

Follow the money

Your guide to Medicare financial performance

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Agenda



Revenues and
cash flow



Financial
performance



Risk-based
capital



Strategic
considerations



Presenters



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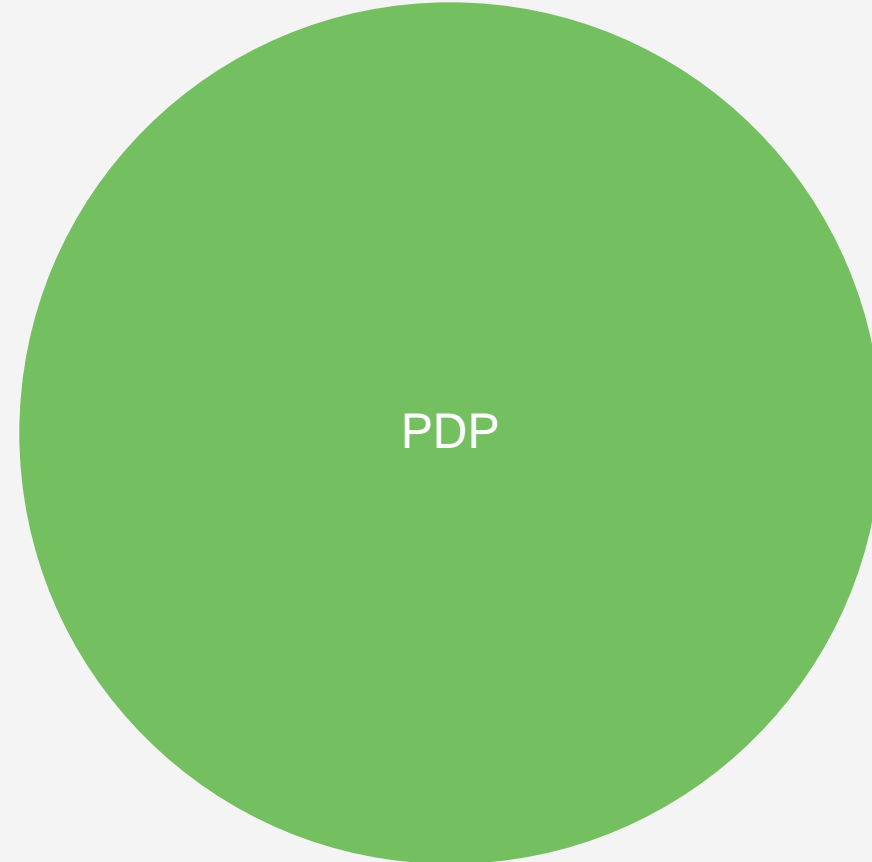
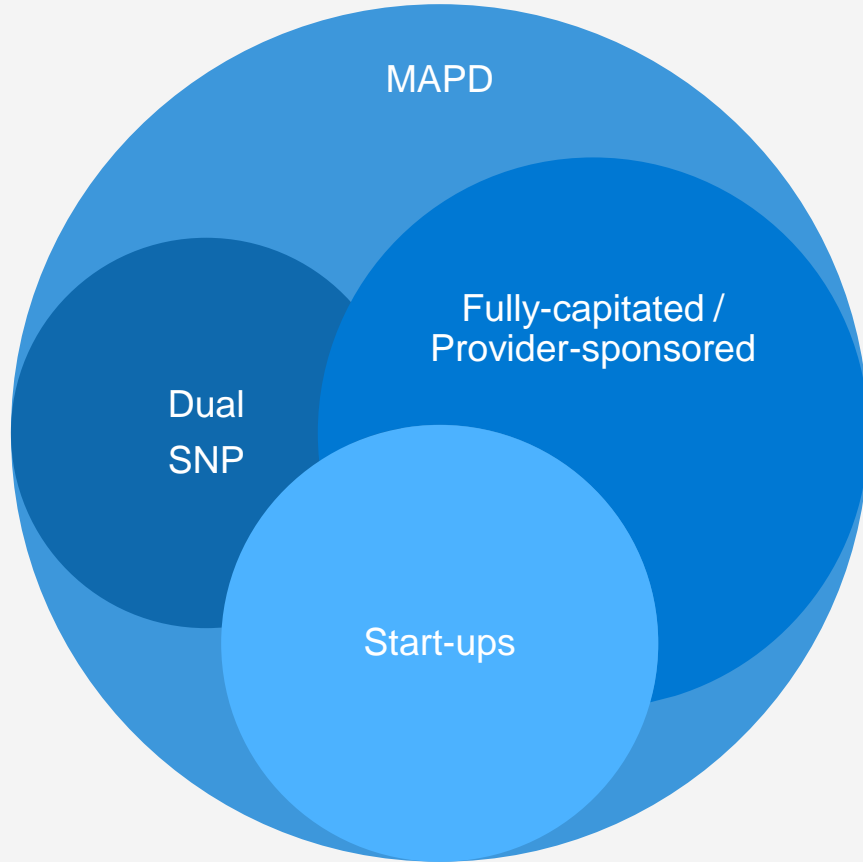
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Financial overview



