DOCUMENT HISTORY LOG

STATUS[1]	DOCUMENT REVISION[2]	EFFECTIVE DATE	DESCRIPTION[3]
Baseline	2.0	November 1, 2018	Initial version Uniform Managed Care Manual Chapter 5.3.13, "Medical Loss Ratio (MLR) Report." This chapter applies to contracts issued as a result of HHSC RFP numbers X29-08-0001, X29-10-0020, X29-12-0002, X29-12-0003, X29-13-0042, X29-13-0071, and X29-15-0001; and to Medicare-Medicaid Plans (MMPs) in the Dual Demonstration.

[1] Status should be represented as "Baseline" for initial issuances, "Revision" for changes to the Baseline version, and "Cancellation" for withdrawn versions.
[2] Revisions should be numbered in accordance according to the version of the issuance and sequential numbering of the revision—e.g., "1.2" refers to the first version of the document and the second revision.
[3] Brief description of the changes to the document made in the revision.

Applicability of Chapter 5.3.13

This chapter applies to each Managed Care Organization (MCO) that contracts with HHSC to provide services in STAR, STAR+PLUS, CHIP, STAR Kids, or STAR Health and to Medicare-Medicaid Plans (MMPs) participating in the Medicare-Medicaid Dual Demonstration Program (Dual Demo Program). This chapter specifically does not apply to Dental Contractors or Medical Transportation Organizations. The term "MCO" includes health maintenance organizations, exclusive provider organizations, insurers, MMPs, and any other entities licensed or approved by the Texas Department of Insurance.

Report Schedule

Each MCO must submit a medical loss ratio (MLR) report in accordance with 42 CFR § 438.8 and in conformance with this chapter. The MLR report (Report) must be submitted annually to HHSC, after the conclusion of each State Fiscal Year (SFY). The first Report due under this chapter shall include the results of SFY 2018, which runs from September 1, 2017, through August 31, 2018. The first Report will be due to HHSC by a date after August 31, 2018, to be determined by HHSC. This due date will be communicated to the MCOs by HHSC in writing at least two months prior to the due date. MCOs should begin

tracking and accumulating relevant data for transactions occurring on and after September 1, 2017. Unless specified otherwise, these annual MLR Reports will include results on a SFY basis, which is to say, the MLR reporting period will be the SFY.

HHSC may design report templates such that quarterly data will be submitted during SFY 2018, via normally-scheduled Financial Statistical Reports (FSR) submissions.

Report Revisions

To the extent that *annual* FSR amounts may be revised, such as in differences between the 90-day FSR and the 334-day FSR, or via audit or otherwise, and that such revisions would change amounts previously submitted for the Report, then HHSC may require the Report to be revised and re-submitted.

Report and MLR Calculation Overview

The Report expresses the ratio of MCO medical expenses incurred, to premium payments received, in an adjusted and highly-defined manner.

For each completed SFY, this Report collects data regarding certain medical expenses incurred by the MCO, along with some related expenses and adjustments, which in total are compiled into a "numerator." Per CMS rules, some of the amounts included in the adjusted medical expenses are not actual direct beneficiary services. The Report also collects data regarding certain premium payments made to the MCO, along with certain related amounts and adjustments, which in total are compiled into a "denominator." The defined numerator is then divided by the defined denominator, and a ratio is calculated, which may then be further adjusted. This final ratio is the MLR. This ratio or percentage may be expressed as a simple number, whereby, for example, a ratio of 0.85, or 85%, may be expressed simply as an MLR of 85. Additional digits may be used; for example, an MLR of 85.1.

Calculation as broadly defined by CMS. In general, the methodology for determining which amounts are included in or excluded from each of the numerator and the denominator of the MLR shall conform to CMS rules as contained in 42 CFR § 438.8, Medical loss ratio (MLR) standards, in particular § 438.8(b), (d)-(h), (k), (m)-(n). HHSC will provide guidance, especially with respect to requirements within part 42 CFR § 438.8(k).

Data ties to the FSR, and conforms to the Cost Principles. The Report may be included as an additional tab in the FSRs, and data utilized in the Report must tie to the data utilized and submitted in FSRs. Except where explicitly noted otherwise, all such

data must conform to the HHSC Cost Principles, as defined in the Uniform Managed Care Manual, Chapter 6.1. The cost amounts will be subject to the same allowability standards that have already existed for the FSR, and the requirements of the Report will not change those allowability standards. Such data will be audited, along with the rest of the FSR. The MLR data will require certification as to its accuracy.

Calculation on a post-Experience Rebate basis. Any non-preliminary MLR results will be done on a post-Experience Rebate basis. This means that the Experience Rebate, if any, will be brought in to the calculation, by way of reducing the otherwise total amount of premiums in the capitation.

