



# Medical loss ratio: Why it's important to you

To help you better understand the medical loss ratio (MLR) rebate provision within the Affordable Care Act (ACA) and how it impacts you, we've put together these frequently asked questions.

## MLR overview

The MLR provision of the ACA encourages health plans to spend most of the premium dollars they collect on healthcare costs. It's a ratio of insurance claims costs to premiums and is expressed as a percentage.

The MLR provision requires health plans to refund excess premiums they receive if they do not spend at least 80% (for fully insured Small Groups and Individual plans) or 85% (for fully insured Large Groups) of the premiums on healthcare services, such as doctors and hospital bills, or activities to enhance healthcare quality, such as efforts to improve patient safety. Insurers can spend no more than 20% (for Individual and Small Groups) or 15% (for Large Groups) of premiums on administrative costs, such as salaries, information technology, and advertising, as well as profits.

MLR requirements apply to fully insured Small and Large Groups and Individual Commercial health plans, including grandfathered plans. They do not apply to self-funded groups or stop loss coverage.

An employer group is considered a Large Group if it had more than 50 eligible employees in the year prior to the MLR reporting year.

Certain states, including California, New York, and Colorado, consider an employer to be a Large Group if it has more than 100 eligible employees.

## Frequently asked questions

Q. Who is eligible for a rebate?

Any fully insured employer group or individual who had an active health insurance policy during the prior calendar year is eligible for a rebate, including employer groups or individuals who started their coverage at any point during the prior plan year.

However, not everyone receives an MLR rebate. For example, if an Anthem insurance health plan spent at least 80% (for Small Groups or Individual plans) or 85% (for Large Groups) of its premium dollars on required healthcare expenditures, no rebate is issued to groups under that Anthem health plan.

Q. What should companies do with the MLR rebate check?

They should cash or deposit the check within 180 days of receiving it; otherwise, the bank will consider it a stale-dated check and won't honor it. The rebate is owed to the employer group policyholder under federal ACA law.

Q. Does the group policyholder have to pay the rebate to its employees if it is an ERISA plan?

If the group health plan is not a governmental health or church plan, it may have fiduciary responsibilities regarding use of the rebate funds under the Employee Retirement Income Security Act (ERISA). Some or all of the rebate may be an asset of the plan, which must be used for the benefit of the employees covered by the policy. Please consult your company's benefit plan legal advisor for more information.

Q. Does the group policyholder have to pay the rebate to its employees if it is not an ERISA plan?

If the employer group health plan is a nonfederal government or church plan, the employer or group contract holder (not the health insurer) must distribute the rebate within 3 months of receiving it by either:

- Reducing premiums for the upcoming year.
- Providing a cash refund to eligible employees covered by the plan.

Please consult your company's benefit plan legal advisor for more information.

Q. Does my company need to pay taxes on the MLR rebate?

Please consult your legal or tax advisor, as situations vary.

Q. Can you provide the exact calculations you used so employer groups can estimate their rebate amount?

Unfortunately, no. The MLR calculations are complicated. However, the calculations are subject to detailed review by Anthem and audit.

Q. Are the rebate amounts based on covered employees (subscribers) or covered members (including dependents) of the plan?

The rebate amounts are based on covered members (including the dependents) of the employer group plan.

Q. Does receiving a rebate mean you'll reduce my premiums in the future?

Receiving this rebate does not directly influence future premiums. Health plan premiums are based on estimated future costs of healthcare services. They're calculated at least 12 to 18 months in advance of when actual healthcare costs occur. Many factors contribute to the premium rates charged to customers, such as:

- The increase or decrease in consumer demand for healthcare services at doctor offices and hospitals.
- Rising medical and prescription drug costs.
- Advances in medicine.

At Anthem, we are committed to helping the healthcare industry identify and implement ways to control costs.

Q. Why can't I calculate my rebate using the MLR percentage provided on the notice in my letter?

The MLR percentage shown on the notice letter does not factor any eligible federal and state taxes which your Anthem insurer is required to use to reduce premiums. In other words, the percentage shown on the notice does not factor eligible health insurer plan state and federal tax adjustments. According to the ACA's MLR rebate calculation formula, a certain percentage from the original MLR percentage is deducted for corporate federal and state taxes, as well as other allowable deductions, which impacts the final rebate amount employers receive. Please contact your representative if you want to obtain help recalculating your rebate. They have an after-tax rebate percentage to assist.

