District of Columbia's Managed Care Three-Year Cost Report

(2014 – 2016)

Presentation for:

District of Columbia Councilmembers

June 2017
Washington DC

Presentation Outline

- ☑ **Purpose Of The District's Managed Care Program**
- ☐ Summary Of Key Findings
- ☐ MCO 12-Month Cost Comparison
- ☐ Trends In MCO Medical Spending

Several Key Requirements Are Critical To The Successful Operation Of Managed Care Organizations (MCOs)

- As a part of its core mission, the District's three full-risk MCOs must accomplish the following:

1. Build an adequate network of providers and pay health care claims to providers on time using an electronic claims process, with documentation to facilitate payment reconciliation;

2. Create an accurate electronic record of all patient health care encounters and transmit the files containing this information to DHCF with a minimal error rate; and

3. Establish a system of care management and care coordination to identify health plan enrollees with special or chronic health care issues, and ensure that these enrollees receive access to appropriate care, ***while responsibly managing the cost and delivery of health care services for all enrollees.***

Generally, Observed Differences In MCO Beneficiary Medical Expenses Can Be Traced To A Few Key Factors

- Assuming adequacy in the base capitated payment rate, there are typically three important factors that impact whether a health plan will experience positive operating margins:

  - **Risk-adjusted payment rates.** With DHCF's payment model, health plans whose enrollees evince greater medical risk in the form of disease prevalence, receive higher risk scores and greater payments. MCOs with lower risk enrollees receive reduced rates. Thus, plans that properly align membership risk and utilization can gain a considerable advantage over others that do not.

  - **Provider contract rates.** Plans that negotiate contract rates that are adequate to build a solid network but lower than their competitors can realize significantly higher surpluses and lower future cost to the District. Conversely, health plans that choose to pay much higher rates than their competitors, other things being equal, will experience much higher beneficiary cost while annually creating upward pressure on the rates that the District must pay from year-to-year to ensure the program is solvent.

  - **Patient utilization management.** Relative differences across plans in the degree to which their enrollees unnecessarily access high end care as an alternative to less expensive treatment will drive variations in the operating cost of the health plans.

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Summary Of Key Findings On Differences In Managed Care Cost

- The payment model employed by the District of Columbia is calibrated to reflect expected health plan medical spending at 85% of total plan revenue with the remaining 15% to cover administrative cost, taxes, and a 2% profit margin.
  - Plans that spend more than 85% will either be forced to curtail administrative spending or suffer losses.
  - More significantly for the District, health plan medical spending that consistently exceeds 85% will raise the federal and local cost of the program because future rates are established based on historical spending.
- Although MedStar has a membership panel whose medical risk is moderate relative to AmeriHealth, the plan has generally experienced significantly higher cost than both AmeriHealth and Trusted based on data from 2016 as well as for the last three years of the current contract. The cost differences are witnessed for both Medicaid and Alliance beneficiaries and they remain especially pronounced for Alliance.

Summary Of Key Findings On Differences In Managed Care Cost

(Continued)

- In general, when data are examined for a recent 12 month period (May 2015 to April 2016), MedStar has the highest per member, per month cost across all MCOs, both in total and for several key service categories - inpatient, physician, and pharmacy services. To wit:

  - For inpatient services, the key cost driver for MedStar is the higher and disproportionate utilization of MedStar hospitals for inpatient care. Specifically 58% of the heath plan's inpatient admissions occur at the two MedStar acute care hospitals -- with 40% at one facility -- and the associated costs are 31% higher than the average across all MCOs.

  - MedStar's physician expenses -- at $51.20 per member, per month -- are nearly 20% higher than the average across all MCOs.

  - Finally, MedStar's pharmacy cost is 50% higher than the overall per-member, per-month MCO cost. The key factor is the significantly higher cost per prescription which may be due to a greater prevalence of persons in the MedStar Family Choice health plan with an illness -- Hepatitis C -- that is treatable but with expensive medication.

Summary Of Key Findings On Differences In Managed Care Cost

(Continued)

- However, these cost differences are not peculiar to one year. Data examined for 2014 through 2016 indicate the following:

  - For both Medicaid adults and children, MedStar's per-member, per-month cost -- relative to the levels observed for the other health plans -- has been consistently higher, in one year exceeding $404 per member, per month compared to AmeriHealth's ($358.49) and Trusted's ($302.73).

  - While the cost differences among the three health plans for children in Medicaid are moderate, the differences in the per-member per-month rates between MedStar and the other health plans for the Alliance program are stark.

    - Of note, in 2016, Alliance cost increased for all health plans because the full cost of drugs for this population was included in the MCO rates when DHCF could no longer access a federal pharmacy discount program.

    - However, this does not completely explain the fact that MedStar's expenses for the Alliance population at $341.50 per member per month were 40% higher than Trusted and 48% greater than observed for AmeriHealth.

Summary Of Key Findings On Differences In Managed Care Cost

(Continued)

- Clearly, some of the Medicaid differences in cost can be traced to the ability of both AmeriHealth and Trusted to successfully aligned beneficiary cost with their members' risk levels. MedStar, however, has struggled with this issue for three consecutive years, incurring much higher expenses than can be justified given the relative risk profile of its population.

- Finally, in two of the last three years, the data indicate that MedStar's members have been admitted to hospitals at a much higher rate than observed for members in the other two plans.

- These inpatient admission differences are especially acute for the Alliance population where MedStar had a rate that was more than two times higher than AmeriHealth and Trusted.

- And there are sharp differences across the health plans in the proportion of hospital admissions that occur at MedStar Health System. Specifically, persons in the MedStar health plan receive inpatient care from MedStar hospitals at two times the overall rate

Summary Of Key Findings On Differences In Managed Care Cost

(Continued)

- Together these findings suggest that MedStar Family Choice pursues a business model that relies more heavily on expensive inpatient services than its peers, disproportionately relying upon the MedStar Health System to provide the care.

- While this non-arm's length relationship clearly benefits the MedStar Health System as a whole, it also serves to inflate the cost of the District's managed care program, requiring a greater shift in local funding to MCOs than would otherwise be necessary.

