



**2019 HEALTH**  
MEETING

JUNE 24-26 | PHOENIX, AZ



## **Session 14, Impact of Quality Improvement Activities on Medical Loss Ratio**

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# Impact of Quality Improvement Activities on Medical Loss Ratio

2019 SOA Health Meeting – June 24, 2019

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# Agenda

- Quality Improvement Activities (QIA) Overview
- QIA's Impact on Medical Loss Ratio (MLR)
- QIA Identification & Regulation
- Trends in Commercial MLR Rebates
- Questions & Discussion

# QIA Overview

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## What is QIA?

- The MLR Regulations and Guidance define QIA:
  1. To qualify as QIA, the expense must pass a 4-part test; and
  2. Primarily fall into one of a five categories
- To qualify as QIA expenses, an expense must be directly related to the quality improvement activity
- QIA expenses are tracked throughout the year to be included in MLR filings

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# How QIA Fits into MLR Rebate Calculation

$$\text{MLR} = \frac{\text{Incurred Claims} + \text{QIA}}{\text{Premiums} - \text{Applicable Taxes \& Fees}}$$

# Four Part Test for QIA

To be considered QIA, the activity must be designed to do the following:

1. Improve health quality;
2. Increase the likelihood of desired health outcomes in ways that are capable of being objectively measured and of producing verifiable results and achievements;
3. Directed toward individual enrollees or incurred for the benefit of specified segments of enrollees or provide health improvements to the population beyond those enrolled in coverage as long as no additional costs are incurred due to the non-enrollees; and
4. Grounded in evidence-based medicine, widely accepted best clinical practice, or criteria issued by recognized professional medical associations, accreditation bodies, government agencies, or other nationally recognized health care quality organizations.

# Five Types of QIA

**In addition to the 4 prong QIA test, the activity must primarily fall into at least one of the following categories:**

1. Improve health outcomes through the implementation of activities such as quality reporting, effective case management, care coordination, chronic disease management, and medication and care compliance initiatives, including through the use of medical homes
2. Prevent hospital readmissions through a comprehensive program for hospital discharge that includes patient-centered education and counseling, comprehensive discharge planning, and post-discharge reinforcement by an appropriate health care professional
3. Improve patient safety, reduce medical errors, lower infection, and mortality rates
4. Promote health and wellness
5. Enhance the use of health care data to improve quality, transparency, and outcomes and support “meaningful use” of health information technology



# Examples

QIA is...	QIA is not...
Coaching programs designed to change member behavior ( ex. smoking)	Activities designed primarily to control or contain costs
Comprehensive discharge planning	Activities paid for with grant money
Prospective prescription drug utilization review	Claims adjudication
Wellness assessments	Fraud prevention activities*

\* Fraud prevention activities count towards the MLR numerator for Medicare  
MLR Instructions - <https://www.cms.gov/CCIIO/Resources/Forms-Reports-and-Other-Resources/Downloads/2017-MLR-Form-Instructions.pdf>

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# Fraud Reduction Expenses

## Commercial & Medicaid

- No specific allowance for fraud reduction, prevention, and recovery expenses, though there is support for making this a numerator item.
- Partial recognition by limiting reductions in claims due to fraud recovery to the amounts spent on recovery efforts (e.g., legal fees)

## Medicare

- All fraud reduction expenses can now be included in the numerator.
- *Per CMS: “Fraud prevention activities can improve patient safety, deter the use of medically unnecessary services, and can lead to higher levels of health care quality”*

