Care Quality Improvement Expenses during SFY 2023**

Consistent with NAIC guidelines, Quality Improvement Expenses are defined as expenses that control or contain cost with the primary purpose of improving health care quality. These expenses should be grounded in evidence-based medicine, widely accepted best clinical practice, or criteria issued by recognized professional medical societies, accreditation bodies, government agencies or other nationally recognized health care quality organizations. These expenses can be objectively measured and must not be billed or allocated as clinical or claims costs.

**Line 2.2.a – Improve Health Outcomes**

Expenses for direct interaction of the insurer (including those services delegated by contract for which the insurer retains ultimate responsibility under the insurance policy), providers and the enrollee or the enrollee’s representatives (e.g. face-to-face, telephonic, web-based interactions or other means of communication) to improve health outcomes.

**Line 2.2.b – Activities to Prevent Hospital Readmission**

Expenses for implementing activities to prevent hospital readmissions (e.g. Continued Stay Reviewers).

**Line 2.2.c – Improve Patient Safety and Reduce Medical Errors**

Expenses for implementing activities to improve patient safety and reduce medical errors.

**Line 2.2.d – Wellness and Health Promotion Activities**

Expenses for programs that provide wellness and health promotion activity (e.g. face-to-face, telephonic, web-based interactions or other means of communication).

**Line 2.2.e – Health Information Technology Expenses Related to Improving Health Care Quality**

Health Information Technology expenses required to accomplish the activities designed for use by health plans, health care providers or enrollees for the electronic creation, maintenance, access or exchange of health information, consistent with Medicare/Medicaid meaningful use requirements.

**Exclude** costs associated with establishing or maintaining a claims adjudication system, including costs directly related to upgrades in Health Information Technology that are designed primarily or solely to improve claims payment capabilities or to meet regulatory requirements for processing claims.

**Line 2.2.f – Activities Related to External Quality Review (EQR)**

Mandatory and optional EQR-related activities as defined in 42 CFR 438.358.

**Line 2.2.g – Other Health Care Quality Improvement Expenses**

All other health care quality improvement expenses that cannot be attributed to the items above. Please include comments for any and all expenses included.

**Premium Revenue**

This section provides guidance on the premium revenue portion of the MLR formula.

**Line 3.1 – Total State Capitation Payments during SFY 2023**

Line 3.1 should reflect total state capitation payments consistent with the inclusions and exclusion lists provided below. Please note that the majority of the items excluded from Line 3.1 are explicitly requested in a subsequent premium revenue line item.

Include

- Risk-adjusted capitation payment revenue for the Michigan Specialty Services and Support Waiver and Healthy Michigan Plan behavioral health programs for the SFY 2023 contract year including taxes and fees
- Direct care worker wage increase funding

Exclude

- The portion of the capitation rate related to the quality withhold and bonus program
- The portion of the capitation rate related to HRA program pass-through payments
- Revenues related to the behavioral and opioid health homes
- Incentive payments for the DHIP program
- Risk Corridor Settlements

**Line 3.2 – PIHP Withhold Earned Back – Related to October 2022 - September 2023**

The amount of the quality withhold earned back based on quality indices established by MDHHS for the SFY 2023 contract period. This includes the performance bonus incentive pool (PBIP). The quality withhold is measured and paid on a state fiscal year basis. For withholds that have not yet been measured and reported by MDHHS, PIHPs should provide an estimated quality withhold payout.



**Line 3.3 – PIHP Bonus Payments Funded from Quality Withhold Arrangement – Related to October 2022 - September 2023**

The amount of the bonus payment funded from the quality withhold program for high-performing PIHPs in the Medicaid managed care program for the SFY 2023 contract period. This line should reflect any amounts received that were above and beyond the actual withhold amount. For quality withhold programs that have not yet been measured and reported by MDHHS, PIHPs should provide an estimated bonus payment.

**Line 3.4 – PIHP Incentive Payments from the DHIP program**

Incentive payments received from the DHIP program for the SFY 2023 contract period.

**Line 3.5 – Net Payments from Risk Corridor**

PIHP settlements paid to or received from the state related to the risk corridor arrangement. Funds released from PIHP ISF and prior year Medicaid/HMP savings should not be included in this amount.

**Line 3.6 – CCBHC Supplemental Payments for Mild-to-Moderate Services**

Revenue through the CCBHC program for supplemental reconciliations related to Mild-to-Moderate CCBHC services.

**Line 3.7 – Other Premium Revenue**

All other premium revenue that cannot be categorized into the items above (e.g. changes to unearned premium reserves). Please include detail in the comments if including Other Premium Revenue.

**Line 3.8 – HRA Pass-Through Payments Received**

The portion of the total capitation revenue related to HRA payments. This amount is expected to be exactly equal to the claims expense for HRA providers as reported in Line 1.8.

**Taxes and Fees**

Consistent with NAIC guidelines, taxes and fees pertain to amounts a governmental or regulatory body charges the PIHP to perform a service which is allocated to Medicaid business in Michigan. Additionally, all Federal and State taxes and assessments and licensing or regulatory fees should be reported in accordance with the provisions in § 422.2420(c)(2) and § 423.2420(c)(2) of the Medicare Advantage MLR regulations.

**Line 4.1 – Federal Taxes and Federal Assessments**

All federal taxes and assessments allocated to health insurance coverage reported under Section 2718 of the Federal Public Health Service Act, including the Health Insurer Fee.

