Managed Care Organization Medical Loss Ratios

2025 Joint Chairmen's Report Page 168

Maryland Department of Health

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Introduction

In keeping with the requirements of the 2025 Joint Chairmen's Report (JCR), the Maryland Department of Health (the Department) respectfully submits this report on Managed Care Organization (MCO) Medical Loss Ratios (MLRs). Specifically, this report provides the following data for each MCO:

- Total payments received by the MCO;
- The average per member per month (PMPM) capitation rate;
- Expenditures on medical care and other allowed medical expenses;
- The amount of expenditures above or below MDH's target MLR;
- The amount of profits and administrative expenses;
- The local jurisdictions served by the MCO; and
- The amount of funding recovered or projected to be recovered from the MCO for reporting a MLR below the required level.

The JCR also requires this report to discuss the budgetary impact of utilizing measures to limit excessive MCO profits, including but not limited to, MCO-specific rate setting in calendar 2026 and beyond. The report should provide an update on the implementation of MCO-specific rate setting.

Background

Federal rules require Medicaid managed care capitation payments to be actuarially sound and should cover anticipated health costs of participants and appropriate amounts for administrative costs, reserves, and profit or reinvestment.[1] HealthChoice, Maryland's mandatory Medicaid managed care program, by design, has many guardrails to limit MCO profits[2], which also serve as a critical tool to protect the fiscal integrity of the program and ensure appropriate use of state general funds on behalf of taxpayers and the participants served. These guardrails include:

- **<u>MLR</u>**: MLR refers to the portion of MCO capitation payments spent on clinical services and quality improvement activities (the remainder is administrative costs and profits). **Federal rules require states to develop Medicaid capitation payments to achieve an MLR of at least 85% in a rate year.[3]** Each MCO must calculate and submit MLR data each year. The HealthChoice MCO contract requires the MCOs to pay a remittance to the Department for an MLR reporting year that does not meet the MLR standard of 85%.

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[1] 42 CFR §438.4

[2] For more information about rate-setting, see https://health.maryland.gov/mmcp/Documents/JCRs/2017/2017%20Joint%20Chairmen%27s%20Report%20on%20Managed%20Care%20Rate-Setting.pdf.

[3] 42 CFR §438.9

The MLR is a significant tool to protect public dollars and recoup savings back to the Medicaid program, with recoveries totaling approximately $151 million in 2023.

- **Rate Range**: The Department presents actuarially sound rate ranges for the HealthChoice program to the Maryland Department of Budget and Management (DBM) each year. DBM typically only approves rates at the bottom of this range. **In 2025, selecting the bottom of the rate range resulted in $67 million in savings to the Medicaid program.**
- **Financial Target**: The **HealthChoice program has an overall profit target of 1.3%, which is lower than many other states.**[4] This is a program-wide goal, meaning that some individual MCOs may have a higher profit margin, while other individual MCOs may have losses.
- **Cap on Administrative Expenses:** The HealthChoice program also limits the administrative costs for allowable non-medical loading, i.e., general and administrative expenses, reinsurance administrative costs, profit, risk charge/contingency, and taxes. **The ceiling is 11.2% of premium for 2025.**
- **Risk Corridors:** Risk corridors provide protections if aggregate spending falls above or below specified thresholds and are particularly useful for new programs where utilization may be difficult to predict. The Department built risk corridors into several HealthChoice payment policies, including for moderate-cost/high-volume drugs, certain obesity and Hepatitis C drugs, and for the maternal and child health programs funded by the Health Services Cost Review Commission. These risk corridors allow the Department to collect unspent funds back from the MCOs. The Department previously used global risk corridors during the COVID-19 pandemic to protect against uncertainty in utilization.[5] For both CY25 and CY26, the Department adopted risk corridors for moderate cost/high volume drugs for certain use of GLP-1s, Hepatitis C, and certain maternal/child health programs. No global risk corridors are in use for CY25 and none are planned for CY26. The Centers for Medicare & Medicaid Services (CMS) requires risk corridors to be two-sided in that the state and the MCOs share in both savings and losses.[6]
- **Recent Program Changes and Cuts**: In response to the current budget shortfall, quality payments to the MCOs, including the health equity incentive program, are part of the discussion for 2027 budget development.