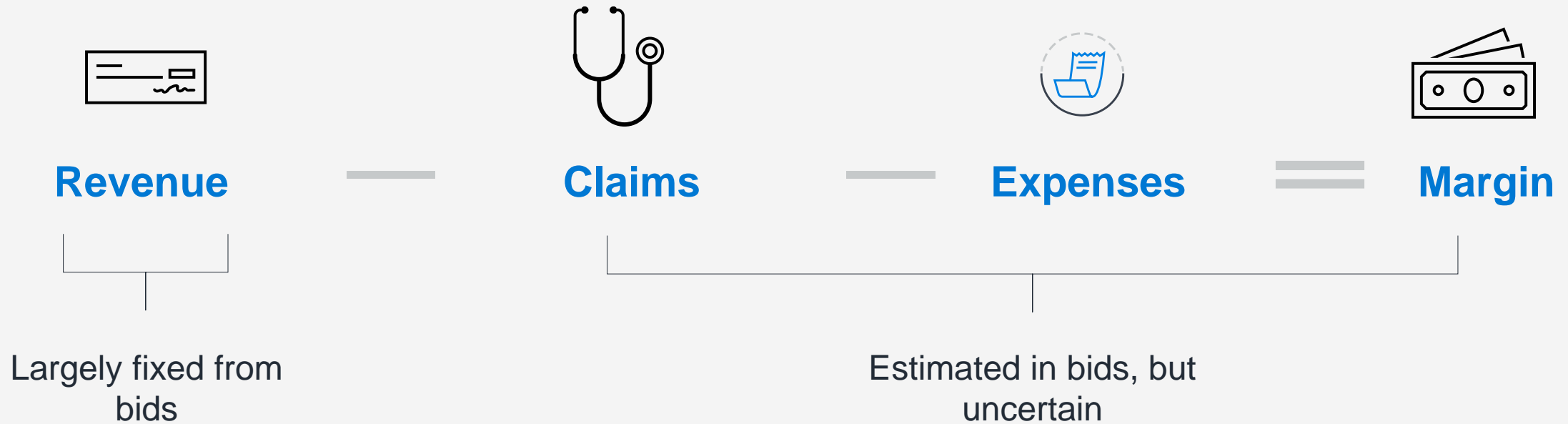
Stakeholders and arrangements

Market overview



Medicare advantage financial formula

Extremely simplified version



Revenues and cash flow



Source of revenue

MAPD / PDP

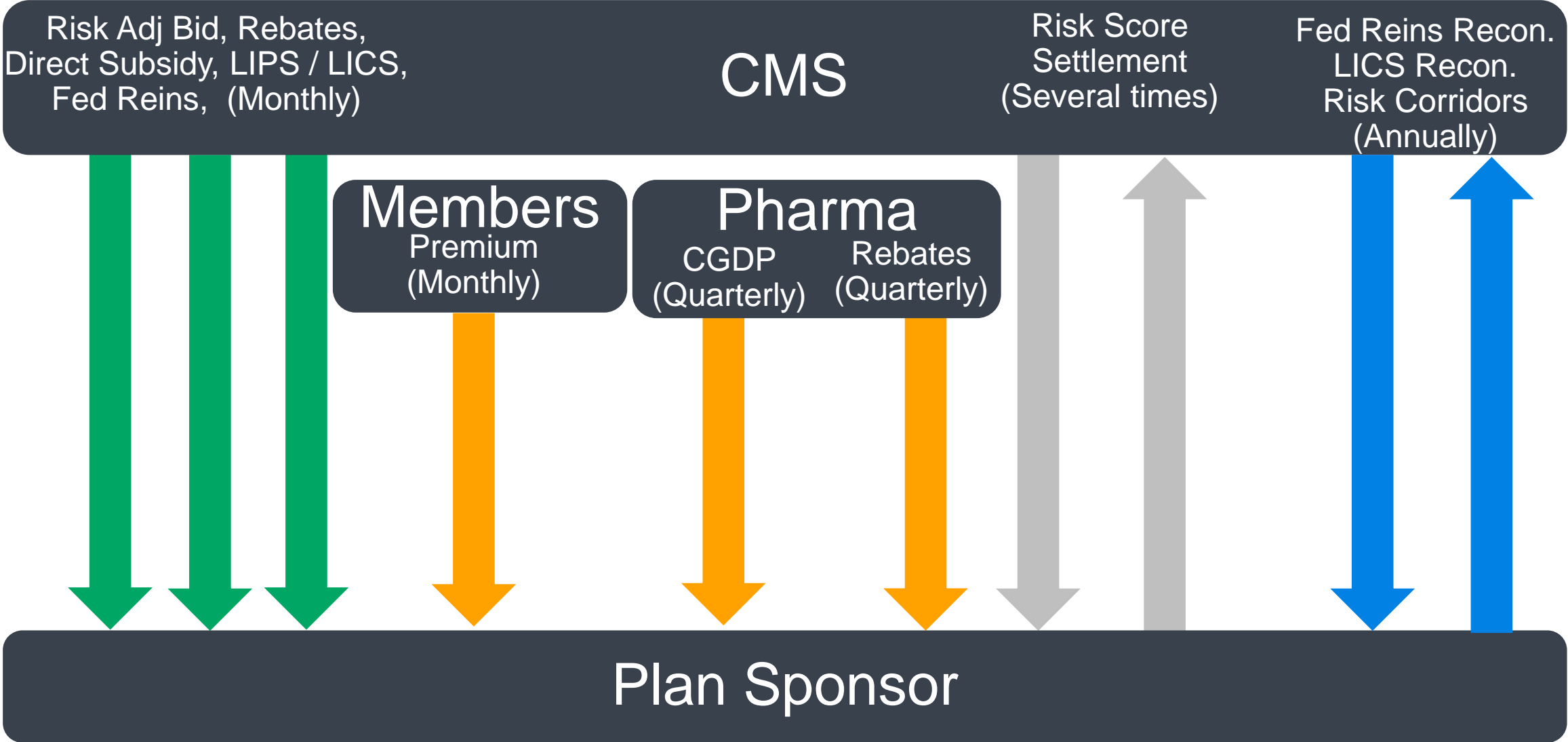
Defined by bid

- Bid @ 1.0 risk score
- Rebates
- Member premium
- Prospective reinsurance, LICS, CGDP
- Part D direct subsidy

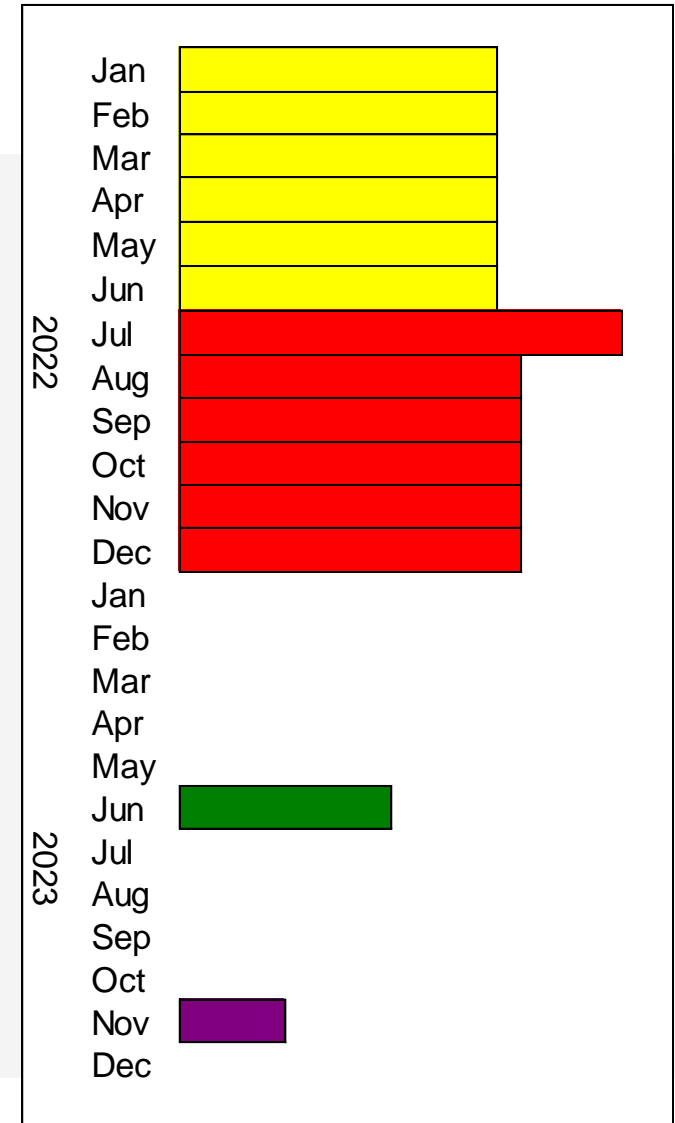
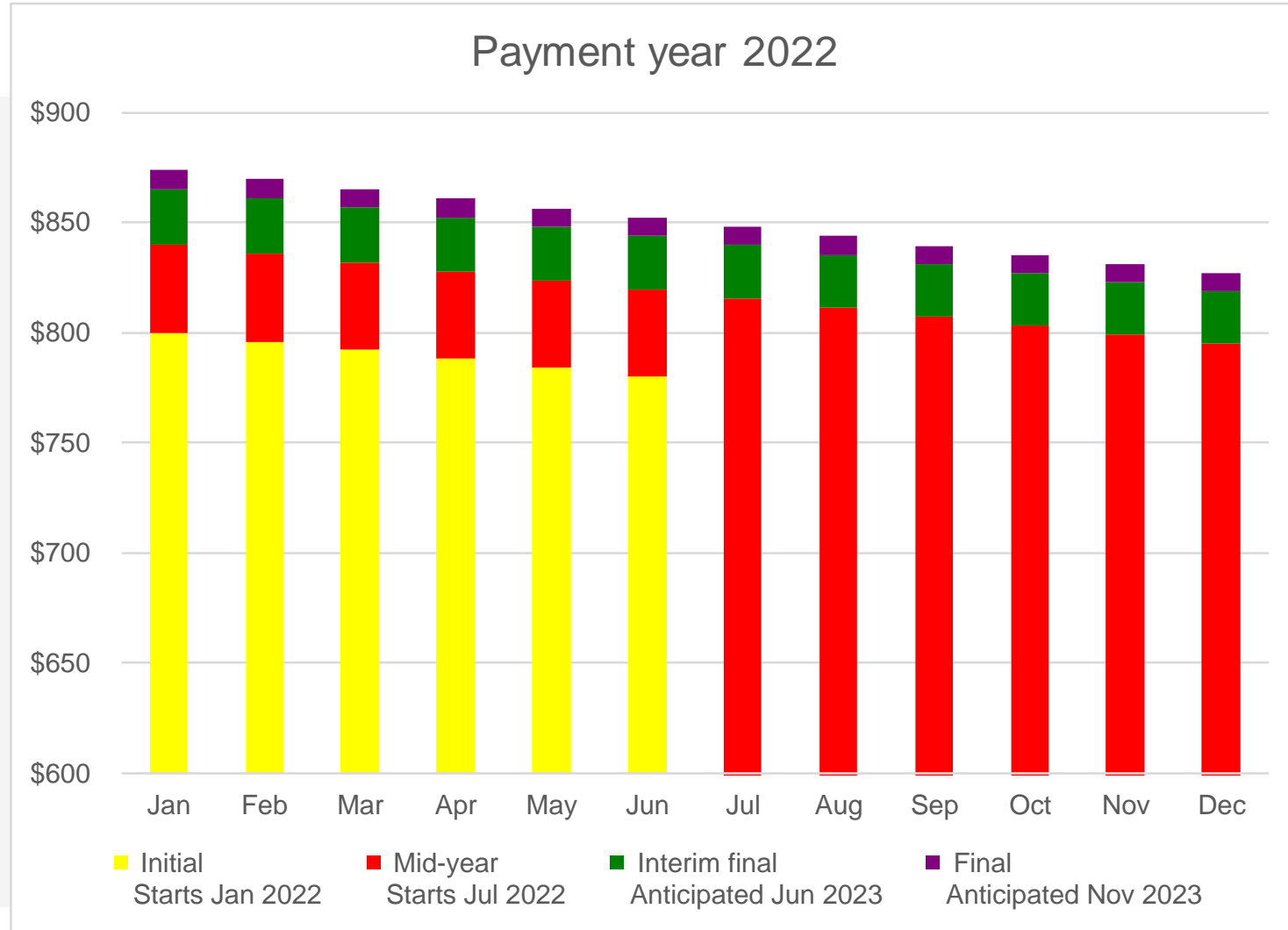
Determined in operations

