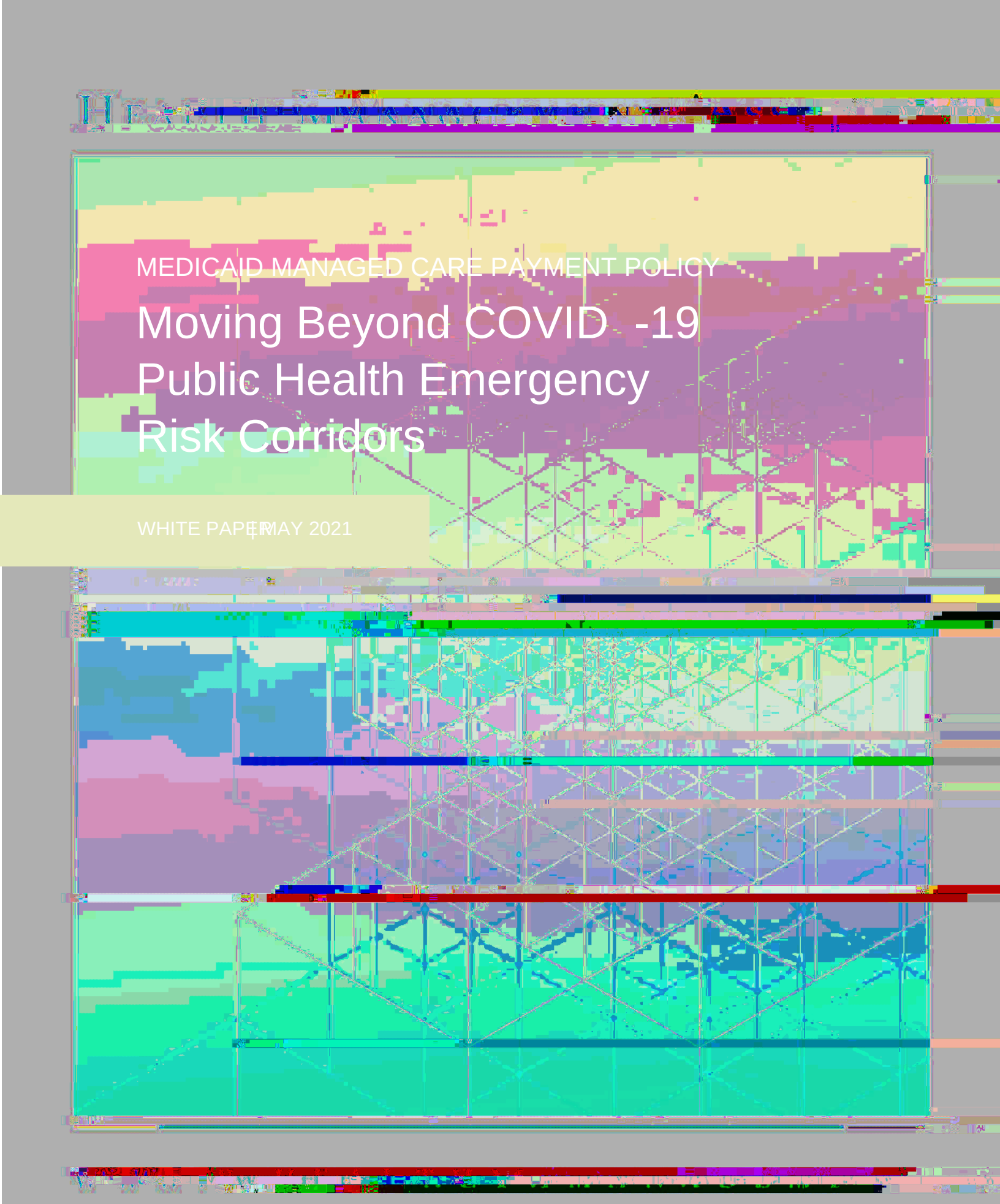

MEDICAID MANAGED CARE PAYMENT POLICY

Moving Beyond COVID-19 Public Health Emergency Risk Corridors

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Medicaid Risk Corridors for Managed Care

State Medicaid programs use risk corridors when there is significant financial uncertainty around the accuracy of the capitation rates. In these instances, risk corridors are used

measures the ratio of MCO spending on medical and related benefits such as care management compared to total MCO capitation revenue. Finally, some states

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recoupperceived windfalls to MCOs due to the COVID-19 PHE impact on MCO spending. These state actions were consistent with guidance issued by CMS in 2020.[36] In this guidance, CMS allowed states to

- +/- 6%10% of 102% of the claim cost component will be 25% to the MCO and 75% to the state
- +/-

- Weaken MCO Incentives to Achieve State Goals. Risk corridors weaken MCO incentives under capitation. As previously described, state Medicaid programs have many goals for Medicaid managed care. Inappropriate use of risk corridors or prolonged use of risk corridors can undermine key state goals.

