

**Optima Health Plan
Report on Adjusted Medical Loss Ratio and Adjusted
Underwriting Gain Rebate Calculations for Medallion 3.0
(With Independent Accountant's Report Thereon)**

**Virginia Department of Medical Assistance Services
Richmond, Virginia**

**For the period of July 1, 2017 through
November 30, 2018**

Prepared by:





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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 related to the Medallion 3.0 Program for the period of July 1, 2017 through November 30, 2018. Optima Health Plan's management is responsible for presenting the Medical Loss Ratio and Underwriting Gain Rebate Calculations in accordance with the criteria set forth in Medallion 3.0 contract and Centers for Medicare & Medicaid Services (CMS) federal guidance 42 CFR 438.8. 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.

The accompanying Adjusted Medical Loss Ratio and Adjusted Underwriting Gain were prepared for the purpose of complying with the criteria, and are 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 of Optima Health Plan are presented in accordance with the above referenced criteria, in all material respects, the Adjusted MLR Percentage Achieved exceeds the minimum requirement of eighty-five percent (85%), and the Adjusted Underwriting Gain Percentage Achieved is greater than the maximum requirement of three percent (3%), thus requiring rebate, for the period of July 1, 2017 through November 30, 2018.

This report is intended solely for the information and use of the Virginia Department of Medical Assistance Services and Optima Health Plan and is not intended to be and should not be used by anyone other than these specified parties.

Myers and Stauffer LC
Glen Allen, VA
September 11, 2020



**OPTIMA HEALTH PLAN
ADJUSTED MEDICAL LOSS RATIO**

Adjusted Medical Loss Ratio for the Period Ending November 30, 2018

Adjusted Medical Loss Ratio for the Period Ending November 30, 2018				
Line #	Revenue or Expense	Reported Amounts	Adjustment Amounts	Adjusted Amounts
Medical Loss Ratio Numerator				
1.1	Claims	\$ 605,347,443	\$ (6,704,785)	\$ 598,642,658
1.2	Improving health care quality expenses	\$ 8,049,089	\$ -	\$ 8,049,089
1.3	Total Adjusted MLR Numerator	\$ 613,396,532	\$ (6,704,785)	\$ 606,691,747
Medical Loss Ratio Denominator				
2.1	Revenue	\$ 696,495,341	\$ 1,270,172	\$ 697,765,513
2.2	Federal and State taxes and licensing or regulatory fees	\$ 5,008,616	\$ -	\$ 5,008,616
2.3	Total Adjusted MLR Denominator	\$ 691,486,725	\$ 1,270,172	\$ 692,756,897
Credibility Adjustment				
3.1	Member Months to determine credibility	1,573,799	-	1,573,799
3.2	Credibility adjustment	0.0%		0.0%
MLR Calculation				
4.1	Unadjusted MLR	88.7%	-1.1%	87.6%
4.2	Credibility adjustment	0.0%	0.0%	0.0%
4.3	Adjusted MLR	88.7%	-1.1%	87.6%
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	88.7%	-1.1%	87.6%
5.4	MLR denominator	\$ 691,486,725	\$ 1,270,172	\$ 692,756,897
5.5	Remittance amount due to State for Coverage Year	\$ -	\$ -	\$ -



**OPTIMA HEALTH PLAN
ADJUSTED UNDERWRITING GAIN**

Adjusted Underwriting Gain for the Period Ending November 30, 2018

Adjusted Underwriting Gain for the Period Ending November 30, 2018				
Line #	Revenue or Expense	Reported Amounts	Adjustment Amounts	Adjusted Amounts
Medical Loss Ratio Denominator				
1.1	Revenue	\$ 696,495,341	\$ 1,270,172	\$ 697,765,513
1.2	ACA Health Insurer Fee Tax Gross-up included in 1.1	\$ -	\$ -	\$ -
1.3	Federal and State taxes and licensing or regulatory fees	\$ 5,008,616	\$ -	\$ 5,008,616
1.4	Total Adjusted Underwriting Gain Denominator	\$ 691,486,725	\$ 1,270,172	\$ 692,756,897
Medical Expenses				
2.1	Claims	\$ 603,041,708	\$ (4,399,050)	\$ 598,642,658
2.2	Improving health care quality expenses	\$ 8,049,089	\$ -	\$ 8,049,089
2.3	Total Adjusted Underwriting Gain Claims Expenses	\$ 611,090,797	\$ (4,399,050)	\$ 606,691,747
Non-Claims Costs				
3.1	Administrative Expenses	\$ 45,960,428	\$ 8,239,042	\$ 54,199,470
3.2	Less: Unallowable Expenses	\$ (6,357,109)	\$ (329,500)	\$ (6,686,609)
3.3	Allowable Administrative Expenses	\$ 39,603,319	\$ 7,909,542	\$ 47,512,861
Underwriting Gain				
4.1	Underwriting Gain \$	\$ 40,792,609	\$ (2,240,320)	\$ 38,552,289
4.1	Less: Remittance Amount Due to State for Coverage Year	\$ -	\$ -	\$ -
4.2	Adjusted Underwriting Gain \$	\$ 40,792,609	\$ (2,240,320)	\$ 38,552,289
4.3	Underwriting Gain %	5.9%	-0.3%	5.6%
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	1.4%	-0.2%	1.3%
5.4	Amount to Remit	\$ 10,024,004	\$ (1,139,213)	\$ 8,884,791



Schedule of Adjustments and Comments for the Period Ending November 30, 2018

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.