- Risk scores (to adjust bid revenue)
- Actual reinsurance, LICS, CGDP
- DIR

Cash Flows and Reconciliations



Risk score settlement timing



Part D settlement timing

Challenges

- Prospective revenue accrues evenly through the year
- Actual claims have seasonal patterns
 - More reinsurance claims occur in the later part of the year
 - LICs is uneven as members move through benefit phases
 - Risk corridor is impacted by risk score settlements

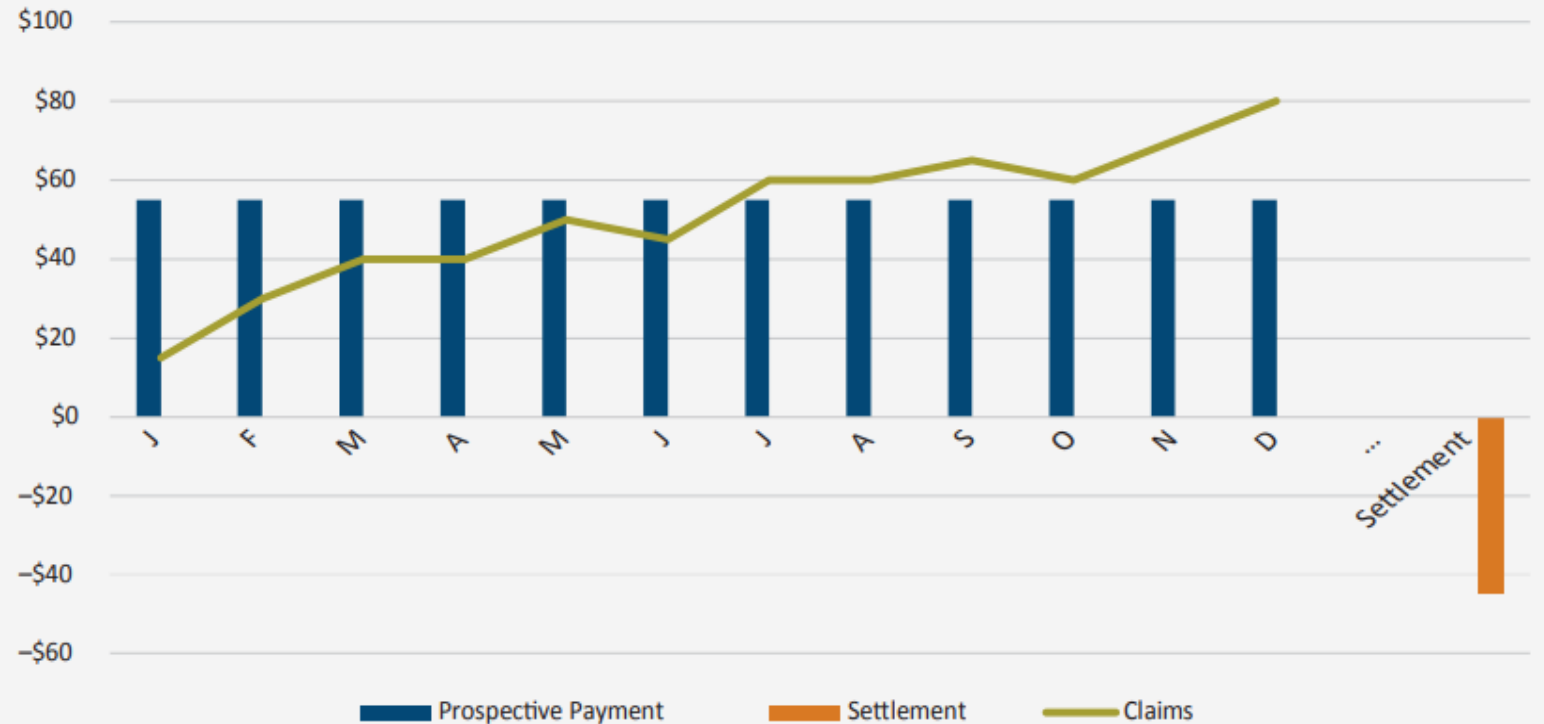
Performing a settlement estimate with partial year data can lead to misleading results

Recommend creating full year projections for settlement purposes

<https://www.soa.org/globalassets/assets/library/newsletters/health-watch-newsletter/2019/june/hsn-2019-iss89-herbig.pdf>

Timing of reinsurance

Example



Key files



MMR

- Member level
- Monthly payments for bid, rebates, PD direct subsidy
- Prospective LICS and reinsurance payments from bid
- Risk score from current run (retroactively updated for settlements)

PDE

- Claims level
- Part D claims, actual LICS, actual GDCB/GDCA (for reinsurance)
- Track PD claim expense in real time
- Part D settlement

MOR

- Member level for members that are not newly enrolled in Medicare
- Contains CMS HCC condition information
- Create risk score settlements, even for members that you don't have full diagnosis capture for

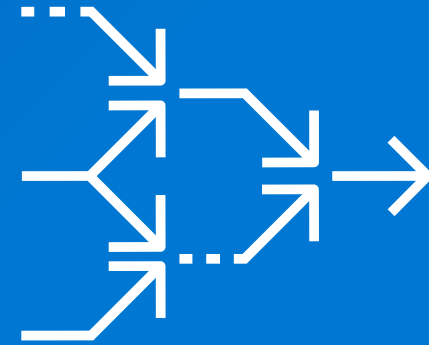
MAO-004

- Encounter level
- Contains diagnosis submission info for risk adjustment
- Create risk score settlements, using latest submissions not included in the risk score run reflected in the MMR

