



Navigating the Changing
Healthcare Landscape:

**Examining Medical Loss
Ratio Amidst the End of
Federal Emergency**

Amidst a flurry of changes, the healthcare industry underwent a tumultuous journey in the last three years. As we move further into 2023, the healthcare industry continues to evolve and adapt to the different impact vectors, including the challenges posed by the COVID-19 pandemic. [The pandemic has reshaped payer market dynamics](#) and health plans are strategizing their next big move to increase their footprint, which will help them serve their members better. As we continue to track these changes, we are witnessing major shifts in the way health plans are partnering, operating, and trying to generate value for their members through value-based care initiatives, price transparency regulations, merger and acquisition (M&A) strategies, etc.

As an annual practice, we monitor the Medical Loss Ratios (MLR) of six health plans operating in the United States, namely United Health Group (UHG), Cigna, Centene, Molina, Elevance Health, and Aetna. Our objective is to gain valuable insights into changes in trends and strategies by examining shifts in their membership composition, M&A strategies, and other relevant factors.

The big picture in numbers

In 2022, the MLR rates remained stable, reflecting the ongoing recovery of the healthcare industry from the impact of the COVID-19 pandemic. Figure 1 represents MLR levels from Q4 2019 until Q4 2022. As seen in Q4 2021, the trend of MLR returning to pre-COVID level continues till date. This is a positive sign for the healthcare industry indicating that healthcare utilization and spending have returned to normal levels, and that health plans are meeting the requirements of the MLR rule. There is a noticeable increase in Q4 MLRs, which is consistently seen compared to other quarters, possibly indicating a seasonal trend where members seek to maximize their plan benefits before they expire.

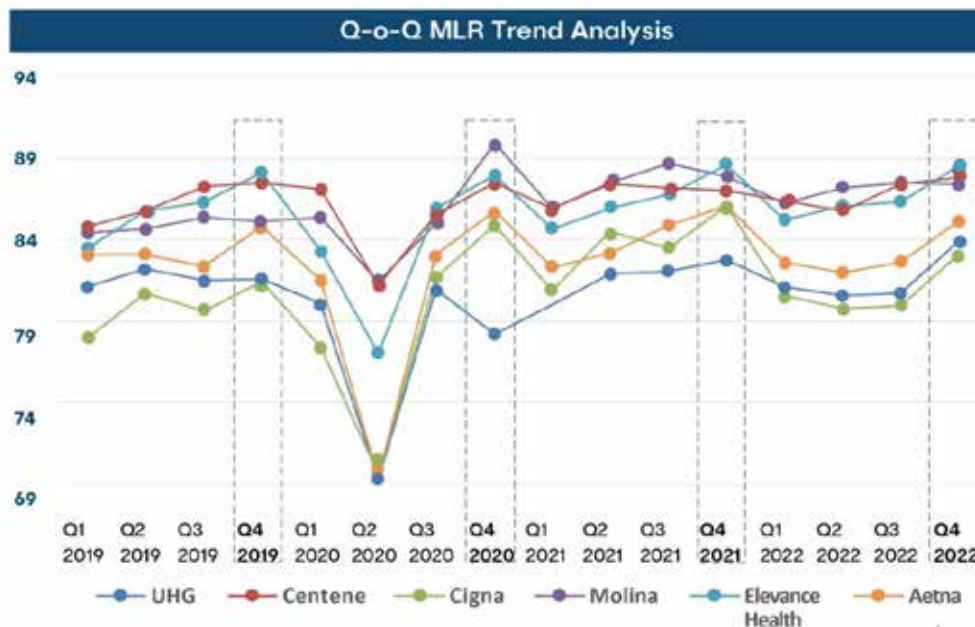


Figure 1: MLR Trend – pre-pandemic till before end of federal emergency Q4 2019 – Q4 2022

Membership mix trends

While it is commonly believed that health plans with a larger government business population (i.e. Medicare & Medicaid) would have higher MLRs than those with a higher commercial population, our research has not been able to substantiate this trend.

The end of the Public Health Emergency (PHE) impacting Medicaid population and the growing preference shift from Traditional Medicare to Medicare Advantage plans indicates a continued focus for health plans towards the government line of business.

Medicaid: As a result of the COVID-19 pandemic, the United States implemented a Federal Emergency, which aimed to expand Medicaid coverage and simplify the enrollment process for health insurance plans. However, with improvements in the pandemic situation, the Biden Administration announced the conclusion of the National Emergency (NE), effective from [May 11, 2023](#).