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[4] Society of Actuaries**.** (2017). *Medicaid managed care organizations: Considerations in calculating margin in rate setting*. https://www.soa.org/globalassets/assets/Files/Research/medicaid-managed-report.pdf, see Appendix 3. Of the states for which information was available, profit targets ranged from 0.5% up to 2.5%, with eight states setting a target of 2.0% or greater, half of states (11) setting a target at or above 1.5%, and nine states setting a target at or below 1%.

[5] In CY20, the Deparment recovered $106M through risk corridors, $17.5M in CY2021, and $140.8M in CY22. For more information about the pandemic-related risk corridor, see https://health.maryland.gov/mmcp/Documents/JCRs/2022/2022%20Joint%20Chairmen%E2%80%99s%20Report%20%28p.%20118%29%20%E2%80%93%20Report%20on%20Managed%20Care%20Organizations%20Risk%20Corridor%20Settlements.pdf. 2021 = $17.5M, 2022 = $140.8M.

[6] For more information, see: https://www.medicaid.gov/federal-policy-guidance/downloads/cib051420.pdf

MLR Results

Table 1 presents the requested MCO financial data for calendar year (CY) 2023. Please note that the data for Kaiser Permanente are currently unavailable as their CY 2023 MLR audit has not yet concluded. Overall, the MCOs received $7.7 billion in capitation payments, with an average PMPM capitation payment of $423. The Department will recover $151 million on the MLR for CY 2023.

Table 1. HealthChoice MCO Expenditures and MLR Recoveries, CY 2023

MCO	Total Payments	Average PMPM Capitation Payment	Medical Expenditures	Expenditures +/- MLR	Amount of Profits	Administrative Expenses	MLR Recoveries	Loss Ratio
Aetna	$291,719,774	$401	$218,195,527	-$35,892,397	$39,253,047	$24,815,494	$40,789,846	74.8%
CareFirst Community Partners	$524,796,679	$480	$441,771,356	-$15,326,551	$3,945,379	$61,519,532	$0	84.2%
Jai Medical Systems	$206,966,120	$574	$179,728,763	-$538,728	$2,352,963	$14,542,317	$0	86.8%
Kaiser Permanente	$583,435,202	$400	$427,239,357	-$80,932,704	$83,731,160	$26,057,188	$74,875,671	73.2%
Maryland Physicians Care	$1,406,167,463	$468	$1,188,747,608	-$36,024,252	$61,487,258	$104,110,515	$0	84.5%
MedStar Family Choice	$588,962,182	$452	$534,634,084	$21,648,024	-$4,165,595	$37,403,514	$0	90.8%
Priority Partners	$1,845,326,211	$433	$1,569,833,671	-$37,445,459	$19,980,349	$180,666,330	$0	85.1%
United Healthcare	$857,340,993	$413	$703,816,314	-$42,927,691	$59,261,637	$68,811,954	$0	82.1%
Wellpoint	$1,419,461,545	$359	$1,145,025,691	-$91,325,315	$112,874,937	$106,883,817	$35,765,350	80.7%
Total	**$7,724,176,169**	**$423**	**$6,408,992,371**	**-$318,765,073**	**$378,721,135**	**$624,810,660**	**$151,430,827**	**83.0%**

Table 2 presents preliminary financial data for CY 2024. Please note that these data are not yet audited and are incomplete.