PPR

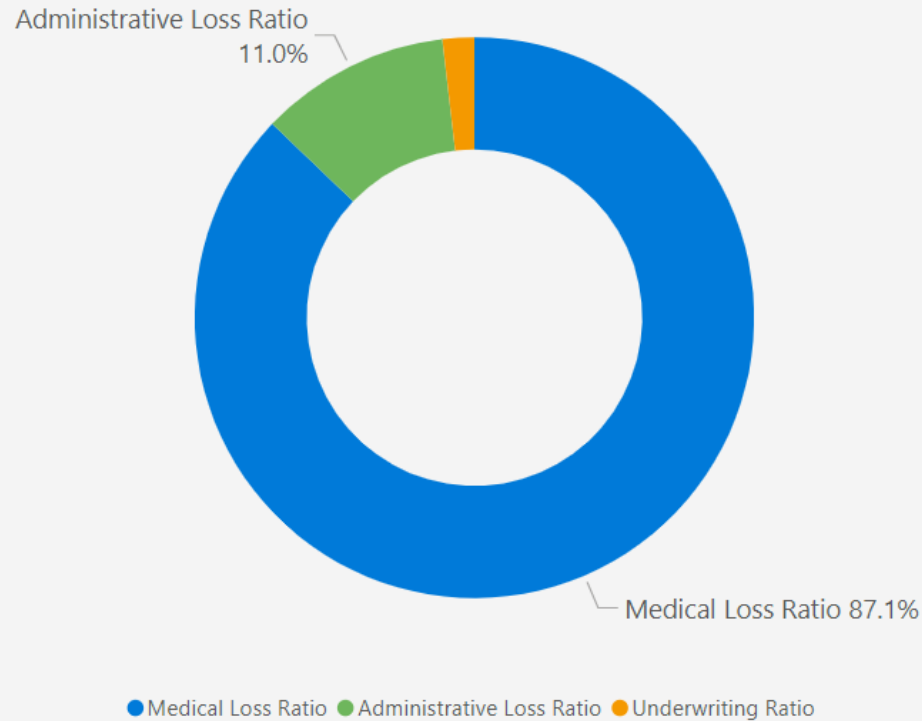
- Monthly totals of retroactive changes in MMRs
- Risk score settlement totals
- Part D settlement totals

Financial performance

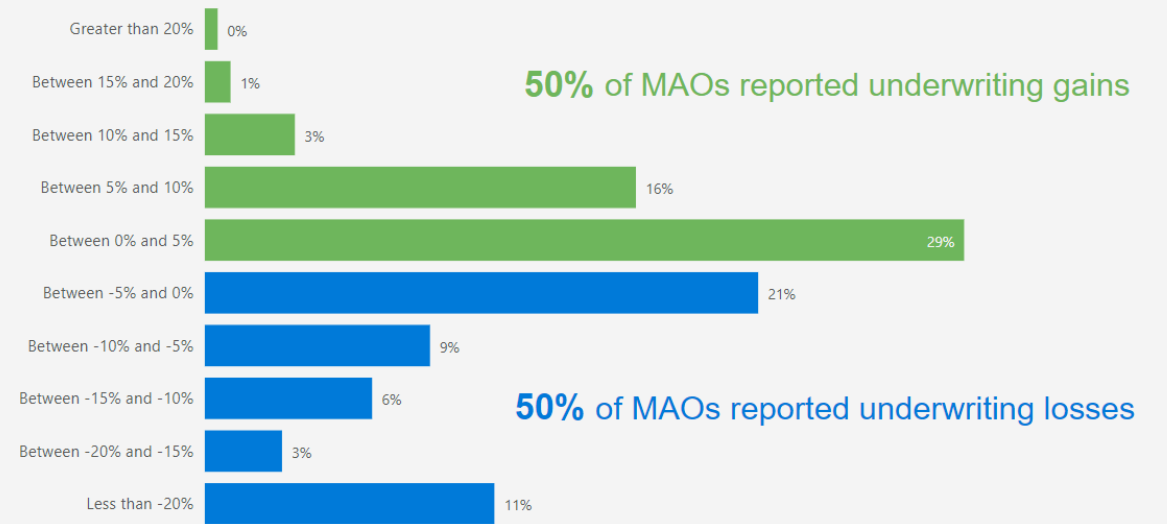


MAPD loss ratio and margins

2021 medical loss ratio



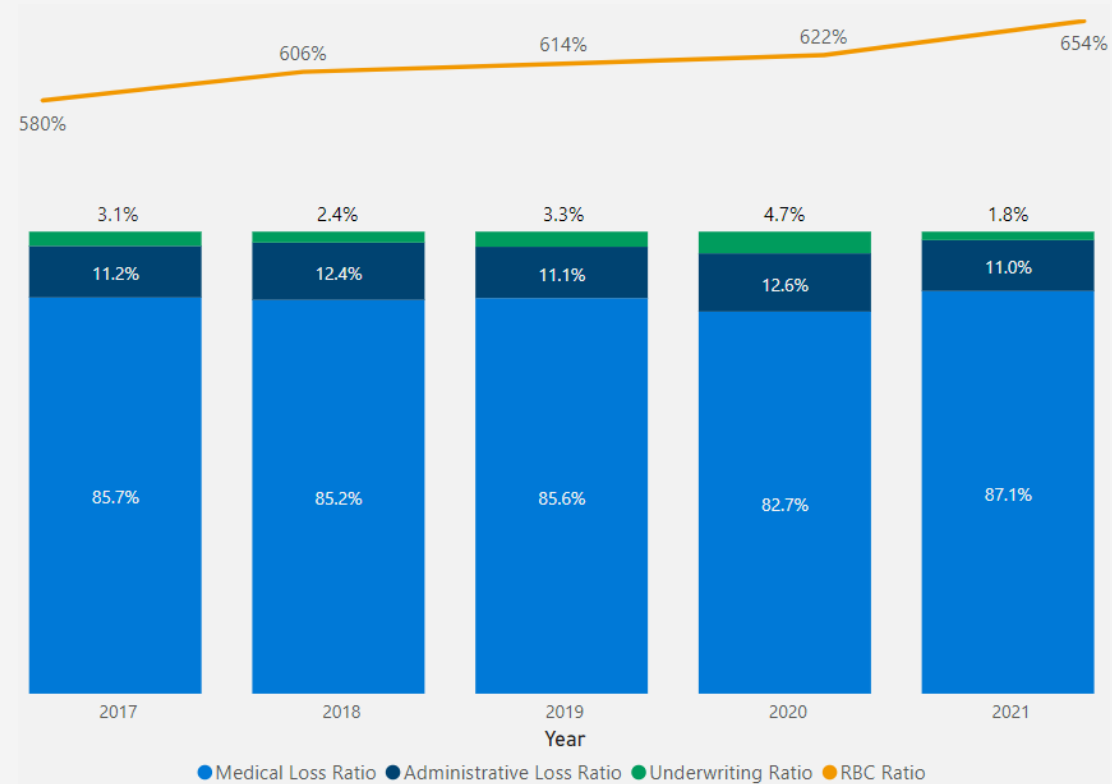
50% of the entities had a positive margin



For similar summary of 2020 results, refer to whitepaper here: <https://us.milliman.com/en/insight/medicare-advantage-organizations-financial-results-for-2020>

MAPD market financial performance (2017–2021)

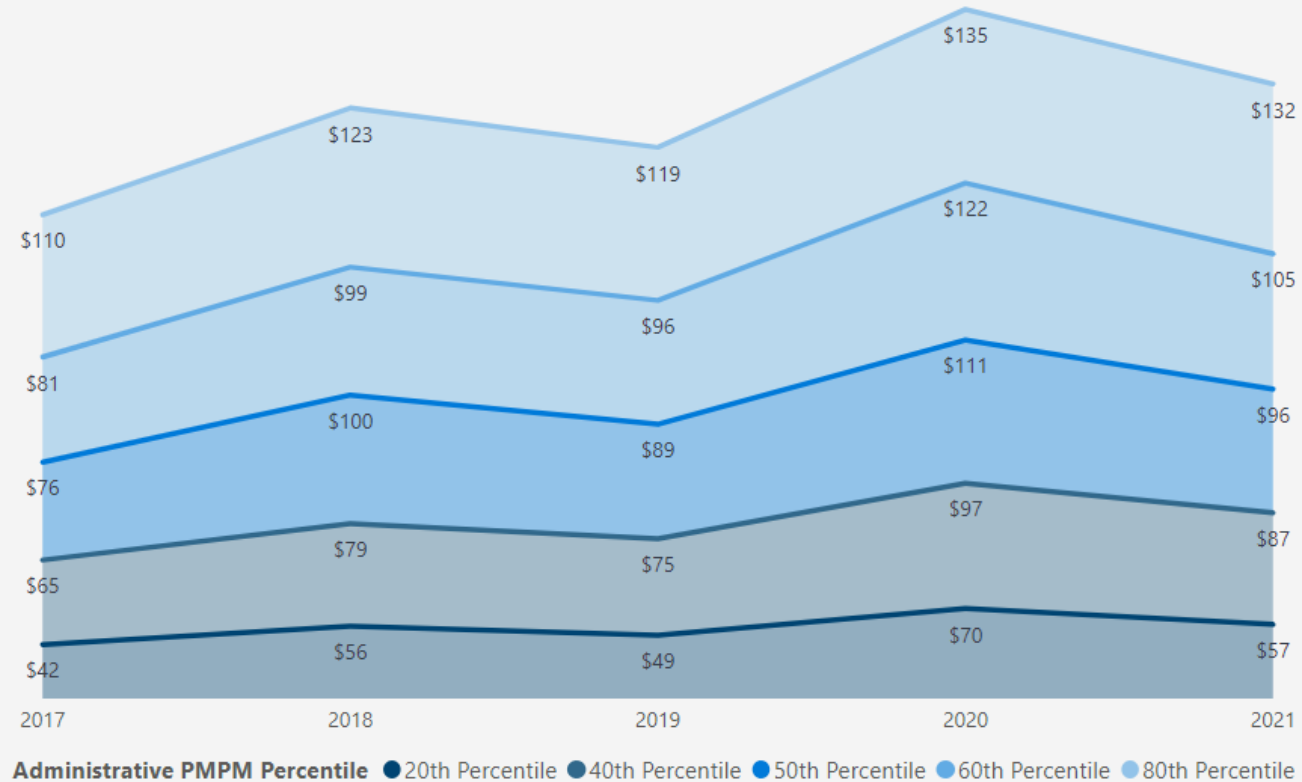
COVID impact on 2020 and 2021 loss ratios



