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

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Impact of Quality Improvement Activities on Medical Loss Ratio

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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
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
How QIA Fits into MLR Rebate Calculation

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

45 CFR § 158.221 - Formula for calculating an issuer's medical loss ratio
Formula is simplified for illustrative purposes
# 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

<table>
<thead>
<tr>
<th>QIA is…</th>
<th>QIA is not…</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coaching programs designed to change member behavior (ex. smoking)</td>
<td>Activities designed primarily to control or contain costs</td>
</tr>
<tr>
<td>Comprehensive discharge planning</td>
<td>Activities paid for with grant money</td>
</tr>
<tr>
<td>Prospective prescription drug utilization review</td>
<td>Claims adjudication</td>
</tr>
<tr>
<td>Wellness assessments</td>
<td>Fraud prevention activities*</td>
</tr>
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* Fraud prevention activities count towards the MLR numerator for Medicare

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%

Cited from Analysis of 2017 CCIIO MLR PUF data – Publicly-available, industry-wide data
QIA Expense Distributions – Commercial
By QIA Category

[Diagram showing Quality Improvement Expense % of Premium by line of business (Individual, Small Group, Large Group) with categories 4.1 Improve health outcomes, 4.2 Prevent hospital readmission, 4.3 Improve patient safety, 4.4 Promote wellness, 4.5 Health information technology]
QIA Expense Distributions – Commercial
Percent of Premium

2017 Individual Market Distribution

Small Group and Large Group distributions are narrower

Cited from Analysis of 2017 CCIIO MLR PUF data – Publicly-available, industry-wide data
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%.

Cited from Analysis of 2017 CCIIO MLR PUF data – Publicly-available, industry-wide data
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

These depictions represent hypothetical examples
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

MLR Examination Reporting Instructions, Updated March 2016,” developed by the U.S. Department of Health & Human Services (HHS) in consultation with the National Association of Insurance Commissioners (NAIC):
March 2010
The Affordable Care Act is passed

November 2017
CMS asks carriers for comments on a proposed rule change for QIA

January 2011
Minimum Loss Ratio requirements are in effect beginning in 2011

April 2018
CMS announces that carriers will have an option to report a standard 0.8% of premium as QIA

July 2018
The HHS form is filed with some carriers taking the 0.8% QIA option

August 2018
The NAIC adopts the 0.8% QIA option for the EY2018 filing of the SHCE

April 2019
The SHCE is filed, for the first time with the 0.8% option
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

- 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%

- 32%

- Reported 0.8%

Carriers Whose EY16 QIA was over 0.8%

- 2%

Data includes QIA reports for 2016 and 2017 for carriers with SG, LG and Individual premiums over $20 million. This graphic contains publicly-available, industry data.
Trends in Commercial MLR Rebates
Commercial Rebates Over Time

Cited from CCIIO yearly MLR reports; Publicly-available, industry-wide data
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
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.