



April 9, 2018

Via Electronic Mail

Louisiana Department of Health
Steve Annison, Medicaid Program Manager
628 N. 4th Street
Baton Rouge, LA 70802

Re: Amerigroup Louisiana, Inc. 2016 MLR Examination Report Transmittal

This letter is to inform you that Myers and Stauffer LC has completed the examination of Amerigroup Louisiana, Inc.'s 2016 Medical Loss Ratio (MLR) report. As a courtesy to LDH and other readers, we have also included Amerigroup Louisiana, Inc., management's response letter, in addition to our examination report, as part of this transmittal packet. Myers and Stauffer LC, in no manner, expresses an opinion on the accuracy, truthfulness, or validity of the statements presented within the management's response letter.

Please contact us at the phone number below if you have questions.

Kind Regards,

Myers and Stauffer LC

**Amerigroup Louisiana, Inc.
Medicaid Non-Expansion
Report on Medical Loss Ratio Rebate Calculation
(With Independent Accountant's Report Thereon)**

**State of Louisiana
Louisiana Department of Health
Baton Rouge, Louisiana**

**For the period of January 1, 2016
through December 31, 2016**

Prepared by:





Table of Contents

I. Independent Accountant's Report.....	1
II. Organizational Background	2
III. Schedule of Adjustments and Comments	3
IV. Adjusted Medical Loss Ratio Rebate Calculation	6



Independent Accountant's Report

State of Louisiana
Louisiana Department of Health
Baton Rouge, Louisiana

We have examined the accompanying Adjusted Medical Loss Ratio Rebate Calculation of Amerigroup Louisiana, Inc. (AGP) related to the Medicaid Non-Expansion population for the period of January 1, 2016 through December 31, 2016. AGP's management is responsible for presenting the Medical Loss Ratio Rebate Calculation in accordance with the criteria set forth in the Healthy Louisiana's (Formerly Bayou Health) MCO Financial Reporting Guide. Our responsibility is to express an opinion on the Medical Loss Ratio Rebate Calculation based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the Adjusted Medical Loss Ratio Rebate Calculation is in accordance with the criteria, in all material respects. An examination involves performing procedures to obtain evidence about the Medical Loss Ratio Rebate Calculation. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risk of material misstatement of the Medical Loss Ratio Calculation, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

In our opinion, the above referenced accompanying Adjusted Medical Loss Ratio Rebate Calculation of AGP is presented in accordance with in the Healthy Louisiana's MCO Financial Reporting Guide, in all material respects, and exceeds the eighty-five percent (85%) requirement for the period of January 1, 2016 through December 31, 2016.

This report is intended solely for the information and use of the Louisiana Department of Health and AGP and is not intended to be and should not be used by anyone other than these specified parties.

Myers and Stauffer LC
March 14, 2018



Organizational Background

Amerigroup Louisiana, Inc. (AGP) is a wholly owned subsidiary of Amerigroup Corporation, which commenced operations on February 1, 2012 and is licensed as a health maintenance organization in the state of Louisiana.

On December 24, 2012, WellPoint, Inc. completed the acquisition of all of Amerigroup Corporation's outstanding shares. As a result of the acquisition, Amerigroup Louisiana is now an indirect subsidiary of WellPoint.

Amerigroup Louisiana's members include children and families served by Medicaid's TANF as well as people with disabilities through the Healthy Louisiana program. AGP is currently one of five health plans that offer services on a full-risk basis. Effective February 1, 2012, Amerigroup Louisiana commenced operations in New Orleans and North Shore. Effective April 1, 2012, Amerigroup Louisiana commenced operations in Baton Rouge, Lafayette, and Thibodaux; and on June 1, 2012, Amerigroup Louisiana commenced operations in the remaining regions of Alexandria, Lake Charles, Monroe and Shreveport.

The Patient Protection and Affordable Care Act (Affordable Care Act) was signed into law on March 23, 2010. The Affordable Care Act affected Medicaid by expanding the population of individuals that were eligible for Medicaid services. Medicaid eligibility was expanded to include all individuals with incomes up to 138 percent of the federal poverty level, regardless of their age, family status or health. The Medicaid expansion population is defined as individuals whom previously were not eligible for Medicaid services, but became eligible due to the expansion of Medicaid eligibility under the Affordable Care Act.

On January 12, 2016, the Governor of Louisiana signed Executive Order JBE 16-01 which expanded Medicaid in Louisiana effective July 1, 2016. Each Medicaid Managed Care Organization now serves this expansion population in addition to the original non-expansion population. AGP's submitted MLR under examination reflects only the Medicaid non-expansion activity for the period of January 1, 2016 through December 31, 2016.



