

MEDICAID MANAGED CARE PAYMENT POLICY

Moving Beyond COVID-19 Public Health Emergency Risk Corridors

The purpose of this white paper is to identify appropriate – and inappropriate – uses of risk corridors in the context of Medicaid managed care capitation rate setting. This paper offers a timely examination of this topic given the widespread use of risk corridors by states during the COVID-19 public health emergency (PHE) and the potential continuation of those risk corridors after the PHE ends.

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incentives to drive improvements in the healthcare system. States typically put MCOs at full risk, avoiding misuse of risk corridors. Risk corridors can weaken managed care's incentives and jeopardize state goals. As a result, policymakers must carefully examine the potential continuation of risk corridors past the PHE.

Several themes are raised in this paper to help policymakers consider the implications of this topic:

Managed care payment policy is critically important to appropriately incentivize Medicaid MCOs to achieve state Medicaid program goals.

Key goals include improving budget predictability, limiting spending growth, improving access and quality, investing in preventive care, enhancing program integrity to address fraud, waste and abuse, and fostering innovation to address social determinants of health (SDOH) and advance health equity and wellness.

The COVID-19 PHE introduced temporary financial uncertainty for state Medicaid programs and managed care payment policy. In the early stages of the COVID-19 PHE, the net impact on healthcare utilization was not clear. Policymakers anticipated increased use as cases and hospitalizations multiplied as well as decreased use as individuals avoided care and deferring elective procedures. In response, the Centers for Medicare & Medicaid Services (CMS) issued guidance encouraging state Medicaid agencies to modify MCO contracts. CMS promoted the adoption of risk corridors to address the potentially dramatic spike or decline in healthcare use with upside and downside risk arrangements between states and MCOs. CMS asserted risk corridors would provide “prudent protections and limit financial risk to both state and federal governments and managed care plans during this period of uncertainty caused by the public health emergency.”

States responded to the federal encouragement – many of the 40 states contracting with MCOs implemented risk corridors in 2020. States' risk corridors often were designed to recoup perceived MCO windfalls for reductions in healthcare use below pre-pandemic assumptions internalized in capitation rates. Some states also implemented risk corridors retroactive to periods prior to the pandemic, a unique allowance by CMS. Many states have maintained their COVID-19 risk corridors into 2021.

There are appropriate times to use risk corridors. A risk corridor is a risk

