Plan Management Navigator
Analytics for Health Plan Administration

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Please see our invitation to participate in the 2021 Sherlock Benchmarks on Page 4.

Medicaid Risk Adjustment Expenses and Premiums PMPM

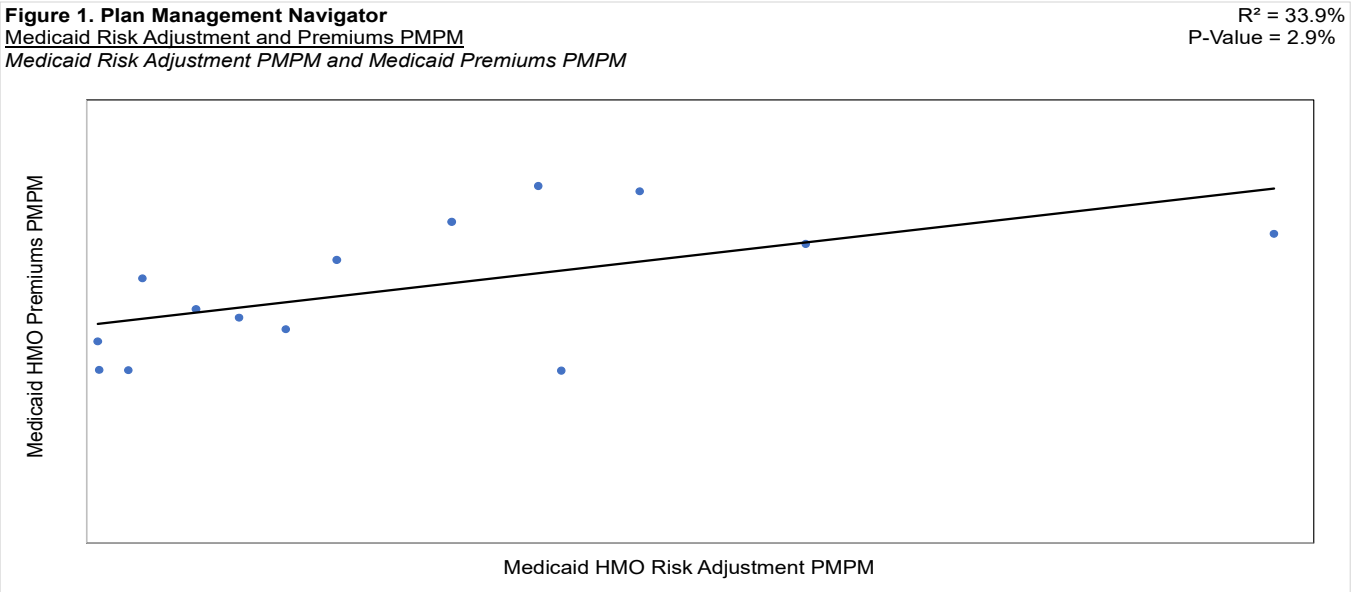
With the increase in Medicaid membership stemming from government COVID-19 mitigation efforts, Medicaid plans face a challenge on how to manage the risks associated with these new members. In this analysis, we try to measure the efficacy of risk adjustment expenses on premium rates.

Background

Government policies to mitigate the health effects of COVID-19 created severe disruptions on employer sponsored health insurance. As a result of mandated shut-downs or capacity limits, the unemployment rate peaked at 14.4% in April 2020, from a low of 3.8% in February. While the unemployment rate has since declined, it still remains elevated compared to recent years.

