# Medical Loss Ratio Rules: Ensuring Value for Georgia's Health Care Consumers

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Prepared by Georgia Watch and Georgians for a Healthy Future

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GEORGIANS FOR A HEALTHY FUTURE

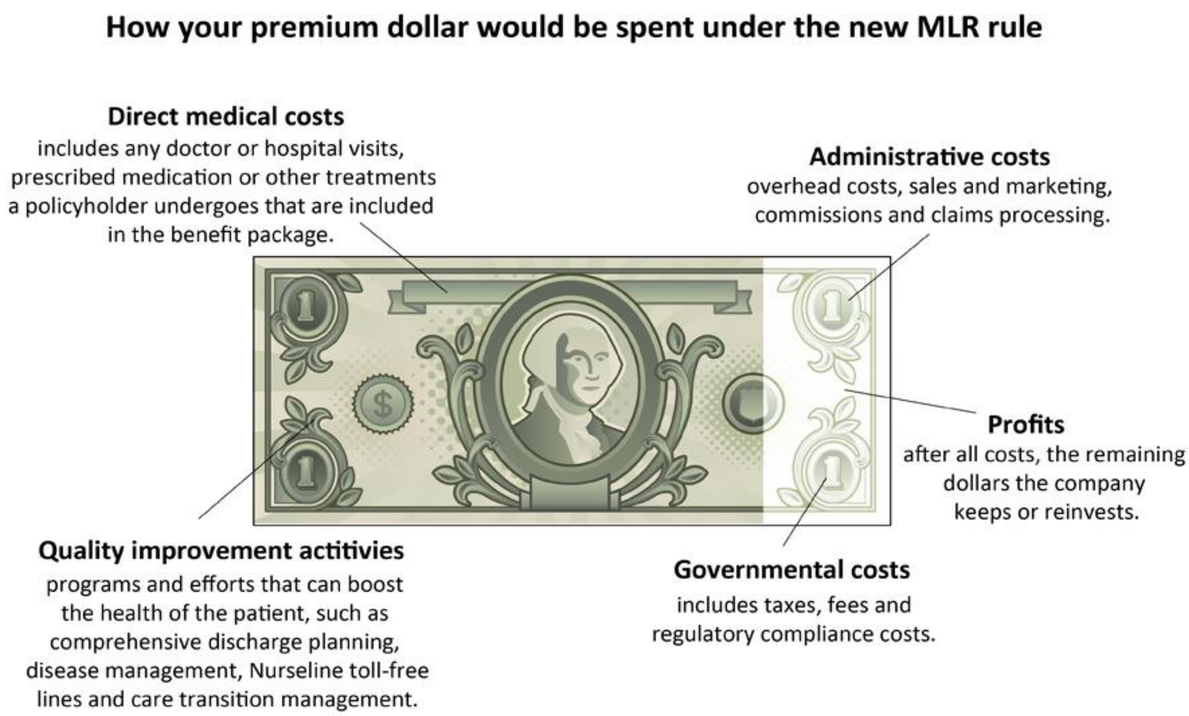
Georgians for a Healthy Future (GHF) is a nonprofit health policy and advocacy organization that provides a voice for Georgia consumers on vital and timely issues. GHF approaches its goals of ensuring access to quality affordable care for all Georgians in three major ways: 1) outreach and public education, 2) building managing and mobilizing coalitions and 3) public policy advocacy.

A program of nonprofit consumer advocacy organization Georgia Watch, the Georgia Health Access Program broadens accessibility to safe, affordable and effective care for vulnerable Georgians by promoting pro-consumer state level regulations and organizational policies, fostering consumer empowerment through education and outreach, and engaging key stakeholders in partnerships meant to boost community health.


Both Georgia Watch and Georgians for a Healthy Future are funded in part by the Healthcare Georgia Foundation. Created in 1999 as an independent, private foundation, the Foundation's mission is to advance the health of all Georgians and to expand access to affordable, quality health care for underserved individuals and communities.

In recent years, Georgia consumers have seen their health insurance premiums skyrocket with few resources to measure how their premium dollars are actually spent or what represents good value in an insurance policy. For example, how much of each premium dollar actually goes towards health care and how much goes toward insurance company expenses like marketing or company profits? This lack of information has made it difficult for consumers to choose a plan based on value and allows some insurers to offer low-value, inferior products that may not provide sufficient access to quality care.