The implementation of continuous enrollment by states has played a significant role in the historic growth of Medicaid and CHIP enrollees. Due to the increased number of Medicaid enrollees, the percentage of insured people in the country was at a historically high rate of [92%](#) in early 2022. However, as Medicaid begins to reduce its enrollment once again, this rate is expected to decrease. KFF estimates that ‘between [5 and 14 million](#) people will lose Medicaid coverage when states “unwind” the continuous enrollment provision this year.’

During Q4 of 2022 (see Figure 2), carriers experienced growth in their Medicaid membership due to the temporary halt in the redetermination process of Medicaid eligibility. However, with Medicaid redetermination (MR) the Medicaid membership is expected to suffer, though it may be partly offset by a shift of some of these members to commercial individual plans.

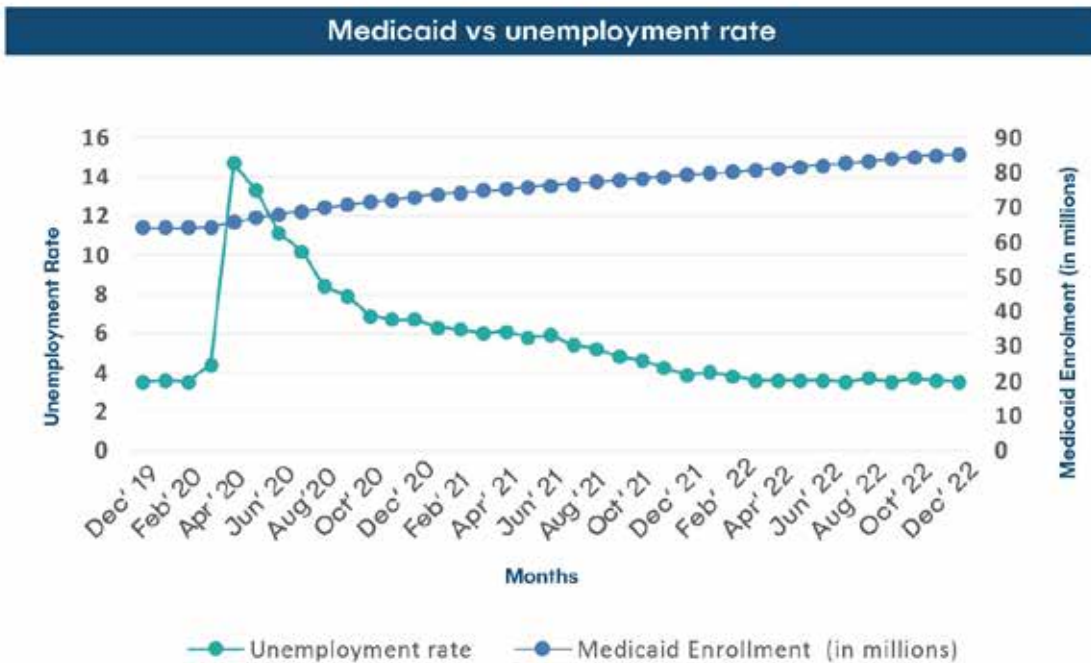


Figure 2: Rise in Medicaid vs decline in unemployment rate trend in US

