



Health Insurance Reform and the Affordable Care Act



MEDICAL LOSS RATIO REQUIREMENTS IN THE AFFORDABLE CARE ACT

ILLINOIS DEPARTMENT OF INSURANCE
MARCH 7, 2011

Overview of Presentation

2

- What is a Medical Loss Ratio (MLR)?
- Background: Illinois Standards and Other State Laws
- MLR Requirements in the Affordable Care Act (ACA)
- Illinois Implementation: SB 1618

REMINDER – Submit Questions

3

**QUESTIONS
or
COMMENTS ?**

doi.webinars@illinois.gov

What is a Medical Loss Ratio?

4

- A medical loss ratio (MLR) is the percentage of premium dollars an insurer spends on health care, as opposed to expenses for administration, overhead, marketing or profits for shareholders.
- With an entirely for-profit health insurance industry, the hard-earned premium dollars paid by Illinois families and businesses are often used for purposes other than providing health care.
 - The MLRs for Illinois health insurers responding to a recent data call range from 59-129%.

MLR Requirements Before the ACA

5

- State laws requiring health insurers to meet minimum MLR requirements date back to the 1990s.
 - Minnesota (first adopted in 1993)
 - Individual market = 65%; Small groups of 2-9 = 71%; Small groups of 10-50 = 75%; Large groups (>50) = 82%
 - New Jersey (first adopted in 1992)
 - Individual and small group markets = 75%
 - Since 1993, insurers failing to meet minimum MLRs have refunded \$11.6 million to consumers

MLR Requirements in Other States

6

State	MLR Requirements
California (1982)	“administrative expenses” of managed care plans limited to 15-25% (does not include stock options or compensation)
Delaware (1995)	small group market = 75%
Kentucky (2001)	individual market = 65%; small groups of 2-10 = 70%; small groups of 11-50 = 75%
Maine (1993)	individual market = 65%; small group insurers filing annually = 75%; small group insurers filing every 3 years = 78%
Maryland (1997)	individual market = 60%; small group market = 75%
Nevada (1971)	nonprofit corporations and individual dental plans = 75%
New York (1992)	individual market = 80%; small group market = 75%
North Dakota (1993)	individual market = 55%; small group market = 70%
Oklahoma (1998)	small group market = 60%
South Dakota (1994)	individual market = 65%; small group market = 75%
Vermont (1992)	individual market = 70%; safety net market = 80%
Washington (2000)	individual market = 77%
West Virginia (1991)	individual market = 60%; small group market = 73%

MLR Requirements in Illinois

7

- **Medicare Supplement Policies**
 - Medicare supplement policies issued in Illinois must meet certain minimum MLR requirements: 75% for group policies and 65% for individual (50 IAC 2008.80).
 - Insurers must issue refunds or credits for policies that fail to meet the minimum requirements.

MLR in the ACA

8

PHSA Section 2718 (42 U.S.C. 300gg-18): *“Bringing down the cost of health care coverage.”*

Beginning in 2011, health insurers offering individual and group policies must:

- Report information concerning premium revenues and the use of premium revenues for:
 - Clinical services provided to enrollees;
 - “Activities that improve health care quality;” and
 - All other non-claims costs.
- Provide rebates to enrollees if the insurer does not meet an MLR of at least 85% in the large group market, and 80% in the small group and individual markets.

MLR in the ACA

9

The basic formula established for MLR in the ACA:

(Reimbursement for clinical services +
Expenditures to improve health care quality)

(Total premium revenue –
Federal and State taxes and licensing or regulatory)

- The ACA required the NAIC to establish uniform definitions and methodologies for calculating the MLR, including definitions for “activities that improve health care quality.”

MLR in the ACA

10

- On December 1, 2010, HHS issued an Interim Final Rule (45 CFR Part 158) implementing the MLR requirements of the ACA. The rule adopted the NAIC recommendations in full.
- A copy of the Interim Final Rule and related federal guidance is available on the Department's website at:
<http://insurance.illinois.gov/hiric/topical.asp#medloss>

MLR in the ACA

11

- Until 2016, “small group” and “large group” health plans are as defined under existing state law.
 - In Illinois, “small group” = 2-50 employees.
 - For plan years beginning January 1, 2016, “small group” = 1-100 employees.

