Medical loss ratio rebates

Background

The Affordable Care Act (ACA or health care reform law) requires health insurers to report medical loss ratios (MLR). MLR is the percentage of premiums that insurers spend on medical care (including claims and activities that improve health care quality). Health insurance issuers must meet a minimum MLR of 85% in the fully insured large group market and 80% in the fully insured small group and individual markets. (States that received waivers to have a lower threshold for the individual market are required to meet the percentage as described in the waivers.)*

**Note*: *There are no waivers in effect for the 2014 year. However, the MLR calculation uses a 3 year average. Therefore, the waiver impacts the 2014 rebates being paid in 2015.*

As required by the health care reform law, we filed the MLR report with the Department of Health and Human Services (HHS) by July 31 for the prior calendar year. If rebate checks are due for the prior calendar year, they will be received by September 30.

Questions and answers

Q. Who is eligible for a rebate?*

A. Any fully insured individual or group who had an active health insurance policy during the prior calendar year is eligible for a rebate, including individuals or groups who ended their coverage or started their coverage at any point during the prior plan year. However, not everyone gets a rebate.

Q. Are rebate amounts a matter of public record?

A. The total amount we must pay in rebates becomes public information after we file an MLR report with the HHS. Because we have already filed a report for the prior year, that information is now public. Please note that the rebate amounts paid to each employer or individual are not made public.

Q. How did you determine how much the rebate checks would be for?

A. Check amounts were calculated based on the rules from the government. In general, we took the amount we paid in medical care and quality programs and divided that by the amount of money we earned in premiums minus state and local taxes. That number was then distributed proportionately to all people in the specific product line in a state.

Based on the rules set by the federal government, we calculated the rebate amount for groups or members. For specifics on these rules, please visit http://www.healthcare.gov.

Q. My client recently got their rebate check and said that when they calculated the rebate themselves it was different than the amount on their check. Why is the check amount different from what my client calculated if they used the MLR percentage that was given on their notice?

A. The MLR percentage that was provided on notices does not include state and federal tax adjustments. According to the MLR rebate calculation formula provided by HHS, a certain percentage is deducted for taxes from the original MLR percentage, which impacts the final check amount customers received.

Individual example: In the individual market we are required to meet 80% of premium spent on medical costs and quality programs. If we only reached 77.8%, or 2.2% less than what was required, we would rebate 2.2% minus .09% in state and federal taxes. So the final rebate percentage would be 2.11%.

Group example: In the large group market we are required to meet 85% of premium spent on medical costs and quality programs. If we ended up spending 84.1%, or .9% less than what was required, we would rebate .9% minus .04% in state and federal taxes. So the final rebate percentage would be .86%.

Q. Can you provide the exact calculations you used so I can walk my client(s) through their exact rebate amount?
A. Unfortunately no. The calculations are extremely complicated. However, the data that was reported to the federal government and the amount received is accurate based on the formula provided by HHS of what is required to meet the medical loss ratio requirement.

Q. In what situation would a group receive two rebate checks?
A. As stated by HHS, if the employer group has both HMO and PPO products it is possible that they will receive two rebate checks if we did not meet the minimum MLR requirement for both plans. Rebate checks are being issued at the subgroup level which could also result in multiple checks. Finally, some of our products are underwritten by two different legal entities. This could result in multiple checks being issued.

Q. What information are we making available to members?
A. Under the law, notices will only go out to fully-insured members and employer groups that will be getting a rebate. Also, our member portals will have a comprehensive questions and answers document that members and others can access.

*Only health plans regulated by the Department of Managed Health (DMHC) are eligible for rebates in the state California.