Medicaid and Medicare Membership Mix

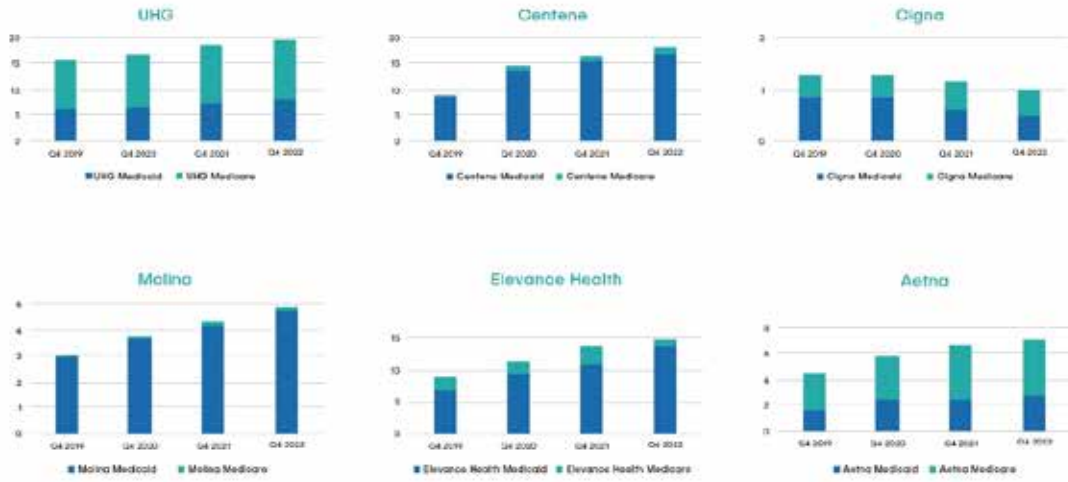


Figure 3: Membership mix Trend of health plan – Medicare vs Medicaid membership distribution

More than 50% of Medicare beneficiaries are enrolled in MA plans

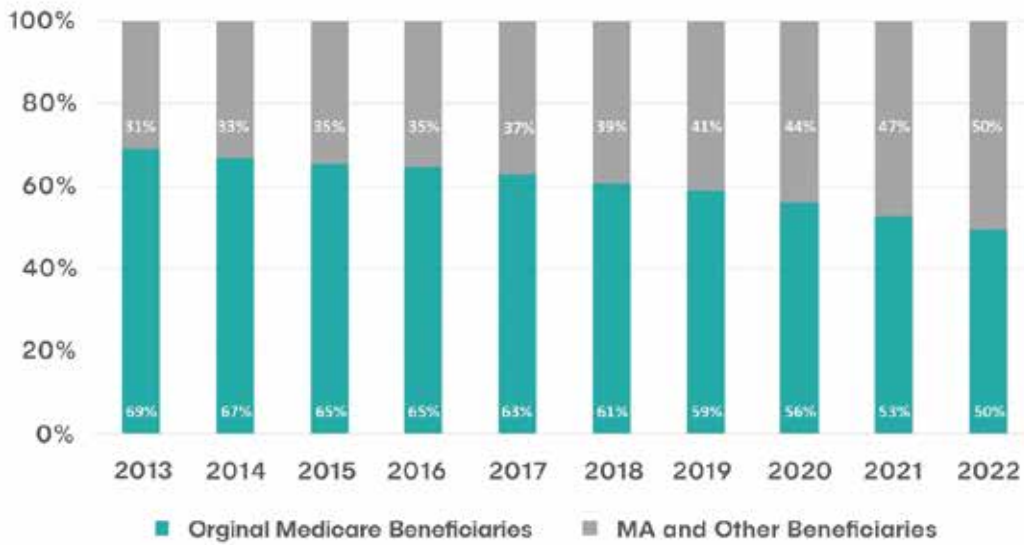


Figure 4: Rise of Medicare advantage plans: A snapshot of shifting trend

Medicare: A recent [KFF report](#) suggests that half of all eligible Medicare beneficiaries are now enrolled in private Medicare Advantage plans (see Figure 4). The growth can be spotted in all the carriers except for Cigna (see Figure 3) and is likely to continue in the coming years. Further, the growing trend of individuals choosing Medicare Advantage plans indicates a significant change in the healthcare landscape. This underlines the importance of continuous assessment of these plans, to ascertain if they are adequately fulfilling the needs of beneficiaries and explains why most large plans are focused on growing this segment with offerings such as zero-dollar plans.

