

# What's a Medical Loss Ratio (MLR)?

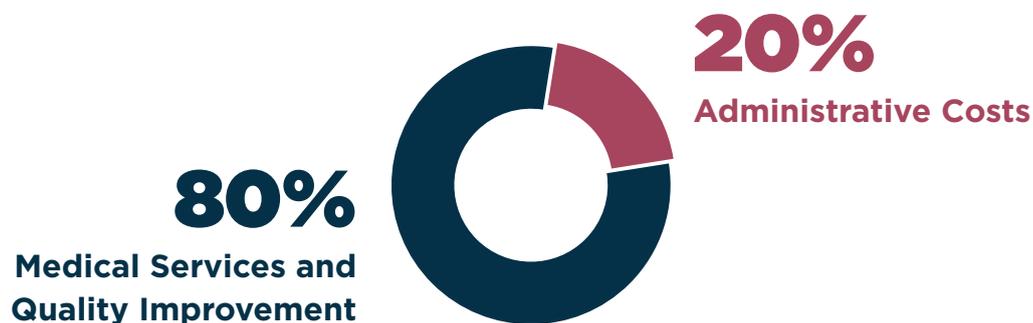
## And what does it have to do with your company?

A major goal of the Affordable Care Act (ACA) was to make health care more transparent and ensure that consumers health get the most value from their health insurance. The law included a number of provisions designed to help, including the Medical Loss Ratio (MLR) requirement.

The Medical Loss Ratio requirement says that health insurance companies have to spend at least 80% of their premium income (excluding taxes and fees) from individual and small group policies and 85% of premiums from large groups on medical claims and health care quality improvements. No more than 20% of premium income (15% for large group) can be used for administration costs (salaries, marketing, etc.) or profit. This “80/20 rule” helps ensure that insurers’ first priority is the health and wellbeing of their members.

### The MLR Requirement

For small group and individual health plans



Massachusetts, however, sets higher standards. For small and individual health plans: 88% of premiums must be spent on medical services and activities to improve health care quality, and no more than 12% of premiums can be spent on administrative cost. For large group plans, the ratio is 85%/15%.

If, at end of the year, a health insurer calculates that they've spent less than the required percentage on medical claims and health care quality improvement measures, then they have to pay a rebate for a portion of the premium cost back to employers or individual policy holders. Employers are required to pass this rebate along to their employees by covering a larger portion of their health care premiums going forward, issuing cash payments, or other means of distributing the rebates back to employees' health benefits.

**In 2019, nearly 9 million people got MLR rebates, either directly from their insurance companies or passed through from their employers, totaling more than \$1.37 billion.<sup>1</sup>**

## How are MLR rebates calculated?

Health insurance companies work hard to accurately predict how much they'll need to spend on medical claims and improvement measures and set premium rates accordingly. But sometimes medical costs end up being lower than predicted.

The goal of insurance is spread risk across a large group of people, and that's how MLR rebates are calculated, too. They're based on the amount an insurer spends on medical claims and quality improvements across their entire block of business in each segment of their market (large group, small group or individual) in a given state. This means that the amount your health plan paid out for your employees'

<sup>1</sup> <https://www.kff.org/private-insurance/issue-brief/data-note-2019-medical-loss-ratio-rebates/>

specific medical claims in a given year doesn't affect whether or not you get a rebate. In fact, your employees could even have higher than usual medical claims in a given year, but if claims are lower than expected on average across the board in your market segment, you would still get a rebate.

## **What are expenses for improving health care quality and delivery?**

As mentioned before, premium payments that health insurers use to fund measures for improving health care quality and delivery count toward the medical cost portion of the loss ratio calculation. These measures include anything that a health plan does improve health care quality and increase the likelihood of desired health outcomes, as long as they're grounded in evidence-based medicine.

This includes any actions an insurer takes to improve patient safety and reduce medical errors, reduce health disparities among specified populations, lower infection and mortality rates, promote health and wellness activities, help patients comply with their medication and care, and more. In order to count as medical costs, improvement activities need to be able to be objectively measured, for verifiable proof of results.

**Tufts Health Plan is committed to ensuring great health outcomes for our members while keeping premium costs affordable. The MLR requirement is one more reason you can feel confident that your employees' wellbeing is our first priority. To learn more, visit: [tuftshealthplan.com/employer](https://tuftshealthplan.com/employer)**