# QIA's Impact on MLR

# Industry QIA as PMPM and % of Premium

Commercial

2014-2016

\$3 PMPM

0.7% - 0.9%

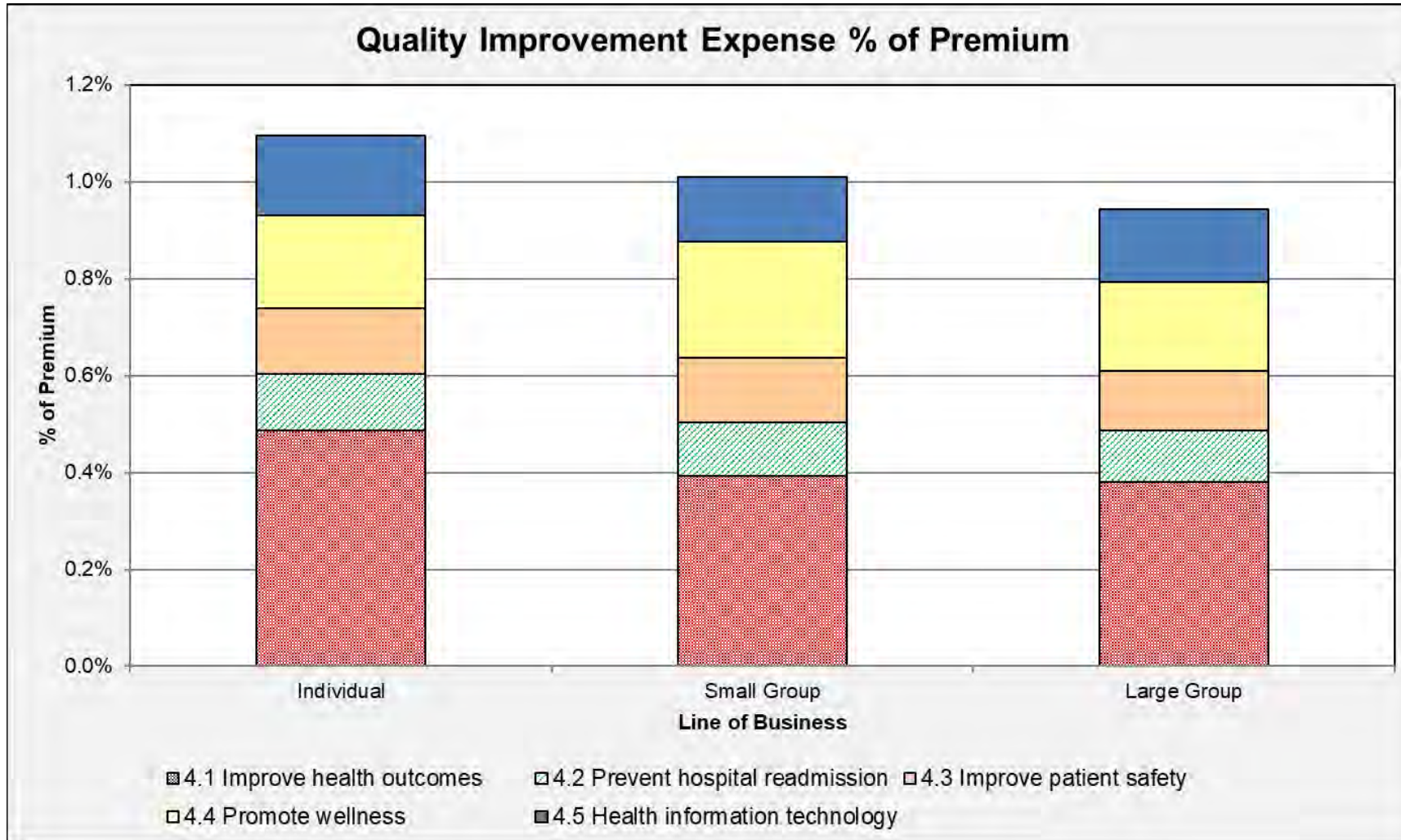
2017

\$4 PMPM

0.9% - 1.1%

# QIA Expense Distributions – Commercial

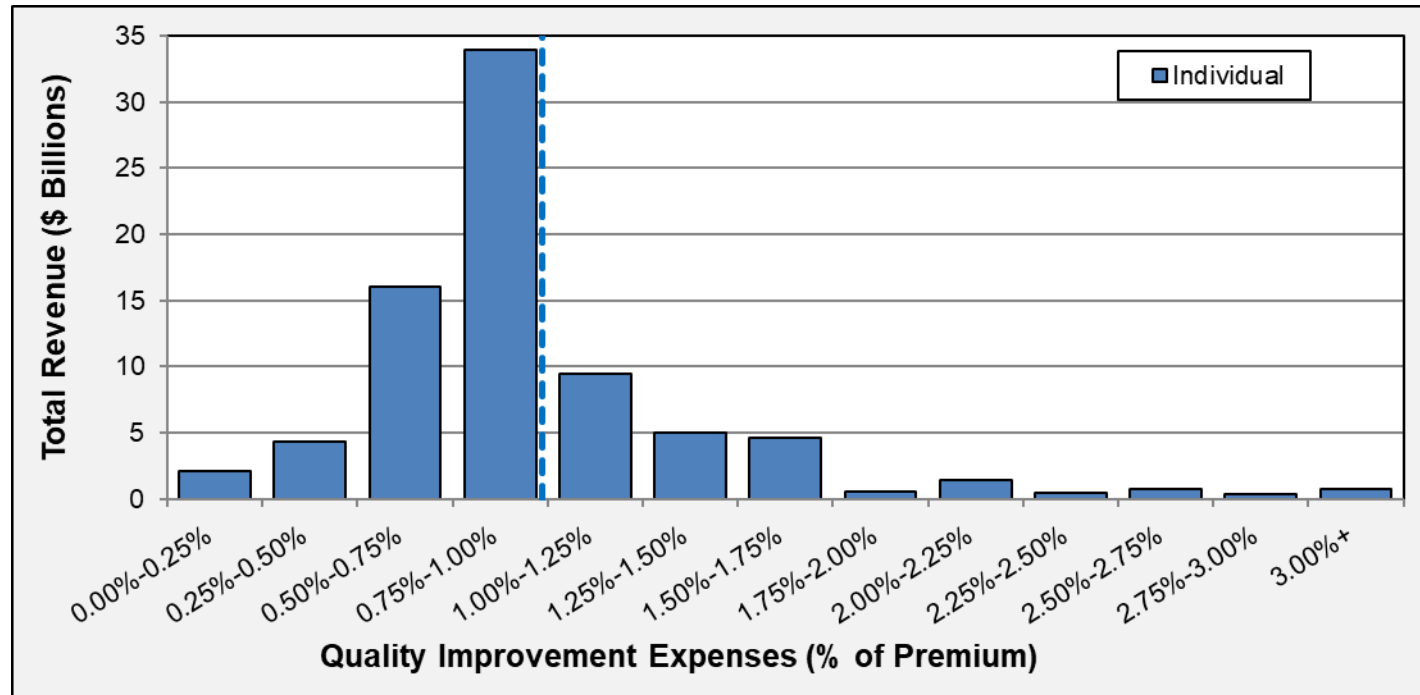
By QIA Category



# QIA Expense Distributions – Commercial

Percent of Premium

## 2017 Individual Market Distribution



Small Group and Large Group distributions are narrower

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## QIA Impact on Rebates – Individual Market

- As a numerator item, QIA expenses lift the average MLR around +1%.
- Contrast with the credibility adjustment, which lifts the adjusted MLR by around +0.2%; most revenue is with fully credible books of business.
- Nationwide rebates in the individual market would be around 50% higher if QIA was not included in the MLR numerator.
- Incrementally removing the credibility adjustment would increase rebates by around 20%.

# **QIA Identification & Regulation**



# QIA Identification & Tracking

May vary by issuer size

## *Small Insurers*

- May have less than ten employees who perform QIA
- Face-to-face interviews
- QIA does not require dedicated team



## *Large Insurers*

- Hundreds or more QIA employees
- Time tracking surveys
- Entire teams focused on quantifying QIA



