June 29, 2017

Via Electronic Mail

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

Re: Aetna Better Health of Louisiana 2015 MLR Examination Report Transmittal

This letter is to inform you that Myers and Stauffer LC has completed the examination of Aetna Better Health of Louisiana's 2015 Medical Loss Ratio (MLR) Report.

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

Kind Regards,

Myers and Stauffer LC

Myers and Stauffer LC

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Aetna Better Health of Louisiana
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 February 1, 2015 through December 31, 2015

Prepared by:

1977 - 2017

MYERS AND STAUFFER LC
CERTIFIED PUBLIC ACCOUNTANTS

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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 Aetna Better Health of Louisiana (ABHLA) for the period of February 1, 2015 through December 31, 2015. ABHLA'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 ABHLA presents fairly, in all material respects, ABHLA's compliance with the criteria set forth in the Healthy Louisiana's MCO Financial Reporting Guide and exceeds the eighty-five percent (85%) requirement for the period of February 1, 2015 through December 31, 2015.

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

Myers and Stauffer LC

Myers and Stauffer LC
June 16, 2017

Organizational Background

Aetna Better Health, Inc., a Louisiana corporation, was incorporated on July 27, 2010 in the State of Louisiana. Aetna Better Health, Inc., d/b/a Aetna Better Health of Louisiana (ABHLA) is wholly owned subsidiary of Aetna Health Holdings, LLC. Aetna Inc., a publicly held company currently trading on the New York Stock Exchange, is the ultimate parent corporation.

ABHLA entered into a contract with the Louisiana Department of Health (LDH) and began enrolling Medicaid members in the Healthy Louisiana program (formerly Bayou Health) effective February 1, 2015. ABHLA is currently one of five managed care organizations that offer Medicaid medical services on a full risk basis in Louisiana. ABHLA provides coverage for a broad range of medically necessary services to meet its members' healthcare needs.

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.

Adjustment #1 – To adjust HCQI expenses to the MCO's revised allocation methodology

Aetna Better Health of Louisiana (ABHLA) became a full-risk capitated Managed Care Organization effective February 1, 2015. Since 2015 was the first reporting period for the MCO, they explained that there was limited data available at the MLR submission date to reflect properly allocated Healthcare Quality Initiative (HCQI) expenses. As part of our examination procedures, we requested supporting documentation for the reported HCQI expenses. While preparing this documentation, ABHLA identified an issue in the methodology utilized and revised their methodology to more accurately reflect their HCQI expense calculation. This included the utilization of actual costs, revised cost centers allocations and the usage of weighted full time equivalent percentages derived from job titles and primary job duties to determine the allocation amounts that were healthcare quality focused. We have reviewed and accept this revised methodology. Therefore, the proposed adjustment removes $2,006,398 from line 14 (HCQI and HIT administrative expense from Income Statement) to be in accordance with their revised HCQI reporting methodology and requirements listed in the Healthy Louisiana's MCO Financial Reporting Guide: Appendix A. These amounts may be considered as non-claims expense.

We recommend an adjustment to remove $2,006,398 as unsupported costs from HCQI Expenses on line 14. We also recommend that Aetna Better Health of Louisiana revise its processes for reporting costs on the MLR rebate calculation properly to only include allowable and properly supported HCQI expenses.

Adjustment #2 – To report Enhanced Benefit expenses

Aetna Better Health of Louisiana (ABHLA) did not report their Enhanced Benefit Expenses on line 11 of the MLR as required by the MLR instructions. Myers and Stauffer LC requested that ABHLA provide these amounts during our examination. ABHLA provided support that documented enhanced benefits expense in the amount of $985,994. Myers and Stauffer LC has proposed an adjustment of $985,994 to increase line 11 (Less: Enhanced Benefit Expense) of the MLR, thereby reducing net MLR expenses. Reporting for enhanced benefits is outlined in the Healthy Louisiana's MCO Financial Reporting Guide: Appendix A.

We recommend an adjustment to add $985,994 as Enhanced Benefits to Line 11 (Less: Enhanced Benefit Expense), thereby reducing the net MLR expenses reported for the period. We also recommend that Aetna Better Health of Louisiana revise its processes for reporting costs on the MLR rebate calculation properly to only include allowable claims in medical expenses and to properly classify non-claims cost.