Schedule of Adjustments and Comments

During our examination we noted certain matters involving costs, that in our determination did not meet the definitions of allowable medical expenses and other operational matters that are presented for your consideration. These adjustments, comments and recommendations are intended to improve internal controls or result in other operating efficiencies and are summarized below. In addition, the adjustments made reflect only changes applicable to the expenditures of the Medicaid non-expansion population.

Adjustment #1 – To adjust premium tax to reflect 5.5% of premium revenues

Amerigroup Louisiana, Inc., reported premium tax amounts on the MLR that did not reflect the state insurance requirements that they owe a premium tax of 5.5% of the premium revenues received for the period ending December 31, 2016. The MCO reported only \$33,780,485, while they should have reported \$39,956,122 based on the revenues reported. The proposed adjustment adds \$5,367,291 to Line 3 (Premium tax component of reported revenue) of the MLR. This requirement is addressed in the Healthy Louisiana MCO Financial Reporting Guide's Appendix A: Medical Loss Ratio (MLR) Rebate Calculation instructions on page 2. This requirement is also addressed by the Louisiana Department of Insurance in the instructions for reporting premium tax.

We recommend an adjustment to increase Line 3 (Premium tax component of the reported revenue) by \$5,367,291. We also recommend that Amerigroup Louisiana, Inc., revise its processes for reporting premium tax to reflect accurate amounts for the MLR reporting period based on the state's requirements for reporting premium tax.

Adjustment #2 – To adjust revenues amounts to capitated payment documentation

Amerigroup Louisiana, Inc., reported revenue amounts that did not reflect all capitation payments received for its members applicable to the covered dates of service for the period ending December 31, 2016. We have identified additional revenues of \$14,552,413, which were not included and reported in the Line 1 (Annual Non-Expansion Healthy Louisiana Payments) totals on the MLR. The MCO confirmed that the majority of this variance related to the exclusion of the HIPF amount in the MLR Line 1 reported amounts. In addition, 5.5% of this additional revenue, or \$800,383, should also be reported on line 3 as the premium tax component associated with this revenue. The revenue reporting requirements are addressed in the Healthy Louisiana MCO Financial Reporting Guide's Appendix A: Medical Loss Ratio (MLR) Rebate Calculation instructions.

We recommend that adjustments of \$14,552,413 be added to Line 1 (Annual Non-Expansion Healthy Louisiana Payments) and \$800,383 be added to Line 3 (Premium tax component of the reported revenue). This is a reoccurring finding identified in prior examinations and as such, we also recommend that Amerigroup Louisiana, Inc., revise its processes for reporting the Healthy Louisiana Payments to reflect accurate amounts for the MLR reporting period.



Schedule of Adjustments and Comments

Adjustment #3 – To adjust Express Scripts, Inc. pharmacy expense to actual incurred medical expense

Amerigroup Louisiana, Inc., included \$132,000,755 in Pharmacy expenses incurred on Line 8 as Medical expenses. Myers and Stauffer conducted a webinar with Express Scripts, Inc. (ESI), to determine if the amounts claimed on the MLR reflected the amounts paid by ESI to their pharmacy vendors. Our testing revealed that the payment amounts made by ESI to providers differed from the amount invoiced to Amerigroup. This practice is referred to as spread pricing in the industry. The difference between the amount paid to the provider and the invoiced amount should be considered “Other non-claims costs”. This requirement is addressed in CMS MLR Guidance issued 7.18.11 (Q&A #19), 5.13.11 (Q&A #12), and 2.10.12 (Q&A #20). CMS Guidance states that an “issuer may only include as reimbursement for clinical services (incurred claims) the amount that the vendor actually pays the medical provider or supplier for providing covered clinical services or supplies to enrollees...For example, when a pharmacy benefit manager (PBM) pays a retail pharmacy one amount for prescription drugs covered by the plan and charges the issuer a higher amount (the retail spread), the issuer may only claim the amounts paid by the PBM to the retail pharmacy as incurred claims.” Question 12 also goes on to recognize what should be included in the non-claims cost component. Additionally, the instructions included in the Healthy Louisiana MCO Financial Reporting Guide’s Appendix A: Medical Loss Ratio (MLR) Rebate Calculation instructions clearly defines “Incurred claims costs” and “Other non-claims costs”.

Despite numerous attempts, Myers and Stauffer LC was unable to obtain the actual incurred medical expense for the dates of service covered under this examination period from ESI. We therefore utilized cash disbursement journal information received from Amerigroup and ESI, which were available to us unrelated to our specific requests, to estimate the proper recording of actual incurred medical expense. As a result of our analysis, we estimated the difference between actual incurred claims cost and the amount reported on the MLR was \$12,017,301.

