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MEMORANDUM

TO: Chief Financial Officers

FROM: Dennis N. Phelps, Associate Director-Audit & Compliance

DATE: February 3, 2009

RE: Reimbursement by Medicare Advantage Plans and the Commission's policy for Reimbursement by Managed Care Organizations that Sub-Contract with Medicaid

The purpose of this memorandum is to clarify the reimbursement requirements for Medicare Advantage Plans and for Managed Care Organizations (MCOs) that sub-contract with Medicaid.

By statute, Medicare Advantage Plans must reimburse Maryland hospitals for covered services provided to their members equal to the reimbursement that Medicare would pay Maryland hospitals for services provided to its fee-for-service members, i.e., 94% of charges. (In order to ensure that hospitals are made whole, Charges for Medicare Advantage Plans must be reported with Medicare fee-for-service members on the PDA schedule of the Annual Report of Revenue, Expenses, and Volumes.)

The term MCOs in this memorandum means all managed care organizations, i.e., Medicaid HMOs, PPOs, as well as non-HMO managed care organizations sanctioned by the Maryland Medical Assistance Program.

The Commission's reimbursement policy for Medicaid MCOs recognizes that Medicaid averts uncompensated care by virtue of their enrollment practices. Consequently, the Commission also believes that MCOs that sub-contract with Medicaid for the provision of hospital services to their recipients similarly avert bad debt. As a result, to the extent that the

differentials accorded to Medicaid under the Medicare waiver agreement have been associated with cost savings to hospitals through averted bad debt, such differentials should also be extended to the sub-contracting Medicaid MCOs.

Therefore, the Commission has approved the following policy for MCOs that sub-contract with Medicaid for the provision of hospital services to their enrollees at all hospitals under HSCRC jurisdiction:

1. Such MCOs shall be entitled to a 4% differential from HSCRC approved rates for payments they make for hospital services provided to Medicare and Medicaid recipients only, at all Maryland hospitals, i.e., waived and non-waived. The 4% differential may not be taken on payments made by MCOs for their other members;
2. The HSCRC's working capital differential and prompt payment discount shall be available to the MCO provided that it meets the requirements as specified in Commission regulation, COMAR 10.37.10.26B.

The aforementioned policy also applies to MCOs that sub-contract with Medicaid programs in states other than Maryland.

As a result of the differential accorded the MCOs, rates for other payers shall be adjusted appropriately such that the hospital's reasonable costs are met; the hospital is made whole; and other payers are not paying any more than they otherwise would be paying absent the aversion of the bad debt.

If you have any questions concerning either of the issues discussed in this memorandum, you may contact me at (410) 764-2565