Adjustment #3 –To remove Reinsurance expense in excess of recoveries

Aetna Better Health of Louisiana (ABHLA) included a net amount of $282,984 in Reinsurance premium expenses that exceeded the Reinsurance recovery amounts on Line 8 as Medical Expenses. The Healthy Louisiana MCO Financial Reporting Guide and MLR instructions do not specifically identify reinsurance expense as an allowable clinical service expenditure and therefore absent specific instructions, these expenses should be classified as “Other non-claim costs”. In addition, this excess expense amount cannot be considered as Healthcare Quality Initiative (HCQI) costs based on the MLR instructions for HCQI, which specifically excludes expenditures that are designed primarily to control or contain costs. The primary purpose of reinsurance is to minimize or reduce the risk exposure of the organization.

We recommend an adjustment to remove $282,984 from Medical Expenses included on Line 8. We also recommend that Aetna Better Health of Louisiana revise its processes for reporting costs on the MLR rebate calculation properly to only include allowable clinical service expenses and to properly classify non-claims cost.

Aetna Better Health of Louisiana

Line #	Revenue or Expense	Reported MLR Amounts	Adjustment Amounts	Adjusted MLR Amounts
Capitation Revenue and New Enrollee Adjustments				
1	**Total YTD Capitation Payments**	$ 180,946,340	$ -	$ 180,946,340
2	**Less: Health Insurer Provider Fee**	$ -	$ -	$ -
3	**Less: Premium tax component of reported revenue**	$ 3,813,410	$ -	$ 3,813,410
4	**NET Current YTD MLR Revenue**	$ 177,132,930	$ -	$ 177,132,930
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 Current YTD MLR Capitation Revenue**	**$ 177,132,930**	**$ -**	**$ 177,132,930**
MLR Medical and Administrative Expense Adjustments				
8	Total Net Medical Expenses from Income Statement	$ 170,443,674	$ (282,984)	$ 170,160,690
	MLR Expense Adjustments defined in Appendix A			
9	Incurred claim adjustment additions	$ -	$ -	$ -
10	Incurred claim adjustment deductions	$ -	$ -	$ -
11	Less: Enhanced Benefit Expense	$ -	$ 985,994	$ 985,994
12	Incurred claim adjustment exclusions	$ -	$ -	$ -
13	**Adjusted Net Medical Expenses**	$ 170,443,674	$ (1,268,978)	$ 169,174,696
	Health care quality improvement (HCQI) and health care information technology and meaningful use expenses			
14	HCQI and HIT administrative expenses from Income Statement	$ 4,873,035	$ (2,006,398)	$ 2,866,637
15	Adjustments or exclusions to HCQI/HIT meaningful use expenses	$ -	$ -	$ -
16	**Adjusted HCQI/HIT expenses**	$ 4,873,035	$ (2,006,398)	$ 2,866,637
17	**Total adjusted current YTD MLR expenditures**	$ 175,316,709	$ (3,275,376)	$ 172,041,333
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 MLR expenses**	**$ 175,316,709**	**$ (3,275,376)**	**$ 172,041,333**
21	**MLR percentage achieved**	**99.0%**	**(1.9%)**	**97.1%**
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**	**$ -**	**$ -**	**$ -**

We have identified additional payments of $2,165,757, most of which were retroactive adjustment payments for the dates of service in our examination period, but paid subsequent to the 2015 reporting period and were therefore not included in the reported Line 1 totals. We elected not to make an adjustment to revenue since the as-filed MLR would not be reflective of an accurate incurred claims estimate for these members.

<u>We recommend that the Louisiana Department of Health provide additional timing clarification expectations within the Healthy Louisiana MCO Financial Reporting Guide's Appendix A: Medical Loss Ratio (MLR) Rebate Calculation instructions for the Managed Care Organizations (MCOs) to report the most accurate revenue and expenditures, as well as provide specified percentage change threshold guidelines in which it is necessary for the MCOs to submit a revised MLR calculation.</u>