Risk Mitigation and Rate Setting: Report on Discussion at Expert Roundtable

Medicaid and CHIP Payment and Access Commission

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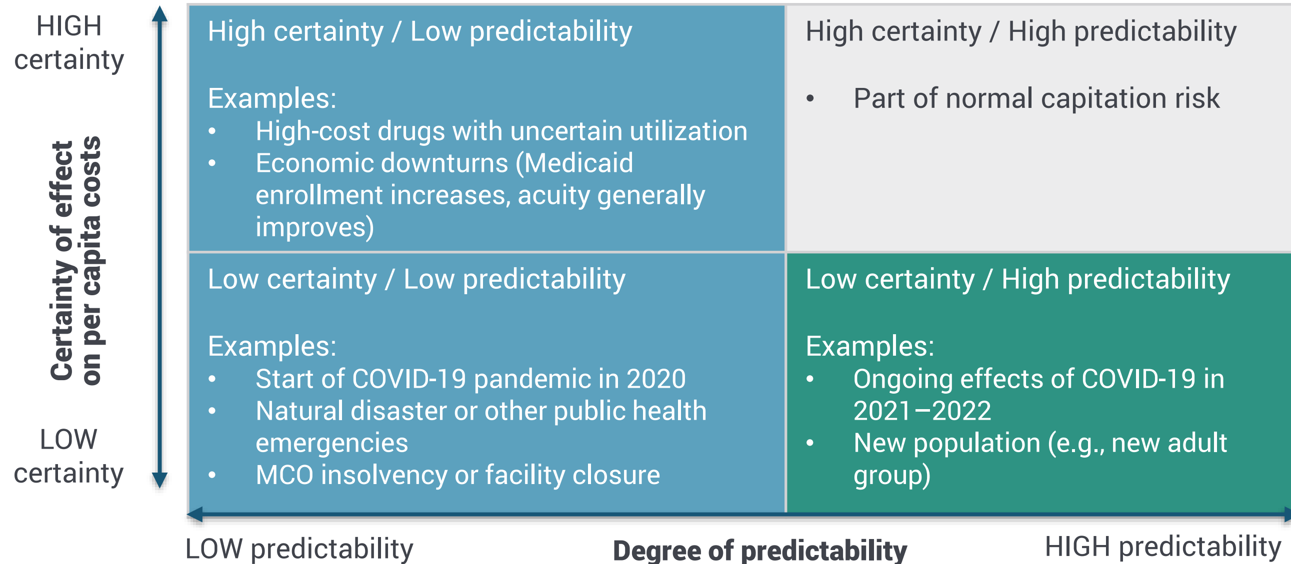
Overview

- Background
  - Capitation rates and risk mitigation
  - Unexpected shocks
- Themes from roundtable
  - Risk mitigation strategies
  - Regulations and approval process
- Potential policy options
- Next steps

Background

- Almost 70 percent of Medicaid beneficiaries are in comprehensive managed care
- Prepaid capitation rates transfer risk to managed care organizations (MCOs)
  - Capitation rates remain in effect for the one-year rating period
  - Mid-year change generally requires recertification and approval
- Risk mitigation strategies can help account for inherent uncertainty in rate setting to limit MCO losses and gains
  - Risk mitigation must meet actuarial soundness requirements
  - Risk mitigation must be specified in rate certification prior to the start of the rating period

Unexpected Shocks



Themes from Roundtable

Roundtable

- Participants
  - Federal and state officials
  - Actuaries representing states and MCOs
  - Provider organizations
- Topics
  - Are there any shocks that cannot be addressed with the current risk mitigation tools? If so, what additional tools would be helpful?
  - Are there any administrative/process challenges to implementing the tools once an unexpected shock occurs? Are there any suggestions on how to improve the process?

Types of Risk Mitigation

- Minimum medical loss ratio (MLR)
- Risk corridor
- Acuity adjustment
- Risk adjustment
- High-cost risk pool
- Per event payment
- Carve out
- State directed payment

Use of Risk Mitigation Strategies

- Minimum MLR: states may recoup funds if MCO does not meet minimum MLR
  - Majority of states currently have minimum MLR with remittance
  - Not preferred by plan representatives because it does not protect MCOs from losses
- Two-sided risk corridor: State and MCOs share losses or gains within certain bands
  - Works well for long-term shocks and where the uncertainty and risk is broadly spread across beneficiaries and services (e.g., COVID-19 pandemic)
  - Implementing risk corridors retroactively long after the shock occurs can be problematic for MCOs

Use of Risk Mitigation Strategies, continued

- Acuity adjustment: Retrospective adjustment to the capitation rates during or after the rating period based on actual acuity of enrolled population
  - Not budget neutral; overall state spending may increase or decrease
  - Useful as a way to make a mid-year rate adjustment but need for current acuity data may not be suitable for quick response to a shock
- Risk adjustment: Adjust capitation payments to each MCO to account for relative differences in acuity across plans
  - Budget neutral adjustment; does not affect overall state spending
  - Useful to address plan-to-plan uncertainty and risk but not overall program uncertainty

Use of Risk Mitigation Strategies, continued

- High-cost risk pool: Receive funding from the risk pool based on the number of claims or individuals meeting the pool criteria
  - Useful for high-cost, low-frequency outlier events (e.g., high-cost drugs)
  - Risk pool funding may not fully cover risk
  - Need to consider how any pool funds flow down to the providers
- Per event payment or carve out: Remove some costs from capitation payment and pay on the occurrence of the event or state carves out service or population and pays on fee-for-service basis
  - Best used in situations that are either hyper-specific (e.g., hepatitis C drugs) or applied broadly to a specific condition or population (e.g., children with cystic fibrosis)
  - Important to balance incentives so that MCOs still manage care appropriately

Use of Risk Mitigation Strategies, continued

- State directed payment: State directs MCOs to pay providers according to specified rates and methods
  - Useful to target payment rate increases to support specific providers due to significant underutilization related to a shock
  - Reacting to a shock is more challenging in a managed care environment due to the directed payment approval process

Regulations and Approval Process

- Regulations require risk mitigation mechanisms to be documented prior to the start of the rating period
  - Misalignment between when a shock occurs and start of a rating period
  - Recertification and approval process could slow response to a shock
  - Plan representatives noted that retroactive implementation of risk mitigation is challenging because they have already made strategic decisions on how to allocate resources
- States and actuaries expressed a need for additional CMS guidance on what support materials are required to gain approval for a mid-year change to implement a risk mitigation strategy

Potential Policy Options

- Expedited rate review
  - CMS could institute an expedited rate review process that would be triggered under certain situations (e.g., public health emergency)
  - Could be similar to the Appendix K that states may utilize during emergency situations to request an amendment to approved 1915(c) waivers
- Multi-year risk mitigation
  - Rating period defined as 12 months in regulations, meaning risk mitigation mechanisms are expected to be settled at the end of the rating period
  - Allowing risk mitigation to combine financial experience over multiple rating periods could reduce some administrative complexity and the number of financial settlements

Next Steps

- Feedback on the potential policy options
  - Guidance on which options to further develop
  - Any additional information or analyses needed
- Would not be included in the June report, but can continue into next report cycle

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