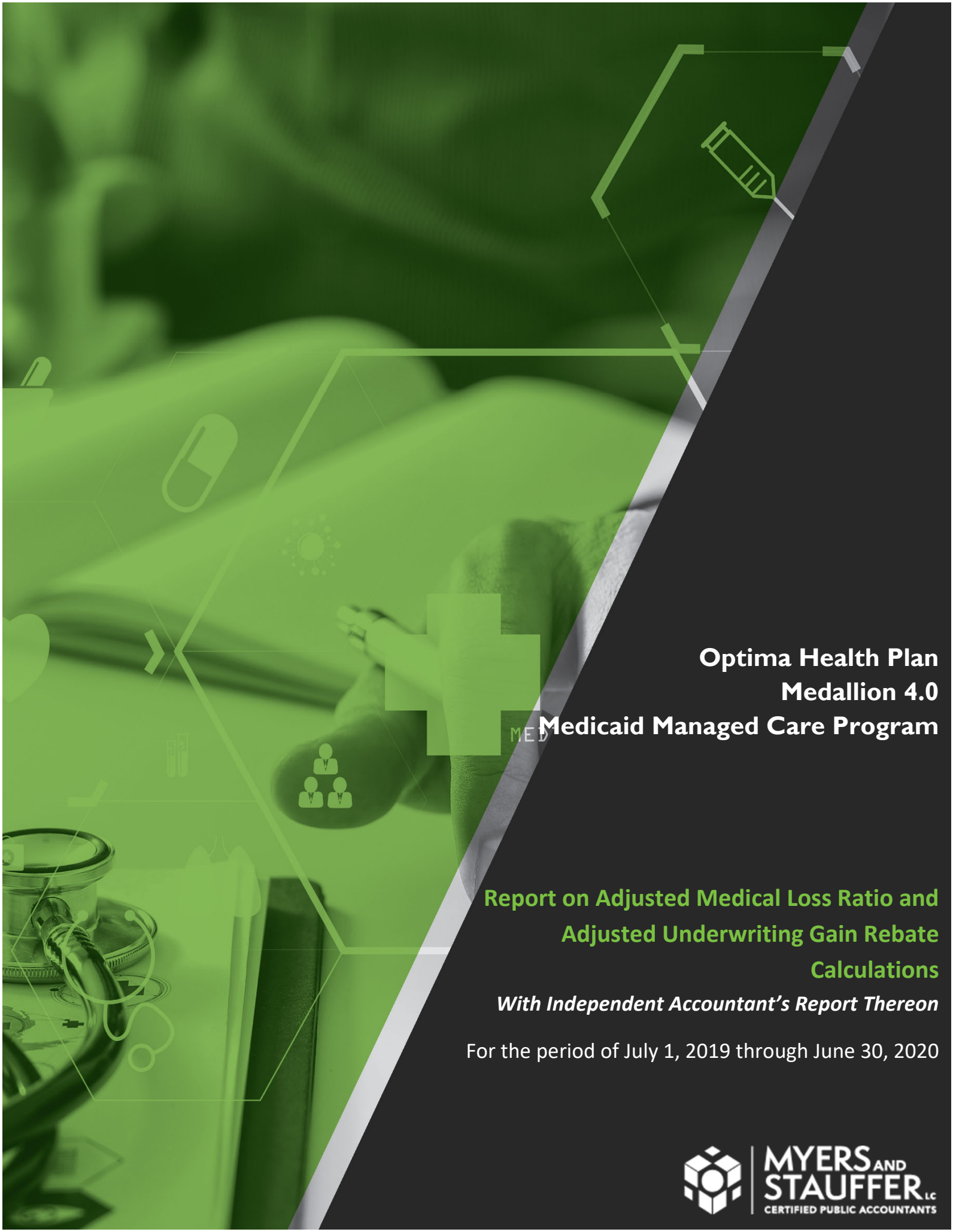

Optima Health Plan
Medallion 4.0
Medicaid Managed Care Program

Report on Adjusted Medical Loss Ratio and Adjusted Underwriting Gain Rebate Calculations

