





Conflicts of interest can undermine these incentives and circumvent existing program integrity safeguards. Federal rules require MCOs to spend at least 85 percent of capitation payments on medical services and quality improvement, rather than administration, profits, or overhead. This is called the medical loss ratio (MLR). But much of this spending may be obscured through related entities, such as pharmacy benefit managers or medical facilities owned by the MCO. Commonly, existing reporting requirements may not capture all administrative spending, and many states that review these filings do not verify data accuracy.

Visibility into how plans use taxpayer funds is further limited. Federal payment error data examines only whether capitation payments were made correctly – not whether providers were appropriately paid for services rendered.<sup>2</sup> Encounter data often lacks sufficient detail to meaningfully assess quality or utilization. State-directed payments (SDPs) are supposed to advance specific program goals, but they are embedded within capitation rates, making them difficult for legislators, auditors, and actuaries to evaluate.<sup>3</sup>

Taxpayers may also be disadvantaged by how capitation rates are set. Actuaries responsible for evaluating state capitation payments often simultaneously perform work for the MCO or a related entity. This dual role compromises the relationship between the actuary, the state, and the MCO, undermining the independence necessary for truly unbiased rate setting – regardless of any purported ethical walls or internal separations within the firm.<sup>4</sup>

### Keys to Reform Managed Care in Utah

- **Strengthening financial and data reporting standards.** Policymakers should require comprehensive, audited reporting on MCO business operations, including MLRs, financial statements, and detailed payment data.
- **Ensuring appropriate rate setting and avoiding conflicts of interest.** The state should avoid conflicts of interest in actuarial reviews by not contracting with actuaries that also serve MCOs or their related entities. Utah should also prohibit preferential treatment between MCOs and affiliated providers or contractors.
- **Imposing strict enforcement of requirements.** Reporting and data-collection mandates are only effective if enforced. The state should reject late or incomplete filings and impose meaningful sanctions on MCOs that fail to comply with reporting standards.

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<sup>1</sup> In Utah, MCOs include Accountable Care Organizations, prepaid mental health and substance use disorder plans, HOME program, Utah Medicaid Integrated Care, dental plans, and CHIP. "Percentage of Medicaid Enrollees in Managed Care by State, July 1, 2022," Medicaid and CHIP Payment Access Commission, February 2026, <https://www.macpac.gov/publication/percentage-of-medicaid-enrollees-in-managed-care-by-state/>.

<sup>2</sup> "2023 Medicaid and CHIP Supplemental Improper Payment Data," Centers for Medicare and Medicaid Services, November 2023, <https://www.cms.gov/files/document/2023-medicaid-chip-supplemental-improper-payment-data.pdf>.

<sup>3</sup> Niklas Kleinworth and Brian Blase, "Preserve and Improve Medicaid: State Action to Protect the Most Vulnerable and Taxpayers," Paragon Health Institute, December 2025, <https://paragoninstitute.org/state-health-reform/preserve-and-improve-medicaid-state-action-to-protect-the-most-vulnerable-and-taxpayers/>.

<sup>4</sup> Kleinworth and Blase, "Preserve and Improve Medicaid."