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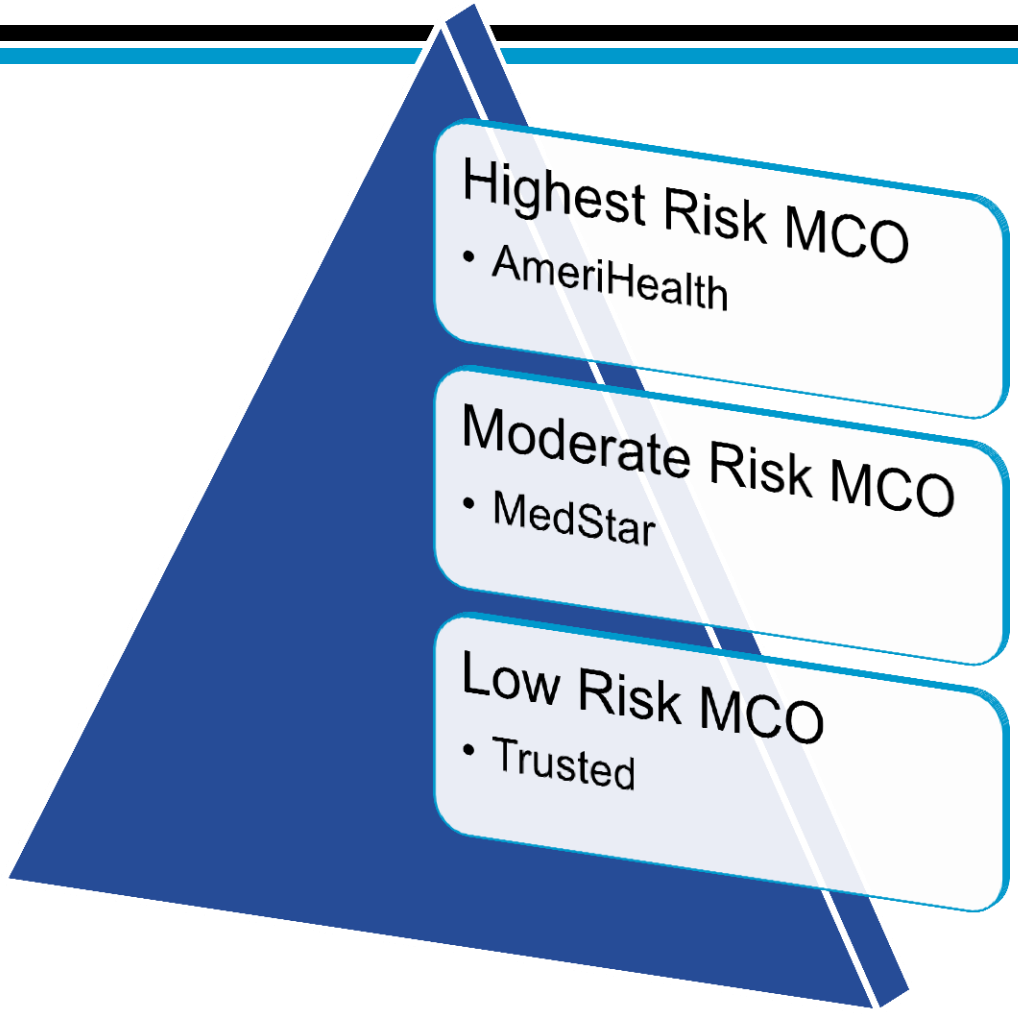
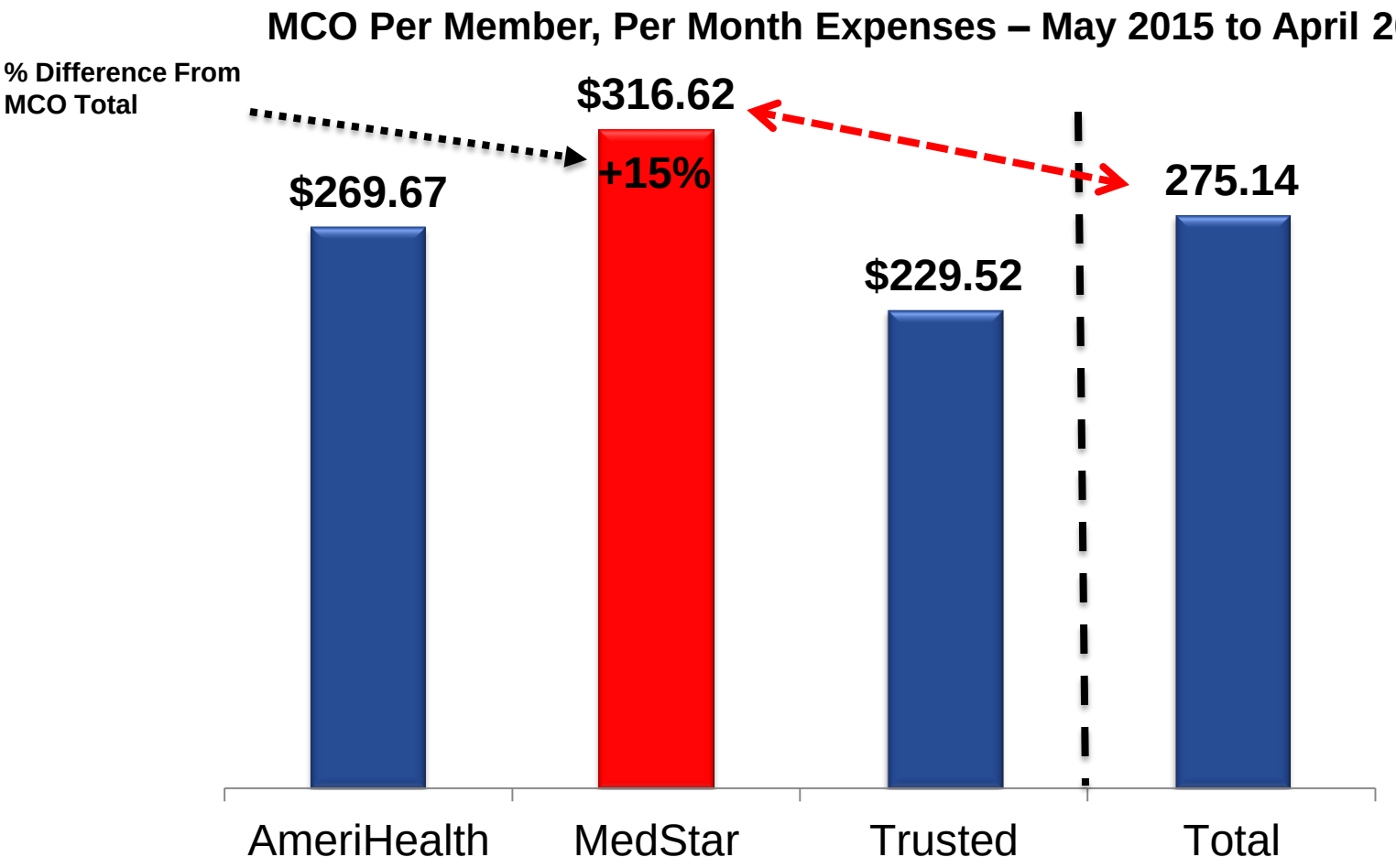
AmeriHealth Has Membership With The Highest Risk Among The Three Full Risk Health Plans



Note: The Department of Health Care Finance (DHCF) and Mercer selected the Medicaid Rx model to be used for risk adjusting payments. While many risk-adjustment models exist, Medicaid Rx was specifically designed for Medicaid programs. This model is a disease classification system developed by researchers from the University of California, San Diego (UCSD). Medicaid Rx uses pharmacy data to classify individuals into disease conditions. The pharmacy data were determined to be the most accurate and complete source of claims level information for the District's managed care program.

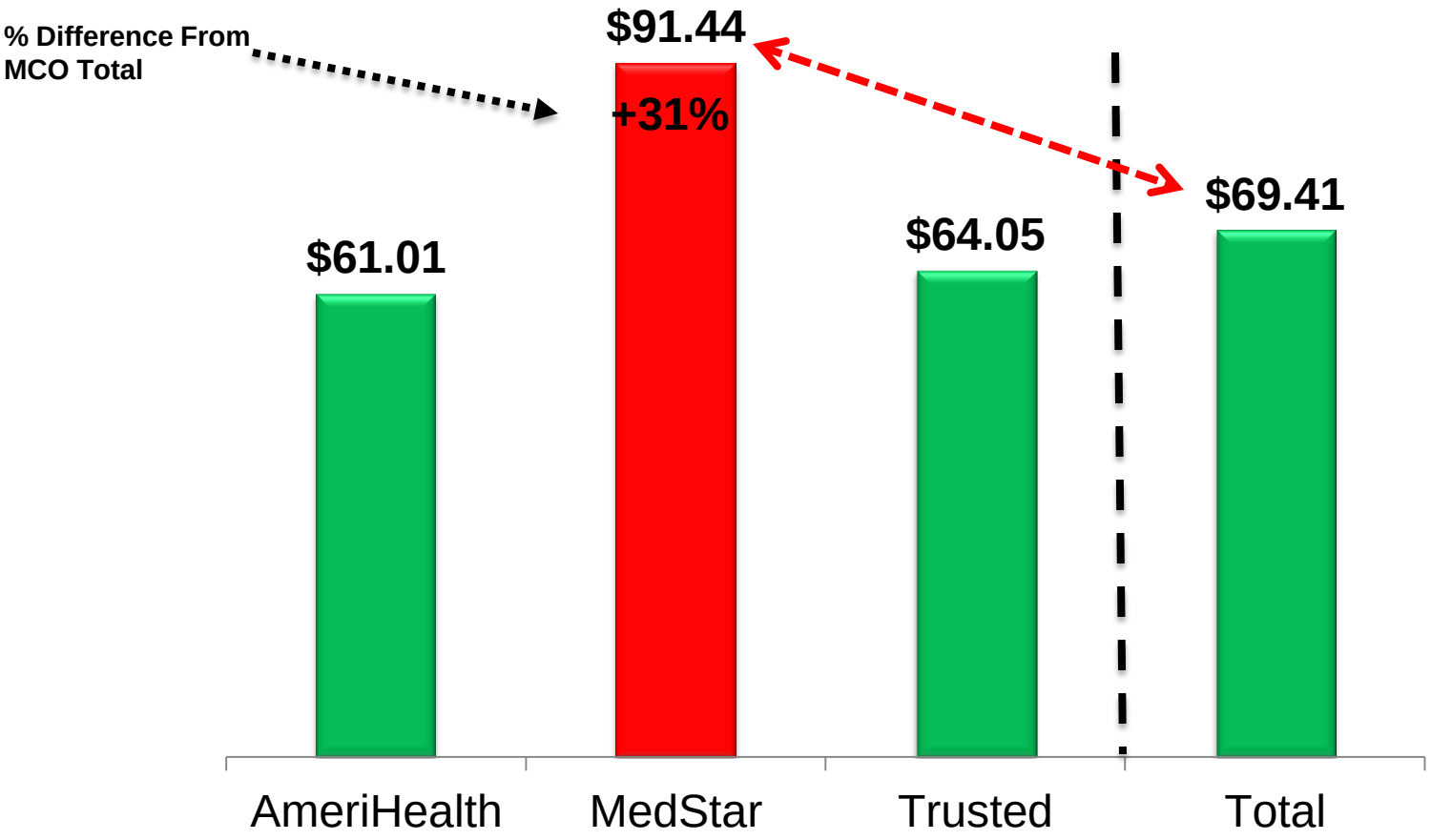
Despite This, MedStar's Expenses on A Per Member, Per Month Basis For All Services Is 15% Higher Than The Other Two MCOs



Notes: Expenses incurred from May 2015 to April 2016, paid as of June 2016.
Source: DHCF encounter data.

The Differences In Inpatient Cost For MedStar Are More Significant at 31%.

