

90 - Risk Sharing with MA Regional Plans

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Section 1858(c) of the Social Security Act provides for risk sharing under Part C to be in effect for regional MA plans 2006 and 2007, if specific plan costs are above or below specific risk corridors. The risk corridors are symmetrical in that the government pays organizations if costs are above a target, while it recoups its share of the savings when costs are below a target.

Following are the steps involved in calculating risk corridor payments for MA regional plans.

Calculate the target ratio. The following are the key elements used to determine the risk sharing target ratio for a regional MA plan. Please note that the values are expressed on a per-member, per-month (PMPM) basis:

- Projected allowed medical expense is equal to the projected medical expense in the plan A/B bid for benefits covered under original Medicare, plus the medical component of rebatable integrated benefits. Rebatable integrated benefits are non-drug supplemental benefits that are funded through beneficiary rebates and are: (i) additional medical benefits not covered under the original Medicare program option; or (ii) expenditures by the plan for cost sharing reductions for A/B benefits.
- Projected allowed revenue is equal to the projected allowed medical expense plus projected non-medical expense and projected gain/loss margin included in: (i) basic plan bid, and (ii) rebatable integrated benefits.
- The risk sharing target ratio is calculated as the projected allowed medical expense divided by the projected allowed revenue.
- The risk sharing target amount is the actual allowed revenue multiplied by the risk sharing target ratio.
- The actual covered revenue equals the net government capitation payments (including capitation payments, rebates allocated to buy-down supplemental A/B benefits, and government premium adjustment) plus basic enrollee premium revenue.
- The basic enrollee premium revenue represents premiums billed and does not include an offset for uncollected premiums. An organization sets policy for the management of uncollected premiums, and this is an administrative expense. Thus, this “offset” amount should be left out of risk sharing. This is consistent with CMS’ guidance for pricing of the Part D benefit.

As an attachment to the MA bid submission, an MA organization offering a regional plan must include a description of the methodology that will be used to develop actual revenue and medical expense to be included in risk sharing reconciliation.

Calculate associated risk corridor limits. The first threshold upper limit is 103 percent of the target amount, and the second threshold upper limit is 108 percent of the target amount. Similarly, the first threshold lower limit is 97 percent of the target amount, and the second threshold lower limit is 92 percent of the target amount.

Calculate allowed risk corridor costs. The MA organizations will report to CMS the actual allowed revenue and medical expense for the regional plan that were incurred during the contract year and processed within 12 months after the end of the contract year. For example, any medical expenses incurred during 2006 and paid by December 31, 2007 will be reported as an actual incurred claim. Allowed medical expense will reflect reimbursements received, or expected to be received, by the plan under coordination of benefits, subrogation, reinsurance, Part B Rx rebates, or other sources. Further, excluded from medical expenses will be expenditures for case management and disease management services that are not considered to be an enrollee “encounter.”

The calculation of the actual plan revenue and medical expense will be verified by an independent auditor, paid for by the plan.

CMS Application of Risk Corridors. First, CMS determines where actual allowed medical expenses are relative to thresholds, then calculates a payment adjustment. If actual allowed medical expenses fall within 3 percent of the target amount (above or below it), there is no risk sharing of additional cost or “savings.” If actual allowed medical expenses are more than 3 percent outside the risk sharing target (above or below it), costs or savings will be shared in accordance with the following provisions:

- Actual allowed medical expense greater than 103 percent of target amount and less than or equal to 108 percent of target amount: CMS pays the MA organization 50 percent of the difference between actual allowed medical expense and 103 percent of target amount.
- Actual allowed medical expense greater than 108 percent of target amount: CMS pays the MA organization 2.5 percent of target amount plus 80 percent of the difference between actual allowed medical expense and 108 percent of target amount.
- Actual allowed medical expenses less than 97 percent of the target amount and greater than or equal to 92 percent of the target amount: CMS applies a negative adjustment to the plan payment of 50 percent of the difference between 97 percent of target amount and actual allowed medical expense.

- Actual allowed medical expenses less than 92 percent of target amount: CMS applies a negative adjustment to the plan payment of 2.5 percent of target amount plus 80 percent of difference between 92 percent of target amount and actual allowed medical expense.

Medicare Advantage organizations offering regional plans should use actual claims data to calculate allowed medical expenses and may include an adjustment for claims incurred during the contract period that remain unpaid (but which the organization has a reasonable expectation of paying) as of the reconciliation date, which is 12 months beyond the end of the contract period. The MA organizations may build-in a reasonable level of claim reserves when calculating the allowed medical expenses for purposes of regional plan risk corridor payments. Accompanying the reconciliations shall be exhibits and data (that is, “claim triangles”) that support development of the claim reserves. The reserves, and supporting data, will be reviewed by CMS’ Office of the Actuary (OACT). If these amounts are in question, the reconciliation will be considered to be preliminary and a cash settlement will occur with a final settlement to take place 12 months later. The reconciliation exhibit will be audited by an independent Certified Public Accountant, at the expense of the MA organization.