For similar summary of 2016-2020 results, refer to whitepaper here:
<https://us.milliman.com/en/insight/medicare-advantage-organizations-financial-results-for-2020>

MAPD administrative expense (2017–2021)

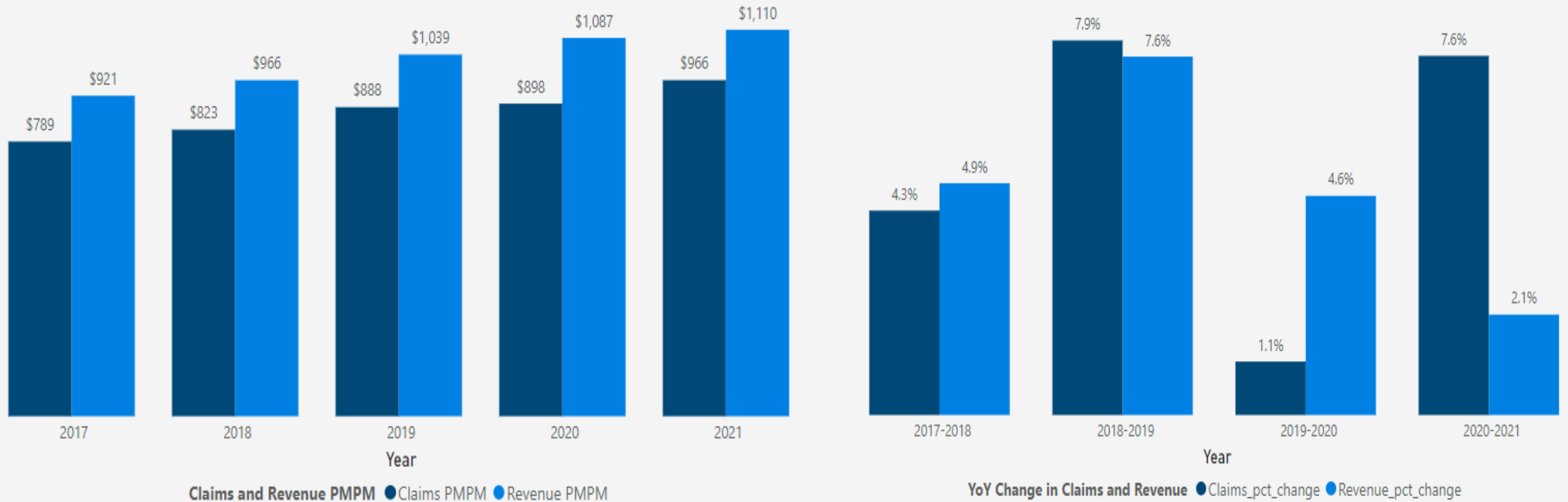
2019 and 2021 saw some decline in administrative PMPM relative to prior years



For similar summary of 2016-2017 results, refer to whitepaper here:
<https://us.milliman.com/en/insight/medicare-advantage-organizations-financial-results-for-2020>

Claims and revenue PMPM (2017–2021)