We recommend an adjustment to remove \$12,017,301 from line 8 (Total net medical expenses) of the MLR. This is a reoccurring finding identified in prior examinations and as such, we recommend that Amerigroup Louisiana, Inc., revise its processes for reporting costs on the MLR rebate calculation properly to only include allowable claim expenses. We also recommend that Amerigroup Louisiana, Inc., improve its subcontractor oversight and require its subcontractors to provide all relevant information for future MLR submissions.



Schedule of Adjustments and Comments

Adjustment #4 - To remove Utilization Management expense from HCQI

Amerigroup Louisiana, Inc., included \$14,941,964 in HCQI expenses on Line 14 of the submitted MLR. Per the MCO's instruction in the HCQI supporting documentation, an amount was identified by the MCO as non-allowable Utilization Management (UM) cost totaling \$776,122. According to the MCO, this was included in error and was supposed to be excluded from the MLR. This requirement is addressed in the Healthy Louisiana MCO Financial Reporting Guide's Appendix A: Medical Loss Ratio (MLR) Rebate Calculation instructions on pages 4-7.

We recommend an adjustment to remove \$776,122 from line 14 (HCQI/HIT administrative expenses) of the MLR. This is a reoccurring finding identified in prior examinations and as such, we also recommend that Amerigroup Louisiana, Inc., revise its processes for reporting HCQI expenses on the MLR rebate calculation to properly include only allowable HCQI expenses.



Amerigroup of Louisiana Medicaid Non-Expansion Adjusted Medical Loss Ratio (MLR) Rebate Calculation For the Period Ending December 31, 2016

Amerigroup Louisiana, Inc.

Line #	Revenue or Expense	Reported MLR Amounts	Adjustment Amounts	Adjusted MLR Amounts
Capitation Revenue and New Enrollee Adjustments				
1	Annual Non-Expansion Healthy Louisiana Payments	\$ 726,474,944	\$ 14,552,413	\$ 741,027,357
2	Less: Health Insurer Provider Fee	\$ 14,697,206	\$ -	\$ 14,697,206
3	Less: Premium tax component of reported revenue	\$ 33,780,485	\$ 6,167,674	\$ 39,948,159
4	NET Annual MLR Revenue	\$ 677,997,253	\$ 8,384,739	\$ 686,381,992
5	Less: Adjustment for 50% or more of TOTAL capitation attributed to new enrollees (net of premium tax component)	\$ -	\$ -	\$ -
6	Add: Adjustment for 50% or more of TOTAL capitation attributed to new enrollees (net of premium tax component) deferred from prior year from line 25 below.	\$ -	\$ -	\$ -
7	Adjusted Annual MLR Revenue	\$ 677,997,253	\$ 8,384,739	\$ 686,381,992
MLR Medical and Administrative Expense Adjustments				
8	Total Net Medical Expenses	\$ 628,725,598	\$ (12,017,301)	\$ 616,708,297
MLR Expense Adjustments defined in Appendix A				
9	Incurred claim adjustment additions	\$ 22,068,458	\$ -	\$ 22,068,458
10	Incurred claim adjustment deductions	\$ 8,778,236	\$ -	\$ 8,778,236
11	Less: Enhanced Benefit Expense	\$ 3,539,817	\$ -	\$ 3,539,817
12	Incurred claim adjustment exclusions	\$ 3,636,046	\$ -	\$ 3,636,046
13	Adjusted Net Medical Expenses	\$ 634,839,956	\$ (12,017,301)	\$ 622,822,656 ¹
Health care quality improvement (HCQI) and health care information technology and meaningful use expenses				
14	HCQI and HIT administrative expenses	\$ 14,941,964	\$ (776,122)	\$ 14,165,842
15	Adjustments or exclusions to HCQI/HIT meaningful use expenses	\$ -	\$ -	\$ -
16	Adjusted HCQI/HIT expenses	\$ 14,941,964	\$ (776,122)	\$ 14,165,842
17	Total MLR Expenditures Adjusted for HCQI/HIT	\$ 649,781,920	\$ (12,793,423)	\$ 636,988,498 ¹
18	Less: Adjustment for 50% or more of Medical expenses attributed to new enrollees.	\$ -	\$ -	\$ -
19	Add: Prior Year New Enrollee Medical Expenditures deferred to current year from line 26 below.	\$ -	\$ -	\$ -
20	Total Adjusted Annual MLR expenses	\$ 649,781,920	\$ (12,793,423)	\$ 636,988,498 ¹
21	MLR percentage achieved	95.8%	(3.0%)	92.8%
22	MLR percentage requirement for rebate calculation	85.0%		85.0%
23	Percentage below 85% requirement	0.0%		0.0%
24	Dollar amount of rebate requirement	\$ -		\$ -
Reconciliation of Prior Year New Enrollee Capitation Exclusion				
25	Prior year new enrollee capitation adjustment exclusion (net of premium tax)	\$ -	\$ -	\$ -
26	Less: Prior year incurred claims for excluded New Enrollees	\$ -	\$ -	\$ -
27	Total Net Adjustment for New Enrollees from prior years	\$ -	\$ -	\$ -

1) Minor cross-foot variance due to rounding.

