



February 17, 2021

Via Electronic Mail

Mississippi Division of Medicaid
Jennifer Wentworth, Deputy Administrator | Administration
550 High Street, Suite 1000
Jackson, Mississippi 39201

Re: Magnolia Health Plan, Inc. MSCHIP Medical Loss Ratio for the period of July 1, 2018 through June 30, 2019 Examination Report Transmittal

This letter is to inform you that Myers and Stauffer LC has completed the examination of Magnolia Health Plan, Inc.'s MSCHIP Medical Loss Ratio (MLR) for the period of July 1, 2018 through June 30, 2019. As a courtesy to the Mississippi Division of Medicaid (DOM) and other readers, the Magnolia Health Plan, Inc. management's response letter is included, if provided, in addition to our examination report, as part of this transmittal packet. Myers and Stauffer LC, in no manner, expresses an opinion on the accuracy, truthfulness, or validity of the statements presented within the management's response letter.

Please contact us at the phone number below if you have questions.

Kind Regards,

Myers and Stauffer LC

**Magnolia Health Plan, Inc.
Mississippi Children's Health Insurance Program
Report on Adjusted Medical Loss Ratio
(With Independent Accountant's Report Thereon)**

**State of Mississippi
Division of Medicaid
Jackson, Mississippi**

**For the period of
July 1, 2018
to June 30, 2019 Paid Through
December 31, 2019**

Prepared by:





Table of Contents

| | |
|---|---|
| ■ Table of Contents | 1 |
| ■ Independent Accountant's Report..... | 2 |
| ■ Adjusted Medical Loss Ratio for the State Fiscal Year Ending June 30, 2019 Paid Through December 31, 2019 | 3 |
| ■ Schedule of Adjustments and Comments for the State Fiscal Year Ending June 30, 2019 Paid Through December 31, 2019 | 4 |
| ■ Appendix A: Health Plan Responses | 7 |

State of Mississippi
Division of Medicaid
Jackson, Mississippi

Independent Accountant's Report

We have examined the accompanying Adjusted Medical Loss Ratio Rebate Calculation of Magnolia Health Plan, Inc. (Magnolia) related to the Mississippi Children's Health Insurance Program for the state fiscal year ending June 30, 2019. Magnolia's management is responsible for presenting the Medical Loss Ratio (MLR) Rebate Calculation Report in accordance with the criteria set forth in the contract between the Division of Medicaid and Magnolia, Exhibit D: Medical Loss Ratio (MLR) Requirements and Centers for Medicare & Medicaid Services (CMS) federal guidance (criteria). Our responsibility is to express an opinion on the Medical Loss Ratio Rebate Calculation 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 Medical Loss Ratio Rebate Calculation. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risk of material misstatement of the Medical Loss Ratio Calculation, 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 Other Non-Claims Costs amount reported on the Adjusted Medical Loss Ratio Rebate Calculation has not been subjected to the procedures applied in the examination, and accordingly, we express no opinion on it.

The accompanying Adjusted Medical Loss Ratio was 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 is presented in accordance with the above referenced criteria, in all material respects, and the Adjusted MLR Percentage Achieved exceeds the CMS requirement of eight-five percent (85%) for the state fiscal year ending June 30, 2019.

This report is intended solely for the information and use of the Mississippi Division of Medicaid, Milliman, and Magnolia and is not intended to be and should not be used by anyone other than these specified parties.

Myers and Stauffer LC
Atlanta, GA
February 4, 2021



Adjusted Medical Loss Ratio for the State Fiscal Year Ending June 30, 2019 Paid Through December 31, 2019