Steady growth in claims and revenue-2021 remains a slight outlier



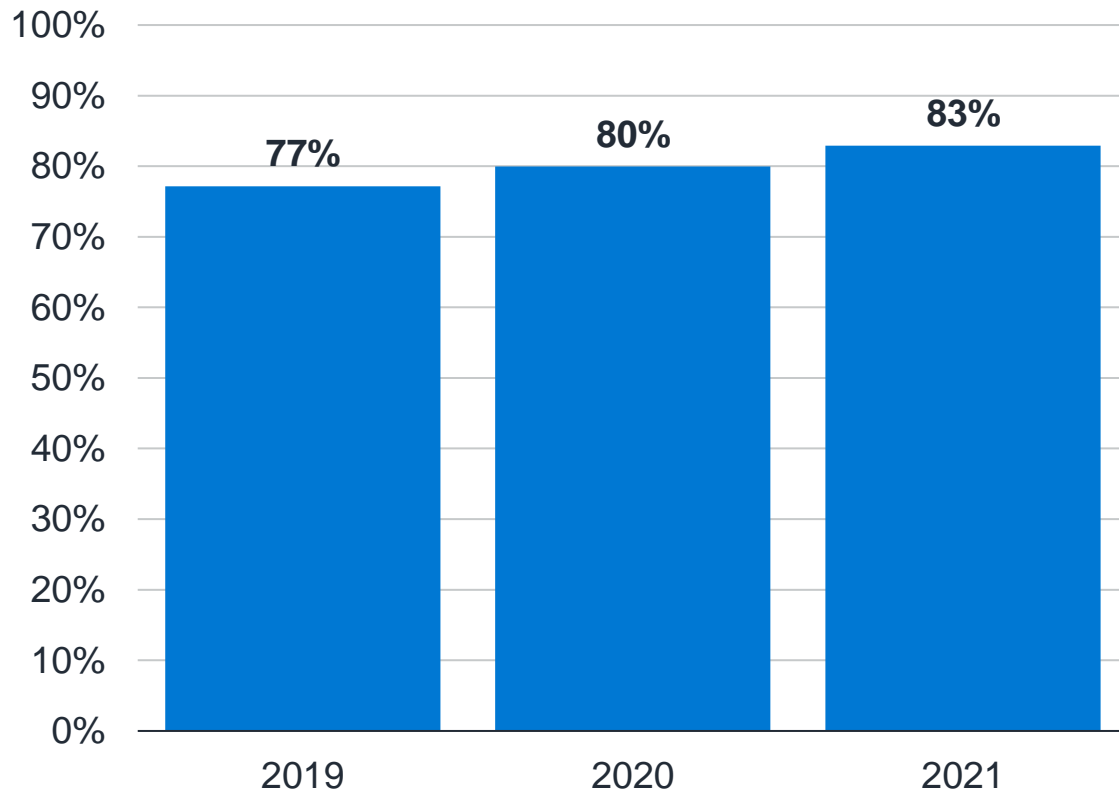
PDP financial performance



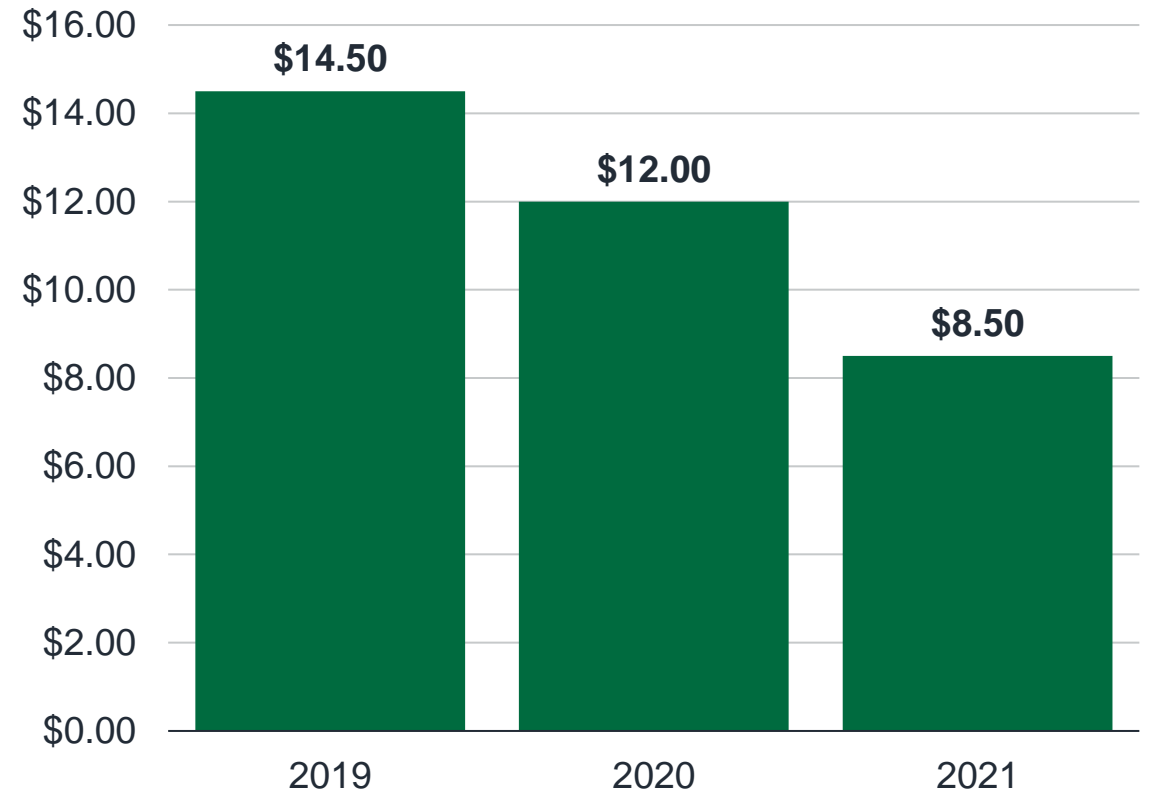
PDP market financial performance (2019–2021)

Market pressures have been compressing margins and increasing loss ratios

PDP statutory loss ratios (2019–2021)



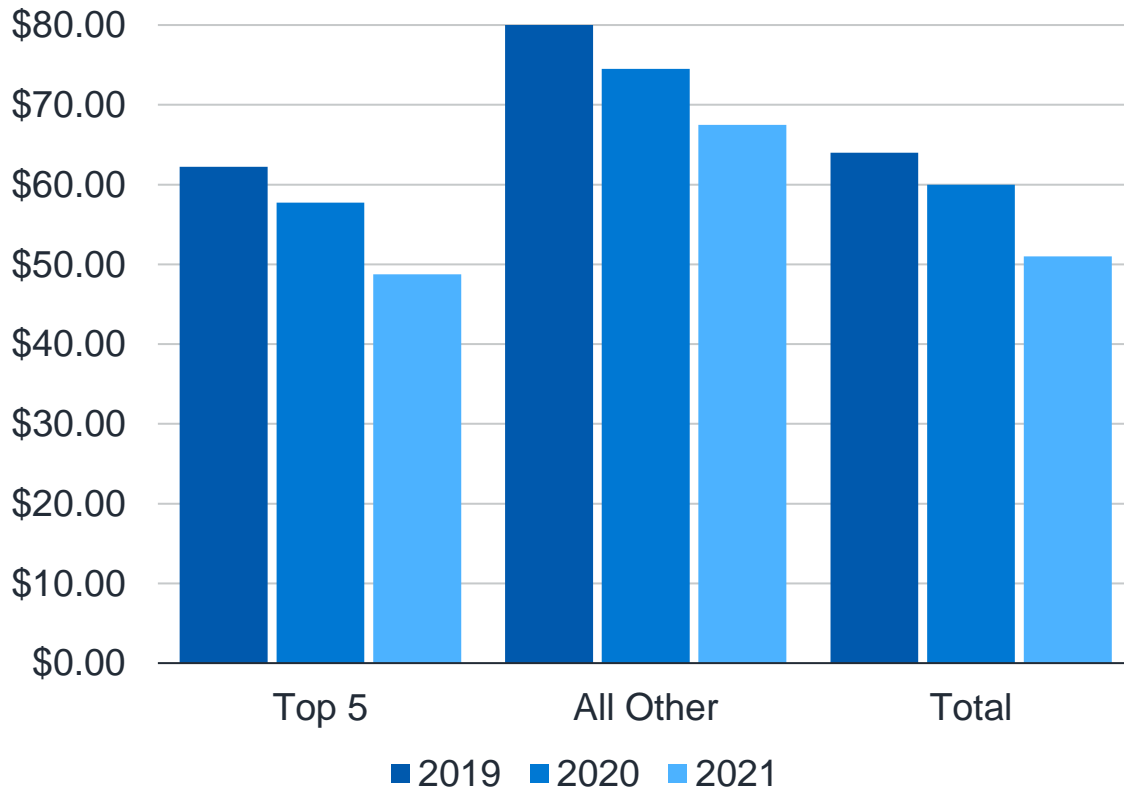
PDP underwriting margin PMPM (2019–2021)



PDP market revenue and claims PMPM (2019–2021)

Market pressures have been compressing margins and increasing loss ratios

PDP revenue PMPM (2019-2021)



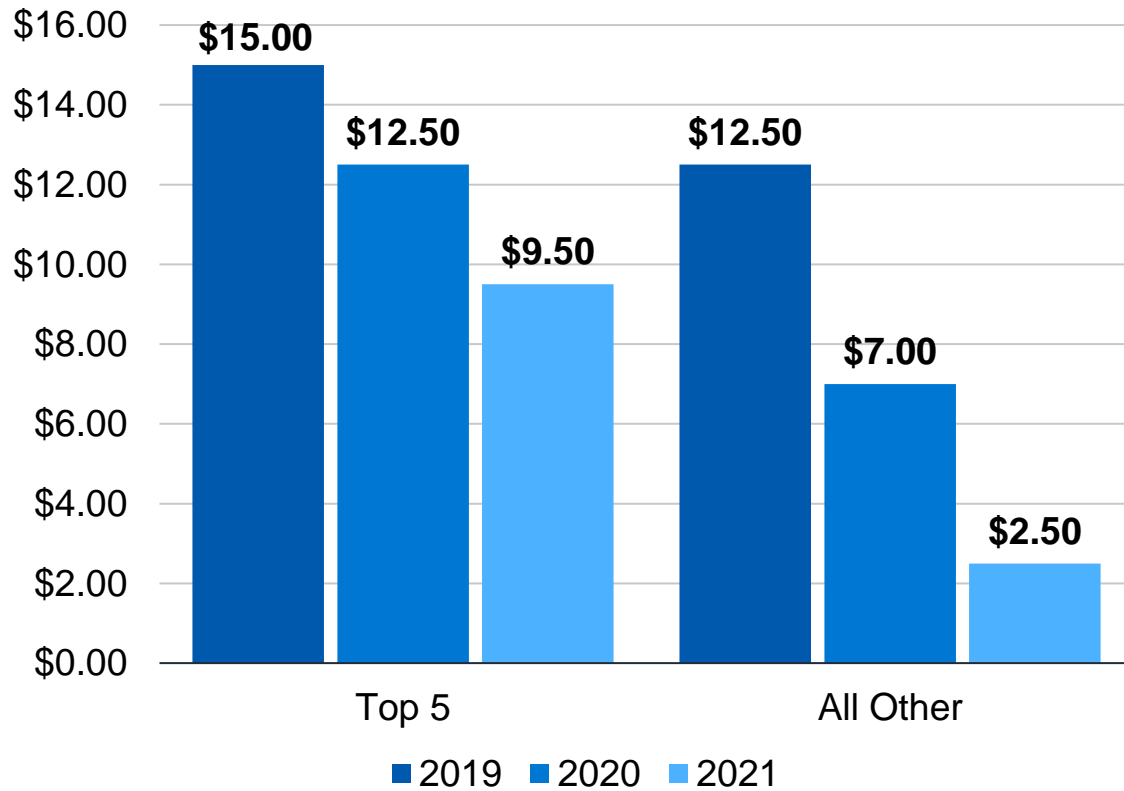
PDP claims PMPM (2019-2021)