**Group example:** In the Small Group market, we are required to spend 80% of premiums on medical costs and quality improvement programs. If we spend 79.1%, or 0.9% less than the 80% rebate threshold, we would rebate 0.9% of the premiums minus a small percentage related to the health plan's relevant state and federal taxes. So, the final rebate percentage would not equal what is reflected in the Notice Letter.

Q. Why are some employer group policyholders not getting a rebate?

Anthem met or exceeded the MLR thresholds for health plans and policies offered in certain markets, but not in others. In those markets where Anthem didn't meet the thresholds (at least 80% of premiums for Small Groups and Individuals or 85% for Large Groups spent on required healthcare expenditures), we are required to rebate monies to eligible policyholders. In the markets where we did meet the thresholds, we are not required to issue rebates.

Q. Are MEWAs (multiple employer welfare arrangements) eligible for a rebate?

No. MEWAs administered by Anthem as a self-funded plan are not eligible for this rebate. These MEWAs perform a separate MLR rebate calculation.

Q. What do employer group policyholders need to do to become eligible for an MLR rebate from Anthem?

No action is required by policyholders. Anthem calculates the MLR for each of its market segments based on federally mandated ACA requirements. As is federally mandated, Anthem then issues rebates with an accompanying notification.

Q. Why did my company receive multiple checks?

Rebate checks are generated by billing group or case numbers. Some groups have multiple billing group or case numbers that will generate more than one check.

Q. Can you cancel the check and apply the MLR rebate as a reduction to future premiums?

Unfortunately, we cannot cancel the check and apply it to future premiums. However, you can deposit the check and use the funds to pay your next premium bill if you have an ERISA plan.

Q. How long do I have to cash my check after I receive it?

Consistent with most banking rules, checks become invalid after 180 days from the issue date. If you are unable to cash the check within 180 days, please contact your Anthem employer group representative and we can help.

Q. Why are my employees receiving letters about rebates owed to the employer group?

This notification is required by the ACA. The rebates are required to be paid to the employer group — with various limited exceptions — but it's the group's decision to determine how to distribute the rebate. Employers or group plan or contract holders must follow certain rules for distributing the refund.

Q. Will you notify my employees of the amount of my rebate check?

No. The rebate notice sent to your employees who were covered by an Anthem plan will only include the total rebate percentage and amount for an Anthem market (e.g., Virginia small group).

Q. What if my company decides to refund the monies to employees, but an employee no longer works for my company?

You should try to locate the previous employee to distribute their portion of the rebate. You can also choose to apply the refund toward future premiums for current employees.

Q. Why are former employees getting rebate notices when they are no longer enrolled in an employer's plan?

We sent the required notice to employees of employer groups who will receive a rebate. Per the ACA, we are required to send the mailing to all employees enrolled at any point during the prior year, including past employees.

Q. Why were some of my employees not mailed a rebate notice?

We sent the required notice by e-mail to employees who have opted to receive digital communications from Anthem. All other employee rebate notices were mailed.

Q. If an active group has changed its name but hasn't yet changed it in your records, can a check be reissued without the name being changed in Anthem's systems?

Please submit the necessary legal documents for the name change to Anthem so we can update our system. Then we can request to have the check reissued.

Q. What happens if an employer group is acquired, goes out of business, or no longer exists?

If the group is acquired and is no longer able to use its own bank account to cash the rebate check, the group administrator can inform us of the new employer's name. We will then reissue the check upon receipt of the necessary legal documents. However, if the group plans to redistribute the funds to its employees, the funds should only be distributed to the covered employees on the health plan of the acquired company.

Q. Who should I contact if I have any other questions?

If you are an employer group with an Anthem health plan, contact your Anthem employer group representative. If you are a broker, please contact Broker Services.

In California Anthem Blue Cross is the trade name of Blue Cross of California, Inc. Also serving California: Anthem Blue Cross Life and Health Insurance Company. In 11 northeastern counties of New York Anthem Blue Cross is the trade name of Anthem HealthChoice Assurance, Inc., and Anthem HealthChoice HMO, Inc., and Anthem Blue Cross HP is the trade name of Anthem HP, LLC. Independent licensees of the Blue Cross Association. Anthem is a registered trademark of Anthem Insurance Companies, Inc.