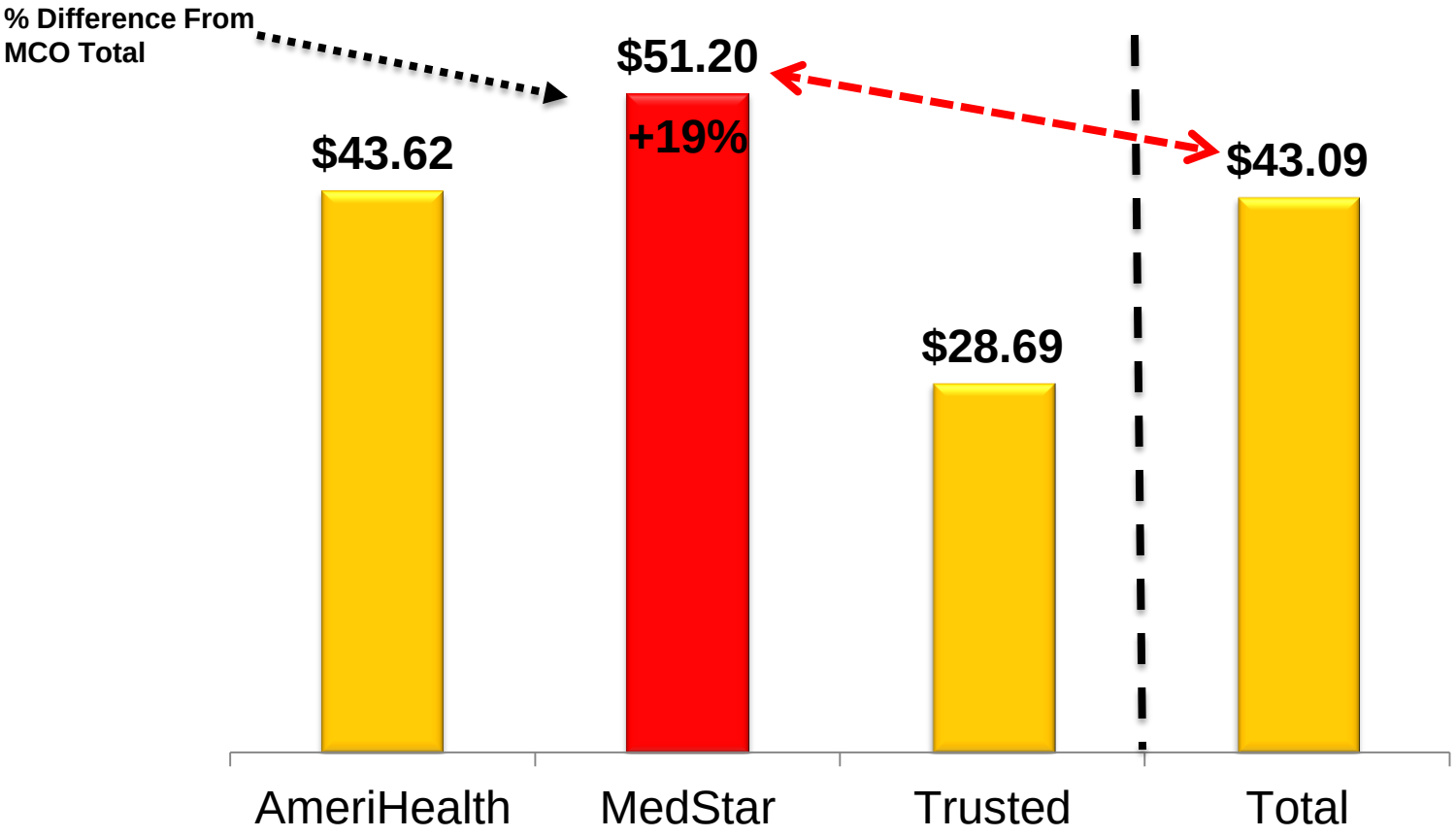
MCO Inpatient Per Member, Per Month Expenses – May 2015 to April 2016



Notes: Expenses incurred from May 2015 to April 2016, paid as of June 2016.
Source: DHCF encounter data.

MedStar Physician Cost Are Nearly 20% Higher Than The MCO Total

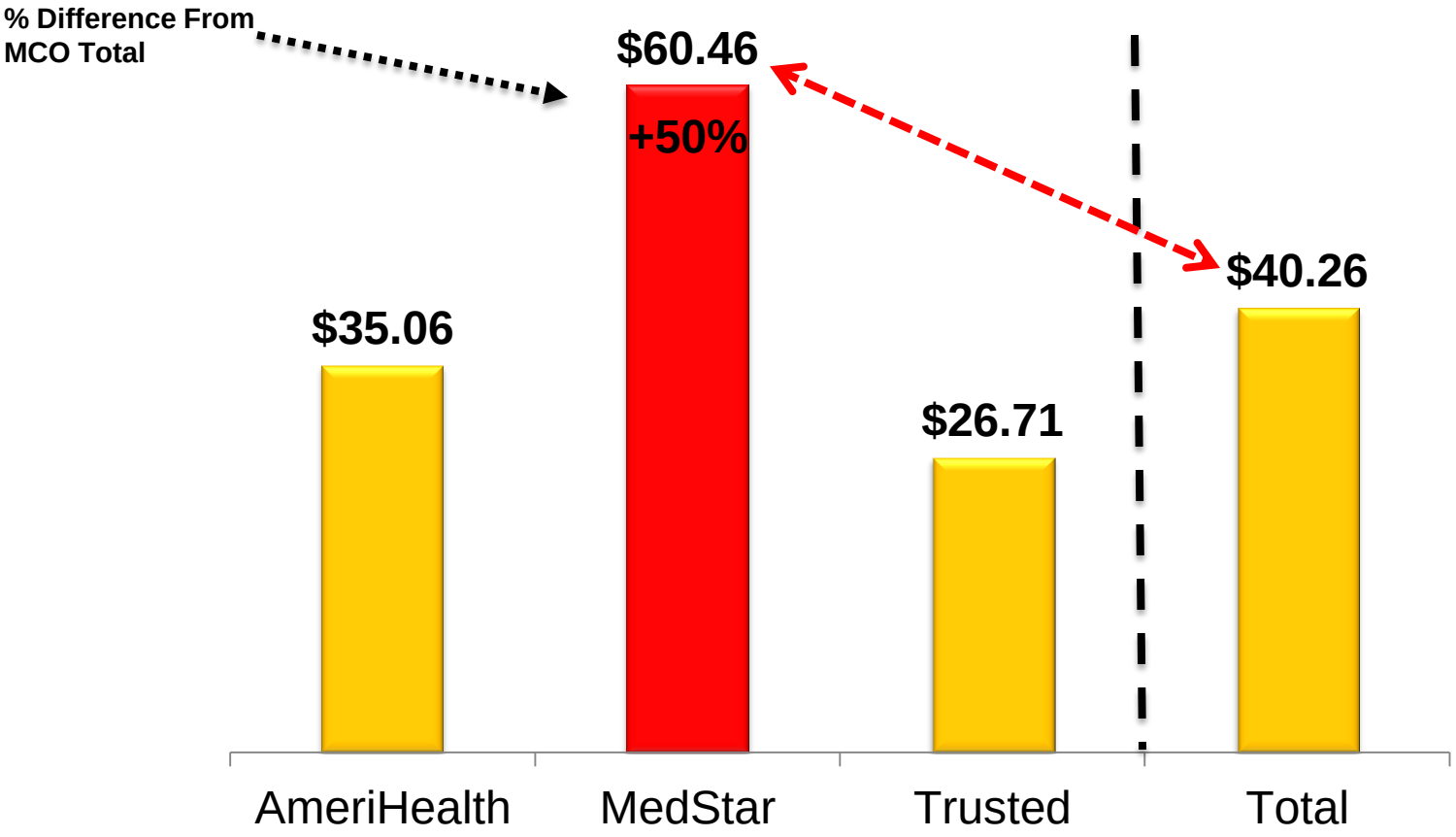
MCO Physician Per Member, Per Month Expenses – May 2015 to April 2016



Notes: Expenses incurred from May 2015 to April 2016, paid as of June 2016.
Source: DHCF encounter data.

MedStar Pharmacy Cost Differences Are Stark Relative To The Total For The Program

MCO Physician Per Member, Per Month Expenses – May 2015 to April 2016



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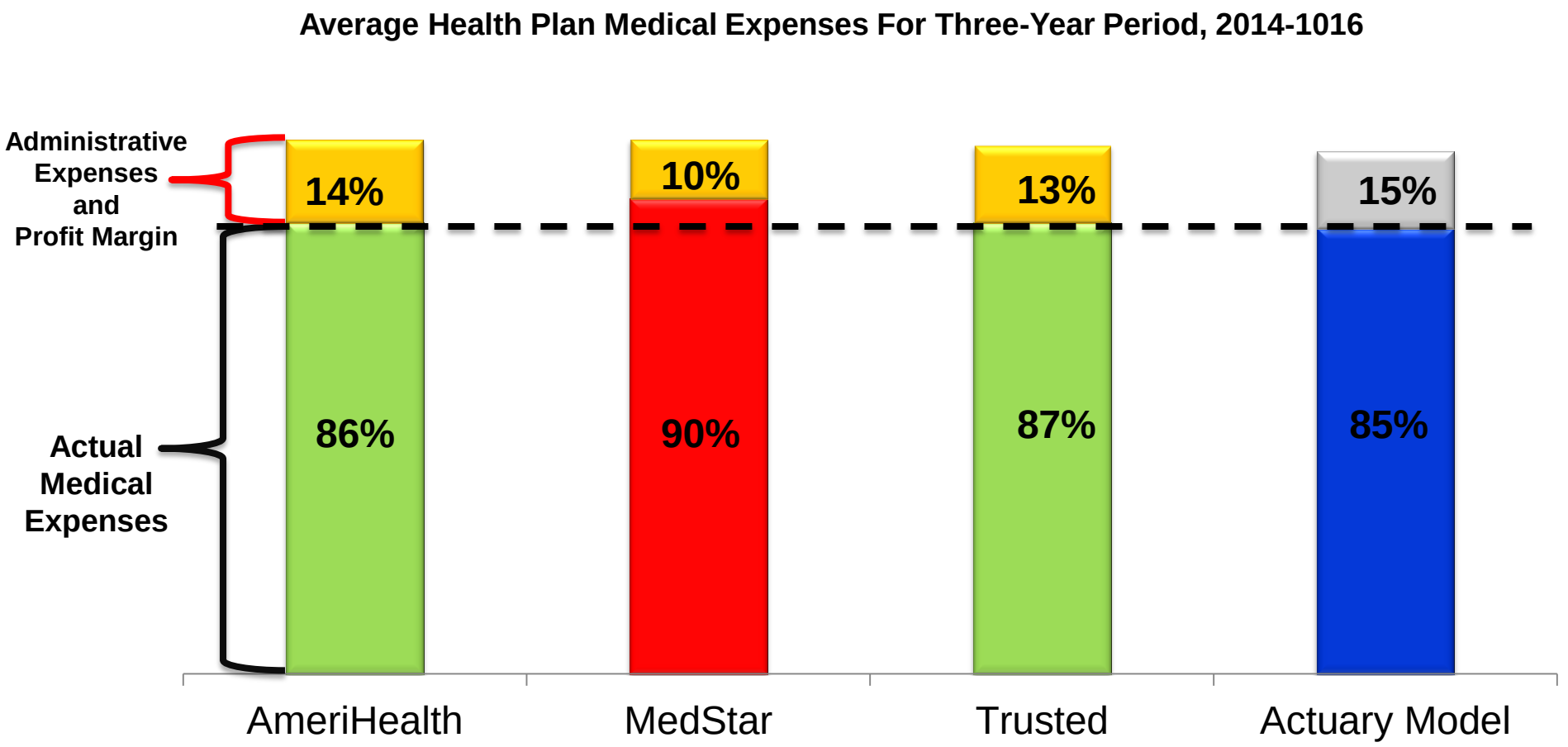
MedStar's Average Medical Spending Over A Three-Year Period Exceeds AmeriHealth's And Trusted's As Well As The Level Recommended By The Standard Actuary Model

