

Understanding the Medical Loss Ratio and What it Could Mean for You.

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Today, many insurance companies spend a substantial portion of consumers' premium dollars on administrative costs and profits, including executive salaries, overhead, and marketing. The Affordable Care Act passed in 2010 placed requirements on health insurance companies as to the amount of premiums used for health care costs, effectively limiting the health insurance companies' profit margin. This change was effective January 1, 2011, but you will not see the effect of the change until 2012 when the insurance companies will reconcile 2011 activity and potentially issue any rebates to policyholders.



In short, consumers will receive more value for their premium dollar. New regulations require health insurers to spend 80 to 85 percent of consumers' premiums on direct care for patients and efforts to improve care quality rather than on administrative cost. The 80% ratio is for individual and small group plans of 100 and fewer individuals and the 85% ratio is for plans larger than 100. If the actual insurance payouts are lower than these ratios, the insurance companies will be required to provide rebates to their customers starting in 2012.

Under the Medical Loss Ratio (MLR) rules, issuers must submit a report to the U.S. Department of Health & Human Services (HHS) concerning premium revenue and expenses related to the group and individual health insurance coverage it issued for each reporting year. The report must include information on the issuer's:

- Earned premium for the year
- Direct claims paid to or received by providers
- Activities that improve health care quality and the respective costs
- Administrative expenses

This report must be submitted to HHS by June 1 of the following year. HHS will use these reports to calculate a rebate if the Medical Loss Ratio does not meet minimum requirements. The amount of the rebate is based on the premium received from the enrollee (less appropriate taxes and fees), which is then multiplied by the difference between the required MLR and the issuer's actual MLR for the year. Insurance carriers are now sending out surveys to employers to collect data that will enable them to pay out rebates. For this reason it will be important to make sure that you reply to any survey or questionnaire from your medical carrier.

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The U.S. Department of Health & Human Services estimates that approximately 3 percent of employees in the small group market and 2 percent of employees in the large group market will be eligible for rebates. The average rebate per employee is projected to be \$300 each for eligible small employers and \$160 each for eligible large employers. In contrast, HHS estimates that between 20 percent and 50 percent of *individual* coverage purchasers will be eligible for medical loss ratio rebates in the averaging \$160.

Typically, employees pay a portion of employer-provided health premiums. The HHS regulations provide that a medical loss ratio rebate must be allocated between employers and employees based on the percentage of the total premium paid by the employer and employee.

The bottom line for 2011 is to be aware of the MLR rules and that favorable experience for health insurance may translate into financial rewards in future years in addition to lower insurance premiums.