ASO and Commercial Membership Mix

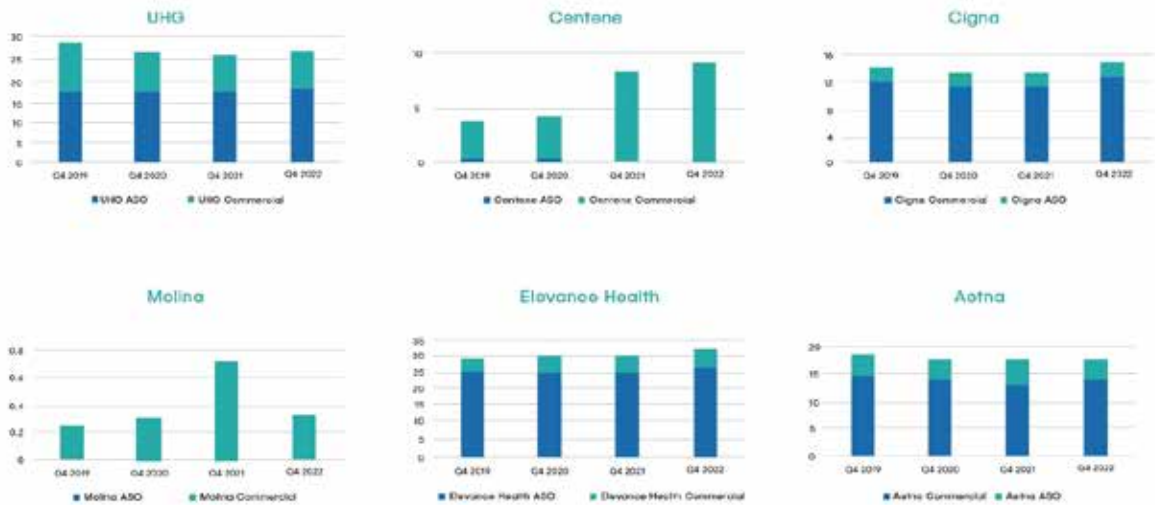


Figure 5: Membership mix Trend of health plan – ASO vs Commercial membership distribution

Commercial membership remained flat in 2022 for most of the carriers. However, with the end of Medicaid redeterminations, it is expected that the Medicaid ineligible population would seek coverage from individual marketplace. Consecutively, health plans expect to increase their commercial membership share in 2023 via marketplace enrollment.

M&A Approaches for Optimal MLR Management

To manage and bring high MLRs under control, health plans are beginning to focus on M&A strategies, thereby expanding their market footprints, diversifying their offerings, and achieving cost efficiencies.

One trend is towards acquiring or partnering with care delivery organizations to establish more integrated care models and improve health outcomes – especially closer to the home. Another trend is towards partnering with niche companies to enhance their capabilities in areas such as digital health, pharmacy benefits, and behavioral health. Additionally, there is a focus on developing provider partnerships for value-based care engagements to align incentives and improve quality of care while controlling costs. Some of the recent examples include:

- [CVS Health acquired Oak Street Health](#) a leading multi-payer, value-based primary care company focused on elderly care
- UHG is now serving more than 4 million of its population under a VBC setting
- [CVS Health acquired Signify Health](#), a leading technology and services company, focused on provider enablement. According to CVS Health’s CEO, the transaction is aimed at advancing their VBC strategy by enhancing the company’s presence at home. This comes after a huge demand in in-home care services, a byproduct of the pandemic
- UHG’s subsidiary, [Optum Health recently acquired Landmark Health](#), a leading home healthcare providing hospice and post-acute care services to over 12 million population health members

The above-mentioned examples are indicative of the tactics and strategies that some organizations have undertaken to assume control over MLR.

Driving Payer Excellence: Strategies for keeping a check on MLR

While complying with the regulatory requirement of maintaining an MLR of 85% for large groups and 80% for individuals & small groups is important, it is equally vital for health plans to ensure that their budgets remain sustainable and are not overwhelmed by excessively high medical expenses. Few strategies that can help health plans like Molina, Centene, and Anthem keep a tab on excessively high MLRs are:

- **Risk-sharing collaboration with providers:** Engage in joint initiatives, quality improvement programs, and care management efforts that align incentives and promote value-based care
- **Population health analytics:** Utilize advanced data analytics techniques to identify trends, risk factors, and opportunities for improving population health. By analyzing claims data, clinical data, and social determinants of health (SDoH), health plans can quantify & assess high-risk populations, target interventions, and implement population-specific strategies to manage costs and improve health outcomes
- **Fraud and abuse prevention:** Strengthen payment integrity systems and implement robust monitoring processes to identify and prevent fraudulent activities for allocating resources and managing costs better

What to expect in 2023-24?

With the CMS Price Transparency mandate kicking in, it would be interesting to see how the MLRs pan out for the carriers in 2023 – will the implementation truly result in renegotiated contracts and a downward pricing pressure remains to be seen. The [HHS](#) has made amendments to its MLR program rules to allow carriers to receive credit in their MLR calculations for savings from enrollees seeking care through lower-cost, higher-value providers as stated in the ‘Transparency in Coverage Final Rule.’ Meanwhile, with the MR getting into effect, it would be interesting to see the impact on the membership mix and the retention rates of health plans.

Reference Links:

<https://www.kff.org/policy-watch/half-of-all-eligible-medicare-beneficiaries-are-now-enrolled-in-private-medicare-advantage-plans/>

<https://investors.oakstreethealth.com/news/news-details/2023/CVS-Health-to-Acquire-Oak-Street-Health/default.aspx>

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