  - Budget Predictability. Risk corridors do not add to budget predictability, consistent with the way in which risk corridors work and the risk assumed by the state Medicaid program.
  - Spending Growth and Access and Quality. Risk corridors can weaken MCO incentives to control costs. Less attention to cost control initiatives under risk corridors can lead to inflationary increases on Medicaid spending as additional costs are added to the historical base data.[28] Risk corridors can also weaken MCO incentives to improve access to preventive services, which can lead to greater healthcare use of more expensive care and lower quality care for the individual.
  - Program integrity. Risk corridors can weaken MCO incentives to strengthen program integrity efforts. In turn, this can lead to lower care quality for members should provider network quality suffer.
  - Innovation. Risk corridors can lead to reduced MCO investment in innovations.

State Actions to Recoup Capitation Revenue Windfalls

Over the last year, state Medicaid programs also established risk corridors in 2020 and 2021. This was done to

corridors, this option has three advantages. First, it maintains the incentives under a risk capitated model. Second, it represents a fair approach for accounting for COVID-19's impact on MCO spending. All MCOs participate equally in risk mitigation. Under risk corridors, MCOs operating inefficiently prior to COVID-19 would be unlikely to return revenue to the state under risk corridors. These MCOs might even receive additional revenue via the risk corridor. Finally, capitation rate adjustments are easier to implement.

Any adjustment to the capitation rate will need to meet the actuarial soundness standard and continue to provide adequate and accurate payment to MCOs to address the services and populations the MCO insures. A capitation rate adjustment cannot be driven simply to address state budget challenges.

Enforce the Medical Loss Ratio

Enforcing the MLR is a second option state Medicaid programs could use to limit MCO losses and gains due to changes in the assumptions used in capitation rate setting. State Medicaid programs could enforce the MLR requirement.[32] Many states with COVID-19 risk corridors had MLR "floors" in place to limit MCO profits.

Changes in the underlying assumptions used in the capitation rate development process can occur during the contract year for many reasons. These changes could result from changes in covered populations, covered services, and payment rates for

in which state Medicaid programs develop capitation rates, which is by aggregating all MCO experience data and establishing a single capitation rate for the MCOs specific capitation rates.

This option maintains the principles of the full risk capitation model for MCOs. As compared to more permanent, traditional and MCO-specific risk corridors, this option has two advantages. First, it maintains the incentives of capitation. Second, it represents a fair approach to accounting for COVID-19's impact on MCO spending. This option neither punishes efficient MCOs or rewards inefficient MCOs.

Summary of Payment Options

Due to the PHE and pandemic shut down, healthcare spending declined. States adopted COVID-19 risk corridors to recoup MCO excess revenues. At the same time, states also reduced MCO incentives around efficiency and effectiveness by using risk corridors. The following table provides a summary of the alternative payment options with a more positive impact on MCO incentives.

The Impact of Payment Options on MCO Incentives		
Adjust Capitation Rate	Enforce MLR	Adopt Statewide Risk Corridors
Maintains capitation rates' incentives by making an adjustment, preferably prospectively, to the capitation rate.	Maintains capitation rates' incentives by enforcing the MLR.	Maintains capitation rates' incentives by applying a rate reduction to total MCO spending based upon a statewide benchmark.

Conclusion

In response to the COVID-19 PHE, many state Medicaid programs adopted COVID-19 risk corridors in 2020 to recoup capitation revenue windfalls from MCOs. States' risk corridors varied extensively in their design and use. Some states made risk corridors active to pre-COVID-19. Other states excluded MCO spending on important quality improvement activities. Still, other states decided to maintain risk corridors in 2021.

As the healthcare system moves beyond the immediate effects of the COVID-19 PHE, state Medicaid programs may turn to several payment models to restore MCO incentives to achieve state goals and to drive greater value though innovation.

Health Management Associates

Founded in 1985, Health Management Associates (HMA) is a national consulting firm specializing in publicly funded healthcare, its stakeholders, and its beneficiaries. Dedicated to serving vulnerable populations, HMA assists policymakers, providers, health plans and communities in navigating the ever changing healthcare environment with a focus on making programs like Medicaid and Medicare operate more effectively. HMA can be found online at healthmanagement.com and on Twitter @HMAConsultants and on LinkedIn at https://www.linkedin.com/company/health-management-associates/

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