



May 9, 2019

Via Electronic Mail

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

Re: Community Care Health Plan of Louisiana, Inc., d/b/a Healthy Blue 2017 Non-Expansion MLR  
Examination Report Transmittal

This letter is to inform you that Myers and Stauffer LC has completed the examination of Community Care Health Plan of Louisiana, Inc., d/b/a Healthy Blue's 2017 Non-Expansion Medical Loss Ratio (MLR) report.

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

Kind Regards,

Myers and Stauffer LC

**Community Care Health Plan of Louisiana, Inc.,  
d/b/a Healthy Blue  
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, 2017  
through December 31, 2017**

**Prepared by:**





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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 Community Care Health Plan of Louisiana, Inc., d/b/a Healthy Blue related to the Medicaid Non-Expansion population for the period of January 1, 2017 through December 31, 2017. Healthy Blue'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.

The Member Months reported on the Adjusted Medical Loss Ratio Rebate Calculation has not been subjected to the procedures applied in the examination, and accordingly, we express no opinion on it.

In our opinion, the above referenced accompanying Adjusted Medical Loss Ratio Rebate Calculation of Healthy Blue is presented in accordance with 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, 2017 through December 31, 2017.

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

Myers and Stauffer LC  
April 18, 2019



## Organizational Background

Community Care Health Plan of Louisiana, Inc., d/b/a Healthy Blue, is a jointly owned corporation and is licensed as a health maintenance organization in the state of Louisiana and operates as a licensee of the Blue Cross and Blue Shield Association ("BCBSA").

Currently, Anthem Partnership Holding Company, LLC ("APHC"), an indirect wholly-owned subsidiary of Anthem, Inc., owns eighty percent (80%) of the corporation's stock while Louisiana Health Service & Indemnity Company, d/b/a Blue Cross and Blue Shield of Louisiana ("BCBS LA") owns the remaining twenty (20%) of the corporation's stock. The original corporation, previously owned by Amerigroup Corporation ("AGP") until the acquisitions by APHC on November 15, 2016 and BCBS LA on March 31, 2017, commenced operations on February 1, 2012.

Healthy Blue's members include children and families served by Medicaid's TANF as well as people with disabilities through the Healthy Louisiana program. Healthy Blue is currently one of five health plans that offer services on a full-risk basis. Effective February 1, 2012, Healthy Blue commenced operations in New Orleans and North Shore. Effective April 1, 2012, Healthy Blue commenced operations in Baton Rouge, Lafayette, and Thibodaux; and on June 1, 2012, Healthy Blue 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. Healthy Blue's submitted MLR under examination reflects only the Medicaid non-expansion activity for the period of January 1, 2017 through December 31, 2017.



## 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 include the Optional Inclusion: Value-Added Services**

Healthy Blue reported Value-Added Services as a \$4,816,793 negative amount on Line 4 Optional Inclusion: Value-Added Services of the MLR. This resulted in a reduced overall Adjusted Incurred Claims amount.

The Healthy Louisiana MCO Financial Reporting Guide's Appendix A: Medical Loss Ratio (MLR) Rebate Calculation instructions provide guidance for Value-Added Services. The instructions state that an adjustment can be made to incurred claims to include Value-Added Services if not reported elsewhere. Therefore two adjustments are necessary to ensure that these amounts are properly included and reported in the Adjusted Incurred Claims amount. The first adjustment is to reclassify and reduce the Line 1 Total Incurred Claims by \$4,816,793 and add this amount to the Line 4 Optional Inclusion: Value-Added Services. The second adjustment is to add back the \$4,816,793 that was inappropriately removed due to the negative reported amount on Line 4 Optional Inclusion: Value-Added Services.

We recommend an adjustment to reduce the Line 1 Total Incurred Claims of the MLR by \$4,816,793 and increase the Line 4 Optional Inclusion: Value-Added Services of the MLR by \$9,633,586. We also recommend that Healthy Blue revise its processes for reporting to ensure amounts are properly reported for the MLR reporting period.

### **Adjustment #2 – To remove Expansion Prescription Drug Rebates**

Healthy Blue reported Prescription drug rebates for both the Expansion and Non-Expansion populations on Line 1 Total Incurred Claims and Line 2a Prescription Drug Rebates. The MLR under examination is supposed to only reflect the revenues and expenditures of the Non-Expansion population. Although the proposed adjustments do not impact the overall Line 7 Adjusted Incurred Claims totals reported on the MLR, we are recommending adjustments to the Line 1 Total Incurred Claims and Line 2a Prescription drug rebates amounts, so that they properly reflect the Non-Expansion population's expenses solely.