| Adjusted Medical Loss Ratio for the State Fiscal Year Ending June 30, 2019 Paid Through December 31, 2019 | | | | |
|---|---|------------------|--------------------|------------------|
| Line # | Line Description | Reported Amounts | Adjustment Amounts | Adjusted Amounts |
| Capitation Revenue and Tax Assessments | | | | |
| 1 | Total YTD Capitation Revenue and Maternity Kick Payments | \$ 62,218,100 | \$ - | \$ 62,218,100 |
| Tax Components of Reported Revenue | | | | |
| 2 | Less: Health Insurer Tax | \$ 681,709 | \$ - | \$ 681,709 |
| 3 | Less: Allocation for premium taxes | \$ 1,560,851 | \$ 285,241 | \$ 1,846,092 |
| 4 | Less: Other taxes and other revenue-based assessments | \$ - | \$ - | \$ - |
| 5 | NET Current YTD Adjusted Premium Revenue | \$ 59,975,540 | \$ (285,241) | \$ 59,690,299 |
| MLR Medical and Administrative Expenses | | | | |
| 6 | Total Net Medical Expenses from Income Statement | \$ 54,198,690 | \$ (304,878) | \$ 53,893,812 |
| MLR Expense Adjustments as defined in Exhibit D | | | | |
| 7 | Incurred claim adjustment additions | \$ - | \$ - | \$ - |
| 8 | Incurred claim adjustment deductions | \$ - | \$ - | \$ - |
| 9 | Incurred claim adjustment exclusions | \$ 789,227 | \$ - | \$ 789,227 |
| 10 | Adjusted Net Medical Expenses | \$ 53,409,463 | \$ (304,878) | \$ 53,104,585 |
| Health Care Quality Improvement (HCQI) and Health Information Technology (HIT) Meaningful Use Expenses | | | | |
| 11 | HCQI and HIT Administrative Expenses from Income Statement | \$ 1,189,229 | \$ (18,161) | \$ 1,171,068 |
| 12 | Adjustments or exclusions to HCQI/HIT meaningful use expenses | \$ 41,802 | \$ - | \$ 41,802 |
| 13 | Adjusted HCQI/HIT expenses | \$ 1,231,031 | \$ (18,161) | \$ 1,212,870 |
| 14 | Other Non-Claims Costs (For Reporting Purposes Only. Not Included in Numerator) | \$ 3,539,522 | \$ 572,584 | \$ 4,112,106 ** |
| 15 | Total Adjusted Current YTD MLR Medical Expenditures | \$ 54,640,495 | \$ (323,039) | \$ 54,317,456 * |
| 16 | Reporting MLR Percentage | 91.1% | -0.1% | 91.0% |
| 17 | MLR percentage requirement for rebate calculation | 85.0% | | 85.0% |
| 18 | Percentage below 85% Requirement | 0.0% | | 0.0% |
| 19 | Dollar Amount of Rebate Requirement | \$ - | \$ - | \$ - |
| Credibility Adjustment Applied | | | | |
| 20 | MLR Member Months | 229,701 | - | 229,701 |
| 21 | MLR Member Months (Annualized) | 229,701 | - | 229,701 |
| 22 | Credibility Adjustment | 0.0% | 1.4% | 1.4% |
| 23 | Adjusted Reporting MLR Percentage | 91.1% | 1.3% | 92.4% |
| 24 | MLR Percentage Requirement for Rebate Calculation | 85.0% | | 85.0% |
| 25 | Percentage below 85% Requirement | 0.0% | | 0.0% |
| 26 | Dollar Amount of Rebate Required | \$ - | \$ - | \$ - |

*Minor footing variance due to rounding. Reported amounts have been rounded to match the as-filed report.

**The "Other Non-Claims Costs" line reported on the Medical Loss Ratio Rebate Calculation Report has not been subjected to the procedures applied in the examination, and accordingly, we express no opinion on it. However, any adjustments identified during the course of the examination procedures directly affecting the "Other Non-Claims Costs" line, will be properly reflected within the adjustment totals.



Schedule of Adjustments and Comments for the State Fiscal Year Ending June 30, 2019

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 - To reclassify claim recovery fees included in medical expense

The health plan reported a direct medical account from the trial balance as part of the overall total incurred claims expense in the MLR. After detailed review of the account and additional health plan explanations, it was determined that this account contained several vendor fees for performing claim recovery and subrogation services, healthcare quality improvements, and member incentives. Fees related to recoveries and subrogation are considered administrative non-claims expense and should not be claimed as medical expense. Additionally, member incentives and health care quality improvement fees are reportable as HCQI expenses in accordance with the regulations. The medical expense and HCQI reporting requirements are addressed in the Exhibit D: Medical Loss Ratio (MLR) Requirements, the Medicaid Managed Care Final Rule 42 CFR § 438.8, 45 CFR 158.140(b) (3)(iii), and 45 CFR 158.150.

