KAISER FOUNDATION HEALTH PLAN, INC. – HAWAII REGION
QUEST Integration Program
Medicaid Managed Care Programs

Report on Adjusted Medical Loss Ratio

With Independent Accountant's Report Thereon

For the Calendar Year Ended December 31, 2021

Paid through August 31, 2022

MYERS AND STAUFFER LC

CERTIFIED PUBLIC ACCOUNTANTS

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State of Hawaii
Department of Human Services, Med-QUEST Division
Kapolei, Hawaii

Independent Accountant's Report

We have examined the Medical Loss Ratio Report (MLR) Report of Kaiser Foundation Health Plan, Inc. – Hawaii Region (health plan) for the calendar year ended December 31, 2021. The health plan's management is responsible for presenting information contained in the MLR Report in accordance with the criteria set forth in the Code of Federal Regulations (CFR) 42 § 438.8 and other applicable federal guidance (criteria). This criteria was used to prepare the Adjusted Medical Loss Ratio. Our responsibility is to express an opinion on the Adjusted Medical Loss Ratio 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 is in accordance with the criteria, in all material respects. An examination involves performing procedures to obtain evidence about the Adjusted Medical Loss Ratio. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risk of material misstatement of the Adjusted Medical Loss Ratio, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our qualified opinion.

We are required to be independent and to meet our other ethical responsibilities in accordance with relevant ethical requirements related to our engagement.

The accompanying Adjusted Medical Loss Ratio was prepared from information contained in the MLR Report for the purpose of complying with the criteria, and is not intended to be a complete presentation in conformity with accounting principles generally accepted in the United States of America.

In our opinion, except for the possible effect of the item addressed in the Schedule of Data Caveats, the Adjusted Medical Loss Ratio is presented in accordance with the criteria, in all material respects, and the Adjusted Medical Loss Ratio exceeds the Centers for Medicare & Medicaid Services (CMS) requirement of eighty-five percent (85%) for the calendar year ended December 31, 2021.

This report is intended solely for the information and use of the Med-QUEST Division, Milliman, and the health plan and is not intended to be and should not be used by anyone other than these specified parties.

Myers and Stauffer LC
Kansas City, Missouri
January 8, 2024

Adjusted Medical Loss Ratio for the Calendar Year Ended December 31, 2021 Paid Through August 31, 2022

Adjusted Medical Loss Ratio for the Calendar Year Ended December 31, 2021 Paid Through August 31, 2022				
Line #	Line Description	Reported Amounts	Adjustment Amounts	Adjusted Amounts
1.	**Medical Loss Ratio Numerator**			
1.1	Incurred Claims	$ 214,078,953	$ (17,964,753)	$ 196,114,200
1.2	Activities that Improve Health Care Quality	$ 1,007,198	$ (85,082)	$ 922,116
1.3	MLR Numerator	$ 215,086,151	$ (18,049,835)	$ 197,036,316
1.4	Non-Claims Costs (Not Included in Numerator)	$ -	$ 228,470	$ 228,470
2.	**Medical Loss Ratio Denominator**			
2.1	Premium Revenue	$ 197,628,348	$ 31,578,924	$ 229,207,272
2.2	Federal, State, and Local Taxes and Licensing and Regulatory Fees	$ (41,817,661)	$ 41,823,593	$ 5,932
2.3	MLR Denominator	$ 239,446,009	$ (10,244,669)	$ 229,201,340
3.	**MLR Calculation**			
3.1	Member Months	548,371	-	548,371
3.2	Unadjusted MLR	89.83%	-3.8%	86.0%
3.3	Credibility Adjustment	0.00%	0.0%	0.0%
3.4	Adjusted MLR	89.83%	-3.8%	86.0%
4.	**Remittance**			
4.1	Contract Includes Remittance Requirement	Yes		Yes
4.2	State Minimum MLR Requirement	85.00%		85.0%
4.5	Calculated MLR for Remittance Purposes	89.83%	-3.8%	86.0%
4.6.1	Remittance Dollar Amount Owed for MLR Reporting Period	$ -	$ -	$ -

**The Non-Claims Costs line has not be subjected to the procedures applied in the examination, including testing for allowability of expenses or appropriate allocation to the Medicaid line of business. This includes adjustments identified during the course of the examination directly affecting the Non-Claims Costs line. Accordingly, we express no opinion on the Non-Claims Costs line.*

Schedule of Data Caveats

During our examination, we identified the following data caveat.