**Exclude** federal income taxes on investment income and capital gains.

**Line 4.2 – IPA**

The applicable insurance provider assessment (IPA) that was paid for SFY 2023 claims.

**Line 4.3 – State Insurance, Premium, and Other Taxes**

Include

- “Any industry-wide (or subset) assessments (other than surcharges on specific claims) paid to the state directly
- Assessments of state industrial boards or other boards for operating expenses or for benefits to sick unemployed persons in connection with disability benefit laws or similar taxes levied by Michigan
- Advertising required by law, regulation or ruling, except advertising associated with investments
- State income, excise and business taxes other than premium taxes
- State premium taxes plus state taxes based on policy reserves, if in lieu of premium taxes
- In lieu of reporting state premium taxes, the reporting entity may choose to report payment for community benefit expenditures (Line V.d) limited to the highest premium tax rate for Michigan, but not both.”

Exclude

- “State sales taxes, if company does not exercise the option of including such taxes with the cost of goods and services purchased
- Any portion of commissions or allowances on reinsurance assumed that represents specific reimbursement of premium taxes
- Any portion of commissions or allowances on reinsurance ceded that represents specific reimbursement of premium taxes”

**Line 4.4 – Regulatory Authority Licenses and Fees**

Include

- Statutory assessments to defray operating expenses of any State or Federal department
- Examination fees in lieu of premium taxes as specified by Michigan state law

Exclude

- Fines and penalties of regulatory authorities
- Fees for examinations by MDHHS other than as referenced above

**Credibility Adjustment**

This section provides information related to the credibility adjustment in the MLR formula.

On July 31, 2017, CMS published an Information Bulletin, Medical Loss Ratio (MLR) Credibility Adjustments<sup>2</sup>, which provides an overview and methodology for credibility adjustments in the Medicaid MLR formula. The credibility adjustment is used to account for random statistical variation related to the number of enrollees in a managed care plan. The credibility adjustment categorizes managed care plans into three groups:

- Fully-credible: Managed care plans with sufficient claims experience, measured in terms of member months, are assumed to experience MLRs that are not subject to random variation as observed in statistically insignificant samples. Such managed care plans will not receive a credibility adjustment for their MLRs.
- Partially-credible: Managed care plans with sufficient claims experience, measured in terms of member months, to calculate an MLR with a **reasonable** chance that the difference between the actual and target medical loss ratios is statistically significant. Such managed care plans will receive a partial credibility adjustment to their calculated MLRs.
- Non-credible: Managed care plans with insufficient claims experience, measured in terms of member months, to calculate a reliable MLR. Such plans will not be measured against the MLR standard; managed care plans in this group are presumed to meet or exceed the target MLR standard.

The following table illustrates the Medicaid and CHIP credibility adjustment factors utilized in the MLR formula:

MLR Credibility Adjustment Table	
Credibility Adjustment Table for Medicaid and CHIP Managed Care Plans	
Standard Plans Member Months in MLR Reporting Year	Standard Plans Credibility Adjustment
< 5,400	Non-credible
5,400	8.4%
12,000	5.7%
24,000	4.0%
48,000	2.9%
96,000	2.0%
192,000	1.5%
380,000	1.0%
> 380,000	Fully Credible

<sup>2</sup> CMS Information Bulletin: *Medical Loss Ratio (MLR) Credibility Adjustment*; available at: <https://www.medicaid.gov/federal-policy-guidance/downloads/cib073117.pdf>

**Line 5.1 – Total Member Months for SFY 2023**

Include

- The number of months a group of enrollees is covered by a PIHP for the 12-month reporting period. The MLR template will populate the appropriate credibility adjustment based on the number of reported member months.

**SUMMARY**

The Summary tab calculates the PIHP's MLR calculation for SFY 2023 based on information reported on the Data Collection tab. The separate components of the MLR formula are summarized with an unadjusted and adjusted MLR displayed in Section 4 of this tab.

In situations where the PIHP is non-credible based on reported member months, it is assumed that the PIHP meets the minimum MLR Standard. For situations where the PIHP is partially credible or fully-credible, the Adjusted MLR is compared to the MLR Standard.

### III. Limitations and Data Reliance

*The Medicaid MLR template and these instructions have been prepared for the internal use of MDHHS along with the intended PIHP recipients. No portion of this communication may be provided to or relied upon by any other party without Milliman's prior written consent. Any user of these materials must possess a certain level of expertise in actuarial science and health care modeling that will allow appropriate use of the instructions and corresponding Medicaid MLR template. Milliman does not intend to benefit or create a legal duty to any third-party recipient of its work. Likewise, third parties are instructed that they are to place no reliance upon this template prepared for MDHHS 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 has developed this template to collect information that will assist MDHHS in calculation and assessment of the Medicaid MLR. The template may not be appropriate for any other purpose. We have reviewed the template, including its 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 template relies on data and information to be input by the PIHPs. To the extent that the data and information provided in the template is not accurate or is not complete, the resulting values may likewise be inaccurate or incomplete.*

*Guidelines issued by the American Academy of Actuaries require actuaries to include their professional qualifications in all actuarial communications. The authors/creators of the Medicaid MLR template and accompanying instructions are members of the American Academy of Actuaries and meet the qualification standards for performing the analyses associated with this communication.*