

Medical Loss Ratio Q & A*

What is a medical loss ratio (MLR)?

A “medical loss ratio” (MLR) is the share of premium dollars that health insurers spend on health care, as opposed to administration, marketing, CEO salaries and profits. The Affordable Care Act creates new nationwide minimum standards that will force insurers to report this information – something they’re often not required to do – and to meet certain minimum requirements. Beginning in 2011, health insurance companies serving individuals and small firms must spend at least 80% of premiums on medical care and quality improvement activities. Insurance companies serving larger businesses must spend at least 85%. Health insurers that fail to meet these minimum expense standards will be required to pay consumers a rebate reflecting the difference.

What will regulations do?

Key terms and necessary exceptions are specified during the regulatory process. Defining these terms correctly makes a big difference in how effective the law is in protecting consumers from junk insurance.

How do these rules impact my state law?

Only a handful of states have MLR rules for the health plans regulated by their state. States will continue to enforce laws that are stronger than the new federal minimums (higher MLRs) but cannot go any lower.

What is the role of the National Association of Insurance Commissioners (NAIC) in the MLR regulations?

The NAIC represents the state insurance commissioners. The health reform law tasks the NAIC to write key definitions and recommend to HHS how to calculate the medical loss ratios. The federal Department of Health and Human Services (HHS) must approve the NAIC definitions and methodologies for calculating MLRs before they become official but HHS is likely to heavily rely on the NAIC’s recommendations.

NAIC policies start in **working groups (subgroups)**, where consumer representatives from groups like the American Heart Association and Consumers Union have participated along with insurance commissioners and their staffs. Workgroup recommendations will go to NAIC **committees** in the near future. If approved there, the recommendations will move to the NAIC’s **Executive Committee** and then to a full vote by all insurance commissioners. *The timing for all of these steps is unclear, but the Committees are likely to consider the document within the next month.*

Many consumer concerns have been heard by the working groups and incorporated into their recommendations, but as these issues move forward, insurance company lobbyists will turn up the pressure on insurance commissioners and try to weaken standards. It’s more important than ever for consumers and advocates to weigh in on the process.

*Compiled through a collaboration between consumer representatives on the NAIC.