Caveat #1 – Related Party Incurred Claims Costs

The Adjusted Medical Loss Ratio includes medical expenditures for the health plan's related party providers. The health plan indicated incurred claims for inpatient and outpatient hospital services performed by Kaiser Foundation Hospitals, a related party, was calculated utilizing claims data priced with a health plan-calculated, Medicaid-specific fee schedule configured to approximate actual claim expense reported in the National Association of Insurance Commissioners statutory financial reports. This fee schedule utilized to price claims was based on providers' full absorbed costs and dependent on utilization. In addition, incurred claims for physician services performed by Hawaii Permanente Medical Group, a component of Kaiser Permanente as is the health plan, were reported on a per-member per-month payment basis. The health plan's encounter data is not utilized in the state's capitation rate setting due to the lack of the reliability of the cost data. Discussions with the Med-QUEST Division indicated no further information to support the reasonableness of the cost calculations under these arrangements exist in its records to establish whether the health plan's calculated costs were representative of market rates paid to providers for services covered under the contract. The health plan was unable to provide documentation to sufficiently support incurred claims as required by 42 CFR § 438.8(e)(2)(i)(A). The amount of the potential misstatement of related party incurred claims costs is unknown based on the limitation of information regarding these arrangements.

Schedule of Adjustments and Comments for the Calendar Year Ending December 31, 2021

During our examination, we identified the following adjustments.

Adjustment #1 – To adjust incurred claims per supporting documentation

The health plan reported incurred claims expense based on internal documentation. Based on supporting documentation provided and the verification procedures performed, the appropriate incurred claims amount was not reflected. An adjustment was proposed to reduce incurred claims to agree with the supporting documentation. The incurred claims reporting requirements are addressed in the Medicaid Managed Care Final Rule 42 CFR § 438.8(e)(2).

Proposed Adjustment		
Line #	Line Description	Amount
1.1	Incurred Claims	($1,203,163)

Adjustment #2 – To remove COVID vaccine expense carved out of capitation rate development per state data

The health plan reported COVID vaccine expenses within incurred claims. Expenses related to administering COVID vaccines was reimbursed outside of the capitation payments. An adjustment was proposed to remove COVID vaccine expenses from incurred claims per state data. The incurred claims reporting requirements are addressed in the Medicaid Managed Care Final Rule 42 CFR § 438.8(e)(2).

Proposed Adjustment		
Line #	Line Description	Amount
1.1	Incurred Claims	($1,048,617)

Adjustment #3 – To adjust premium revenue and incurred claims for state directed payments

The health plan reported state directed payments and associated expense amounts as pass-through revenue and expense, respectively, resulting in the exclusion of the amounts from the MLR calculation. An adjustment was proposed to report the state directed payments and the associated expense in the MLR calculation based on state data. The state directed payment and associated expense reporting requirements are addressed Medicaid Managed Care Final Rule §§ 42 CFR 438.8(e)(2), 438.8(f)(2), and 438.6(c).

Proposed Adjustment		
Line #	Line Description	Amount
1.1	Incurred Claims	$26,450,923
2.1	Premium Revenue	$31,366,188

Adjustment #4 – To adjust PBM vendor expenses per supporting documentation

The health plan reported non-related party pharmacy incurred claims in excess of the payments made to pharmacies by the third party vendor pharmacy benefit manager (PBM), MedImpact. A certified statement was submitted from the vendor for actual claims payments incurred for prescription drugs dispensed during the MLR reporting period. An adjustment was proposed to reduce pharmacy expenses to the certified statement and reclassify the remaining health plan pharmacy expense to non-claims costs. The third party reporting requirements are addressed in the Medicaid Managed Care Final Rule 42 CFR § 438.8(e)(2) and Center for Medicaid & CHIP Services Informational Bulletin: MLR Requirements Related to Third Party Vendors dated May 15, 2019.

Proposed Adjustment		
Line #	Line Description	Amount
1.1	Incurred Claims	($174,624)
1.4	Non-Claims Costs (Not Included in Numerator)	$174,624

Adjustment #5 – To remove non-qualifying HCQI expense and reconcile per supporting documentation

The health plan reported health care quality improvement (HCQI) expense related to salaries and benefits. It was determined the health plan included non-qualifying HCQI expenses based on federal guidance. Additionally, the total salaries reported did not reconcile to the supporting documentation. An adjustment was proposed to remove non-qualifying and unsupported salaries and reclassify the non-qualifying salaries to non-claims costs. The HCQI expense reporting requirements are addressed in the Medicaid Managed Care Final Rule 42 CFR § 438.8(e)(3).