A new provision of the Patient Protection and Affordable Care Act known as medical loss ratio (MLR) addresses this problem and provides greater value for consumers by requiring insurance companies to not only disclose how they spend their policyholders' premium dollars but also dedicate at least 80 percent of those paid premium dollars to direct medical care and quality improvement programs for their customers.[i]




If an insurance company fails to hit this mark, it will have to provide rebates to its consumers to make up for the shortfall. This standard adds a much needed dose of transparency to the health insurance marketplace and holds insurance companies accountable for ensuring that patients receive the medical care they have paid for and deserve.

Georgia's insurance commissioner, however, is requesting leniency on behalf of Georgia's insurance companies to phase in this provision over three years rather than implement it immediately. In this brief, we explain how the new MLR rules will benefit Georgia consumers and why our policymakers should make every effort to implement them as quickly as possible.

### What is Medical Loss Ratio (MLR)?

An MLR is the percentage of premiums that insurance companies spend on medical care for their customers. Insurance companies in Georgia have not historically been required to spend a set amount of premium dollars on actual medical services on behalf of their customers. Under the new rules, insurance companies selling individual plans must spend at least 80 percent of the premiums their customers pay on medical care and quality improvement activities. Insurance companies are free to spend the remaining 20 percent on marketing, profit, or other administrative functions. Taxes and fees are not included in the equation. If insurance companies fail to meet this standard, they must provide customer rebates.

**Year after year, Georgia consumers have watched their health insurance premiums increase more quickly than their incomes but haven't had access to the information necessary to choose the insurance plan that provides the most bang for their buck.**

### How the MLR rules will benefit Georgia's insurance consumers

Starting in 2012, insurance companies operating in Georgia's individual market must meet the 80 percent target or provide rebates to their customers. If the new requirement were implemented today, these insurance companies would have to rebate the nearly 350,000 Georgia customers enrolled in their health plans a total of about $42.6 million, or a little more than $100 per customer, on average. If the adjustment is granted, the total amount rebated would drop to about $8.4 million.

It is also important to keep in mind that the goal behind the rule is to provide an incentive for insurance companies to operate more efficiently and to use customers' premium dollars wisely. If they cannot meet this reasonable standard by improving their operations, then consumers shouldn't have to waste money on low-quality, inefficient products. Instead, consumers should be able to make an informed purchasing decision based on value.

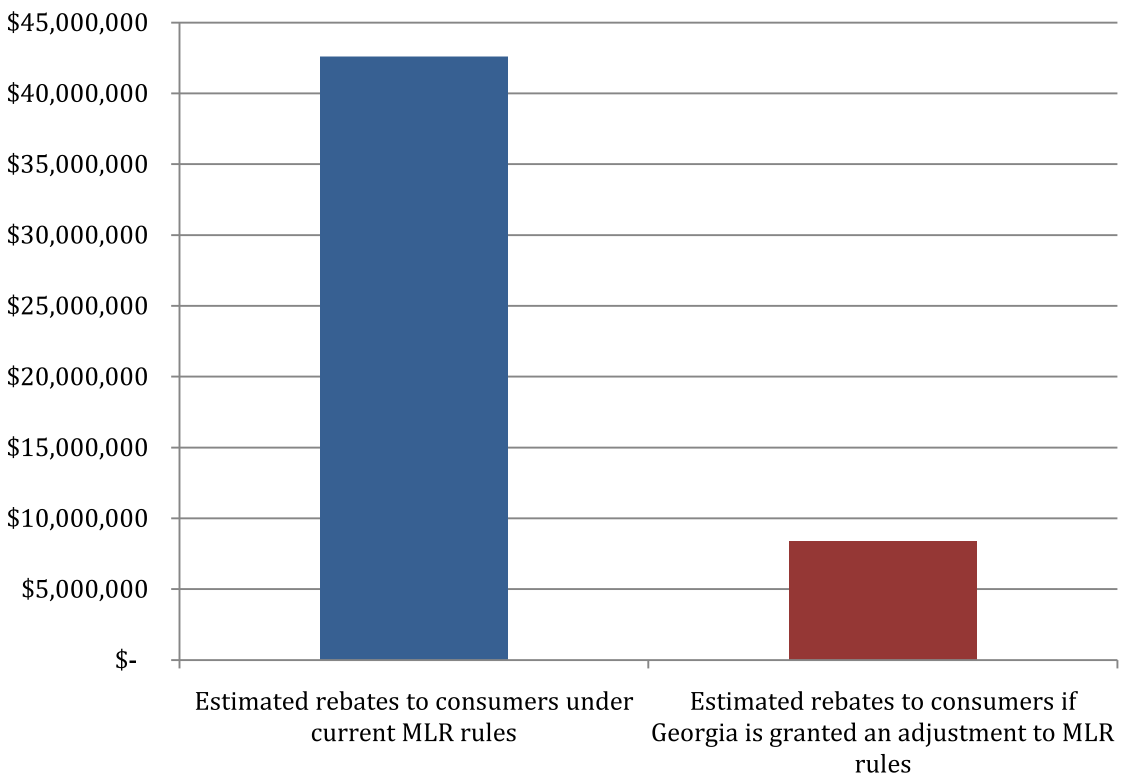
### Implementing the MLR rules in Georgia