We recommend an adjustment to remove \$2,367,965 from Line 1 Total Incurred Claims of the MLR and to decrease the amount reported on Line 2a Prescription drug rebates of the MLR by this same amount of \$2,367,965. We also recommend that Healthy Blue revise its processes for reporting to ensure that amounts reported for the MLR reporting period reflect the appropriate Medicaid population.



## Schedule of Adjustments and Comments

### **Adjustment #3 -To adjust Express Scripts, Inc. (ESI) pharmacy expense to actual incurred medical expense**

Healthy Blue pays their Pharmacy Benefit Manager (PBM) an overall amount greater than the amount that their PBM pays to the pharmacy providers for the covered drugs of Healthy Blue's members. This practice is referred to as spread pricing in the industry. The Healthy Louisiana MCO Financial Reporting Guide's Appendix A: Medical Loss Ratio (MLR) Rebate Calculation instructions on page 5 defines Adjustments that **must not be included** in incurred claims as, "Spread pricing amounts paid to a pharmacy benefit manager (PBM). This spread pricing difference may be considered "Other non-claims costs."

Healthy Blue reported \$11,855,308 for the non-expansion spread pricing amounts paid to the PBM on Line 5d Spread Pricing Amounts Paid to PBM of their MLR calculation. Our examination determined that the spread pricing amounts paid to the PBM was \$14,494,606. As a result, an additional adjustment is necessary to increase the reported non-expansion spread pricing amounts paid to the PBM expenses by \$2,639,298.

We recommend an adjustment to remove an additional \$2,639,298 attributable to spread pricing by adjusting the exclusion Line 5d Spread Pricing Amounts Paid to the PBM of the MLR. We also recommend that Healthy Blue 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 #4 -To adjust income tax expense**

Healthy Blue reported \$8,685,502 on Line 18 Income Taxes of the CY 2017 MLR. The amount reported on this line is deducted from the revenue amounts reported on line 15 and results in a lower overall denominator in the MLR calculation. During our examination, we determined that Healthy Blue reported a calculated Income Tax amount based upon the Non-Expansion population's calculated net income and effective corporate income tax rate. We determined this amount to be inaccurate since Healthy Blue failed to include all expenses incurred, which resulted in a higher reported net income and subsequently a higher income tax amount. In addition, Healthy Blue calculated their income tax liability amount through the utilization of restated revenues and expenses included on the MLR submission. Federal income tax regulations differ from generally accepted accounting principles in the treatment of income and expense recognition, particularly as it relates to differences in timing and allowability of deductions.

Healthy Blue, as a subsidiary of Anthem, does not file its own separate federal income tax return. Instead, the parent company, Anthem, files a consolidated tax return with the Internal Revenue Service that is inclusive of all of its subsidiaries. Healthy Blue participates in a tax sharing agreement with Anthem and receives a pro rata share of the overall federal income tax amount owed that is based upon their individual return calculations. We requested and received Healthy Blue's individual return calculation that documented their portion of income taxes, exclusive of



## Schedule of Adjustments and Comments

investment operations. This documentation further separated the income tax expense applicable to the Non-Expansion Medicaid population and the Expansion Medicaid population. For the period under review, Healthy Blue reported a net operating loss from their Non-Expansion population's operations. As a result, the applicable tax amounts related to the Non-Expansion Medicaid population should be reported as \$0 on the MLR.

We recommend an adjustment to reduce the Line 18 Income Taxes of the CY 2017 MLR by \$8,685,502. We also recommend that Healthy Blue revise its processes for reporting Income Taxes on the MLR to reflect the accurate pro rata taxes applicable to Healthy Blue's Non-Expansion Medicaid population for the same calendar year of operations.



Community Care Health Plan of Louisiana, Inc.  
d/b/a Healthy Blue  
Medicaid Non-Expansion Adjusted Medical Loss  
Ratio (MLR) Rebate Calculation  
For the Period Ending December 31, 2017