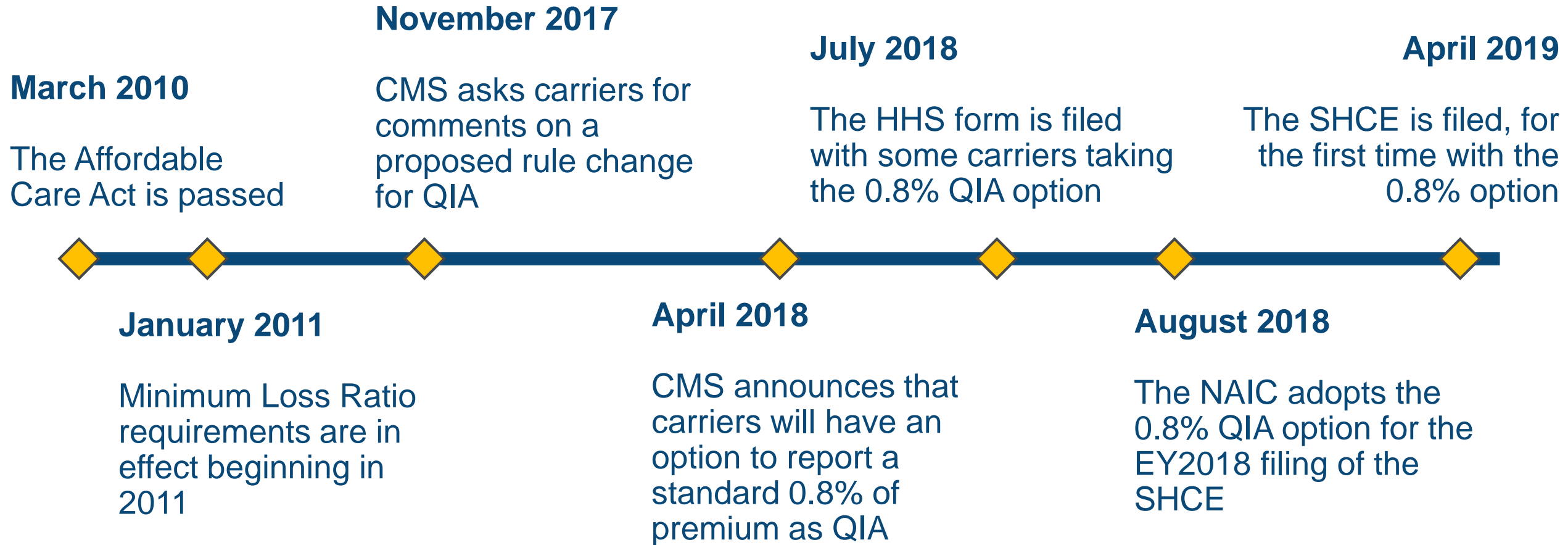
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## Frequent Audit Requests Related to QIA

A detailed description of:

- Quality improvement programs
- All QIA Expenses at a transaction level
  - Costs that are split between QIA and non-QIA
- The nature of a cost center
- The methodology to allocate expenses among legal entities

# QIA Regulation Timeline



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## Details on the 0.8% Option

- Gives issuers the option of reporting 0.8% of premium as QIA in lieu of reporting tracked expenses
- If chosen, this option must be applied for a minimum of three filing years
- All affiliated issuers
- All states
- All markets & products
- Does not apply to Medicare, Medicaid or FEHBP plans

# Considerations on the 0.8% Option

- Cost/Benefit Analysis
  - Cost: Actual QIA expenses could be higher than 0.8%
  - Benefits: Greater certainty, increased flexibility
- Industry audit guidance
  - Published CMS examination reports concerning QIA
  - State regulatory guidance concerning QIA (0.8%) for ongoing multi-carrier examination
- Premium assumptions
  - Historically, QIA has been reported retrospectively
  - The 0.8% option can be considered prospectively



# 5-year MLR Impact of Choosing 0.8% QIA

## QIA Progression, 2018-2023

<u>Reporting Year</u>	<u>Calendar Year</u>							
	2016	2017	2018	2019	2020	2021	2022	2023
EY 2018	Track Expenses	Track Expenses	0.8%					
EY 2019		Track Expenses	0.8%	0.8%				
EY 2020			0.8%	0.8%	0.8%			
EY 2021				0.8%	0.8%	Track Expenses		
EY 2022					0.8%	Track Expenses	Track Expenses	
EY 2023						Track Expenses	Track Expenses	Track Expenses