With Independent Accountant's Report Thereon

For the period of July 1, 2019 through June 30, 2020

MYERS AND STAUFFER LC
CERTIFIED PUBLIC ACCOUNTANTS

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MYERS AND STAUFFER LC
CERTIFIED PUBLIC ACCOUNTANTS

Independent Accountant's Report

Virginia Department of Medical Assistance Services
Richmond, Virginia

We have examined the accompanying Adjusted Medical Loss Ratio and Adjusted Underwriting Gain Rebate Calculations of Optima Health Plan (Optima) related to the Medallion 4.0 Program for the period of July 1, 2019 through June 30, 2020. Optima's management is responsible for presenting the Medical Loss Ratio and Underwriting Gain Rebate Calculations in accordance with the criteria set forth in the Medallion 4.0 contract and Centers for Medicare & Medicaid Services (CMS) federal guidance (criteria). This criteria was used to prepare the Adjusted Medical Loss Ratio and Adjusted Underwriting Gain Rebate Calculations. Our responsibility is to express an opinion on the Adjusted Medical Loss Ratio and Adjusted Underwriting Gain Rebate Calculations 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 and Adjusted Underwriting Gain Rebate Calculations are in accordance with the criteria, in all material respects. An examination involves performing procedures to obtain evidence about the Adjusted Medical Loss Ratio and Adjusted Underwriting Gain Rebate Calculations. 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 and Adjusted Underwriting Gain Rebate Calculations, 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.

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 and Adjusted Underwriting Gain Rebate Calculations were prepared 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, the above referenced accompanying Adjusted Medical Loss Ratio and Adjusted Underwriting Gain Rebate Calculations are presented in accordance with the above referenced criteria, in all material respects, for the period of July 1, 2019 through June 30, 2020. Related to non-expansion, the Adjusted Medical Loss Ratio (MLR) Percentage Achieved exceeds the minimum requirement of eighty-five percent (85%) and the Adjusted Underwriting Gain Percentage Achieved exceeds the maximum requirement of three percent (3%). In accordance with contractual obligations, an Underwriting Gain remittance amount is due to the Department of Medical Assistance Services. Related to expansion, the Adjusted MLR Percentage Achieved exceeds the minimum requirement of eighty-five percent (85%) and the Underwriting Gain is not applicable per contractual requirements.

This report is intended solely for the information and use of the Virginia Department of Medical Assistance Services and Optima 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
Glen Allen, Virginia
August 15, 2022

Adjusted Medical Loss Ratio for the Period Ending June 30, 2020

Non-Expansion

Line #	Revenue or Expense	Reported Amounts	Adjustment Amounts	Adjusted Amounts
Medical Loss Ratio Numerator				
1.1	Claims	$542,385,348	$60,517,149	$602,902,497
1.2	Improving health care quality expenses	$10,227,642	$0	$10,227,642
1.3	**Total Adjusted MLR Numerator**	**$552,612,990**	**$60,517,149**	**$613,130,139**
Medical Loss Ratio Denominator				
2.1	Revenue	$618,401,629	$61,151,483	$679,553,112
2.2	Federal and State taxes and licensing or regulatory fees	$5,332,635	($1,189,702)	$4,142,933
2.3	**Total Adjusted MLR Denominator**	**$613,068,994**	**$62,341,185**	**$675,410,179**
Credibility Adjustment				
3.1	Member Months to determine credibility	1,994,105	0	1,994,105
3.2	Credibility adjustment	0.0%		0.0%
MLR Calculation				
4.1	Unadjusted MLR	90.1%		90.8%
4.2	Credibility adjustment	0.0%		0.0%
4.3	**Adjusted MLR**	**90.1%**		**90.8%**
Remittance Calculation				
5.1	Is plan membership above the minimum credibility value? (Y/N)	Y		Y
5.2	MLR Standard	85.0%		85.0%
5.3	Adjusted MLR	90.1%		90.8%
5.4	MLR denominator	$613,068,994		$675,410,179
5.5	**Remittance amount due to State for Coverage Year**	**$0**		**$0**