Line #	Revenue or Expense	Reported MLR Amounts	Adjustment Amounts	Adjusted MLR Amounts
<b>MLR Medical and Administrative Expense Adjustments</b>				
1	<b>Total Incurred Claims</b>	\$ 622,986,867	\$ (7,184,758)	\$ 615,802,109
	<i>Adjustments to Incurred Claims:</i>			
2	<b>Deductions:</b>			
2a	Prescription drug rebates	\$ 5,003,761	\$ (2,367,965)	\$ 2,635,796
2b	Prompt pay discounts	\$ -	\$ -	\$ -
2c	Overpayment recoveries received from providers	\$ -	\$ -	\$ -
3	<b>Inclusions:</b>			
3a	Incentive and bonus payments made to providers	\$ 356,061	\$ -	\$ 356,061
3b	Fraud reduction expenses	\$ 28,328	\$ -	\$ 28,328
4	Optional Inclusion: Value-Added Services	\$ (4,816,793)	\$ 9,633,586	\$ 4,816,793
5	<b>Exclusions:</b>			
5a	Non-Claims Costs	\$ -	\$ -	\$ -
5b	Prior year MLR rebates paid to LDH	\$ -	\$ -	\$ -
5c	Payments to delegated vendors exceeding amount paid to providers	\$ -	\$ -	\$ -
5d	Spread pricing amounts paid to PBM	\$ 11,855,308	\$ 2,639,298	\$ 14,494,606
5e	Reinsurance premiums exceeding reinsurance recoveries	\$ -	\$ -	\$ -
6	Other: Incurred claims assumed	\$ -	\$ -	\$ -
7	<b>Adjusted Incurred Claims</b>	\$ 601,695,394	\$ 2,177,495	\$ 603,872,889
	<i>Health Care Quality Improvement (HCQI) and Health Information Technology (HIT) Expenses</i>			
8	HCQI and HIT administrative expenses	\$ 14,837,396	\$ -	\$ 14,837,396
9	Exclusions to HCQI and HIT expenses	\$ 900,915	\$ -	\$ 900,915
10	External Quality Review (EQR) related expenses	\$ -	\$ -	\$ -
11	<b>Adjusted Incurred Claims and Adjusted HCQI, HIT and EQR Expenses</b>	\$ 615,631,875	\$ 2,177,495	\$ 617,809,370
12	Less: Adjustment for 50% or more of Medical expenses attributed to new enrollees	\$ -	\$ -	\$ -
13	Add: Prior Year New Enrollee Medical Expenditures deferred to current year from line 28 below	\$ -	\$ -	\$ -
14	<b>Total Adjusted MLR Numerator</b>	\$ 615,631,875	\$ 2,177,495	\$ 617,809,370
<b>Capitation Revenue and New Enrollee Adjustments</b>				
15	<b>Non-Expansion Healthy Louisiana Premium Revenue</b>	\$ 702,399,556	\$ -	\$ 702,399,556
	<i>Revenue Adjustments</i>			
16	Less: Health Insurance Provider Fee (HIPF)	\$ -	\$ -	\$ -
17	Less: Premium tax component of reported revenue	\$ 38,631,976	\$ -	\$ 38,631,976
18	Less: Income taxes	\$ 8,685,502	\$ (8,685,502)	\$ -
19	<b>Net Annual MLR Revenue</b>	\$ 655,082,078	\$ 8,685,502	\$ 663,767,580
20	Less: Adjustment for 50% or more of TOTAL capitation attributed to new enrollees (net of premium tax component)	\$ -	\$ -	\$ -
21	Add: Adjustment for 50% or more of TOTAL capitation attributed to new enrollees (net of premium tax component) deferred from prior year from line 27 below	\$ -	\$ -	\$ -
22	<b>Total Adjusted MLR Denominator</b>	\$ 655,082,078	\$ 8,685,502	\$ 663,767,580



Community Care Health Plan of Louisiana, Inc.  
d/b/a Healthy Blue  
Medicaid Non-Expansion Adjusted Medical Loss  
Ratio (MLR) Rebate Calculation  
For the Period Ending December 31, 2017

Line #		Reported MLR Amounts	Adjustment Amounts	Adjusted MLR Amounts
23	<b>MLR Percentage Achieved</b>	<b>94.0%</b>	<b>(0.9%)</b>	<b>93.1%</b>
24	MLR Percentage Requirement for Rebate Calculation	85.0%		85.0%
25	Percentage Below 85% Requirement	0.0%		0.0%
26	<b>Dollar Amount of Rebate Requirement</b>	\$ -	\$ -	\$ -

<b>Reconciliation of Prior Year New Enrollee Capitation Exclusion</b>				
27	Prior year new enrollee capitation adjustment exclusion (net of premium tax)	\$ -	\$ -	\$ -
28	Less: Prior year incurred claims for excluded New Enrollees	\$ -	\$ -	\$ -
29	<b>Total Net Adjustment for New Enrollees from prior years</b>	\$ -	\$ -	\$ -
30	<b>MLR Member Months</b>	<b>2,037,112</b>		<b>2,037,112</b>

<b>Credibility Adjustment Applied (if applicable)</b>				
31	MLR Percentage Achieved	94.0%	(0.9%)	93.1%
32	Credibility Adjustment	0.0%	0.0%	0.0%
33	<b>Adjusted MLR Percentage Achieved</b>	<b>94.0%</b>	<b>(0.9%)</b>	<b>93.1%</b>
34	MLR Percentage Requirement for Rebate Calculation	85.0%		85.0%
35	<b>Percentage Below 85% Requirement</b>	<b>0.0%</b>		<b>0.0%</b>
36	<b>Dollar Amount of Rebate Requirement</b>	\$ -	\$ -	\$ -