NAIC National Association of Insurance Commissioners
& The Center for Insurance Policy and Research

Medical Loss Ratio and Rebates

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Medical Loss Ratio

NAIC National Association of Insurance Commissioners & The Center for Insurance Policy and Research

PPACA Requires:

- Beginning January 1, 2011, issuers shall, each plan year, pay rebates to enrollees if the Medical Loss is lower than:
  - 80% in the non-group market
  - 80% in the small group market
  - 85% in the large group market

  NOTE: A state may set a higher percentage – The Secretary may set a lower percentage in a state if the non-group market is destabilized or adjust the rates due to volatility caused by the Exchanges.
- By December 31, 2010, the NAIC shall establish uniform definitions and standardized methodologies for calculating the components included in the Medical Loss Ratio. This is subject to Secretary certification.

Medical Loss Ratio

Components of the Medical Loss Ratio:

Reimbursement for clinical services +
Expenditures to improve health care quality

Total premium revenue –
Federal and State taxes and licensing or regulatory fees
(and accounting for risk adjustment, risk corridors and reinsurance)

- The issuer must provide an annual report to the Secretary on the above expenditures/revenues and other non-claims costs, including and explanation of the nature of such costs.

Medical Loss Ratio

NAIC Considerations:

- The NAIC Health Reform Solvency Impact (E) Subgroup developed a “blank” to capture the information required to be reported to the Secretary and to calculate the MLR. The Subgroup also developed instructions that will include the definition of “activities that improve health care quality.”
- The “blank” and instructions were adopted by the NAIC in Seattle (Aug 2010)
- The NAIC PPACA Actuarial Subgroup developed the final model that includes the methodologies for calculating the MLR and the definitions, many of which were taken from the “blank” instructions.
- The final regulations was adopted by the NAIC in Orlando (October 2010) and was submitted to HHS on October 27th.

Medical Loss Ratio

Key Issues in NAIC Regulation:

- Definition of Plan Year (calendar year)
- Definition of “Small Group” and “Large Group” (state law)
- Definition of “quality improvement activities”
  - improve health outcomes
  - prevent hospital readmissions
  - improve safety and reduce medical errors, lower infection and mortality rates;
  - increase wellness and promote health activities
  - enhance the use of health care data to improve quality, transparency, and outcomes
- Definition of taxes (all except for income tax on investment income)
- Aggregation (calculated at state level, by market, by legal entity)
- Credibility (confidence level of 50%)

Medical Loss Ratio

Other Issues:

- Special Considerations for Expatriate Plans
- Transition to 2014 (avoid market disruption)
- Address Agent Compensation
- Payment of Rebates

➢ NAIC sent a letter to Secretary Sebelius on October 13th addressing these issues

Medical Loss Ratio

Interim Final Regulation Published November 22, 2010

- The federal regulation included all of the recommendations made by the NAIC, including those in the letter of October 13
- Corrections to the regulation were published on December 30 to fix typos, inaccurate cross-references, and errors in translating the NAIC model to NAIC regulations
- Outstanding issues include:
  - What must a state do to elect to define “small group” as 1-50?
  - How will the data be audited?
  - What states will request a transition due to destabilization?
  - How will updates to “quality improvement activities” defintion be made?

Questions?

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