

Medicaid MCO Profitability, 2016-2017

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The Menges Group

Strategic Health Policy & Care Coordination Consulting

Introduction

- The Menges Group maintains and regularly updates a database of MCO financial statement data.
- This edition of the 5 Slide Series conveys results of some of our tabulations using this database, summarizing financial performance of the Medicaid MCO industry during CY2016 and CY2017.
- Our assessment focuses on 157 Medicaid health plans for which financial performance data were available in both years.
- Note that throughout this edition we utilize the term “profit” to represent pre-tax operating income. Many of the MCOs included in this assessment are not-for-profit entities; we have not sought to distinguish between those MCOs and for-profit health plans in these analyses.

Medicaid MCOs Collectively Operate Profitably, Although This is a “Tight Margin” Industry

- Collectively, the 157 MCOs earned a 0.9% profit on their Medicaid business during 2016 and a 2.2% profit during 2017.
- Within plans’ Medicaid line of business, 107 MCOs (68%) earned a profit in 2016 and 125 MCOs (80%) earned a profit in 2017.
- While 94 MCOs (60%) earned a profit in both years, 19 (12%) lost money in both years.

Profitability of Medicaid Line of Business	Number of Health Plans	Percentage of Health Plans
Profitable in Both 2016 and 2017	94	60%
Profitable in 2016 but not in 2017	13	8%
Profitable in 2017 but not in 2016	31	20%
Unprofitable in Both 2016 and 2017	19	12%
Total	157	100%

85 of the MCOs (54%) had a better net income on their Medicaid line of business in 2017 versus 2016 (a higher profit or a smaller loss).

Medicaid MCOs Typically Operate on a Large Financial Scale

Medicaid Revenue Statistics Across 157 Health Plans	2016	2017
Lowest Medicaid Revenue	\$11 million	\$10 million
Highest Medicaid Revenue	\$6.0 billion	\$7.2 billion
Median	\$633 million	\$643 million
Mean	\$863 million	\$898 million
# Above \$1 billion	58	60
% Above \$1 billion	37%	38%

- The 157 health plans' collective Medicaid revenue rose by only 4.0% between 2016 and 2017, a modest increase given that both enrollment growth and capitation payment rate increases factor into that figure.
- Despite this modest overall revenue increase, the health plans' collective profitability improved considerably in 2017 versus 2016.

Health Plans Serving Medicaid Typically Derive Most of Their Overall Premium Revenue from Medicaid

- Across the 157 health plans, 64.3% of overall premium revenue came via their Medicaid lines of business during 2016; this proportion increased slightly to 66.8% in 2017.
- In 79 of the 157 MCOs (50.3%), Medicaid represented at least 90% of the health plan's total premium revenue during 2017. Conversely, in only 9 MCOs (5.7%) were Medicaid premium revenues less than 10% of plan-wide premium revenue.

Distribution of Health Plans by 2017 Medicaid Operating Margin

- Most health plans earned a modest but favorable profit on their Medicaid line of business during 2017. 91 of the 157 MCOs (58%) earned a profit of less than 5.0%.
- An additional 21% of the MCOs earned a profit of more than 5.0% on their Medicaid business during 2017.
- The remaining 20% of MCOs (32 health plans) lost money on their Medicaid line of business during 2017. Most of these health plans experienced a loss of less than 2.5%.

2017 Medicaid Profit Margin	Number of MCOs	Percentage of MCOs
Gain of 10.0% or more	5	3%
Gain of 7.5% - 9.9%	11	7%
Gain of 5.0% - 7.4%	18	11%
Gain of 2.5% - 4.9%	39	25%
Gain of 0.0% - 2.4%	52	33%
Loss of 0.0% - 2.5%	16	10%
Loss of 2.5% - 4.9%	6	4%
Loss of 5.0% - 7.4%	3	2%
Loss of 7.5% - 9.9%	2	1%
Loss of 10.0% or more	5	3%
Total	157	100%

5 Slide Series Overview

Our 5 Slide Series is a monthly publication whereby we briefly discuss/address a selected topic outside the confines of our client engagements.

To be added to our list to receive these as they are published (or to be removed), please email us at jmenges@themengesgroup.com or call 571-312-2360.

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