



Larry Hogan, Governor · Boyd K. Rutherford, Lt. Governor · Dennis R. Schrader, Secretary

October 4, 2022

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

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

**RE: 2022 Joint Chairmen's Report (p. 118) – Report on Managed Care Organizations Risk Corridor Settlements**

Dear Chairs Guzzone and Barnes:

Pursuant to the requirements of the 2022 Joint Chairmen's Report (p. 118), the Maryland Department of Health (MDH) submits this report, which addresses the following: the results of the 2020 medical loss ratio (MLR) risk corridor arrangement with the nine Medicaid managed care organizations (MCOs); the final State recovery amount resulting from the calendar year (CY) 2020 risk corridor broken out by federal and State shares; the timeline and mechanism for recoupment of CY 2020 recoveries; CY 2021 risk corridor preliminary results; and a discussion of whether risk corridor agreements are likely necessary in CY 2023 due to the COVID-19 pandemic.

**Background**

In Medicaid managed care, states must develop actuarially sound rates, and the Centers for Medicare & Medicaid Services (CMS) must approve those rates. These rates can use a variety of mechanisms to adjust risk when necessary, including the implementation of risk-sharing arrangements such as a risk corridor. In Maryland, rates are set and approved by CMS annually. In response to the COVID-19 pandemic, CMS allowed states to implement two-sided risk corridors, where states and MCOs share in both savings and losses, retroactively as a temporary flexibility to better address uncertainty around service utilization trends. MDH incorporated risk corridors into its MCO contracts for both CY 2020 and CY 2021. Under this arrangement, MDH and the nine MCOs share in savings that are generated or share in losses when revenues fall short of expected expenditures. In CY 2020, the medical loss ratio (MLR) risk corridor was based on MCO-specific experience. In CY 2021, the risk corridor was based on aggregate program-wide experience.

In both CY 2020 and CY 2021, Kaiser Permanente of the Mid-Atlantic States (KPMAS) was excluded from the risk corridor. Due to its unique service delivery model, KPMAS has significantly higher operating costs which makes it an outlier from the other MCOs. While KPMAS is not included in setting capitation rates, KPMAS must accept the capitation rates developed based on the other MCOs' experience. Given that KPMAS is an outlier in terms of expenditures, MDH did not want to take on the disproportionate risk for KPMAS under the risk corridor.

## Maryland Medicaid's CY 2020 Risk Corridor

The CY 2020 risk corridor is based on the MLR, which represents the percentage of capitation dollars that are spent on eligible mandated medical services for a MCO's enrolled recipients in the HealthChoice program. Based on each MCO's MLR, they fall into a band that puts them into a specific corridor (see Table 1). The risk corridor is calculated first, followed by the 85% MLR calculation. The MCOs' 2020 contracts stated that the MCO will calculate the MLR in compliance with the Code of Maryland Regulations (COMAR) 10.67.04.19-5. Corridors highlighted in green generate additional savings for MDH, while corridors highlighted in orange increase expenditures for MDH.

**Table 1: CY 2020 MLR Risk Corridors with Shares of Gain/Loss**

Medical Loss Ratio Corridor	MCO Share of Gain/Loss in the Corridor	State/Federal Government Share of Gain/Loss
Corridor C+: MLR of less than 86.2%	25%	75%
Corridor B+: MLR between 86.2% and 88.2%	50%	50%
Corridor A: MLR between 88.2% and 92.2%	100%	0%
Corridor B-: MLR of 92.2% to less than 94.2%	50%	50%
Corridor C-: MLR greater than 94.2%	25%	75%

For example, if an MCO's MLR percentage is 90%, then the MCO's MLR is within Corridor A, no corridor adjustments are applied, and the MCO retains its individual profits. However, if the actual MLR Ratio were 93% (which would be within Corridor B-), the losses will be shared 50% with the MCO and 50% with the State and Federal governments.

Eight of the nine MCOs participated in the risk corridors. As previously stated, KPMAS was not eligible to participate.

## CY 2020 Results

Based on data representing claims paid through November 2021 and final calculations performed in June 2022, six of the eight participating MCOs reported accruals in CY 2020. Five MCOs reported generating savings and one reported losses, resulting in over \$105.9 million savings for MDH overall (see Table 2). Five MCOs owe MDH money while one MCO is due money from MDH. The other two MCOs (Medstar Family Choice and Maryland Physicians' Care) all reported MLRs in Corridor A; therefore, they are not subject to risk sharing.