Expansion

Line #	Revenue or Expense	Reported Amounts	Adjustment Amounts	Adjusted Amounts
Medical Loss Ratio Numerator				
1.1	Claims	$323,895,708	$49,020,505	$372,916,213
1.2	Improving health care quality expenses	$6,600,272	$0	$6,600,272
1.3	**Total Adjusted MLR Numerator**	**$330,495,980**	**$49,020,505**	**$379,516,485**
Medical Loss Ratio Denominator				
2.1	Revenue	$369,657,616	$33,736,361	$403,393,977
2.2	Federal and State taxes and licensing or regulatory fees	$3,336,569	($1,504,798)	$1,831,771
2.3	**Total Adjusted MLR Denominator**	**$366,321,047**	**$35,241,159**	**$401,562,206**
Credibility Adjustment				
3.1	Member Months to determine credibility	680,890	0	680,890
3.2	Credibility adjustment	0.0%		0.0%
MLR Calculation				
4.1	Unadjusted MLR	90.2%		94.5%
4.2	Credibility adjustment	0.0%		0.0%
4.3	**Adjusted MLR**	**90.2%**		**94.5%**
Remittance Calculation				
5.1	Is plan membership above the minimum credibility value? (Y/N)	Y		Y
5.2	MLR Standard	85.0%		85.0%
5.3	Adjusted MLR	90.2%		94.5%
5.4	MLR denominator	$366,321,047		$401,562,206
5.5	**Remittance amount due to State for Coverage Year**	**N/A**		**N/A**

Adjusted Underwriting Gain for the Period Ending June 30, 2020

Non-Expansion

Line #	Revenue or Expense	Reported Amounts	Adjustment Amounts	Adjusted Amounts
Medical Loss Ratio Denominator				
1.1	Revenue	$618,401,629	$57,175,844	$675,557,473
1.2	Federal and State taxes and licensing or regulatory fees	$5,332,635	($5,165,342)	$167,293
1.3	**Total Adjusted Underwriting Gain Denominator**	**$613,068,994**	**$62,341,186**	**$675,410,180**
Medical Expenses				
2.1	Claims	$542,385,348	$60,517,149	$602,902,497
2.2	Improving health care quality expenses	$10,227,642	$0	$10,227,642
2.3	**Total Adjusted Underwriting Gain Claims Expenses**	**$552,612,990**	**$60,517,149**	**$613,130,139**
Non-Claims Costs				
3.1	Administrative Expenses	$31,810,124	$7,729,329	$39,539,453
3.2	Less: Unallowable Expenses	($1,613,016)	$0	($1,613,016)
3.3	**Allowable Administrative Expenses**	**$30,197,108**	**$7,729,329**	**$37,926,437**
Underwriting Gain				
4.1	Underwriting Gain $	$30,258,896		$24,353,604
4.1	Less: Remittance Amount Due to State for Coverage Year	$0		$0
4.2	Adjusted Underwriting Gain $	$30,258,896		$24,353,604
4.3	**Underwriting Gain %**	**4.9%**		**3.6%**
Underwriting Gain Remittance Calculation				
5.1	Member Month Requirement Met?	Y		Y
5.2	At least 12 months contract experience at the beginning of the Contract Year?	Y		Y
5.3	Percent to Remit	1.0%		0.3%
5.4	**Amount to Remit**	**$5,933,413**		**$2,045,649**

Schedule of Adjustments and Comments for the Period Ending June 30, 2020

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.

Non-Expansion Adjustment #1 – To adjust revenues and claims to include related directed payments.