The economic effects of these efforts have been predicted by several organizations to lead to an increase in Medicaid enrollment, and there is historical precedence for this. Frenier, Nikpay and Golberstein cite the experience of the 2008–09 Great Recession, though it led to a much smaller job loss. In a study published in Health Affairs, they found that, "(a)mong the twenty-five states with June 1, 2020, total enrollment data, total Medicaid enrollment rose by 1.7 million people. This figure rose to 2.3 million people when we included the March 1–May 1 enrollment changes for seven additional states…"*

Figure 1. Plan Management Navigator
Medicaid Risk Adjustment and Premiums PMPM
Medicaid Risk Adjustment PMPM and Medicaid Premiums PMPM



*Frenier, Chris, Nikpay, Sayeh S., and Golberstein, Ezra. COVID-19 Has Increased Medicaid Enrollment, But Short-Term Enrollment Changes Are Unrelated To Job Losses. *Health Affairs* Vol. 39, No. 10: Children's Health. August 06, 2020. Importantly, the authors found that "enrollment growth was not systemically related to job losses." They note that "(j)ob losses increase the numbers of people newly eligible for Medicaid, but the inflow of new enrollees may also be affected by state-specific Medicaid eligibility policies, which may be uncorrelated with job losses." Factors cited included the continued commercial insurance availability of some newly unemployed through their employer, union or their spouse's employer.

Adding to the growing pool of Medicaid-eligible beneficiaries, the Medicaid disenrollment freeze under the Families First Coronavirus Response Act prohibits states from disenrolling people from Medicaid. Molina noted during its fourth quarter earnings call that the "…suspension of redeterminations was the major catalyst for our Medicaid membership growth in 2020."

Sherlock Benchmark Analysis

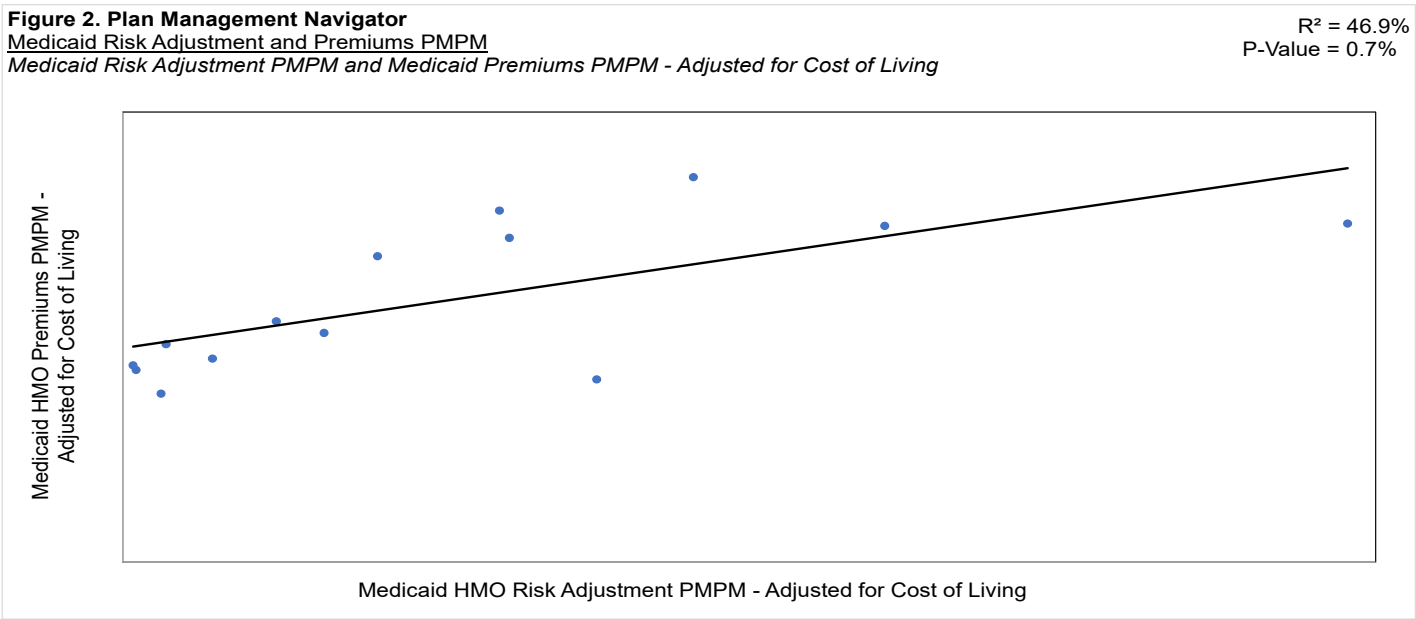
As a result of the increased population of Medicaid members, there is a growing need to accurately capture risk scores so that compensation to the plan is commensurate with their health care requirements. In this analysis we try to measure the efficacy of risk adjustment expenses on premium rates.

