



Medical Loss Ratio (MLR) Final Regulations Issued

On December 2, 2011, the Department of Health and Human Services (HHS) issued revised regulations on the Medical Loss Ratio (MLR) provision of the Patient Protection and Affordable Care Act. Beginning in 2011, insurers and HMOs must annually calculate their MLR and provide rebates to policyholders if their MLR (percent of premium revenue spent on claims/medical care) is less than 85 percent for large groups and 80 percent for small groups or individuals. The revised rules make important changes to the MLR calculation and rebate distribution requirements.

Here are some highlights of the revised regulations:

RATE DISTRIBUTION

To simplify the rebate distribution process for group insurance, the revised rules call for rebates to be paid to the group policyholder in the case of group plans sponsored by governmental entities and private employer-sponsored plans subject to ERISA.

At the same time HHS issued the revised regulations, the Department of Labor issued a Technical Release that describes how ERISA's fiduciary rules respecting plan assets govern the distribution of rebates for employer-sponsored ERISA plans. Generally, employers are required to apply the proportion of the rebate attributable to employee contributions to the benefit of current plan participants either in the form of a cash payment or a reduction in future contributions toward the cost of coverage. Rebates can be paid to group policyholders of non-ERISA plans if the policyholder provides written assurance that the rebates will be used to benefit enrollees.

The revised regulations also clarified that consumers will not pay taxes on any rebates they receive.

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SPECTRA INSIGHT



Links to Additional Info

- * News Release:
<http://go.cms.gov/sRD361>
- * Fact Sheet:
<http://cciio.cms.gov/resources/factsheets/mlrfinalrule.html>





TRANSPARENCY

Insurers are required to provide individual policyholders and subscribers under group plans information about their MLR regardless of whether there is a rebate.

MINI-MED PLANS

Special adjustments for limited medical ("mini-med") plans with total annual benefit limits of \$250,000 or less have been extended through 2014. The numerator will be multiplied by 2.0 in 2011, 1.75 in 2012, 1.5 in 2013 and 1.25 in 2014.

Previously, this adjustment was available only for 2011. Currently, experience for mini-med plans must be reported quarterly. For 2012, 2013 and 2014, mini-med experience will be reported annually.

EXPATRIATE PLANS

The final rule keeps the expatriate plan multiplier adjustment at 2.0 indefinitely in recognition of the higher administrative costs and special circumstances of international plans. The rule also changes the reporting period from quarterly to annually.

QUALITY IMPROVEMENT ACTIVITIES

For purposes of the MLR calculation, ICD-10 conversion costs related to improvements in coding of medical conditions of up to 0.3 percent of an insurer's earned premium can be considered quality improvement activities in 2012 and 2013.

COMMUNITY BENEFIT EXPENDITURES

An issuer may deduct from earned premiums the higher of either the amount paid in state premium tax or actual community benefit expenditures up to the highest premium tax rate in the state.

HHS has solicited comments on the revised rules, particularly those regarding rebate distribution and quality improvement activities.

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