Proposed Adjustment		
Line #	Line Description	Amount
1.2	Activities that Improve Health Care Quality	($85,082)
1.4	Non-Claims Costs (Not Included in Numerator)	$53,846

Adjustment #6 – To adjust withhold payments per state data

The health plan reported withhold revenues that did not reflect the total payments earned, per state data, applicable to the MLR reporting period. An adjustment was proposed to report the earned withhold revenues in agreement with the state's data. The revenue reporting requirements are addressed in the Medicaid Managed Care Final Rule 42 CFR § 438.8(f)(2).

Proposed Adjustment		
Line #	**Line Description**	**Amount**
2.1	Premium Revenue	$254,842

Adjustment #7 – To adjust risk share settlements per state data

A risk corridor was contractually in effect for the MLR reporting period. The health plan reported risk share payments that did not reflect the final settlement amounts, per state data, applicable to the MLR reporting period. An adjustment was proposed to report the risk share settlements in agreement with the state's data. The revenue reporting requirements are addressed in the Medicaid Managed Care Final Rule 42 CFR § 438.8(f)(2).

Proposed Adjustment		
Line #	**Line Description**	**Amount**
2.1	Premium Revenue	($42,106)

Adjustment #8 – To reclassify CBE to incurred claims

The health plan reported losses from its Medicaid managed care line of business as community benefit expenditures (CBE) within its commercial MLR submission to CMS. To align with its annual financial statements for 2021, including the commercial MLR reporting to CMS, the health plan reflected the Medicaid losses as negative CBE in the Medicaid MLR reporting, increasing the denominator. However, because this amount represents an impact on incurred claims rather than an increase to premium revenues, an adjustment was proposed to reclassify the amount from CBE (denominator) to incurred claims (numerator). The incurred claims requirements and CBE requirements are addressed in the Medicaid Managed Care Final Rule §§ 42 CFR 438.8(e)(2) and 438.8(f)(3).

Proposed Adjustment		
Line #	**Line Description**	**Amount**
1.1	Incurred Claims	($41,823,593)
2.2	Federal, State, and Local Taxes and Licensing and Regulatory Fees	$41,823,593

Adjustment #9 – To adjust spend down collected directly from members per supporting documentation

The health plan did not reduce incurred claims for the Medicaid spend down obligation collected directly from its members in situations where the amount could not be applied to the cost of care. An adjustment was proposed to reduce incurred claims for the amount directly collected per the health plan's supporting documentation. The incurred claims reporting requirements are addressed in the Medicaid Managed Care Final Rule 42 CFR § 438.8(e)(2).

Proposed Adjustment		
Line #	**Line Description**	**Amount**
1.1	Incurred Claims	($165,679)

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December 22, 2023

Via Email (HI_MLR@mslc.com)

Colleen Parrish, Sr. Manager
Myers and Stauffer

RE: Response to Draft Report on Adjusted Medical Loss Ratio for the Calendar Year Ended December 31, 2021 for Kaiser Foundation Health Plan, Inc – Hawaii Region, Quest Medicaid Managed Care Programs

Ms. Parrish:

This letter responds to the draft audit report from you on December 11, 2023, which included a caveat for related party incurred claims costs that requires additional discussion. The caveat and our response is provided below.

Caveat #1 – Related Party Incurred Claims Costs - Draft

The Adjusted Medical Loss Ratio includes medical expenditures for the health plan's related party providers. The health plan indicated incurred claims for inpatient and outpatient hospital services performed by Kaiser Foundation Hospitals, a related party, was calculated utilizing claims data priced with a health plan-calculated, Medicaid-specific fee schedule configured to approximate actual claim expense reported in the National Association of Insurance Commissioners statutory financial reports. This fee schedule utilized to price claims was based on providers' full absorbed costs and dependent on utilization. In addition, incurred claims for physician services performed by Hawaii Permanente Medical Group, a component of Kaiser Permanente as is the health plan, were reported on a per-member per-month payment basis. The health plan's encounter data is not utilized in the state's capitation rate setting due to the lack of the reliability of the cost data. Discussions with the Med-QUEST Division indicated no further information to support the reasonableness of the cost calculation under these arrangements exist in its records to establish whether the health plan's calculated costs were representative of market rates paid to providers for services covered under the contract. The health plan was unable to provide documentation to sufficiently support incurred claims as required by 42 CFR § 438.8(e)(2)(i)(A). The amount of the potential misstatement of related party incurred claims costs is unknown based on the limitation of information regarding these arrangements.

