November 1, 2019

The Honorable Nancy J. King
Chair
Senate Budget and Taxation Committee
3 West Miller Senate Office Bldg.
Annapolis, MD 21401-1991

The Honorable Maggie McIntosh
Chair
House Appropriations Committee
121 House Office Bldg.
Annapolis, MD 21401-1991

Re: 2019 Joint Chairmen's Report (p. 115) – Report on Incorporating Variable Profit Margins into the Managed Care Rate-Setting System for the CY21 Rate-Setting Cycle

Dear Chairs King and McIntosh:

Pursuant to the requirements of the 2019 Joint Chairmen's Report (p. 115), the Maryland Department of Health submits this report on:

> *A consultant review of Maryland's managed care system made a number of recommendations, including incorporating variable profit margins into rate-setting as a reward for quality. The language requests a report detailing how this recommendation can be implemented in the calendar 2021 rate-setting cycle.*

The 2019 Joint Chairmen's Report restricts $1 million of the Department's budget pending the submission of the report.

The 2017 Joint Chairmen's Report limited funding in the Department's budget for a managed care rate-setting study to "a review of potential improvements of the current rate-setting system used in Maryland and a review of innovations from other states in managed care payment systems similar to that in Maryland" not to include consideration of a competitive bidding process. Further, the General Assembly requested a summary of the study.

The Department provided funding to the Hilltop Institute at the University of Maryland Baltimore County (UMBC) to procure and manage the study. A team from the consulting firms Milliman, Inc. and Mannatt Health Strategies was selected to conduct the study and produce a report. Work on the study was conducted in 2017 through early 2018, and in June, 2018, the Department provided the resulting study to the General Assembly. Among the recommendations made by the Milliman and Mannatt team was the recommendation to "evaluate whether to vary profit margin consistent with MCO performance on the State's priorities." The 2019 Joint Chairmen's Report requests that the Department develop performance targets, which would be used to determine variable profit margins per the Milliman and Mannatt recommendation.

Conclusion

The Department has chosen not to work towards implementing variable profit margins for MCOs at this time. The Department has worked on several other projects to reform and strengthen the MCO rate-setting process for the CY 2020 rate-setting cycle. Those projects include:

- Changing the outlier adjustment methodology that removes inefficient MCO costs from the data used to set capitation rates. A higher amount of MCO costs were excluded in the CY 2020 rate-setting cycle.
- An analysis to determine whether the Adjusted Clinical Groups (ACGs) used to risk-adjust MCO members are mapped to the appropriate payment rate cells. This had not been evaluated since the late 1990s.
- Carving the cost of HIV/AIDS pharmaceuticals into the MCO benefit.
- Conducting an audit of the contractual relationship between MCOs and their Pharmacy Benefit Managers (PBMs).

Thank you for your consideration of this information. If you have questions about this report, or would like additional information, please contact my Chief of Staff Tom Andrews at (410) 767-0136 or thomas.andrews@maryland.gov.

Sincerely,

Robert R. Neall
Secretary