DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Offices of Audit Services

Region VII
601 East 12th Street
Room 284A
Kansas City, Missouri 64106

March 2, 2004

Report Number: A-07-04-01001

Tom Kelly, President,
Chief Executive Officer
Mercy Health Plans
425 South Woods Mill Road
Chesterfield, Missouri 63017-3492

Dear Mr. Kelly:

Enclosed are two copies of the U.S. Department of Health and Human Services, Office of Inspector General (OIG) Report entitled *Review of the Benefits Improvement Protection Act (BIPA) Modifications to Mercy Health Plans' St. Louis, Missouri Calendar Year 2001 Adjusted Community Rate Proposal under Contract Number H-2667, Plan Numbers 001, 003, 004, 005 and 006.* This audit was self-initiated by the Office of Inspector General as a result of the BIPA of 2000. Should you have any questions or comments concerning the matters commented on in this report, please direct them to the HHS official named below.

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To facilitate identification, please refer to report number A-07-04-01001 in all correspondence relating to this report.

Sincerely,

James P. Aasmundstad
Regional Inspector General
for Audit Services

Enclosures – as stated

Direct Reply to HHS Action Official:

Director of Health Plan Benefits Group
C4-23-07
7500 Security Boulevard
Baltimore, Maryland 21244-1850

Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

REVIEW OF THE BENEFITS IMPROVEMENT PROTECTION ACT MODIFICATIONS TO MERCY HEALTH PLANS' ST. LOUIS, MISSOURI CALENDAR YEAR 2001 ADJUSTED COMMUNITY RATE PROPOSAL UNDER CONTRACT NUMBER H-2667, PLAN NUMBERS 001, 003, 004, 005 AND 006

MARCH 2004
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Office of Inspector General

http://oig.hhs.gov/

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OAS FINDINGS AND OPINIONS

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed as well as other conclusions and recommendations in this report represent the findings and opinions of the HHS/OIG/OAS. Authorized officials of the awarding agency will make final determination on these matters.

EXECUTIVE SUMMARY

The objectives of our review were to determine whether Mercy Health Plans' (Mercy) modifications to the contract year 2001 Adjusted Community Rate Proposal (proposal), submitted under the Benefits Improvement Protection Act (BIPA) of 2000, were supported and whether additional capitation payments were used in a manner consistent with the BIPA requirements.

Our review determined that Mercy adequately supported modifications to the calendar year 2001 proposal. The review also confirmed that Mercy utilized the increased payments in accordance with BIPA requirements and as stated in their proposals. The increased BIPA payments were in fact used to reduce beneficiary premiums and cost sharing, and for increased payments to stabilize provider networks. Therefore, this report contains no recommendations for Mercy to address.

INTRODUCTION

BACKGROUND

Medicare Overview

Under Title XVIII of the Social Security Act, the Medicare program provides health insurance to Americans age 65 and over, those who have permanent kidney failure, and certain people with disabilities. Within the Department of Health and Human Services, the Medicare program is administered by the Centers for Medicare & Medicaid Services (CMS). Medicare includes two related health insurance programs, hospital insurance, or Part A, and supplemental medical insurance, or Part B. Part A includes inpatient hospital, skilled nursing facility, home health, and hospice services. Part B includes physician services, outpatient hospital services, medical equipment, and supplies.

The Balanced Budget Act of 1997 (Public Law 105-33) established Part C (Medicare+Choice) of the Medicare program, which offers Medicare beneficiaries a variety of health delivery models, including MCOs such as health maintenance organizations, preferred provider organizations, and provider-sponsored organizations. Under the Medicare+Choice model, MCOs assume responsibility for providing all Medicare-covered services except hospice care in return for a predetermined capitated payment.

Proposal Requirements

MCOs that participate in the Medicare+Choice program are required to complete an annual proposal for each plan and submit it to CMS prior to the beginning of the MCO's contract period. The proposal is used to determine if the estimated capitation paid to the MCO exceeds the amount it would charge in the commercial market for Medicare-covered services, adjusted for the utilization patterns of the Medicare population. Any excess must be used as prescribed by law, including offering additional benefits, reducing members' premiums, accepting a capitation payment reduction for the excess amount, or depositing funds into a stabilization fund

administered by CMS. The proposal is designed to ensure that Medicare beneficiaries are not overcharged for the benefit package being offered.

BIPA Requirements

BIPA provided for an additional $11 billion in increased capitation payments to MCOs effective March 1, 2001. MCOs with plans whose payment rates increased under BIPA were required to submit revised proposals by January 18, 2001 to show how the increase would be used for 2001. CMS instructions to the BIPA 2001 proposals required MCOs to submit a cover letter along with the proposal containing a summary of how the increased payments would be used. The instructions also required that entries that changed from the original filing be supported.

Under section 604(c) of BIPA, additional amounts paid to MCOs under sections 601 and 602 of BIPA may only be used to:

- reduce beneficiary premiums,
- reduce beneficiary cost sharing,
- enhance benefits,
- contribute to a benefit stabilization fund, or
- enhance the network of health care providers available to beneficiaries.

In their revised submissions, MCOs were not permitted to:

- increase beneficiary premiums;
- increase beneficiary cost sharing, with certain exceptions;
- reduce benefits;
- change the values on Worksheet B (Base Period Costs), Worksheet B-1 (Financial Data), or Worksheet A, lines 1-4 (non-Medicare base period costs);
- increase administrative costs, with certain exceptions; or
- increase additional revenue unless the increase is directly related to enhanced benefits.

Mercy's BIPA Proposals

Our review covered 5 plans, 001, 003, 004, 005 and 006. Based on Mercy's proposals, Medicare capitation payments would have increased as follows:

	BIPA Proposals	
	Rate	Payment
Plan	Increase	Increase
001	$ 84.18	$ 6,809,320
003	16.75	249,240
004	16.75	249,240
005	53.59	504,818
006	53.59	504,818

The cover letters attached to each plan's proposal indicated the increased BIPA payments would primarily be used to (1) reduce beneficiary premiums and cost sharing, and (2) increase payments to providers in order to stabilize provider networks.

OBJECTIVES AND SCOPE OF REVIEW

The objectives of our review were to determine whether (1) Mercy supported modifications to the calendar year 2001 rate proposal, and (2) used additional capitation payments in a manner consistent with BIPA requirements. To accomplish our objectives, we:

- reviewed the applicable laws and regulations,
- reviewed the cover letters submitted by Mercy with its Act rate proposals,
- compared line-by-line the original 2001 rate proposal with BIPA rate proposal to determine BIPA modifications,
- reviewed support for BIPA rate proposal direct medical cost projections,
- verified the math accuracy for each plan's direct medical cost projections, and
- interviewed Mercy officials.

We performed the review in accordance with generally accepted government auditing standards. The objective of the review did not require us to review the internal control structure of the plan. We conducted our audit work during the period September 2003 through January 2004 at Mercy's St. Louis office and at our Kansas City and Omaha Field Offices.

FINDINGS AND RECOMMENDATIONS

Our review determined that Mercy adequately supported modifications to the calendar year 2001 proposals. The review also confirmed that Mercy utilized the increased payments in accordance with BIPA requirements and as stated in their proposals. The increased BIPA payments were in fact used to reduce beneficiary premiums and cost sharing, and for increased payments to stabilize provider networks. Therefore, this report contains no recommendations for Mercy to address.