In Georgia, 19 insurance companies are licensed to sell individual health policies. These companies range from small regional companies to larger national entities. The state's largest insurance company for individual policyholders is Blue Cross Blue Shield of Georgia, with about 173,000 policyholders throughout the state. The Georgia Office of Insurance and Fire Safety Commissioner licenses and regulates insurance companies in Georgia. Additionally, this office interacts with the federal government on many regulatory issues, including new provisions such as the MLR rules.

While the insurance commissioner has not historically reported information on the MLRs of Georgia insurance companies, they gathered this information and made it publicly available for their adjustment request to the Department of Health and Human Services (HHS). However, the names of the insurance companies have been removed, and we are not able to match a particular insurance company with its MLR.

In 2009, the insurance company with the largest market share of Georgia had an estimated MLR of 77.65, which is fairly close to the 80 percent standard. Still, for every premium dollar that customers paid, more than a fifth was spent on something other than patient care. Several other insurance companies in Georgia have MLRs that are considerably lower, which indicates the majority of the insurance companies in Georgia could operate more efficiently than they are now.

Below is a chart of the estimated rebates all 19 Georgia insurance companies would provide to consumers if they do not increase their ratios under the 80 percent standard and the rebates they would provide to consumers if they do not increase their ratios but operate under the standard proposed in the adjustment application. The rebate figures listed below were provided by the Office of Insurance and Fire Safety Commissioner, and are aggregated for the years 2011, 2012 and 2013 because that is the period for which the insurance commissioner's office is requesting an adjustment.




**Georgia's MLR adjustment request**

The MLR rule was developed after a thorough and thoughtful process headed by the National Association of Insurance Commissioners that considered a wealth of information from insurance companies, insurance regulators and consumers. To ensure that the rules achieve their goal, the HHS built in several exceptions to protect consumers enrolled in plans offered by smaller insurance companies who may experience more variation in how they spend premium dollars from year to year. Insurance companies with less than 1,000 enrollees are exempted entirely from the requirement and insurance companies with up to 75,000 enrollees receive "credibility adjustments," effectively lowering the target MLR they must meet. In most cases, these exceptions should be sufficient to protect consumers.

That said, if there is evidence that immediate implementation of the rules would destabilize the market and result in fewer choices for consumers, a state can apply for an adjustment to the rules for up to three years. Georgia has made such a request, which is currently under consideration by the HHS. If there is concrete evidence that insurance companies will exit the state and leave consumers uninsured, some sort of adjustment may be warranted. However, Georgia's application indicates that no insurance companies have provided formal notice that they will exit the state. Insurance companies may want an adjustment because they are concerned it may eat into their profits but that does not mean that such an adjustment is a good deal for consumers or that those insurance companies cannot alter their business model to comply with the new requirement.

**Conclusion and recommendations**

For Georgia consumers without employer-sponsored health insurance, purchasing individual health insurance can easily prove pricey and confusing. The new MLR rules are designed to spur insurers not only to be more transparent in their spending but to also ensure consumers get the most value for their premium dollars. Georgia's insurance companies should make every effort to meet the new requirement, and the insurance commissioner should make every effort to encourage them to meet it as quickly as possible and enforce it vigorously.

If insurance companies offering low-value, poor quality plans to consumers don't meet the standard, they should be required to rebate their policyholders, and not receive a free pass. On behalf of Georgia's consumers, we urge the HHS to direct Georgia to move as swiftly as possible to provide financial relief and value to our state's hard working consumers by implementing the new MLR rules.

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[i] While a small portion of premium dollars are spent on governmental costs, such as federal and state taxes, regulatory and licensing fees, these costs are not included in the medical loss ratio calculation.