Carrier Response – Caveat #1 Related Party Incurred Claims, as it is currently written, does not clearly reflect our related party status or the impact of our integrated cost structure. We believe that the accuracy and completeness of incurred medical costs as per the statutory financial are appropriately reported in the MLR calculation. Furthermore, the reasonableness of our medical costs is not addressed in 42 CFR § 438.8 or Report 105 of the Department of Human Services, Med-Quest Division's Health Plan Manual Part III. Therefore, we propose the following update.

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- **Presentation -** There are non-related party concerns listed under related party incurred claims costs. We propose that non-related party concerns be listed separately.

- **Related Party Hospital Claims Costs** – For our integrated structure, incurred claims in the MLR numerator represents the value of incurred services. We reported incurred hospital services based on the amounts reported in the Audited Statutory Financial Statements. Therefore, we propose removal of the related party hospital incurred service costs as an audit caveat of potential misstatement of incurred costs.

- **Non-Related Party – Hawaii Permanente Medical Group (HPMG)** – As stated above, HPMG services are paid on a per member per month basis. However, HPMG is a separate legal entity and not a component of the health plan. HPMG is not a related party. The HPMG costs are accurately stated in the MLR numerator and agree with the statutory statements. Therefore, we propose removal of the HPMG referenced in the related party incurred claims costs caveat and exclude any reference of HPMG costs as a potential misstatement of incurred costs.

- **State's capitation rate** – The data utilized to set the State's capitation rate has no bearing on the accuracy or completeness of the medical loss ratio report. The State's capitation rate also has no relevance to our hospital related party costs. Therefore, we propose that the reference to the State's capitation rate as a test for reasonableness be removed from the related party incurred claims costs caveat.

We request a follow-up meeting for further discussion on what additional support can be provided to address your concerns regarding the accuracy and completeness of our incurred costs as required in 42 CFR § 438.8 or Report 105 of the Department of Human Services, Med-Quest Division's Health Plan Manual Part III. The audit caveat is new and unexpected as we have no record of such audit caveats from any audits in our long history of providing high quality healthcare services. We need to understand the potential implications of this audit caveat.

We look forward to meeting with you, soon.

Sincerely,

Christina Hause, VP MSBD - HI

CC: Irene Hui, Sr Counsel
Akash Deb, Actuarial
Misa Higa, Director
Margaret Callender, Director

MYERS AND STAUFFER LC
CERTIFIED PUBLIC ACCOUNTANTS

March 4, 2024

Margaret Callendar
Kaiser Permanente
711 Kapiolani Boulevard
Honolulu, Hawaii 96814

Re: Hawaii Medicaid Medical Loss Ratio (MLR) Examination – Data Caveat

This letter is written in response to the letter dated December 22, 2023 from Christina Hause, VP MSBD – HI of Kaiser Permanente, which outlined concerns with the data caveat included within our draft report related to the MLR examination for Kaiser Foundation Health Plan, Inc. (health plan) for calendar year 2021.

We have consulted with the Hawaii Med-QUEST Division (MQD) regarding the concerns raised in the December 22, 2023 letter and have determined that the caveat will remain as issued in our draft report. The preamble of the May 6, 2016 Medicaid managed care final rule, notes the following: *"The underlying concept of managed care and actuarial soundness is that the state is transferring the risk of providing services to the MCO and* ***the MCO is paying an amount that is reasonable, appropriate, and attainable compared to the costs associated with providing the services in a free market"*** *(emphasis added).* Data was not available to ensure the transactions related to incurred claim costs occurring between related party entities rather than through arm's-length transactions were reasonable and appropriate. The MLR engagement is performed as an examination under American Institute of Certified Public Accountants (AICPA) standards; therefore, it is necessary to provide transparency that we could not confirm that the incurred claims costs were representative of direct claims paid to providers, as required by 42 CFR Part 438.8(e)(2)(A), due to the unique reporting issues noted in our data caveat.

Detailed within the health plan's contract with MQD are health plan reporting and encounter data responsibilities that health plans are expected to comply with, including that the health plan shall provide reporting to meet all federal regulations for Medicaid managed care programs as set forth in 42 CFR Part 438. It is our understanding that there have been communications between the health plan and MQD to obtain data that supports the health plan's costs of providing Medicaid services at cost levels representative of costs in the Medicaid free market. It is MQD's desire to continue to work towards having better information that can be relied upon and integrated into rate setting and MLR reporting. No additional action is being enforced at this time.

If you have any questions concerning this matter, please feel free to contact Myers and Stauffer at HI_MLR@mslc.com.

Sincerely,

Judy Hatfield

Judy Hatfield, CPA
Member

cc: Eric Nouchi, MQD
Jon Fujii, MQD
Colleen Parrish, Myers and Stauffer