The MLR Report did not reflect directed payments in the numerator nor the denominator of the calculation. It was determined the Managed Care contracts refer to 42 CFR § 438.6(c) in speaking to directed payments related to private acute care hospitals, Chesapeake Regional Medical Center, and State University teaching hospital physicians; and therefore should be included in the MLR calculation. Premium revenue and incurred claims were adjusted to include the payments and associated expense per state data. The revenue and claims reporting requirements are addressed in the Medical Loss Ratio (MLR) Requirements, the Medicaid Managed Care Final Rule 42 CFR § 438.8(e)(2), CFR § 438.8(f)(2), and 45 CFR § 158.130.

Proposed MLR Adjustment		
Line #	**Line Description**	**Amount**
1.1	Claims	$69,953,422
2.1	Revenue	$69,953,422

Proposed Underwriting Gain Adjustment		
Line #	**Line Description**	**Amount**
1.1	Revenue	$69,953,422
2.1	Claims	$69,953,422

Non-Expansion Adjustment #2 – To adjust revenues to agree to state data.

The health plan reported revenue amounts that did not reflect all payments received for its members applicable to the covered dates of service for the reporting period. Revenue was adjusted per the state's data to reflect all payments, including capitation payments, Health Insurer Fee (HIF) payments, maternity kick payments, and Rx reinsurance payments. The revenue reporting requirements are addressed in the Medicaid Managed Care Final Rule 42 CFR § 438.8(f)(2) and 45 CFR § 158.130.

Proposed MLR Adjustment		
Line #	**Line Description**	**Amount**
2.1	Revenue	($8,801,939)

Proposed Underwriting Gain Adjustment		
Line #	**Line Description**	**Amount**
1.1	Revenue	($8,801,939)

Non-Expansion Adjustment #3 – To reclassify the prescription drug spread pricing amount from claims expense to administrative expense.

The health plan reported claims expense related to their PBM, OptumRx, which is through a cost plus arrangement. OptumRx identified spread pricing on the vendor certification statement which was confirmed through a sample review of claims. Expenses related to spread pricing are reclassified from claims expense to administrative expense.

The third party requirements are addressed in CMS MLR Guidance issued 7/18/11 (Q and A #19), 5/13/11 (Q and A #12), and 2/10/12 (Q and A #20). CMS Guidance states that "an issuer may only include as reimbursement for clinical services (incurred claims) the amount that the vendor actually pays the medical provider or supplier for providing covered clinical services or supplies to enrollees". Question #12 recognizes items for inclusion in the non-claims cost component. Additionally, the third party reporting requirements are also stated in the Medicaid Managed Care Final Rule 42 CFR § 438.8(k)(3), 45 CFR 158.140(b)(3)(ii), and CMCS Informational Bulletin: Medicaid Managed Care FAQ – Medical Loss Ratio 06/05/2020.

Proposed MLR Adjustment		
Line #	**Line Description**	**Amount**
1.1	Claims	($7,729,329)

Proposed Underwriting Gain Adjustment		
Line #	**Line Description**	**Amount**
2.1	Claims	($7,729,329)
3.1	Administrative Expenses	$7,729,329

Non-Expansion Adjustment #4 – To adjust Health Insurer Fee (HIF) expense to agree with state data.

The health plan reported a full year of HIF expense. An adjustment was proposed to report the appropriate portion of the HIF related to the period utilizing the state revenue data, as the health plan is

a tax exempt 501(c)(3) organization. The Federal and State licensing and regulatory fee reporting requirements are addressed in the Medicaid Managed Care Final Rule 42 CFR § 438.8(f)(3) and 45 CFR § 158.161.

Proposed MLR Adjustment		
Line #	**Line Description**	**Amount**
2.2	Federal and State taxes and licensing or regulatory fees	($1,189,702)

Proposed Underwriting Gain Adjustment		
Line #	**Line Description**	**Amount**
1.2	Federal and State taxes and licensing or regulatory fees	($1,189,702)

Non-Expansion Adjustment #5 – To adjust to remove HIF expense and revenue included in the Underwriting Gain calculation.