Adjustment #1 - Adjust prescription drug claims to the amount paid to OptumRx, the Pharmacy Benefit Manager (PBM).

The health plan reported claims expense related to their PBM, OptumRx, which is through a cost plus arrangement. The amount reported in claims expense differed from the amount OptumRx reported as the amount they were paid by the health plan. This adjustment is to agree OptumRx expenses to the amount confirmed as received from the health plan by OptumRx.

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. Finally, CMCS Information Bulletin: Medical Loss Ratio (MLR) Requirements Related to Third-Party Vendors 05/15/2019 speaks specifically to PBMs.

Proposed Medical Loss Ratio Adjustment:

Line #	Line Description	Amount
1.1	Claims	\$1,534,257

Proposed Underwriting Gain Adjustment:

Line #	Line Description	Amount
2.1	Claims	\$1,534,257



SCHEDULE OF ADJUSTMENTS AND COMMENTS

Adjustment #2 – 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 have been previously referenced within the Adjustment #1 description.

Proposed Medical Loss Ratio Adjustment:

Line #	Line Description	Amount
1.1	Claims	(\$5,892,817)

Proposed Underwriting Gain Adjustment:

Line #	Line Description	Amount
2.1	Claims	(\$5,892,817)
3.1	Administrative Expenses	\$5,892,817

Adjustment #3 – Adjust revenues to amounts confirmed by the Virginia Department of Medical Assistance Services.

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 revenues related to capitation and the health insurer fee. 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 Medical Loss Ratio Adjustment:

Line #	Line Description	Amount
2.1	Revenue	\$1,270,172

Proposed Underwriting Gain Adjustment:

Line #	Line Description	Amount
1.1	Revenue	\$1,270,172



SCHEDULE OF ADJUSTMENTS AND COMMENTS

Adjustment #4 – Reclassify vision claims expense related to EyeMed from medical to administrative expense due to lack of support.

The health plan reported a per-member-per-month (PMPM) capitation expense for vision services arranged by EyeMed. A sample of claims detail was requested from EyeMed and a sample of claims were sampled for detailed support of payment to the provider of the vision service. There were variances identified between the claims detail and the payment to the provider. As such, we were not able to verify the amount that should be included within claims expense and the full PMPM amount has been reclassified to administrative expense.

The third party requirements have been previously referenced within the Adjustment #1 description.

Proposed Medical Loss Ratio Adjustment:

Line #	Line Description	Amount
1.1	Claims	(\$2,346,225)

Proposed Underwriting Gain Adjustment:

Line #	Line Description	Amount
2.1	Claims	(\$2,346,225)
3.1	Administrative Expenses	\$2,346,225

Adjustment #5 – Adjust claims expense within the Underwriting Gain Calculation to those amounts per the MLR Calculation by including reinsurance recoveries.

There was a variance between claims expenses reported by the health plan for the purposes of the Medical Loss Ratio calculation and for the purposes of the Underwriting Gain calculation. This difference was equal to reinsurance recoveries, which was excluded from claims expenses reported within the Underwriting Gain Calculation. The clinical expense reporting requirements are addressed at 45 CFR § 158.140.

Proposed Underwriting Gain Adjustment:

Line #	Line Description	Amount
2.1	Claims	\$2,305,735



SCHEDULE OF ADJUSTMENTS AND COMMENTS

Adjustment #6 – Adjust administrative expenses to remove interest on late claims payments identified during the 2018 administrative cost procedures.

The health plan included interest on late claim payments as an administrative expense in the underwriting gain. Interest on paid claims is not considered an allowable administrative expense. The administrative reporting requirements are addressed at 45 CFR § 75.441.

Proposed Underwriting Gain Adjustment:

Line #	Line Description	Amount
3.2	Less: Unallowable Expenses	(\$329,500)



SCHEDULE OF ADJUSTMENTS AND COMMENTS

The Virginia Department of Medical Assistance Services had no comments.



MYERS AND STAUFFER LC
 CERTIFIED PUBLIC ACCOUNTANTS

August 28, 2020

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

Dear Mr. Truesdale:

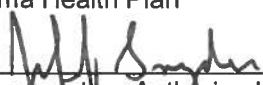
Please acknowledge whether you accept or disagree with our proposed adjustments summarized below and applicable to our examination of Optima Health Plan's Medallion 3.0 MLR and Underwriting Gain rebate calculations for the period of July 1, 2017 through November 30, 2018. Also, please explain any disagreement you may have with the proposed issues.

Please provide your response by September 17, 2020.

**Optima Health Plan Medallion 3.0
 July 1, 2017 – November 30, 2018**

Adjustment		Plan's Response
1. Adjust RX claims to amount paid to the PBM, OptumRX	Accept <u>NS</u>	Disagree _____
2. Reclassify RX claims spread pricing amount from claims expense to administrative expense	Accept <u>NS</u>	Disagree _____
3. Adjust Revenue to amount confirmed by DMAS	Accept <u>NS</u>	Disagree _____
4. Reclassify vision (EyeMed) claims expense from medical to administrative expense due to lack of sufficient support	Accept <u>NS</u>	Disagree _____
5. Adjust UG to MLR amount by including reinsurance recoveries	Accept <u>NS</u>	Disagree _____
6. Adjust administrative expense for interest on late claims payments identified during the 2018 administrative cost procedures	Accept <u>NS</u>	Disagree _____

Acknowledged by:
Optima Health Plan



Officer or other Authorized Person

9/16/20

Date