Amerigroup Louisiana, Inc.
Management Response



Adjustment #3 – To adjust Express Scripts, Inc. pharmacy expense to actual incurred medical expense

Amerigroup Louisiana, Inc., included \$132,000,755 in Pharmacy expenses incurred on Line 8 as Medical expenses. Myers and Stauffer conducted a webinar with Express Scripts, Inc. (ESI), to determine if the amounts claimed on the MLR reflected the amounts paid by ESI to their pharmacy vendors. Our testing revealed that the payment amounts made by ESI to providers differed from the amount invoiced to Amerigroup. This practice is referred to as spread pricing in the industry. The difference between the amount paid to the provider and the invoiced amount should be considered “Other non-claims costs”. This requirement is addressed in CMS MLR Guidance issued 7.18.11 (Q&A #19), 5.13.11 (Q&A #12), and 2/10.12 (Q&A #20). CMS Guidance states that an “issuer may only include as reimbursement for clinical services (incurred claims) the amount that the vendor actually pays the medical provider or supplier for providing covered clinical services or supplies to enrollees...For example, when a pharmacy benefit manager (PBM) pays a retail pharmacy one amount for prescription drugs covered by the plan and charges the issuer a higher amount (the retail spread), the issuer may only claim the amounts paid by the PBM to the retail pharmacy as incurred claims.” Question 12 also goes on to recognize what should be included in the non-claims cost component. Additionally, the instructions included in the Healthy Louisiana MCO Financial Reporting Guide’s Appendix A: Medical Loss Ratio (MLR) Rebate Calculation instructions clearly defines “Incurred claims costs” and “Other non-claims costs”.

Despite numerous attempts, Myers and Stauffer LC was unable to obtain the actual incurred medical expense for the dates of service covered under this examination period from ESI. We therefore utilized cash disbursement journal information received from Amerigroup and ESI, which were available to us unrelated to our specific requests, to estimate the proper recording of actual incurred medical expense. As a result of our analysis, we estimated the difference between actual incurred claims cost and the amount reported on the MLR was \$12,017,301.

We recommend an adjustment to remove \$12,017,301 from line 8 (Total net medical expenses) of the MLR. This is a reoccurring finding identified in prior examinations and as such, we recommend that Amerigroup Louisiana, Inc., revise its processes for reporting costs on the MLR rebate calculation properly to only include allowable claim expenses. We also recommend that Amerigroup Louisiana, Inc., improve its subcontractor oversight and require its subcontractors to provide all relevant information for future MLR submissions.

Response:

Community Care Health Plan of Louisiana, Inc. d/b/a Healthy Blue f/k/a Amerigroup Louisiana, Inc. (Healthy Blue) disagrees with this finding. We believe the CMS MLR Guidance is specific to Commercial and Medicare lines of business and is not applicable to Medicaid medical loss ratio rebate calculations. CMS issued Medicaid specific guidance in May 2016(Mega-Reg), giving the individual States, and not CMS, the authority to develop

3850 North Causeway Blvd., Suite 600
Metairie, LA 70002
504.834.1271

www.healthyblueela.com

specific requirements related to MLR calculations. The Mega-Reg does not provide for adherence to the CMS MLR Guidance on which the auditors rely, nor does it exclude third party profit margin from the Medicaid rebate calculation. In Louisiana, our contract language and MLR report instructions require us to exclude "*Amounts paid to third party vendors for network development, administrative fees, claims processing and utilization management*". We have complied with our contract by excluding the administrative portion of the fees paid to Express Scripts from medical expense. The values included in claims costs are that which are charged to Healthy Blue by the external Pharmacy Benefits Manager, the dispensation of which is out of the control of Healthy Blue. The State has not prohibited the inclusion of spread pricing from the MLR calculation process, and the state has not adopted the use of the CMS MLR Guidance for the Medicaid managed care program for the period under audit. Absent formal guidance from the State on these types of limitations in the MLR calculation process, we do not believe that the auditors have the authority to exclude spread pricing from the MLR calculation. Further, should the state issue such formal guidance, it is our position that such guidance would be applicable on a forward-looking basis, not retroactive to the contract period under audit.