This is a newly identified finding for this examination and as such, we recommend that Magnolia revise its processes for reporting vendor fees on the MLR rebate calculation to properly exclude all third party administrative expenses.

Proposed Adjustment:

| Line # | Line Description | Amount |
|---------------|--|---------------|
| 6 | Total Net Medical Expenses from Income Statement | (\$525,326) |
| 11 | HCQI and HIT Administrative Expenses from Income Statement | \$203,268 |
| 14 | Other Non-Claims Costs | \$322,058 |

Adjustment #2 - To reclassify non-qualifying Health Care Quality Improvement salaries

The health plan reported a large number of salaried positions in HCQI. Based on the review of job descriptions and additional information provided by the health plan, it was determined that several positions performed activities that did not meet the definitions of HCQI. The HCQI expense reporting requirements are addressed in the Exhibit D: Medical Loss Ratio (MLR) Requirements, the Medicaid Managed Care Final Rule 42 CFR § 438.8, and 45 CFR 158.150.



This is a newly identified finding for this examination and as such, we recommend that Magnolia revise its processes for reporting HCQI salaries on the MLR rebate calculation to properly exclude all non-qualifying positions.

Proposed Adjustment:

| Line # | Line Description | Amount |
|--------|--|-------------|
| 11 | HCQI and HIT Administrative Expenses from Income Statement | (\$221,429) |
| 14 | Other Non-Claims Costs | \$250,526 |

Adjustment #3 - To transfer medical expenses between the CAN and CHIP populations

The health plan reported incurred claims expense and IBNR utilizing the trial balance. In order to restate the information for the period under review based on dates of service, the health plan applied adjustments to the expenses to reflect paid lag data and IBNR lag calculations. In review of the detail provided, it was determined that the CHIP and CAN split of the expenses was not correctly applied; therefore resulting in the over reporting of CAN medical expenses and under reporting of CHIP medical expenses. The medical expense reporting requirements are addressed in the Exhibit D: Medical Loss Ratio (MLR) Requirements, the Medicaid Managed Care Final Rule 42 CFR § 438.8, and 45 CFR 158.140(a).

This is a newly identified finding for this examination and as such, we recommend that Magnolia revise its processes for reporting incurred claims and IBNR on the MLR rebate calculation to properly reflect the amounts related to CAN and CHIP.

Proposed Adjustment:

| Line # | Line Description | Amount |
|--------|--|-----------|
| 6 | Total Net Medical Expenses from Income Statement | \$220,448 |

Adjustment #4 - To reverse the deferred income taxes reported

The health plan reported their calculated deferred income tax amounts as part of their premium tax totals. Since these were deferred income taxes, the plan reported these as a negative amount on the MLR which had the effect of increasing the reported denominator. However, Magnolia has unique tax sharing and corporate management fee agreements with their corporate home office. Their tax sharing allocation agreement incorporates the management fee amounts calculated as a percentage of revenues rather than utilizing an allocation of the actual corporate management costs to Magnolia, as required for financial reporting to the Division of Medicaid. As a result the management fee reported in the tax allocation results in consistent net income losses and deferred income taxes per Magnolia's



financial accounting records. These deferred tax assets have no material value due to the inability to offset future net income. As a result, we recommend an adjustment to remove the deferred income tax reported for the health plan. The income tax expense reporting requirements are addressed in the Exhibit D: Medical Loss Ratio (MLR) Requirements, the Medicaid Managed Care Final Rule 42 CFR § 438.8(f)(3), and 45 CFR 158.130(b).

This is a newly identified finding for this examination and as such, we recommend that Magnolia revise its processes for reporting income taxes on the MLR rebate calculation.

Proposed Adjustment:

| Line # | Line Description | Amount |
|---------------|------------------------------|---------------|
| 3 | Allocation for Premium taxes | \$285,241 |



Health Plan Responses

The health plan did not provide responses for the state fiscal year under review.