August 1, 2012

8 Overview: Summary of Benefit & Coverage & Uniform Glossary of Insurance Terms

On November 22, 2010, the Department of Health and Human Services released its interim final rule implementing the requirements of the new section 2718 of the Public Health Services Act, added by section 10101 of the Patient Protection and Affordable Care Act (ACA), entitled, "Bringing Down the Cost of Health Care Coverage." This provision is usually referred to as the "medical loss ratio" (or MLR) requirement.

Section 2718 requires health insurers (including grandfathered but not self-insured plans) to report to HHS each year, the percentage of their premium revenue that the insurer spends on:

1. clinical services for enrollees,
2. "activities that improve health care quality," and
3. all other non-claims costs, excluding federal and state taxes and licensing or regulatory fees.

Beginning in 2011, insurers in the individual and small group market must spend at least **80 percent** and insurers in the large group market at least **85 percent** of their premium revenues (excluding federal and state taxes and licensing and regulatory fees) on health care and quality improvement activities. Insurers that fail to do so will have to rebate the difference to their enrollees. States can require higher minimum MLR percentages, but the Department of Health and Human Services (HHS) can also adjust state MLR requirements downward where necessary to prevent destabilization of the individual market.

Part of the MLR provision calls for health insurers to report annually to HHS on the percent of total premium revenue spent on activities that improve health care quality. HHS has worked with the National Association of Insurance Commissioners (NAIC) to establish uniform definitions of activities reported in calculating the MLR, as well as methodologies for the calculation.

Effective Date

The MLR Interim Final Rule was scheduled to go in effect on January 1, 2011. The deadline for insurers to report their annual experience and submit the MLR report to HHS was June 1, 2012. Any potential rebates applicable to 2011 will be paid out August 2012.

MCS Plan

In compliance with ACA, MCS completed the MLR evaluation for the 2011 small and large commercial groups. The MLR obtained surpasses the minimum required by law; thus, no rebates were issued.

References

- 45 CFR Part 147; 75 FR 74864 (December 1, 2010); 76 FR 76574 (December 7, 2011); 77 FR 28791 (May 16, 2012); 77 FR 28788 (May 16, 2012)

- http://www.cciio.cms.gov/programs/marketreforms/mlr/index.html
- http://www.healthcare.gov/