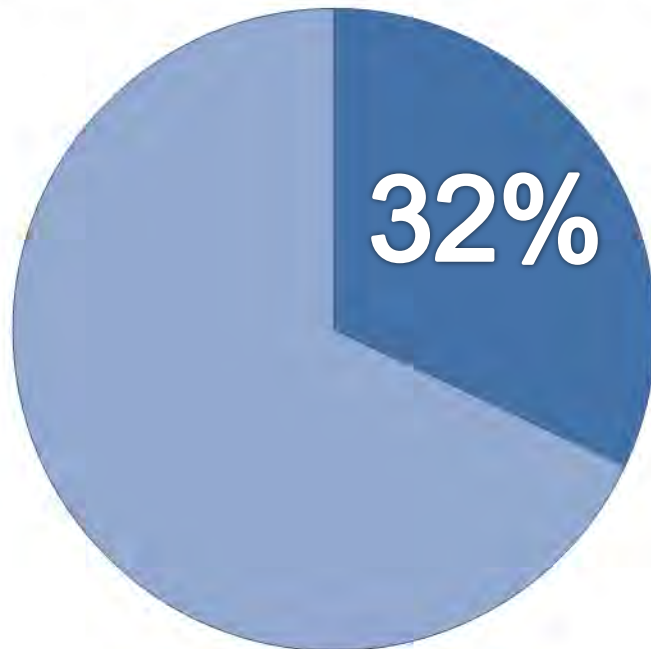
- The PY1 & 2 columns must use the QIA reporting method that was utilized on those previous MLR Forms

## 0.8% Election Observation

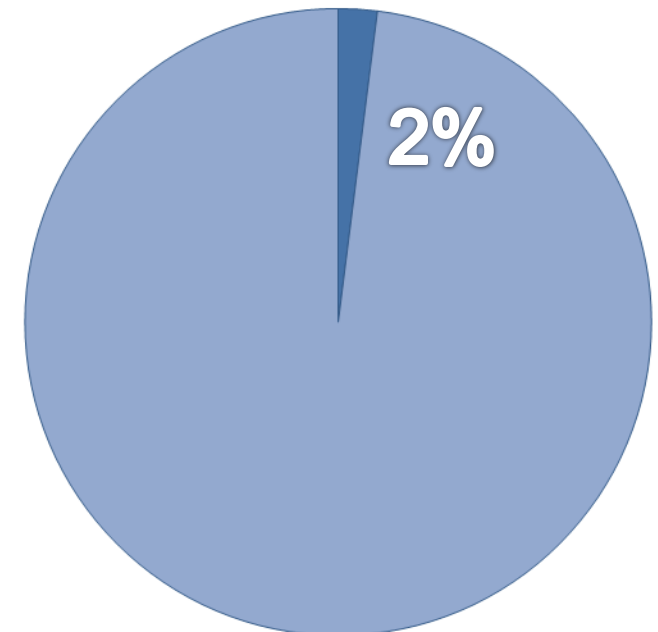
- Issuers elected the 0.8% at different frequencies depending on their prior year QIA percentage

