

## Rate Setting Considerations Safeguarding Medicaid Program Sustainability through Actuarial Soundness & Transparency

Nearly three-quarters of all Medicaid beneficiaries receive health care through Medicaid managed care organizations (MCOs). Under this arrangement, a state pays Medicaid MCOs an established amount per member per month for the utilization of covered services by Medicaid beneficiaries as established under a contract between the state and the Medicaid MCO. Risk adjustment mechanisms may be used to ensure payments account for the acuity of members and may include risk sharing arrangements, risk and acuity adjustments, medical loss ratios, and incentive and withhold arrangements.<sup>1</sup>

Under the statutory mandate included in §1903(m)(2)(A)(iii)<sup>2</sup> of the Social Security Act, capitated payments

to risk-based managed care plans must be made on an actuarially sound basis. Codified in regulations at 42 CFR § 438.4<sup>3</sup>, actuarially sound Medicaid capitation rates must be rates that “are projected to provide for all reasonable, appropriate, and attainable costs that are required under the terms of the contract and for the operation of the MCO, Prepaid Inpatient Health Plan (PHIP), or Prepaid Ambulatory Health Plans (PAHP) for the time period and the population covered under the terms of the contract.”<sup>4</sup> State Medicaid managed care rates must be developed in accordance with actuarial standards<sup>5</sup>, typically apply for a 12-month rating period, and are reviewed and approved by the Centers for Medicare & Medicaid Services (CMS) each year.

### MHPA'S POLICY POSITION

MHPA believes the capitation rate setting process is critical for ensuring that Medicaid health plans have reasonable and appropriate resources to manage the delivery of holistic health care solutions that provide improved health care outcomes for vulnerable Americans. Capitation rates also correlate with provider payment rates. This directly impacts provider willingness to participate in the Medicaid program, which also affects access to quality services for Medicaid beneficiaries.

MHPA supports adherence to two essential programmatic principles throughout the capitation rate-setting process to ensure the continued financial viability and stability of Medicaid MCOs and the sustainability of the Medicaid program: 1) actuarial soundness and 2) transparency.

#### ACTUARIAL SOUNDNESS

Actuarial soundness is a “north star” for the partnership between states and MCOs, as well as for

the overall sustainability of the Medicaid program. Policies related to actuarial soundness are intended to promote Medicaid program sustainability by ensuring adequate payments to providers that facilitate beneficiary access to care as well as funding for important initiatives including those that advance health equity. The policies enable managed care partners to work with states to manage the risk of future health care costs.

#### Actuarial soundness is a critical safeguard that:

- Is required by federal law and reiterated in CMS regulations and guidance.
- Encourages the participation of MCOs in the Medicaid market.
- Promotes Medicaid program sustainability and access to care by ensuring adequate payments to providers.
- Provides transparency to ensure that immediate and long-term impacts of revisions, changes, or adjustments are clear and understood across stakeholders.
- Supports innovation to improve health outcomes for Medicaid beneficiaries.

## TRANSPARENCY

Ensuring transparency in the rate-setting process, including contract and rate renewals, promotes active stakeholder engagement that supports greater clarity, the identification of issues, and better feedback. Proactive communication and ongoing dialogue throughout the rate-setting process can also support efficiencies. For example, the disclosure of all CMS renewal submission documentation related to contract and rate renewals would give MCOs proper context for how a Medicaid managed care program is evaluated from an efficiency or viability perspective, clarify critical assumptions such as explicit risk margin or cost of capital considerations, and would allow MCOs to contribute and innovate to address these focus areas.

MHPA encourages adoption of the following safeguards to support transparency throughout the rate-setting process:

» **Proactive communication with MCOs early in capitation rate development.**

Involving the MCOs early in these conversations establishes lines of communication for valuable feedback from MCOs as the parties with the most direct day-to-day contact with both Medicaid beneficiaries and healthcare providers. Moreover, early insights into key programmatic decisions being made by state Medicaid agencies, major methodological changes proposed by state actuaries, and any material issues or concerns surrounding the program that have been identified would allow MCOs to align internal systems and processes to departmental goals prior to the beginning of a contract.

» **Allow greater opportunity for MCO engagement and active participation throughout the rate development process.**

MHPA strongly recommends that MCOs have sufficient opportunity to provide constructive and valuable feedback on assumptions made by state actuaries throughout the rate development process. We encourage state actuaries to review their assumptions with MCOs while remaining open to amending them based on feedback.

The capitation rate development is a complicated process which can encounter unforeseen obstacles.

This was particularly true during the COVID-19 public health emergency (PHE), as state Medicaid agencies needed to react to constantly changing circumstances leading to delays that often resulted in the window of time for MCO capitation rate and contract review to be dramatically shortened.

Therefore, frequent communication with MCOs throughout the rate development process, including updates regarding base data development, service cost trends, and key programmatic changes, would allow the MCOs and state actuaries to discuss these topics and limit the content that is unknown when capitation rates are provided to MCOs.

Further, given that Medicaid is a federal-state program, allowing for a three-way dialogue between MCOs, the state Medicaid program, and the state's actuaries would allow for an effective and efficient feedback process.

» **Increased documentation of the rate setting decision-making process.**

Rate development involves substantial consideration of various assumption scenarios and methodologies. However, MCOs frequently see only the end- result of the work of state Medicaid agencies with their actuaries. It would be beneficial for Medicaid MCOs to more fully understand the considerations that go into individual rating decisions and the justifications used. Specific documentation should at least include:

- A complete set of rate certification documents submitted to CMS.
- A description of how any directed payments are incorporated into rates and accounted for in determining actuarial soundness.
- The logic and justification for assumptions and "proprietary" calculations (e.g., underwriting gain).
- Sufficient justification of any rate adjustment above the de minimis 1.5% during the rating period.
- Items that were analyzed and/or considered but deemed immaterial to the final rate development.
- A complete set of CMS renewal submission documents related to contract and rate renewal.

<sup>1</sup>For more information, please see KFF, Issue Brief, *10 Things to Know About Medicaid Managed Care*, March 2023. Available at: <https://www.kff.org/medicaid/issue-brief/10-things-to-know-about-medicaid-managed-care/>

<sup>2</sup>[https://www.ssa.gov/OP\\_Home/ssact/title19/1903.htm](https://www.ssa.gov/OP_Home/ssact/title19/1903.htm)

<sup>3</sup><https://www.ecfr.gov/current/title-42/chapter-IV/subchapter-C/part-438/subpart-A/section-438.4>

<sup>4</sup>"PIHP" stands for prepaid inpatient health plan; "PAHP" stands for prepaid ambulatory health plan.

<sup>5</sup>Actuarial Standard of Practice no. 49. [https://www.actuarialstandardsboard.org/wp-content/uploads/2015/03/asop049\\_179.pdf](https://www.actuarialstandardsboard.org/wp-content/uploads/2015/03/asop049_179.pdf)