

## Medical Loss Ratio Requirements

MCOs that receive capitation payments to provide covered services to Nebraska Medicaid members are required to rebate a portion of the capitation payments to MLTC in the event the MCO does not meet the eighty-five percent (85%) Medical Loss Ratio (MLR) standard. This document describes the methodology for calculating the MLR and payment of any rebate due MLTC.

### MLR Calculation

1. An MCO's MLR is the ratio of net qualified medical expenses to qualifying revenue for the MLR calculation:  
  
MLR = net qualified medical expenses ÷ qualifying revenue for the MLR calculation
2. Net qualified medical expense, the numerator in the MLR calculation, is defined as the sum of:
  - a. Claims incurred;
  - b. Claims incurred but not paid, plus provisions for adverse deviation and loss adjustment expense;
  - c. Medical incentive bonuses and other approved provider settlements;
  - d. Reinsurance premiums less reinsurance recoveries;
  - e. Activities that improve health care quality per 42 CFR § 438.8(e)(3); and
  - f. Less related-party medical margin.
3. The denominator for the MLR calculation is the aggregate of revenue earned by the MCO and related parties, including parent and subsidiary companies and risk bearing partners under this contract, including capitation payments, amounts from other risk mitigation settlements, and ignores federal and state premium and income taxes and non-operating income. Any unearned holdback is not factored into the calculation.
4. An activity that improves health care quality can be included in the numerator as long as it meets one of three standards: 1) meets the definition in 42 CFR § 438.8(e)(3) of an activity that improves health care quality and is not excluded under 42 CFR § 438.8(e)(3); 2) is an activity specific to Medicaid managed care external quality review activities; or 3) is an activity related to health information technology and meaningful use, as defined in 42 CFR § 438.8(e)(3), and excludes any costs that are identified as excluded under 42 CFR § 438.8(e)(3) or other federal regulations.
5. The MLR will be calculated using the MCO's "run rate" financial statements (not "booked"). This includes the incurred expenses and qualifying revenue for the MLR calculation attributable to activities in the specified contract year.

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6. MLTC reserves the right to audit, request additional information, and revise the MCOs estimates of its MLR calculation.

**MLR Rebate**

1. The MCO must submit data to MLTC in order for MLTC to calculate the MLR settlement annually, twelve (12) months after the end of the contract year.

2. For each reporting year in which the MLR is less than eighty-five percent (85%), the MCO must provide a rebate to MLTC per the following formula:

- a. MLR rebate = maximum of \$0 and [qualifying revenue for the MLR calculation - (net qualified medical expense/85%)]