### EY2017 Commercial QIA Reporting

Carriers Whose EY16 QIA was under 0.8%



Carriers Whose EY16 QIA was over 0.8%

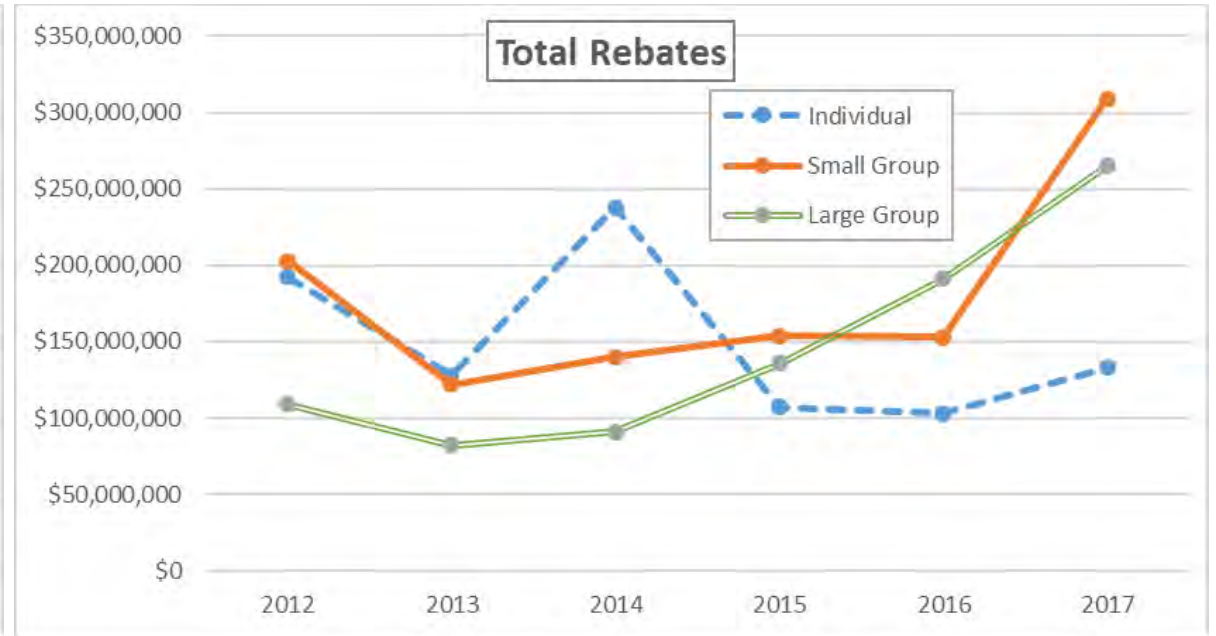
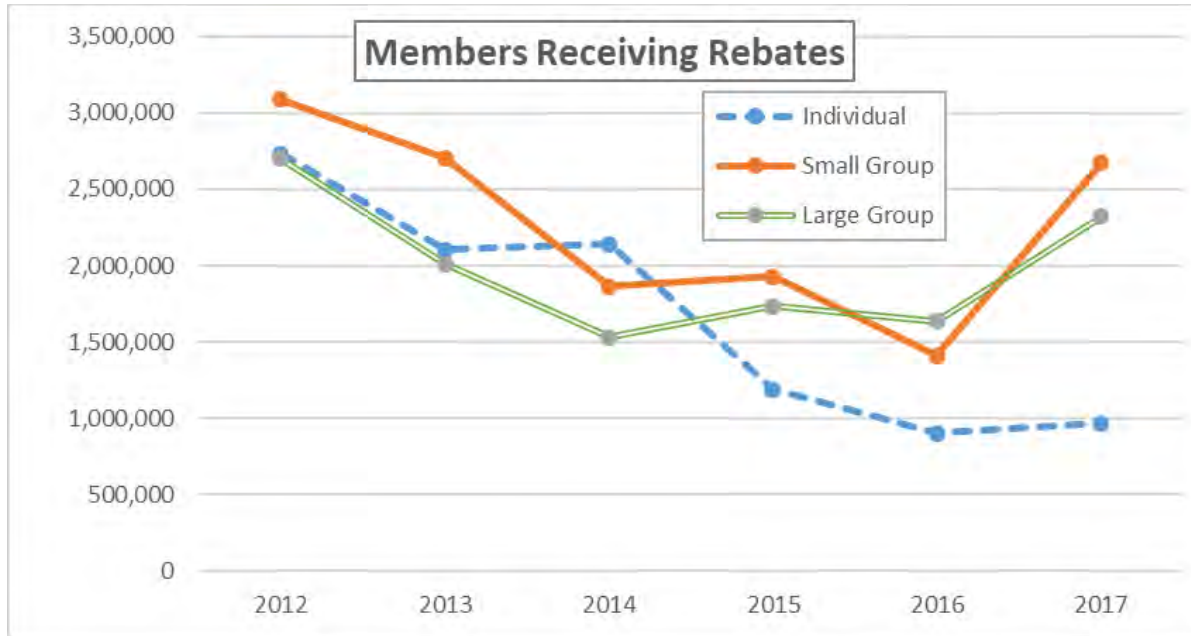