Implications of capitation withholds, at-risk premiums, liquidated damages, interest assessments, and similar items. Any withholds or at-risk amounts will be treated in the MLR calculation as though they were paid in full by HHSC and retained by the MCO. Liquidated damages and HHSC interest assessments, if any, are unallowable costs under the Cost Principles and are neither medical expenses nor premium payments. As such, they will not be included in the MLR calculation.

Implications of the Administrative Expense Cap and Reinsurance Cap. The Administrative Expense Cap should not directly impact the Report, other than indirectly, via the Cap's possible impact on the amount of Experience Rebate payable. Any reinsurance amounts deemed unallowable via the Reinsurance Cap may impact the Report.

Consolidation. If an MCO contracts with HHSC under more than one legal name, then the MCO should complete a consolidated Report including all such legal entities, across all MCO Programs and Service Areas. HHSC may require a separate Report for MMPs operating under the Dual Demo Program. In general, the Report will not be completed for a given MCO separately by MCO Program and by Service Area, but will instead be completed on a Consolidated Basis.

Implications of results. While there may be target MLR levels to achieve, there is no monetary impact, such as rebates, awards, or recoupments, associated with the MLR level attained for a given SFY by a given MCO. HHSC assesses a monetary impact instead via the Experience Rebate methodology, which serves a similar purpose.

MCOs may be compared with each other as to their attained MLRs, and the MLR data may be published. MLR data will be compiled by HHSC and submitted to CMS. MLRs could be compared from one state to another, or from one year to another for a given MCO. Very low MLRs would imply that much of the premium payment to the MCO by the state is going to administrative costs or profit. Very high MLRs, approaching or exceeding 100, could imply that either rates were set too low or that medical costs are unusually (or possibly inappropriately) high.

Report Template

HHSC will provide a spreadsheet template and corresponding instructions for the MCO to use in submitting the Report required under this chapter. The template may be incorporated as a new tab under the Administrative Expense FSR or as otherwise provided by HHSC. Certain line-items in the template may pull from other pre-existing FSR line-items, others may reconcile to certain existing FSR line-items, and a few line-items may have no tie to other FSR line-items. Report line-items will include data such as the following:

- Total incurred claims dollars - This should tie to components of the FSR involving medical expenses.
- Certain expenditures on quality improving activities.
- Expenditures related to certain activities concerning fraud, waste, and abuse.
- Certain non-claims costs.
- Calculated MLR numerator - This would be determined by a formula in the template, as calculated from other line-items.
- Premium revenue - This should tie to, or pull from, components of the FSR.
- Certain taxes, licensing and regulatory fees - Limited to allowable costs, and as applicable to the MLR, as defined by HHSC.
- Experience Rebates, if any - These would be deemed to be returns of premium payments and, as such, would lower the amount of initially reported premiums. If any quarterly data is reported, Experience Rebates may be left blank until the 90-day FSR has been submitted (unless the MCO chooses to estimate forthcoming Experience Rebates). Experience Rebate amounts incorporated in the calculation would be those generated by the operating results of the year being reported, rather than those that were remitted during the year and which pertained to the prior year's operations. In other words, the Experience Rebates determined by, for example, the results of SFY 2018, which are remitted during SFY 2019, would be used in calculating the SFY 2018 MLR.
- Calculated MLR denominator - This would be determined by a formula in the template, as calculated from other line-items.
- The calculated MLR - This would be determined by a formula in the template, as calculated from other line-items.

- "Credibility adjustment" to be applied to the MLR, if any - This would only be applicable to certain narrowly defined small-population situations; the MCO would demonstrate how it qualifies for such an adjustment, how it calculated the adjustment, and why that calculation is appropriate. This is not an actual cost and, therefore, will not tie to the FSRs.
- The number of Member Months - This would pull from the FSR. It may be used in conjunction with the credibility adjustment.

Some of the line-items above may involve multiple sub-items that would be used in determining the value of the line-item. The template may require the submission of certain explanations as well, such as allocation techniques. Definitions will be provided by HHSC.

HHSC may structure the template layout to show quarterly calculations, year-to-date only, or full SFY only. Any quarterly, year-to-date, or other such interim measurements will be deemed to be preliminary. The final annual MLR calculation, after any Experience Rebate, and as may be revised due to any audit findings, is intended to be the key measurement of the Report.

HHSC will provide the spreadsheet template and instructions by no later than two months prior to any due date for the Report. HHSC will use existing FSR data, and will auto-populate cells, to the fullest extent that is reasonable, thus reducing the amount of work required from the MCO to generate this CMS-required information.

Audit

All line-items in the Report will be subject to HHSC's internal desk review process, and to audit in the annual FSR audits.