Medical Loss Ratio: Getting Your Money's Worth on Health Insurance

Thanks to the Affordable Care Act, consumers will receive more value for their premium dollars because insurance companies are required to spend 80-to-85% of premium dollars on medical care and health care quality improvement, rather than on overhead costs. If they don't, the insurance companies will be required to provide a rebate to their customers starting in 2012. This policy is known as the "medical loss ratio" (MLR) provision of the Affordable Care Act.

Medical loss ratios apply to all health insurance plans, including job-based coverage and coverage sold in the individual market. However, insurance plans in the individual market often spend a larger percent of premiums on administrative expenses and non-health related costs than job-based health plans do.

Recognizing the variation in local insurance markets, the Affordable Care Act allows States to request a temporary adjustment in the MLR ratio for up to three years, to avoid disruptions to coverage in the individual market. This flexibility allows consumers to maintain the choices currently available to them in their State while transitioning to a new marketplace where they will have more options for coverage and more affordable health insurance through State-based Health Insurance Exchanges. This is one of many ways the Affordable Care Act is building a bridge from today's often disjointed and dysfunctional markets to a better health care system.

HHS has set up a transparent process for how States can apply for an MLR adjustment and what criteria will be used to determine whether to grant those requests. States must provide information to the Department of Health and Human Services (HHS) showing that requiring insurers in their individual market to spend at least 80 percent of their premiums on medical care and quality improvement may cause one or more insurers to leave the market, reducing access to coverage for consumers. States must also show the number of consumers likely to be affected if an adjustment is not granted and the potential impact on premiums charged, benefits provided, and enrollee cost-sharing. All State application materials are posted on the HHS website.

The Iowa MLR Adjustment

Iowa's Department of Insurance requested an adjustment of the 80 percent MLR to a 60% MLR standard for 2011, 70% for 2012, and 75% for 2013.

Three of Iowa's dominant issuers, Wellmark, Time and American Family –with 88% of Iowa's individual market share- are not expected to be impacted by the 80% MLR standard. Wellmark and American Family both had a 2010 MLR of well above 80% and while Time had a 2010 MLR below 80%, it does not expect to owe rebates in 2011 or beyond. Enrollees in these plans will not be affected by the new 80% MLR standard.

However, the remaining three smaller issuers that would owe rebates in 2011, Golden Rule, Coventry, and American Republic – comprising 5.4% of the market share - have MLRs of 48% to 68%. These three smaller issuers also reported relatively high commissions, validating Iowa's concern that they may have difficulty adjusting their business models to meet an 80% standard as a result of being locked into binding multi-year agent commission and provider contracts. Some or all of these three issuers could be impacted by meeting an 80% standard and could withdraw from the market, potentially leaving roughly 15,000 enrollees without coverage.

At the same time, the information provided in Iowa's application makes it clear that issuers can meet a higher MLR than it requested for 2011, 2012 and 2013.

Of the six issuers expected to owe rebates in 2011, five have MLRs above Iowa's requested 2011 adjustment to 60%, and three of those 5 have MLRs above 67%.

Iowa has an additional 13 issuers that cover between 300 and 1,000 lives each, and thus are not expected to owe rebates in 2011, but may become subject to rebate provisions in 2013 even if they do not grow their business.[1] However, nine have MLRs above 75%, which is well above Iowa's requested 60% for 2011 and 70% for 2012.

For these reasons, Iowa is granted an alternative adjustment of 67% for 2011, 75% for 2012, and 80% thereafter. This approach creates a glide path for compliance with the 80 percent standard and balances the interests of consumers, the State and the issuers in accordance with the principles underlying the MLR provision.