

State of Indiana
Office of Medicaid Policy & Planning
CY 2011 Capitation Rate Setting
Hoosier Healthwise and Healthy Indiana Plan
Calculation of Medical Loss Ratio

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The Medical Loss Ratio (MLR) will be calculated separately for the HIP and Hoosier Healthwise populations for each calendar year rate period. The MLR will be calculated based on the MCO's incurred claim experience during the calendar year, with six months of claims run-out. For the Healthy Indiana Plan, the medical expenses will exclude allowed amounts reimbursed from the beneficiaries' POWER accounts. The medical expenses will include an amount for incurred but not paid claims (IBNP). Each MCO will provide an estimate of its re-stated IBNP with six months of run-out, and provide sufficient documentation and work papers (lag triangles) to support an independent review of the IBNP estimate by Milliman. Margin on the IBNP estimate will not be included in the MLR calculation. Liability amounts for claim adjustment expenses will also be excluded from the MLR calculation.

Net reinsurance recoveries will be deducted from the medical expense. Medical expenses will not include any administrative costs, including claim adjustment and cost containment expenses.

The premium revenue in the MLR calculation will be based on capitation revenue received by the MCO, and will additionally include withhold amounts (both paid and unpaid), and deductions for reinsurance premiums paid. The premium revenue will not reflect bonuses received outside of the capitation revenue.

The premium and medical expense amounts should be reported consistently with the definitions supplied by the National Association of Insurance Commissioners (NAIC) for page 4 of the annual statement blank.

$$\text{MLR} = \frac{\text{[Total Hospital and Medical Claims]}}{\text{[Net Premium Income]}}$$

Where:

Total Hospital and Medical Claims = NAIC annual statement blank page 4, Line 18 (excluding margin on IBNP estimate, and claim expenses reimbursed through POWER account deductions)

Line 18. Total hospital and medical equals:

[Plus] Line 9. Hospital/medical benefits

[Plus] Line 10. Other professional services

[Plus] Line 11. Outside referrals

[Plus] Line 12. Emergency room and out-of-area

[Plus] Line 13. Prescription drugs

[Plus] Line 14. Aggregate write-ins for other hospital and medical

[Plus] Line 15. Incentive pool and withhold adjustments

[Minus] Line 17. Net reinsurance recoveries

Net Premium Income = NAIC annual statement blank page 4, Line 2 (less bonus performance payments received, plus withhold amounts unpaid).