Table 2. PRELIMINARY and UNAUDITED HealthChoice MCO Expenditures and MLR Recoveries, CY 2024

MCO	Total Payments	Average PMPM Capitation Payment	Medical Expenditures	Expenditures +/- MLR	Amount of Profits	Administrative Expenses	MLR Recoveries	Loss Ratio
Aetna	$314,779,588	$430	$245,431,446	-$28,741,575	$31,468,177	$28,414,676	$7,730,462	78.0%
CareFirst Community Partners	$552,766,374	$484	$508,555,284	$27,095,772	-$47,198,935	$74,565,597	$0	92.0%
Jai Medical Systems	$195,936,496	$576	$180,288,687	$9,627,999	-$4,732,462	$14,298,000	$0	92.0%
Kaiser Permanente	$523,911,996	$391	$429,182,302	-$27,145,047	$57,051,958	$21,960,376	$26,503,004	81.9%
Maryland Physicians Care	$1,322,334,746	$482	$1,152,485,567	$732,003	$23,783,857	$105,568,205	$0	87.2%
MedStar Family Choice	$543,459,927	$466	$501,783,637	$28,430,041	-$10,332,732	$35,178,028	$0	92.3%
Priority Partners	$1,779,607,908	$447	$1,632,650,575	$82,612,088	-$83,241,843	$176,810,938	$0	91.7%
United Healthcare	$823,209,721	$431	$726,297,862	$9,282,195	$11,998,674	$60,498,650	$0	88.2%
Wellpoint	$1,407,411,559	$386	$1,198,534,856	-$27,320,612	$68,216,843	$98,437,513	$0	85.2%
Total	**$7,463,418,314**	**$439**	**$6,575,210,216**	**$74,572,864**	**$47,013,538**	**$615,731,983**	**$34,233,466**	**88.1%**

Table 3 presents the service area of each MCO, along with whether each accepts out-of-area enrollments. Aetna, CareFirst, Maryland Physicians Care, and Wellpoint operate statewide, while Priority Partners is currently closed to new enrollment.

Table 3. HealthChoice MCO Service Areas and Out-of-Area Enrollment Acceptance

MCO	Open Areas	Accepts Out-of-Area Enrollments
Aetna	STATEWIDE	YES
CareFirst Community Partners	STATEWIDE	YES
Jai Medical Systems	Baltimore City, Anne Arundel County, Baltimore County, Carroll County, Frederick County, Harford County, Howard County, Montgomery County, Prince George's County	YES
Kaiser Permanente	Baltimore City, Anne Arundel County, Baltimore County, Calvert County, Charles County, Harford County, Howard County, Montgomery County, Prince George's County	NO
Maryland Physicians Care	STATEWIDE	YES
MedStar	Baltimore City, Anne Arundel County, Baltimore County, Calvert County, Charles County, Harford County, Montgomery County, Prince George's County, St. Mary's County	NO
Priority Partners	STATEWIDE, BUT CURRENTLY CLOSED TO NEW ENROLLMENTS	YES
UnitedHealthcare	Baltimore City, Anne Arundel County, Baltimore County, Calvert County, Caroline County, Carroll County, Cecil County, Charles County, Dorchester County, Frederick County, Harford County, Howard County, Kent County, Montgomery County, Prince George's County, Queen Anne's County, Somerset County, St. Mary's County, Talbot County, Washington County, Wicomico County, Worcester County	YES
Wellpoint	STATEWIDE	YES

New Changes: Update on Implementation of "Individual RACs" (MCO-Specific Rate-Setting)

The existing risk adjustment and classification (RAC) rate setting methodology uses the same capitation payment for all MCOs for the four RAC "family" groupings. This method penalizes MCOs with higher risk members. To account for differences between MCOs, the Department is considering implementing a phased-in approach to MCO-specific risk adjustment for 2026. The Department consulted with the Johns Hopkins Adjusted Clinical Group (ACG) staff on the methodology and is currently reviewing preliminary results with stakeholders. Final decisions have yet to be made as of the publication date of this report.

Given the guardrails – setting rates at the bottom of the actuarial sound range, limiting a program-wide profit margin of 1.3 percent, capping administrative costs, ensuring that 85% of the capitation rates are used for medical costs, and implementing MCO specific rates –the Department does not believe further efforts are needed to reduce MCO profits.