- “Activities to improve health care quality” must be designed to:
 - 1) improve health outcomes, including increasing the likelihood of desired outcomes compared to baseline and reducing health disparities among specified populations;
 - 2) prevent hospital readmissions;
 - 3) improve safety, reduce medical errors, and lower infection and mortality rates;
 - 4) implement, promote, and increase wellness and health activities; or
 - 5) enhance the use of health care data to improve quality, transparency, and outcomes and support meaningful use of health information technology.

MLR in the ACA

12

- MLRs are aggregated by state, by market (individual, small group, large group), and by licensed entity.
 - In the case of an employer with employees in more than one state, the experience of the employer would be aggregated in the state where the contract was issued.
- Plans with smaller pools of enrollees are permitted to make “credibility adjustments” to account for unexpected variation in risk.
 - Blocks of business with less than 1,000 life years are considered non-credible and will not be required to pay rebates in most cases.*
 - Blocks with greater than 1,000 but less than 75,000 life years may make a credibility adjustment to the calculated MLR.
 - Blocks greater than 75,000 life years are considered fully credible and can’t make a credibility adjustment.

* “Life year” means the total number of months of coverage on that policy for all enrollees.

MLR in the ACA

13

- Timeframes for MLR Reporting and Rebates
 - Plans must report MLRs by **June 1** of the year following the applicable “MLR reporting year” (*i.e.*, the calendar year).
 - Rebates must be paid annually by **August 1** of the year following the applicable MLR reporting year.
- The MLRs for years 2011 and 2012 will be calculated using only 2011 and 2012 experience, respectively.
- Beginning in 2013, MLRs will be calculated using a three-year average of experience.

MLR and Producer Compensation

14

- Under the HHS Interim Final Rule, commissions and fees paid by insurers to insurance agents and brokers are treated as administrative costs for the purposes of MLR calculations.
 - Continuing topic of interest at state and national level. On behalf of the Department, Director McRaith serves on the NAIC's Professional Health Insurance Advisory Task Force.
- Groups representing agents and brokers sought a carve-out for commissions due to concerns about the impact on existing compensation structures.
 - Possible shift from commission structure to flat-fee-per-enrollee systems.
 - Insurers asking for MLR waiver have not agreed to return savings to producers as commissions or fees.

HHS State Waivers from MLR Requirements

- Under the ACA, HHS may adjust the 80% standard for the individual market “if it is determined that meeting the 80% Medical Loss Ratio standard may destabilize the individual market.” To qualify for an adjustment, the state must prove the 80% MLR will result in destabilization of its individual insurance market and fewer choices for consumers.
 - HHS issued [guidance](#) to States on this process on December 17, 2010.
- States that have filed adjustment requests with HHS include:
 - **Maine:** requesting an adjustment to 65% MLR
 - **New Hampshire:** requesting an adjustment to 70% MLR
 - **Nevada:** requesting an adjustment to 72% MLR
 - **Kentucky:** requesting adjustments to 65%, 70%, and 75% MLRs for 2011, 2012, and 2013, respectively
- Other states are reported to be considering adjustment requests for their individual markets, with some considering similar requests for the small group market.

Implementation in Illinois: SB 1618

16

- [SB 1618](#) was introduced by Senator Heather Steans on February 9, 2011.
- If passed, the bill would bring Illinois law into conformity with the MLR requirements established by the ACA, and would ensure that the Department of Insurance has the tools necessary to enforce the MLR requirements in Illinois.
- While not a substitute for rate regulation (webinar of February 1, 2011), medical loss ratio standards protect Illinois families and employers from insurers' abusive pricing practices.

MLR in the ACA

17

QUESTIONS or COMMENTS?

doi.webinars@illinois.gov

MLR in the ACA

18

ADDITIONAL FEEDBACK

The Department of Insurance welcomes comments at any time. Feedback can be sent to doi.healthreform@illinois.gov .