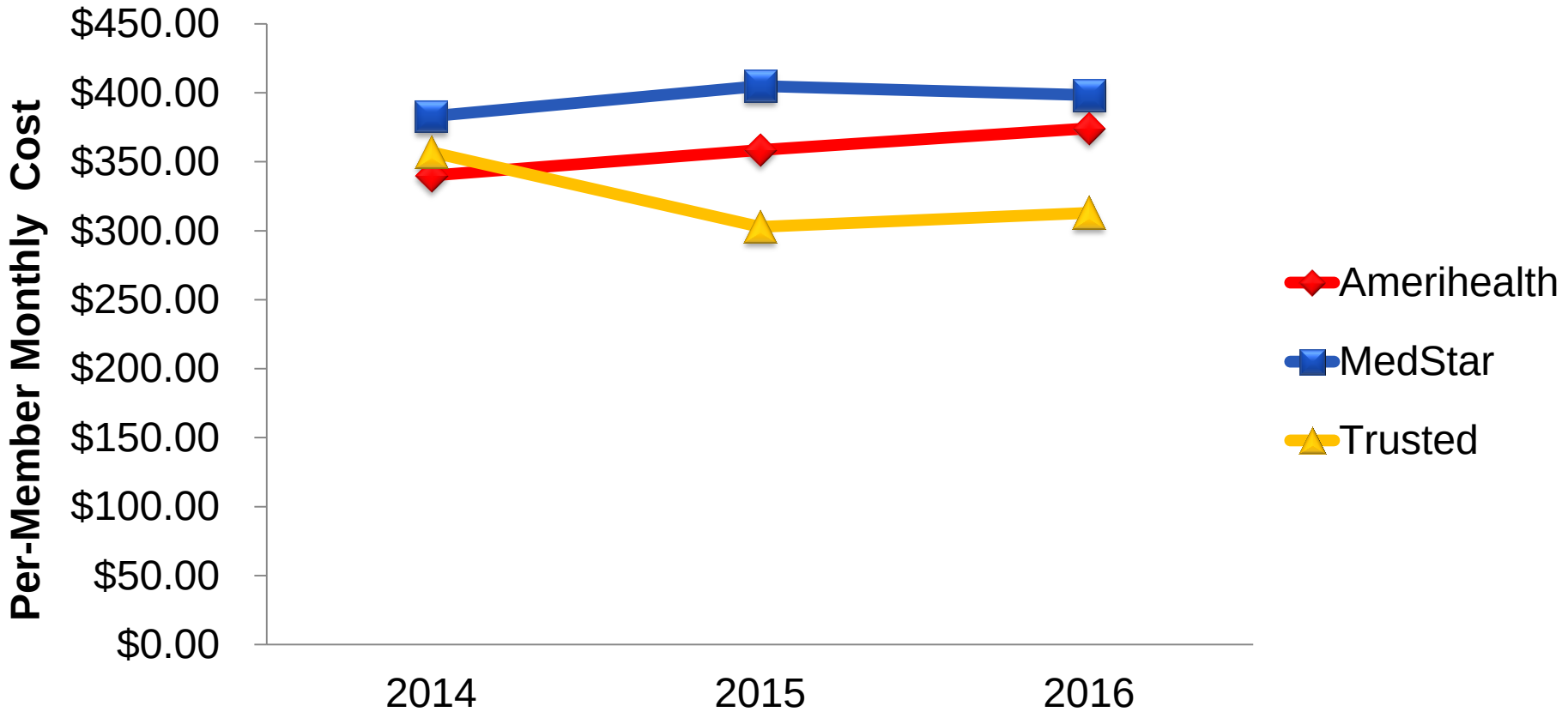


Notes: MCO revenue does not include investment income, HIPF payments, and DC Exchange/Premium tax revenue. Administrative expenses include all claims adjustment expenses as reported in quarterly DISB filings and self reported quarterly filings, excluding cost containment expenses, HIPF payments and DC Exchange/Premium taxes.

Source: MCO Quarterly Statement filed by the health plans with the Department of Insurance, Securities, and Banking for the three full risk MCOs. 2014 is July 2013 to June 2014.

MedStar's Per-Member Monthly Cost For Adults Has Remained Consistently Higher Than The Other Plans, Including AmeriHealth Which Has A Higher Risk Population

Adult Per-Member, Per-Month Cost For The Three Full Risk Health Plans, 2014-2016

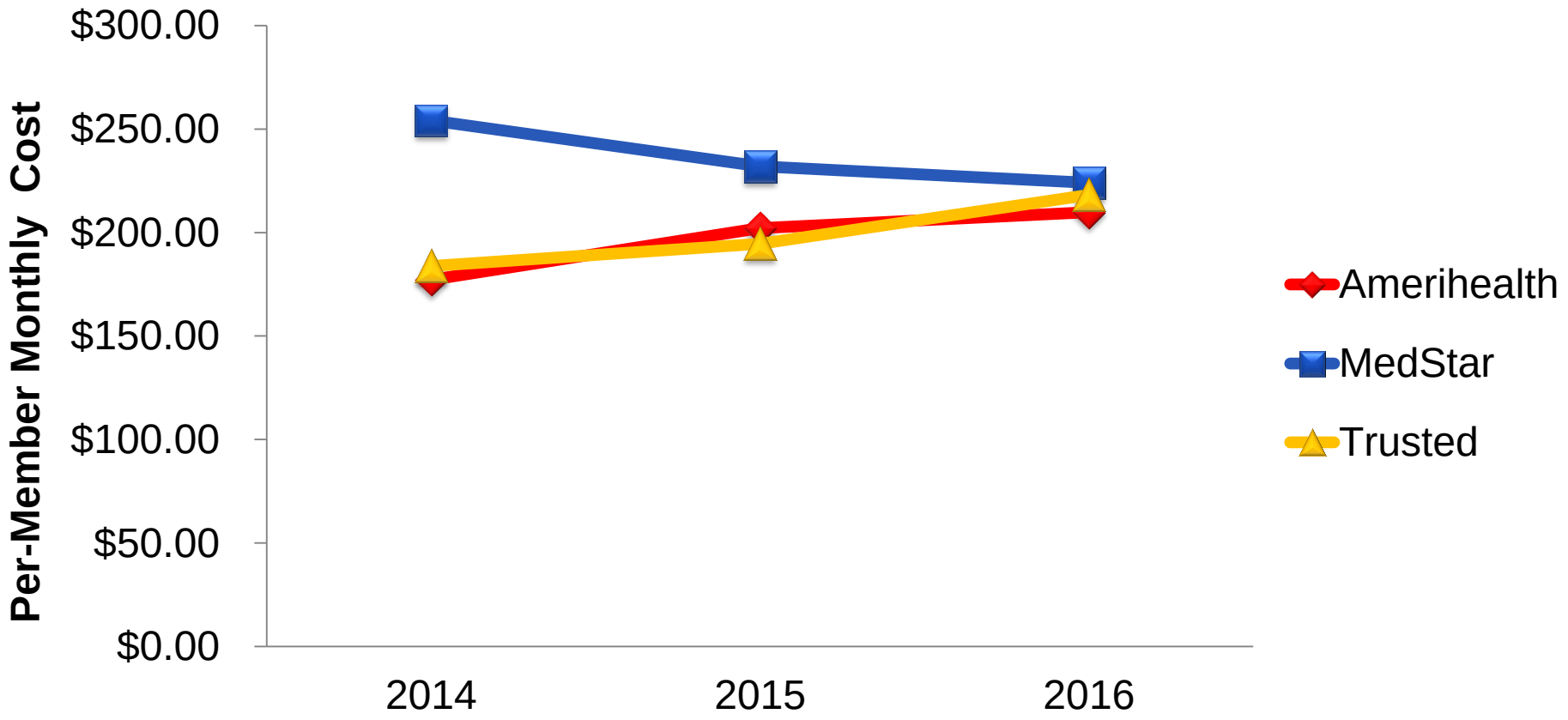


Notes: The expenses do not reflect adjustments to account for IBNR claims. Children defined as person up to age 21 in this analysis for the three full risk MCOs. 2014 is July 2013 to June 2014.