As shown in Figure 1 on the previous page, we regress Medicaid HMO Risk Adjustment PMPM costs and Medicaid HMO Premiums PMPM. The regression yields a P-Value of 2.9% and a R^2 of 33.9%.

The P-Value is a measure of the chance that the modeled relationship could have occurred through sampling error. We consider P-Values of 10% or less to be a "significant' relationship. The R^2 describes the degree to which the regression line explains the relationship: the more data points that are found on the slope, the stronger the relationship.

The modeled regression line implies that every $0.10 PMPM spent in Medicaid HMO Risk Adjustment results in about $15.00 PMPM in additional premiums. To put this in perspective, of the 14 plans included in this analysis, no plan spent over $1.50 PMPM in Risk Adjustment expenses.

Figure 2. Plan Management Navigator
Medicaid Risk Adjustment and Premiums PMPM
Medicaid Risk Adjustment PMPM and Medicaid Premiums PMPM - Adjusted for Cost of Living



We also performed this analysis adjusting for the cost of living, shown in Figure 2. The relationship was stronger with a P-Value of 0.7% and a R^2 of 46.9%.

To adjust for cost of living, we used the FY 2019 CMS Hospital Wage Index. Each plan's premiums PMPM and Risk Adjustment expenses PMPM were divided by their wage index relative to the fourteen-plan wage index average.

For plans in our Medicaid universe, a median of approximately 18% of their activities were outsourced, higher than the approximately 11% for all functions other than Pharmacy and Behavioral Health. Since the location of the risk adjustment activities that are outsourced is unknown, outsourcing is a consideration in this cost of living adjusted analysis.

The *Sherlock Benchmarks* 2020 edition are the source of the data used in this analysis. This analysis reflects data from years ended 2019. The costs in the *Sherlock Benchmarks* are segmented into nearly 70 functional or sub-functional areas, and up to 12 products. Because of this, costs for Risk Adjustment and Premiums for Medicaid can be identified and measured.

The *Sherlock Benchmarks* define Risk Adjustment as the expenses associated with the analysis of clinical data in order to match government compensation with the risk factors of members. This includes adjustment for the "three Rs": permanent risk adjustment, transitional reinsurance and transitional risk corridors. (3Rs, 3 Rs, three R's)

For Medicaid products, this includes activities such as those supporting Chronic Illness and Disability Payment System (CDPS) system. Activities in this function include determining which members should be moved from TANF to higher capitation products.

As an aside, we capture operational metrics related to chart reviews for risk adjustment including the following:

- Total Number of Chart Reviews
- Total Number of Charts Subject to Multiple Passes
- Risk Score Improvement Percentage
- Dollar Reimbursement Yield

Invitation to Participate in the 2021 Sherlock Benchmarking Study

We invite you to consider participating in the *Sherlock Benchmarks*.

The validated, robustly-populated *Sherlock Benchmarks* provides a unique tool to identify cost variances and prioritize cost management activities to have the greatest impact on improving your health plan's overall operating performance. The current environment makes participation by your health plan an appropriate and necessary response to the strong incentives to cost efficiency.

The *Sherlock Benchmarks* have been called the "Gold Standard" by leading health care consultants. With cumulative participation of 893 health plan years, health plans serving almost 180 million insured Americans are licensed users of the *Sherlock Benchmarks*. In the most recent cycle, the 35 participating health plans served 62 million members.

We anticipate launching the Blue Cross Blue Shield survey in the next week and the Independent/Provider-Sponsored universe in approximately one month. We will launch the Medicaid and Medicare universes in June.

Participation entails efforts on your part since useful outputs require relatively granular inputs. However, the cost is modest.

Contact

Please reach out to Douglas Sherlock if you are interested or considering participation. *You will be among good company.*

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