The health plan has included HIF expense in taxes and licensing or regulatory fees and HIF revenue was included in the Underwriting Gain calculation through Non-Expansion Adjustment #4. HIF expense and revenue has been removed from the Underwriting Gain Calculation per the Medallion 4.0 MCO Contract, Section 12.15.

Proposed Underwriting Gain Adjustment		
Line #	**Line Description**	**Amount**
1.1	Revenue	($3,975,639)
1.2	Federal and State taxes and licensing or regulatory fees	($3,975,639)

Non-Expansion Adjustment #6 – To remove capitated payments made to Optima Behavioral Health, the related party behavioral health vendor, in excess of claims expense.

The health plan reported a per-member-per month (PMPM) capitation expense for behavioral health services arranged by Optima Behavioral Health, which is a related party. During the examination it was determined that this capitation expense was greater than the actual claims incurred and paid by Optima Behavioral Health. Since the claims were incurred for members of the Virginia Medicaid program, the expense was adjusted to actual claims cost utilizing supporting lag table documentation.

The third party requirements are addressed in CMS MLR Guidance issued 7/18/11 (Q and A #19), 5/13/11 (Q and A #12), and 2/10/12 (Q and A #20). CMS Guidance states that “an issuer may only include as reimbursement for clinical services (incurred claims) the amount that the vendor actually pays the medical provider or supplier for providing covered clinical services or supplies to enrollees”. Question #12 recognizes items for inclusion in the non-claims cost component. Additionally, the third

party reporting requirements are also stated in the Medicaid Managed Care Final Rule 42 CFR § 438.8(k)(3), 45 CFR 158.140(b)(3)(ii), and CMCS Informational Bulletin: Medicaid Managed Care FAQ – Medical Loss Ratio 06/05/2020.

Proposed MLR Adjustment		
Line #	**Line Description**	**Amount**
1.1	Claims	($1,706,944)

Proposed Underwriting Gain Adjustment		
Line #	**Line Description**	**Amount**
2.1	Claims	($1,706,944)

Expansion Adjustment #1 – To adjust revenues and claims to include related directed payments.

The MLR Report did not reflect directed payments in the numerator nor the denominator of the calculation. It was determined the Managed Care contracts refer to 42 CFR § 438.6(c) in speaking to directed payments related to private acute care hospitals, Chesapeake Regional Medical Center, and State University teaching hospital physicians; and therefore should be included in the MLR calculation. Premium revenue and incurred claims were adjusted to include the payments and associated expense per state data. The revenue and claims reporting requirements are addressed in the Medical Loss Ratio (MLR) Requirements, the Medicaid Managed Care Final Rule 42 CFR § 438.8(e)(2), CFR § 438.8(f)(2), and 45 CFR § 158.130.

Proposed MLR Adjustment		
Line #	**Line Description**	**Amount**
1.1	Claims	$51,937,110
2.1	Revenue	$51,937,110

Expansion Adjustment #2 – To adjust revenues to agree to state data.

The health plan reported revenue amounts that did not reflect all payments received for its members applicable to the covered dates of service for the reporting period. Revenue was adjusted per the state's data to reflect all payments, including capitation payments, Health Insurer Fee (HIF) payments, Rx reinsurance payments, maternity kick payments, and risk corridor recoupments. Risk corridor recoupments of $11,921,556 were calculated and communicated to the health plan in October 2021 after submission of the MLR and Underwriting Gain calculations. The revenue reporting requirements are addressed in the Medicaid Managed Care Final Rule 42 CFR § 438.8(f)(2) and 45 CFR § 158.130.

Proposed MLR Adjustment		
Line #	**Line Description**	**Amount**
2.1	Revenue	($18,200,750)

Expansion Adjustment #3 – To adjust Health Insurer Fee (HIF) expense to agree with state data.