Source: Enrollment and expense data are based on self-reported MCO Quarterly Financial Data submitted directly to DHCF.

Although Moderated For Children, MedStar's Cost Remain Higher Than The Other Health Plans

Children Per-Member, Per-Month Cost For The Three Full Risk Health Plans, 2014-2016

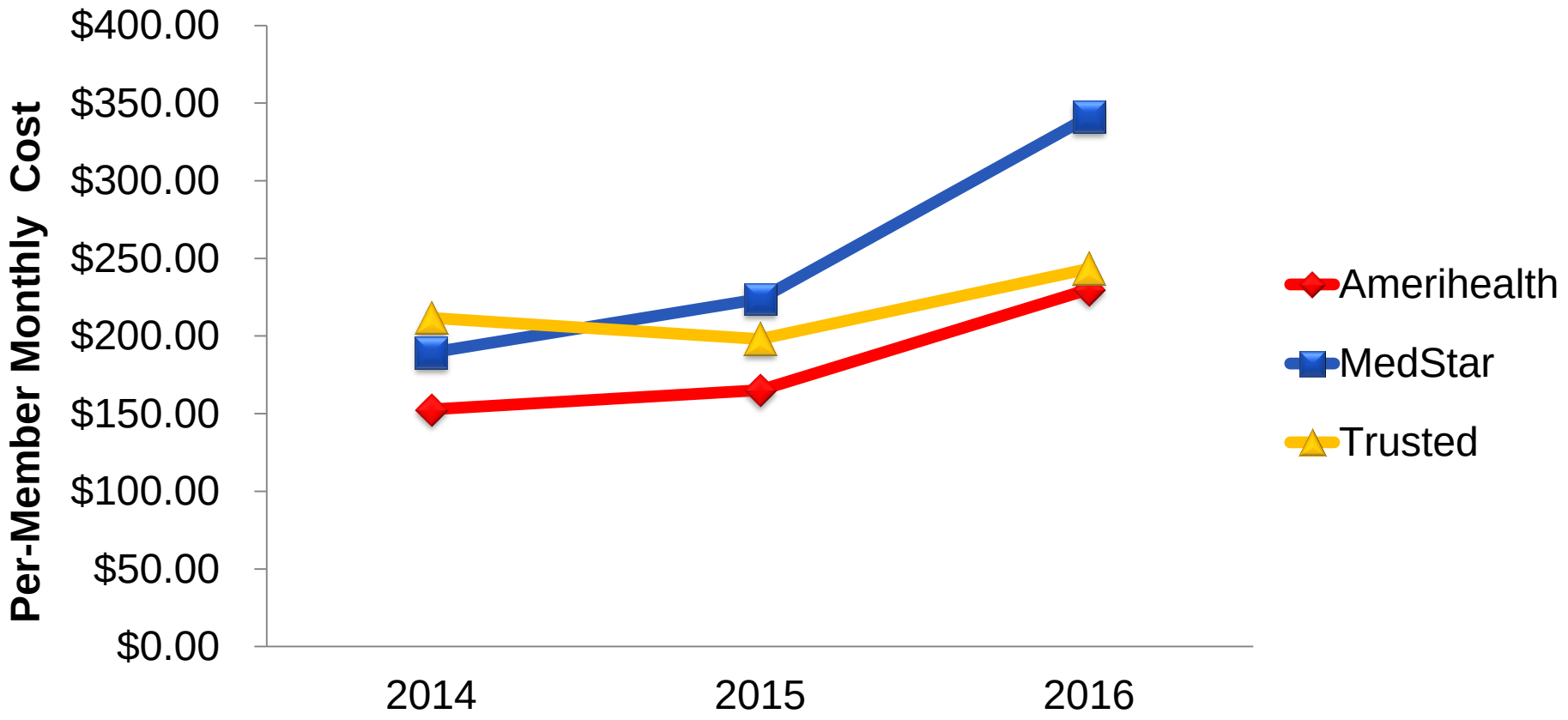


Notes: The expenses do not reflect adjustments to account for IBNR claims. Children defined as person up to age 21 in this analysis for the three full risk MCOs. 2014 is July 2013 to June 2014.

Source: Enrollment and expense data are based on self-reported MCO Quarterly Financial Data submitted directly to DHCF.

The Cost Differences Between MedStar And The Other Two Health Plans Are Especially Pronounced For The Alliance Program

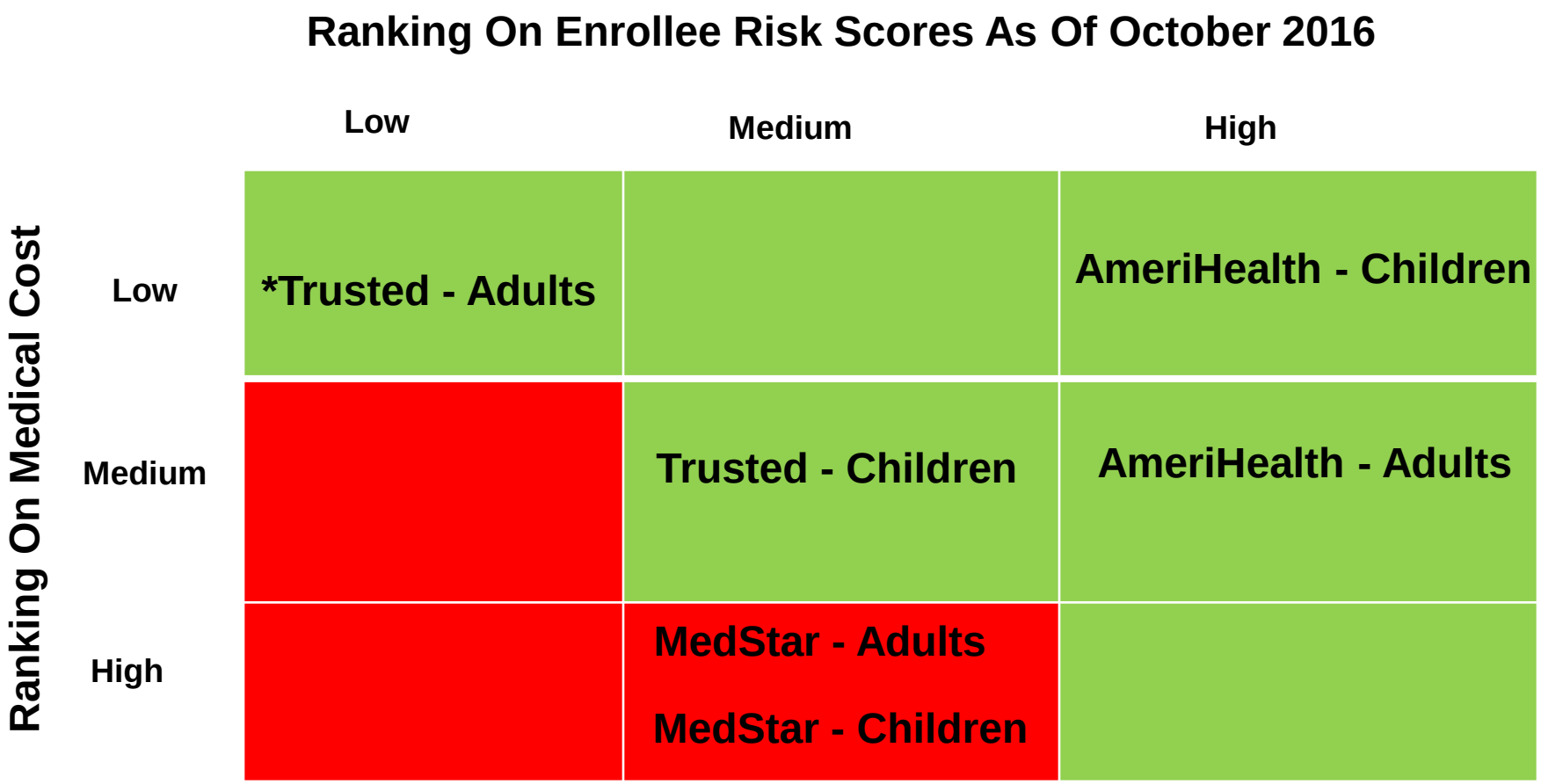
Alliance Per-Member, Per-Month Cost For The Three Full Risk Health Plans, 2014-2016



Notes: The expenses do not reflect adjustments to account for IBNR claims. Children defined as persons up to age 21 in this analysis for the three full risk MCOs.

Source: Enrollment and expense data are based on self-reported MCO Quarterly Financial Data submitted directly to DHCF.

