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In the Spotlight: Health Care Reform and Medical Loss Ratios

The Affordable Care Act (ACA) requires individual and group health plans to report publicly their medical loss ratios (MLR), which represent the percentage of each premium dollar that is spent on health care services and quality improvement. ACA also requires such plans beginning on January 1, 2011, to provide an annual rebate to enrollees if the MLR is below the minimum requirement for the applicable market. The minimum requirement is 80% for individual and small group markets and 85% for the large group market.

Though the ACA directs a national standard for all insurance carriers' MLR, some states may require more stringent ratios. The ACA's MLR requirements will serve as a floor, below which insurance carriers may not fall without being penalized as noted above. However, US Department of Health and Human Services (HHS) has the discretion to grant a state-specific waiver of the MLR requirement, and several states have requested and received waivers. North Carolina received an MLR waiver from HHS, effectively reducing the minimum MLR for individuals in 2011 to 75%. In 2012, that requirement will be raised to the statutory minimum of 80%. Otherwise, MLR requirements are 80% for small groups, and 85% for large groups.

Bulletins, Rules, and Notices

HHS and the Internal Revenue Service (IRS) have released a series of different forms of guidance regarding the MLR requirements for insurers. From December of 2011 through May of 2012, many interim final rules, final rules, bulletins, and notices have been issued clarifying and regulating how MLR will be implemented. One recent rule requires that insurers that met or exceeded MLR in 2011 send notices on or after July 1, 2012 to all customers to inform them of the MLR rebate requirement and advise them that they will not receive a rebate. This will likely add administrative expenses, counter to the goals of the MLR provision. After the multitude of instructions from the federal government, insurers were required to file for the first time using the newly developed MLR reporting form by June 1, 2012 to report MLR for the calendar year 2011.

BCBSNC and MLR

BCBSNC submitted a Supplemental Health Care Exhibit to the National Association of Insurance Commissioners (NAIC) on April 1 to report on preliminary MLRs and an MLR reporting form to HHS on May 29, 2012 to meet the June 1 requirement on updated MLRs and for rebates. BCBSNC exceeded every ACA MLR requirement. For individuals, the MLR was 85%; for small groups it was 85.5%; and for large groups it was 89.5%. In total, BCBSNC spent $230 million more on medical care for our members than is required by law.

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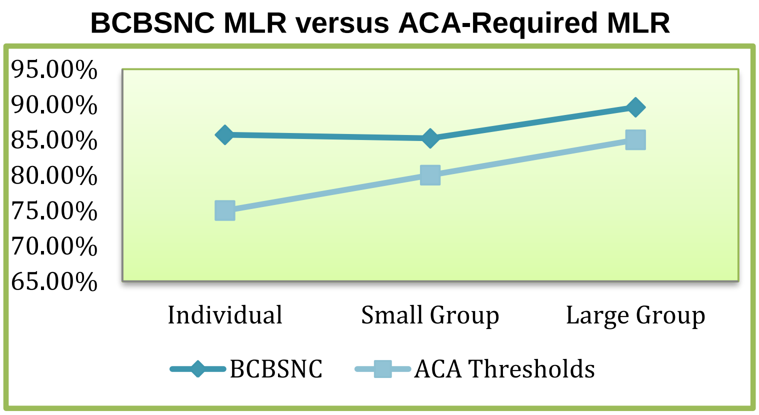

*The 2011 MLR rule for North Carolina required that spending on health care services and improving health care quality be at least 75% of premium revenues for individuals, 80% for small groups and 85% for large groups. BCBSNC MLRs exceeded these requirements at 85% for individual, 85.5% for small groups and 89.5% for large groups.

BCBSNC Views

BCBSNC is leading the way in improving access to quality health care and better health outcomes for its members and is judicious about spending resources in ways that ensure we offer the best possible value for our customers. We support and have exceeded the 2011 MLR requirements to ensure members receive the most return on their investment in their own health. Even while exceeding the requirements, BCBSNC is required to send out the notices to our members this year reporting that no refunds will be made, so our members should expect to see these letters in mid to late summer 2012.

What to expect long-term

Some Wall Street analysts believe that the MLR requirements will prove to be less onerous than market expectations. New product launches, benefit design changes, efforts to make administrative and data systems more efficient, and other market demands, in combination with the implementation of other ACA provisions, increase the uncertainty related to insurers' ability to meet the minimum MLR requirements. America's Health Insurance Plans and others in the insurance industry are concerned that MLR requirements could have some unintended, negative consequences for consumers. For instance, restrictive MLR definitions could hamper insurers' investment and innovation in health information technology – which has the potential to dramatically reduce long-term costs by reducing medical errors and improving the quality of care – as well as in information technology and fraud detection, among others.

For More Information

HealthCare.gov on Medical Loss Ratio: http://www.healthcare.gov/news/factsheets/2010/11/medical-loss-ratio.html

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