■ Reported 0.8%

# Trends in Commercial MLR Rebates



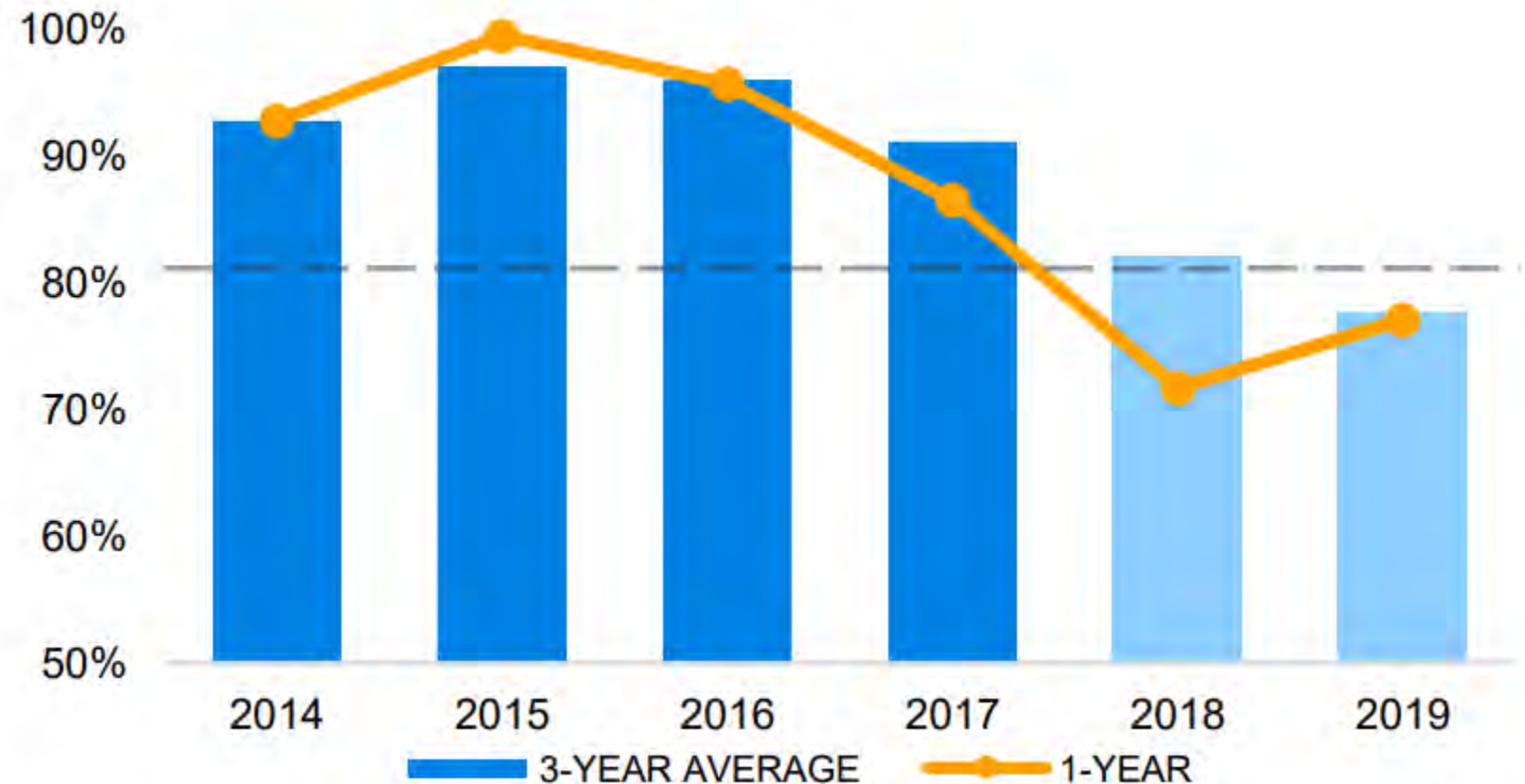
# Commercial Rebates Over Time



# Will Individual Market MLR rebates increase in 2018/2019?

Individual market MLRs have been coming down over time, projected to decrease further.

- QIA impact on rebates may increase



# Thank you!

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# Appendix

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## QIA Detail from MLR Instructions

Do not include the following as QIA:

- The pro rata share of expenses that are for lines of business or products other than those being reported, including those that benefit self funded plans
- Activities that can be billed or allocated by a provider for care delivery and which are, therefore, reimbursed as clinical services
- Health care professional hotlines that does not meet the definition of activities that improve health quality
- The cost of developing and executing provider contracts and fees associated with establishing or managing a provider network
- Costs associated with calculating and administering individual enrollee or employee incentives