In 2016, MedStar's Inability To Align Beneficiary Medical Costs With Assigned Risk Scores Repeated For The Third Time In Three Years

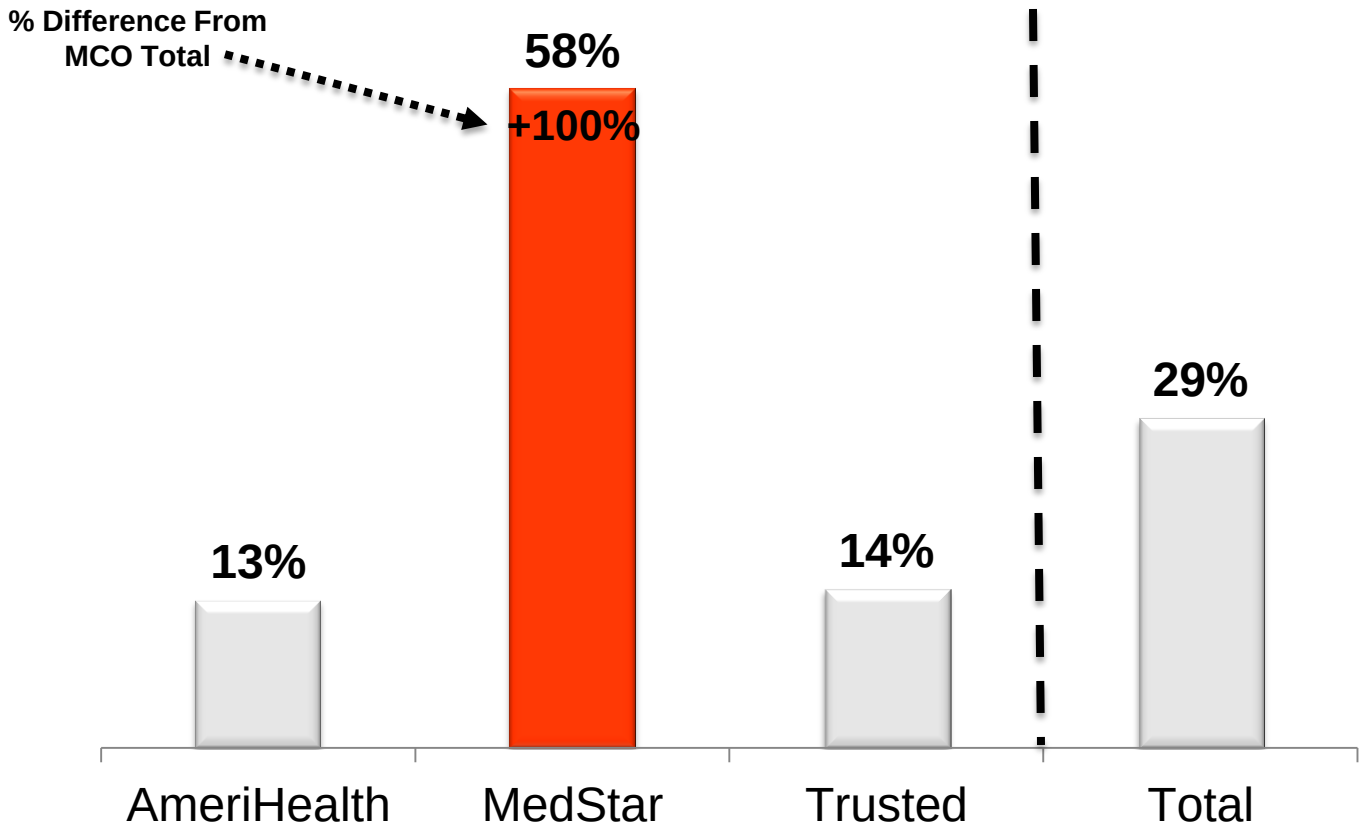


Notes: Expenses incurred from January 1, 2016 to December 31, 2016 and paid as of February 2017. The expenses do not reflect adjustments to account for IBNR claims. Children defined as persons up to age 21 in this analysis. Health plans' risk scores are derived from pharmacy data. *A large volume of claims denied by Trusted using new procedures have likely impacted Trusted's ranking as low-cost plan for adults on Medicaid .

Source: Enrollment and expense data are based on self-reported MCO Quarterly Financial Data submitted directly to DHCF.

Compared To The Other Plans, MedStar Family Choice Members Rely Heavily Upon MedStar Hospitals For Inpatient Services

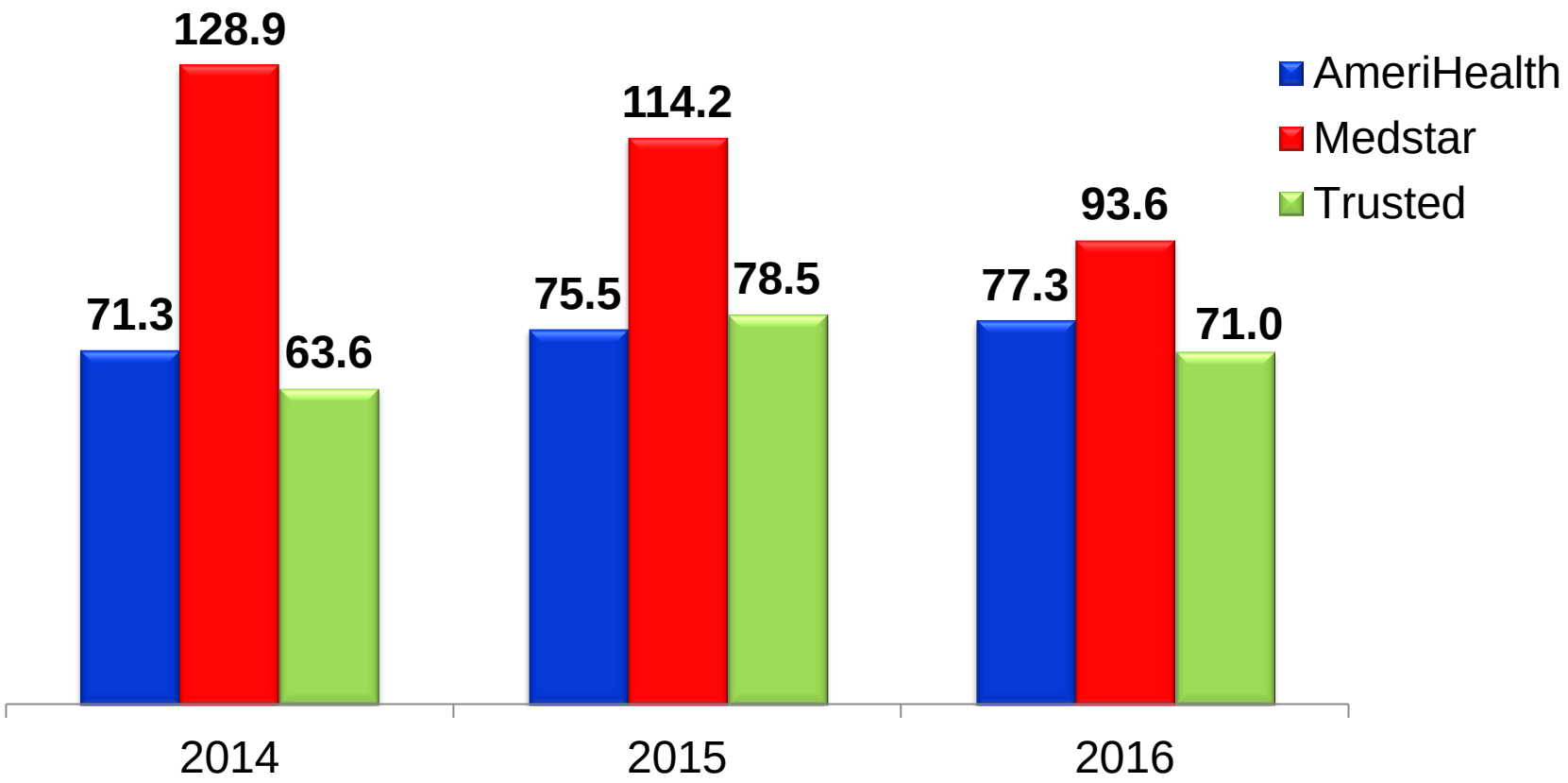
Proportion of MCO Inpatient Admissions At MedStar Facilities, May 2016 to April 2016



Notes: Expenses incurred from May 2015 to April 2016, paid as of June 2016 do not reflect IBNR claims .
Source: DHCF encounter data.

Also MedStar Tends To Have A Higher Rate Of Hospital Admissions Than Observed For The Other Plans

MedStar's Inpatient Admission Rates Relative To AmeriHealth And Trusted, 2014-2016

