



## **New MLR Regulations under Health Reform**

The Department of Health and Human Services (HHS) issued regulations earlier this week regarding the new Medical Loss Ratio (MLR) requirements under the Affordable Care Act.

Insurance carriers are subject to MLR requirements for plan/policy years beginning on or after September 23, 2010. An MLR is the ratio of claims to premiums. The target MLR is 85% for large group policies (covering more than 50 people) and 80% for small group and individual policies. This means that insurance companies are limited to 15% or 20% of premium respectively toward administration and profit and are required to spend 85% and 80% respectively on medical care and quality improvement initiatives. Insurance carriers are required to pay rebates starting in 2012 if their actual MLRs are less than these targets. Note that the MLR requirements do not apply to self-funded plans.

Although the MLR regulations are applicable only to insurance companies (and not plan sponsors), plan sponsors with insured medical plans will certainly want to be aware of these requirements. For example, even though the payment of rebates is a carrier responsibility, the regulations permit carriers to enter into agreements with their group policyholders requiring the policyholder to distribute rebates to employees based on the extent to which the employees actually paid premiums. This process envisions some reporting responsibilities from the group policyholder to the carrier.

The regulations require MLRs to be determined separately for each licensed carrier within a state, and separate calculations are required for each of the carrier's market segments – individual, small group and large group. Carriers are required to allocate administrative expenses across these market segments using a generally accepted accounting method that is expected to yield "the most accurate results." Carriers may aggregate the experience for employers with employees in different states to the state in which the contract is located.

The regulations provide special rules for small carriers and for mini-med and expatriate plans. The regulations also create a process under which states can request an MLR lower than 80% for the individual market to prevent "market destabilization." The first MLR reports (for the 2011 calendar year) must be submitted to HHS by June 1, 2012, and HHS will publish this data. Rebates attributable to the 2011 calendar year, if any, must be paid by August 1, 2012.



In our experience, the majority of our clients with insured medical plans work with carriers whose MLRs will exceed the new targets. This is the case because larger employers typically insure their plans when the premium is comparable to or less than projected self-funded costs. However, the MLR regulations will provide for greater transparency and assurances against excessive insurance carrier profits.

We will review the new MLR regulations in more detail during our health reform update webinar on Thursday, December 2, 2010. Please register at:

<https://www3.gotomeeting.com/register/164750422>

Details regarding the MLR regulations can be found on the HHS website at:

[http://www.hhs.gov/ociio/regulations/medical\\_loss\\_ratio.html](http://www.hhs.gov/ociio/regulations/medical_loss_ratio.html)

As always, please do not hesitate to contact your SBA consultant with any questions.