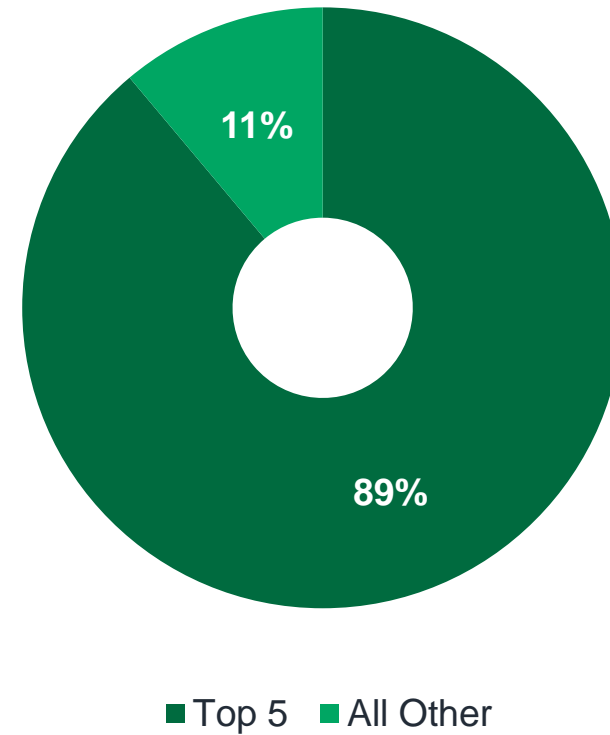
PDP market financial performance by carrier size (2019–2021)

Underwriting margins vary materially between Top 5 PDP carriers and Other National PDPs

Underwriting margin PMPM by carrier size



2022 individual PDP market share



Risk-based capital



Risk-based capital (RBC) requirements

RBC overview

- The RBC formula calculates a benchmark to compare against actual capital to determine insolvency risk
- The formula is factor-based, multiplying prescribed factors by values in a company's financial statements
- The RBC ratio is equal to Total Adjusted Capital (TAC) divided by the Authorized Control Level (ACL)
- Health plans typically target a multiple of the ACL, with RBC ratios often ranging from 400% to 600% or higher

RBC calculation

The Health RBC formula has several components:

- H_0 : Affiliate Asset Risk
- H_1 : Asset Risk
- H_2 : Underwriting Risk
- H_3 : Credit Risk
- H_4 : Business Risk

H_2 : Underwriting risk is the primary driver of Health RBC. See formulas below for reference.

$$ACL = \frac{H_0 + \sqrt{H_1^2 + H_2^2 + H_3^2 + H_4^2}}{2}$$

$$RBC \text{ Ratio} = \frac{TAC}{ACL}$$

RBC action levels

RBC Action Levels

- Low RBC ratios trigger additional oversight from insurance regulators
- At an RBC ratio of 100% or lower, insurance commissioners are authorized to take control of the company

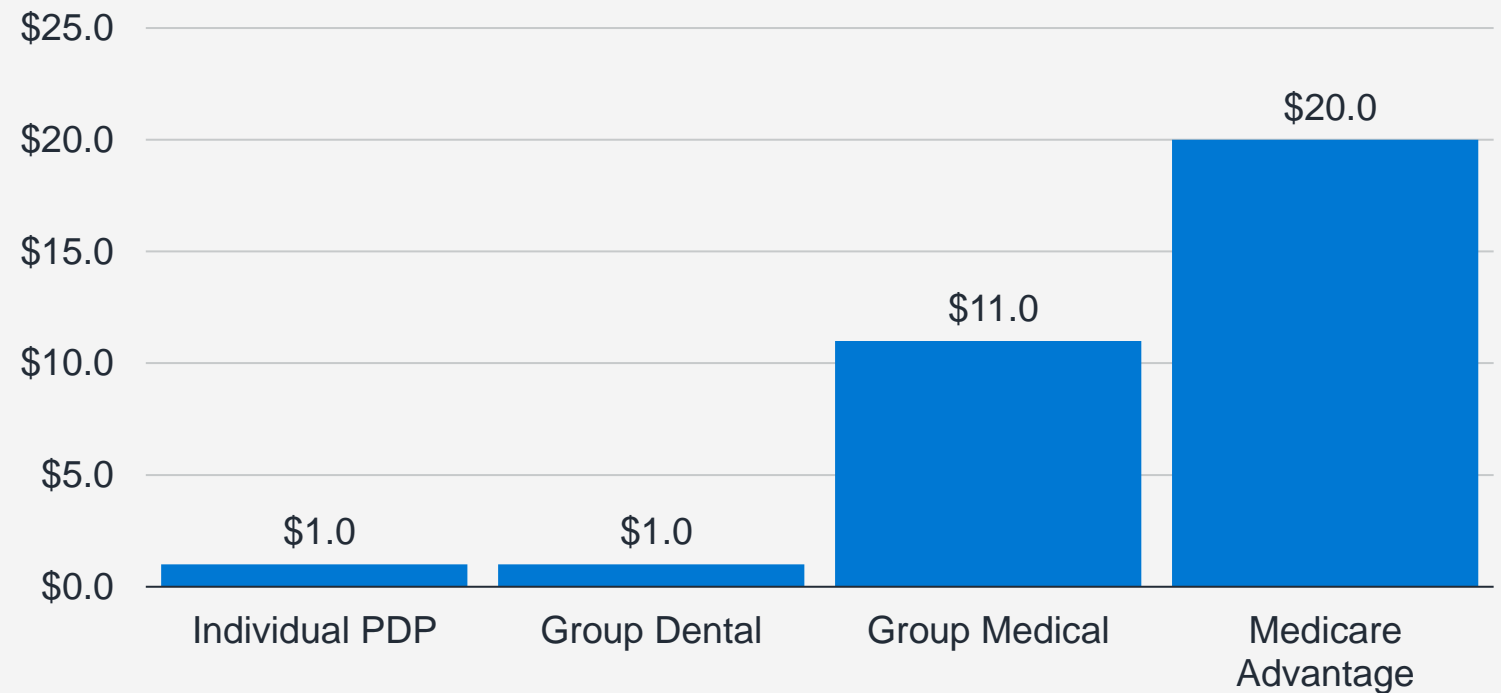
RBC ratio	Regulatory action
$\geq 200\%$	None
150% - 200%	Company Action Level
100% - 150%	Regulatory Action Level
70% - 100%	Authorized Control Level
$< 70\%$	Mandatory Control Level

Illustrative capital needed by line of business (total dollars)

- We estimated an illustrative ACL for four different lines of business based on average revenue / claims for 2021
- This does not reflect total capital needed for start-ups, which will include capital to cover administrative expenses and losses in initial years
- Business lines with higher claims volume and risk (Medicare Advantage) require greater capital
- Individual PDP is less capital intensive than Medicare Advantage and other business lines on a dollar basis

Does not reflect minimum capital requirements, which vary at a state level

Illustrative regulatory capital needed at 400% RBC ratio for 10,000 lives (\$Ms)