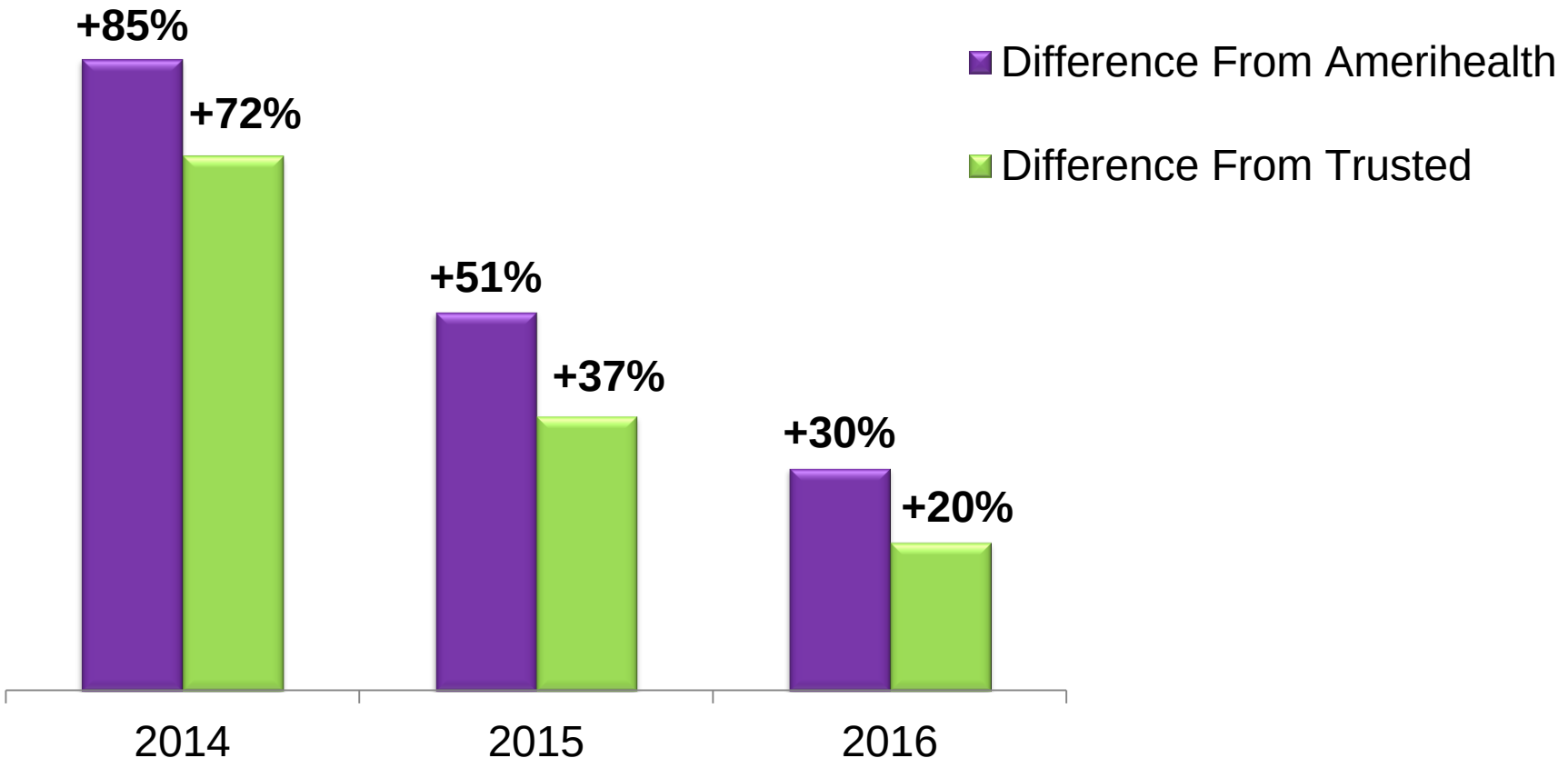


Notes: The current frequency of Index Admissions analysis for the period January 2016 to December 2016 includes encounters that are stamped by DHCF's MMIS both "Paid and Denied" encounters. 2014 is July 2013 to June 2014.

Source: Expense data are based on self-reported MCO Quarterly Financial Data submitted directly to DHCF.

Over The Course Of The Managed Care Contract Period MedStar's Inpatient Cost Have Remained Stubbornly Higher Than The Levels Observed For AmeriHealth And Trusted

MedStar's Inpatient Cost Differences Relative To AmeriHealth And Trusted, 2014-2016

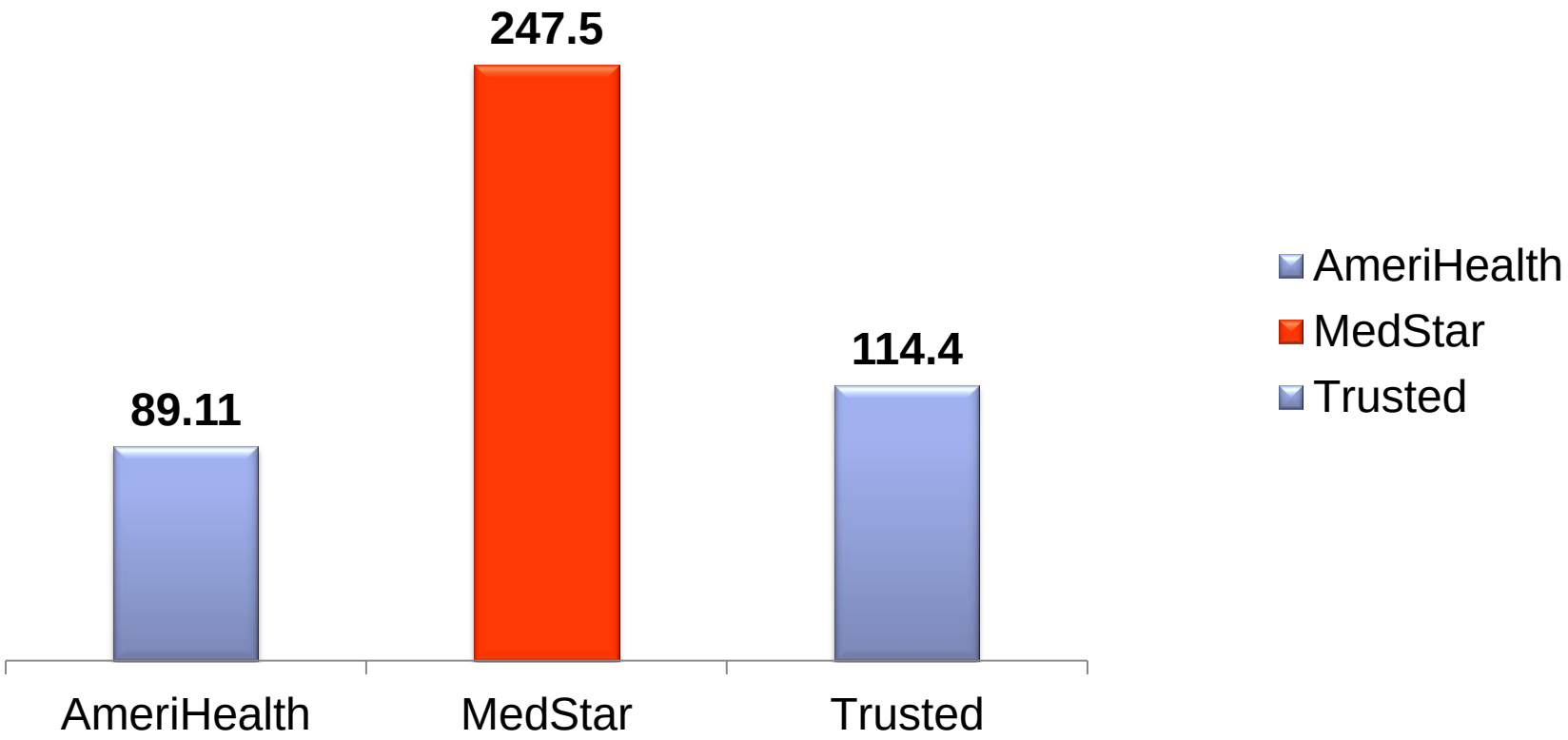


Notes: The expenses do not reflect adjustments to account for IBNR claims. Children defined as person up to age 21 in this analysis for the three full risk MCOs. 2014 is July 2013 to June 2014.

Source: Enrollment and expense data are based on self-reported MCO Quarterly Financial Data submitted directly to DHCF.

MedStar's Hospital Admissions Rate For Alliance Members In 2016 Was Considerably Higher Than Witnessed For The Health Plan's Peers

Total Number Of Alliance Inpatient Admissions In 2016 Per 1000 Members

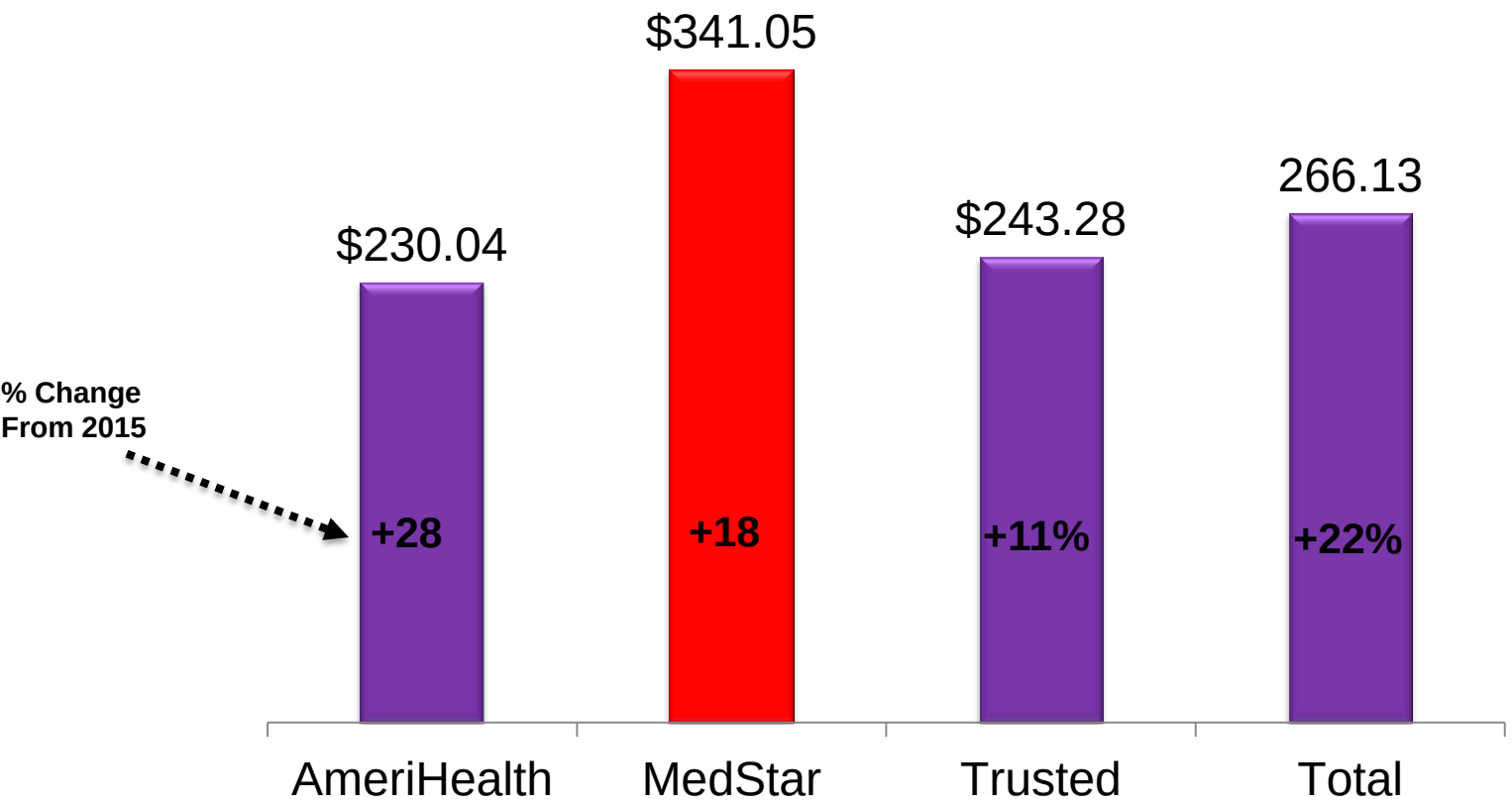


Notes: The current frequency of Index Admissions analysis for the period January 2016 to December 2016 includes encounters that are stamped by DHCF's MMIS both "Paid and Denied" encounters

Source: Expense data are based on self-reported MCO Quarterly Financial Data submitted directly to DHCF.