The health plan reported a full year of HIF expense. An adjustment was proposed to report the appropriate portion of the HIF related to the period utilizing the state revenue data, as the health plan is a tax exempt 501(c)(3) organization. The Federal and State licensing and regulatory fee reporting requirements are addressed in the Medicaid Managed Care Final Rule 42 CFR § 438.8(f)(3) and 45 CFR § 158.161.

Proposed MLR Adjustment		
Line #	**Line Description**	**Amount**
2.2	Federal and State taxes and licensing or regulatory fees	($1,504,798)

Expansion Adjustment #4 – To reclassify the prescription drug spread pricing amount from claims expense to administrative expense.

The health plan reported claims expense related to their PBM, OptumRx, which is through a cost plus arrangement. OptumRx identified spread pricing on the vendor certification statement which was confirmed through a sample review of claims. Expenses related to spread pricing are reclassified from claims expense to administrative expense.

The third party requirements are addressed in CMS MLR Guidance issued 7/18/11 (Q and A #19), 5/13/11 (Q and A #12), and 2/10/12 (Q and A #20). CMS Guidance states that "an issuer may only include as reimbursement for clinical services (incurred claims) the amount that the vendor actually pays the medical provider or supplier for providing covered clinical services or supplies to enrollees". Question #12 recognizes items for inclusion in the non-claims cost component. Additionally, the third party reporting requirements are also stated in the Medicaid Managed Care Final Rule 42 CFR § 438.8(k)(3), 45 CFR 158.140(b)(3)(ii), and CMCS Informational Bulletin: Medicaid Managed Care FAQ – Medical Loss Ratio 06/05/2020.

Proposed MLR Adjustment		
Line #	**Line Description**	**Amount**
1.1	Claims	($2,916,605)

The Virginia Department of Medical Assistance Services had no comments on the draft report.

MYERS AND STAUFFER LC
CERTIFIED PUBLIC ACCOUNTANTS

July 22, 2022

Michael Truesdale, Director of Accounting
Optima Health Plan
4417 Corporation Lane
Virginia Beach, Virginia 23462

Dear Mr. Truesdale:

Please acknowledge whether you accept or disagree with our proposed adjustments summarized below and applicable to our examination of Optima Health Plan's Medallion 4.0 MLR and Underwriting Gain rebate calculations for the period of July 1, 2019 through June 30, 2020. Also, please explain any disagreement you may have with the proposed issues.

Please provide your response by July 25, 2022.

Optima Health Plan Medallion 4.0
July 1, 2019 through June 30, 2020
Non-Expansion

	Adjustment	MCO's Response	
1.	To adjust revenues and claims to include related directed payments.	Accept x	Disagree
2.	To adjust revenues to agree with state data.	Accept x	Disagree
3.	To reclassify the prescription drug spread pricing amount from claims expense to administrative expense.	Accept x	Disagree
4.	To adjust Health Insurer Fee (HIF) expense to agree with state data.	Accept x	Disagree
5.	To remove Health Insurer Fee (HIF) expense and revenue included in the Underwriting Gain calculation.	Accept x	Disagree
6.	To remove capitated payments made to Optima Behavioral Health, the related party behavioral health vendor in excess of claims expense.	Accept x	Disagree

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MYERS AND STAUFFER LC
CERTIFIED PUBLIC ACCOUNTANTS

Optima Health Plan Medallion 4.0
July 1, 2019 through June 30, 2020
Expansion

	Adjustment	MCO's Response	
1.	To adjust revenues and claims to include related directed payments.	Accept x	Disagree
2.	To adjust revenues to agree with state data.	Accept x	Disagree
3.	To adjust Health Insurer Fee (HIF) expense to agree with state data.	Accept x	Disagree
4.	To reclassify the prescription drug spread pricing amount from claims expense to administrative expense.	Accept x	Disagree

Acknowledged by:
OPTIMA HEALTH PLAN

Officer or other Authorized Person

7/26/2022
Date

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