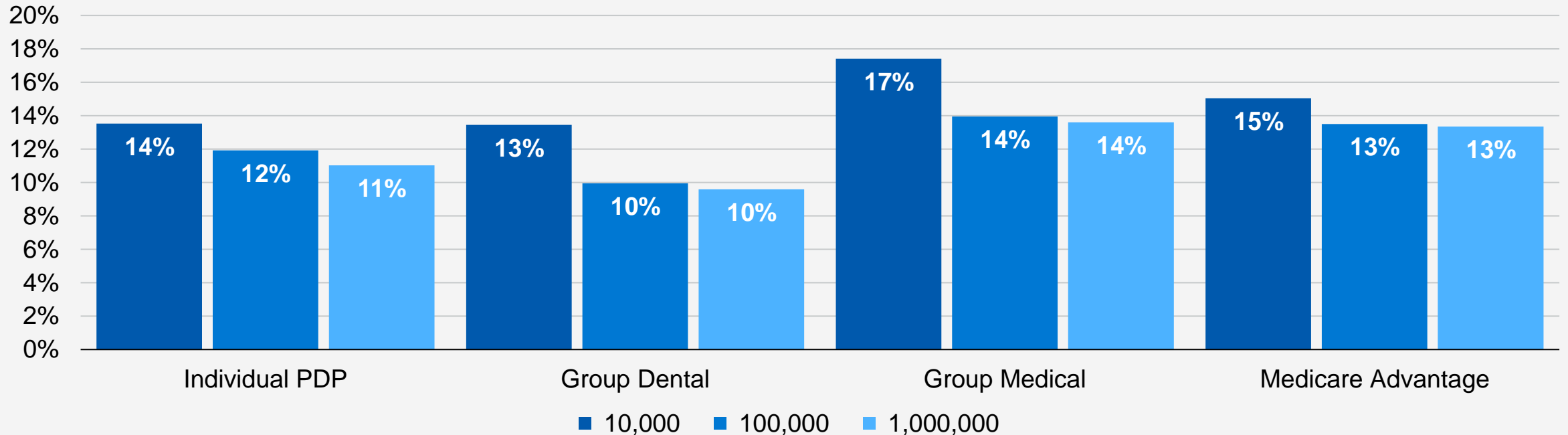


Note: Assumes 15% Managed Care Credit for Group Dental, Group Medical, and Medicare Advantage populations (i.e., assumes a fee schedule contracting strategy)

Illustrative capital needed by line of business (% of revenue)

Estimated capital needed as a % of revenue by product and lives

Assuming 400% RBC ratio for capital needed

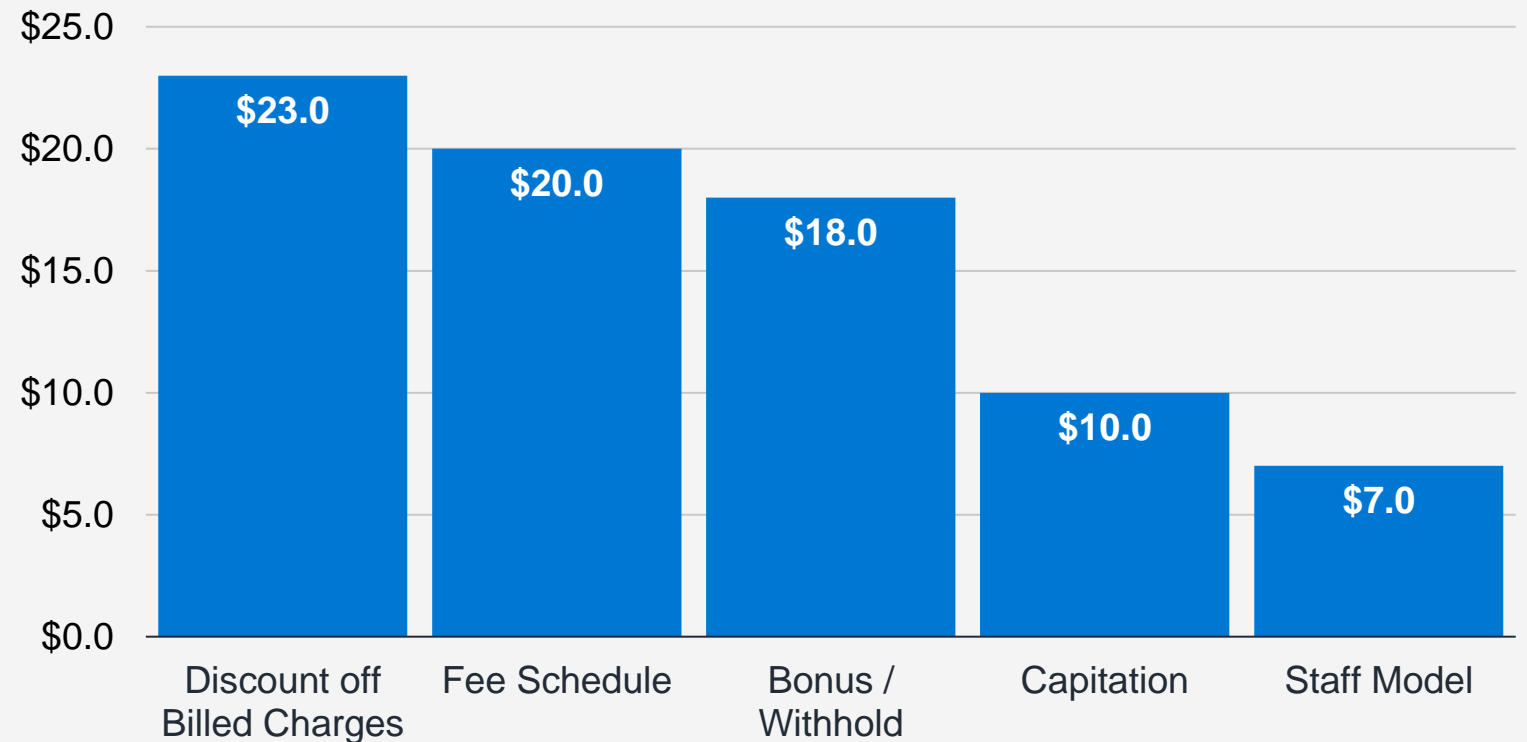


Note: Assumes 15% Managed Care Credit for Group Dental, Group Medical, and Medicare Advantage populations (i.e., assumes a fee schedule contracting strategy)

Impact of managed care credit on capital needed

- RBC needs are lower for organizations that shift more risk to providers
- The “Managed Care Credit” measures this risk. The graph illustrates examples of using each of these categories exclusively:
 - Discount off Billed Charges (Category 0)
 - Fee Schedule (Category 1)
 - Bonus / Withhold (Category 2)
 - Capitation (Category 3)
 - Staff Model (Category 4)
- Contracting is likely a mix of several different strategies in reality

Illustrative capital to target 400% RBC ratio under different contracting strategies for MAO with 10K lives (\$ in millions)



PDP-specific RBC considerations



Working capital needs

- Additional capital need due to timing of certain payments (e.g., rebates)
- Pharmacy rebates can exceed \$100 PMPM and paid quarterly in arrears, creating large receivables
- For start-up PDPs, working capital needs continue to increase with enrollment growth



Supplemental benefits

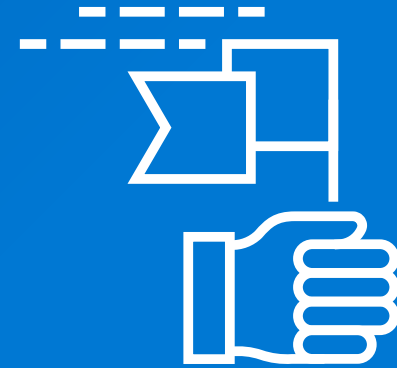
- Measured separately, with a 50% factor applied to supplemental claims for H₂: Underwriting Risk
- For comparison, the net factor for basic claims is ~3.5% to 6.0%, depending on premium volume
- Can increase capital needs materially for richer supplemental benefits, decreasing ROE



PDP EGWP RBC

- EGWPs are treated separately from individual PDPs in RBC formula
- EGWPs are categorized as “Other Health”, receiving a 13% H₂ factor, which does not vary with revenue
- More capital intensive, with higher factors as risk corridors do not apply

Keys to success



Financial success in Medicare Advantage

- Understand regulatory and capital requirements
- Analyze target markets
- Revenue optimization
- Manage claim costs
- Minimize administrative expenses



Questions



Caveats, limitations, and qualifications

- The information contained herein does not constitute a legal opinion. It is important to seek guidance from counsel before making any decisions with respect to the determination of the impact or likelihood of any legislative or regulatory change to the Medicare Part C and D programs.
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Thank you

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