This Partially Explains Why MedStar's 2016 Alliance Cost Are At Least 40% Higher Than The Levels Observed For The Other Plans

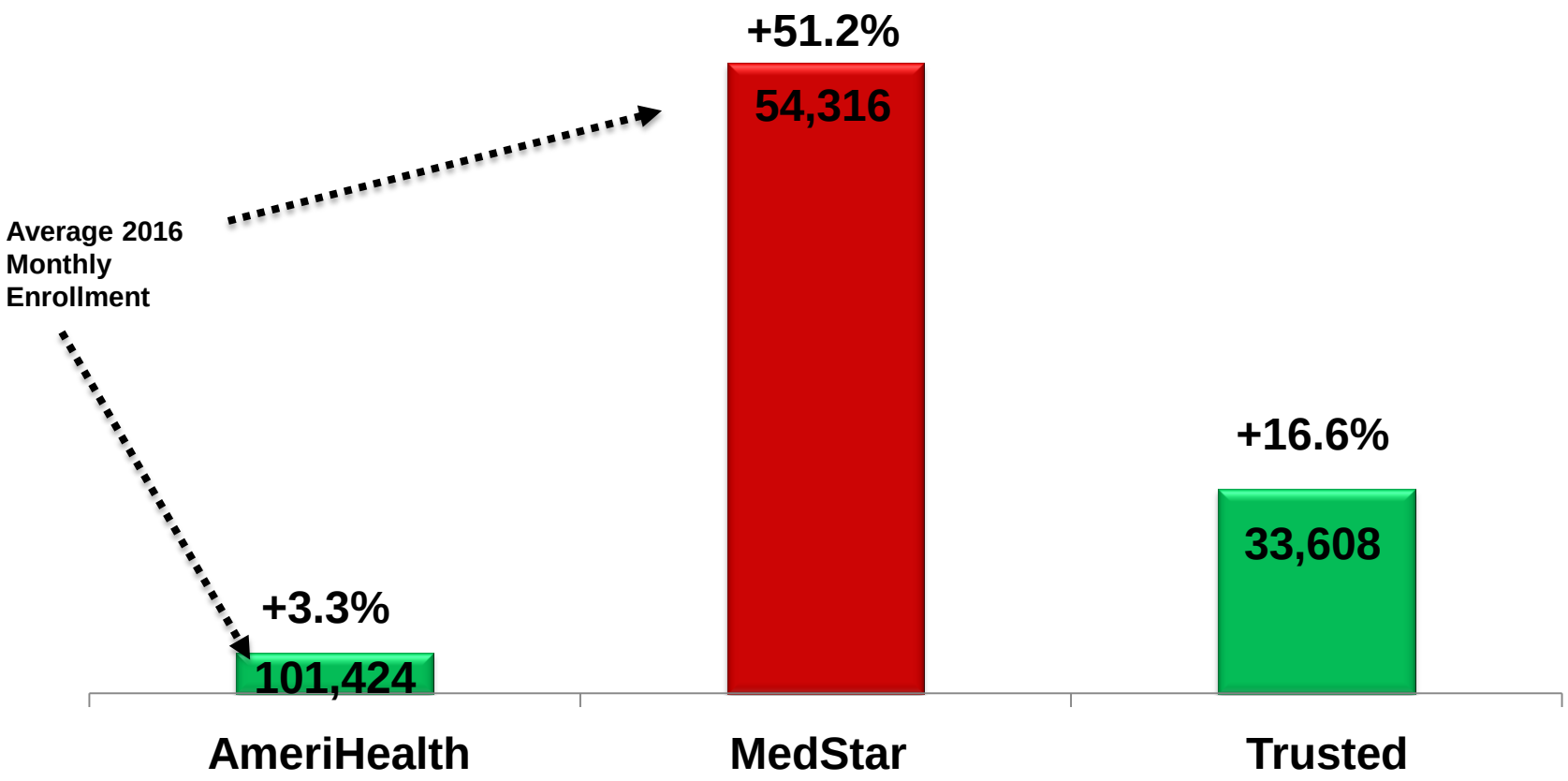
Alliance Adult Medical Expenses Per-Member, Per-Month, January 2016 to December 2016



Notes: Expenses incurred from January 1, 2016 to December 30, 2016 and paid as of January 2017 do not reflect IBNR claims .
Source: Enrollment and expense data are based on self-reported MCO Quarterly Financial Data submitted directly to DHCF.

Under This Non-Arm's Length System, The Rapid Growth Witnessed In MedStar's Health Plan Membership Serves To Aggravate The Cost Problem in The MCO Program

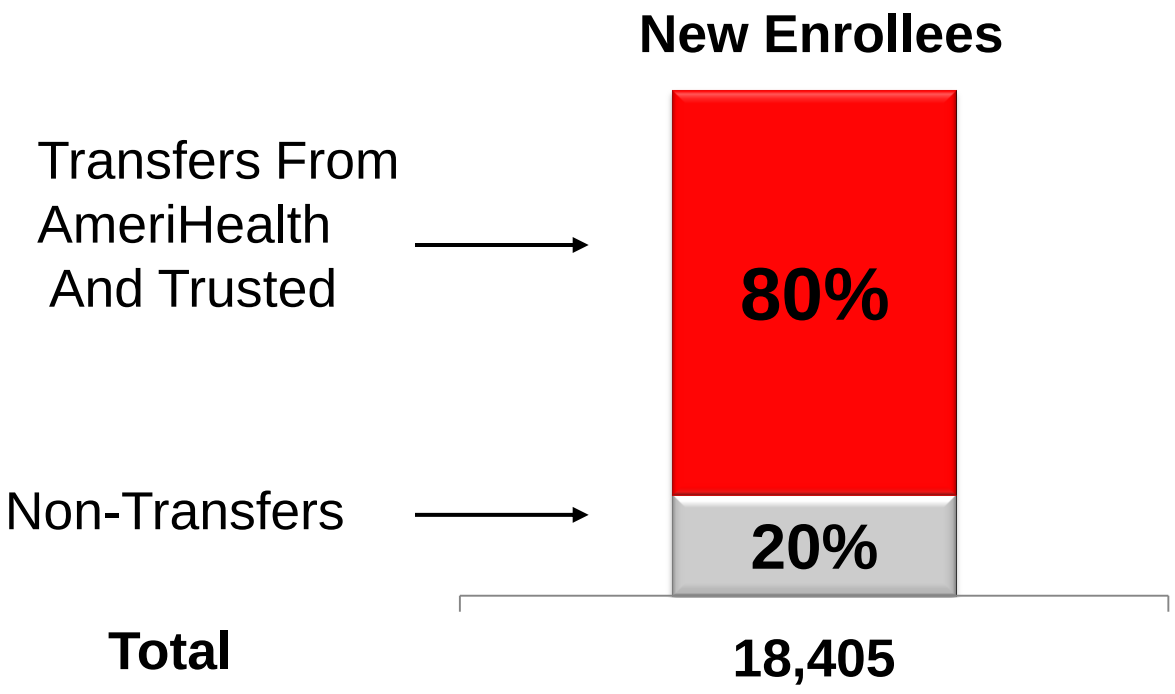
Change In Enrollment Levels From 2014 To 2016



Source: Enrollment data based on quarterly self-reported financial data submitted by the MCOs to DHCF.

This Growth Is Fueled Largely By Beneficiaries Who Have Enrolled With MedStar Through Transfers From The Other Two Plans

Portion Of MedStar's Membership Growth Attributable To Beneficiary Transfers From AmeriHealth And Trusted Since 2013



Source: Data from DHCF MMIS system and MCO Enrollment Broker

Since The MedStar Health System Has Not Executed Contracts With The Other Two Health Plans, The Transfer Of Beneficiaries To MedStar Family Choice Could Continue Unabated

Hospital	Contract with AmeriHealth	Contract with Trusted
Children's Hospital	✓	✓
George Washington Hospital	✓	✓
Howard Hospital	✓	✓
Providence Hospital	✓	✓
United Medical Center	✓	✓
Georgetown University Hospital		
Washington Hospital Center		

Note: Table includes the universe of acute care, DRG hospitals in the District's of Columbia that annually report at least $1 million in Medicaid revenue.