**Table 2: Final CY 2020 Reporting Accruals and Associated MLR Corridor for 6 MCOs**

<b>MCO</b>	<b>Reported Accruals</b>	<b>MLR Corridor</b>
Aetna	-\$10,306,030.00	Corridor C+: MLR of 92.2% to less than 94.2%
Amerigroup	-\$52,772,889.00	Corridor C+: MLR of less than 86.2%
CareFirst	-\$8,353,121.00	Corridor C+: MLR of less than 86.2%
Jai Medical Systems	\$205,563.00	Corridor B-: MLR of 92.2% to less than 94.2%
Priority Partners	-\$12,647,004.00	Corridor B+: MLR between 86.2% and 88.2%
UnitedHealthcare	-\$22,034,051.00	Corridor C+: MLR of less than 86.2%
<b>Total State Recovery</b>	<b>-\$105,907,532.00</b>	

**Recoupment of CY 2020 Recoveries**

MDH withheld funds from the MCOs based on preliminary accruals. MDH will now use the calculated final accruals to reconcile the withheld funds as applicable.

**Maryland Medicaid's CY 2021 Risk Corridor**

The CY 2021 global risk corridor uses a different methodology than that of the CY 2020 risk corridor. The risk corridor is based on aggregate program-wide experience which then determines which corridor bands apply to the MCOs. The CY 2021 corridor is built around an assumed profit margin of 1.6%, consistent with the initial profit pricing assumption of 1.6%. The risk corridor uses the combined ratio (total expense/total revenue) for all the MCOs on an aggregate program-wide basis. Total expenses include medical (less reinsurance recoveries including incurred but not reported (IBNR)), administrative, medical management, premium tax, and Affordable Care Act (ACA) fee expenses. Total revenue is defined as capitation revenue less reinsurance premiums.

The MCOs' combined ratio determines which risk corridor will be applied (see Table 3). The allocation of each MCO's profits or losses, either to the MCO or to the State and Federal government are determined by 1) the corridor into which the combined ratio falls, and 2) the risk corridor in which that portion of the MCO's profit or loss percentage falls. Corridors highlighted in green generate additional savings for MDH, while corridors highlighted in orange increase expenditures for MDH.

**Table 3: CY 2021 Combined Ratio Risk Corridors with Shares of Gain/Loss**

<b>Combined Ratio Risk Corridor</b>	<b>MCO Share of Gain/Loss in the Corridor</b>	<b>State/Federal Government Share of Gain/Loss</b>
Corridor C+: Less than 95.29%	10%	90%
Corridor B+: 95.30% to 96.79%	50%	50%
Corridor A: 96.80% to 100.00%	100%	0%
Corridor B-: 100.01% to 101.50%	50%	50%
Corridor C-: Greater than 101.51%	10%	90%

For example, if the combined ratio percentage is 99% (within Corridor A), no corridor adjustments are applied and MCOs retain their individual profits or losses. However, if the combined ratio were 96%

(within Corridor B+), an individual MCO's profits greater than 3.2% will be allocated 50% to the MCO and 50% to the State and Federal governments.

As in 2020, eight of the nine MCOs are participating in the risk corridor. KPMAS was not eligible to participate.

### **CY 2021 Results**

Based on initial 2021 HealthChoice Financial Monitoring Reports (HFMRs) submitted by the MCOs in May 2022, the combined ratio is 97.6%. This is within Corridor A, which does not trigger any adjustments and results in MCOs retaining their individual profits or losses. MCOs will submit a final HFMR in November 2022 and finalized calculations are planned for May 2023.

### **CY 2022 Risk Corridor**

The CY 2022 risk corridor is based on aggregate program-wide experience which then determines which corridor bands apply to the MCOs similar to the one used in CY 2021. It is not expected to result in any adjustments. MDH does not plan on establishing risk corridor agreements for CY 2023.

If further information on this subject is needed, please contact Megan Peters, Acting Director, Office of Governmental Affairs at [megan.peters@maryland.gov](mailto:megan.peters@maryland.gov).

Sincerely,



Dennis R. Schrader  
Secretary

cc: Steven R. Schuh, Deputy Secretary, Health Care Financing and Medicaid  
Megan Peters, Acting Director, Office of Governmental Affairs  
Sarah Albert, Department of Legislative Services (5 copies)