Atlantic Information Services, Inc
Webinar

2012 Medical Loss Ratio Reporting and Rebates

May 23, 2012

Topics

- Overview
- Special Issues in MLR Calculation
- Administration of Rebates
- Other issues

Overview

Medical Loss Ratio

Insurers must meet Medical Loss Ratio

- 80% individual market
- 80% small group market
- 85% large group market

Or rebate the difference

Medical Loss Ratio Formula

Medical Claims plus *Quality Improvement Activities*

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Premiums Less *Taxes and Fees*

Medical Loss Ratio

Quality Improvement Activities

- Case management
- Education and counseling
- Prevention of adverse Rx interactions

Taxes and fees

- Federal Income Taxes (ex-investment taxes), state taxes and assessments (i.e. Premium taxes, Guaranty Fund Assessments)
- Does not include fines or penalties

Aggregation for Medical Loss Ratio

By Legal Entity

- No consolidations permitted

By Market

- Individual market
- Small group market
- Large group market

By State

Exempt Lines of Business

- Medicare Advantage
- Medicaid Managed Care
- Mini-Med (<$250k limit)
- Expatriate Policies

Reporting

NAIC

- Health Care Supplemental Exhibit due April 1 based on December 31st Statement Filing

CMS

- Final Reporting Due June 1 based on 90 day claim run-out

Rebates

Paid to "each enrollee"

- Subscribers & dependents
- Subscribers
- Employers/plan sponsors

By August 1 following year

Special Issues in MLR Calculation

Group Size

State option (thru 2016)

- Small employer < 50
- Large employer 51+

Count *all* employees

- May contrast with State law

Sole Proprietors

Not counted as employee

- Individual market
- May contrast with State law

Spouse not an employee

Associations, Trusts, & MEWAs

Associations & Trusts

- Principal place of business (groups)
- Place of residence (individuals)

MEWAs

- MEWA’s principal place of business

State Adjustments to MLR

Higher thresholds

- Massachusetts
- New Mexico
- New York

Applications for lower thresholds

State	2011	2012	2013
Maine	65%	65%	pending
New Hampshire	72%	75%	80%
Nevada	75%	80%	80%
Kentucky	75%	80%	80%
Georgia	70%	75%	80%
Iowa	67%	75%	80%
North Carolina	75%	80%	80%

State Adjustments to MLR

Applications Denied

- Florida
- North Dakota
- Louisiana
- Delaware
- Texas

Kansas

Indiana

Michigan

Oklahoma

Wisconsin

Vendor Payments

Vendor payments as claims

- Capitation arrangements
- Mail-order pharmacies

Vendor payments as administrative costs

- Separate identifiable charges
- Network development, UM, etc.
- PBM's "lock-in" (vs. "pass-through") pricing

Other issues

ICD-10 conversion

- Up to 0.3% earned premium
- 2012 & 2013 only

Community benefit expenditures

- In lieu of State premium taxes

Administration of Rebates

Amount of Rebate

Formula	Example
Premium paid by/for enrollee	$2,000
Less Taxes & Fees	$150
Equals	$1,850
Times Difference from Standard	80% standard 75% actual 5% rebate
Rebate Amount	$92.50

DeMinimus Amounts

Group Rebates

- Less than $20 or
- Less than $5/subscriber

Individual Rebates

- Less than $5/subscriber

Distribute to other recipients

- Aggregate by market
- Distribute evenly

Form of Rebates

Lump Sum Check

Premium Credit

- First Month's premium due after August 1

Credit or debit card

- Only if premium paid by that card

Form of Rebates

Pre-paid debit card

- Subscriber's name on card
- No expiration date
- No fees—including from another financial inst.
- Convertible to cash/ normal business hours
- Opt-out—obtain check w/i 10 days
- Notice of rights & terms of card

Distribution of Group Rebates

- ERISA Groups
- Non-Federal Gov’t plans
- Church groups
- Groups not located

ERISA Plans

Rebate to “plan” (not sponsor)

- Rebate = plan assets
- Employer—”no interest”
- Plan document may supersede

Rebate to sponsor (employer)

- Rebate may be plan assets
- Sources of premium payments
- Plan document may supersede

ERISA Plans

Plan assets

- Fiduciary duty applies
- Exclusive purpose (participants/plan expenses)

Safest course (not required)

- Proportional rebate—sponsor/participants
- To participants (former/current?)
- Future premiums/plan enhancements

Non-Federal Government Plans

Already directly regulated by CMS

- Rebates must go to premium payer
- Three Methods:
- reduce subscriber premium for ALL plans offered
- reduce subscriber premium for only those subscribers whose policies generated the rebate
- cash refunds to subscribers whose policies generated the rebate

For ease of administration, benefit inures to Plan enrollees at time of payment, not enrollees during the MLR year

Church Groups

Any non-ERISA/non governmental plan

- Must first issue a notice to insurer assuring that the rebate will be used for the benefit of current subscribers using one of the methods prescribed for Non-Federal Governmental Plans
- Otherwise rebates go directly to subscriber

Groups Not Located

Bankruptcy, relocated, other

- Insurer must make "reasonable efforts" to locate employer
- Otherwise rebates due directly to enrollees by August 1st
- Employers share gets distributed to enrollees as well

Individual Rebates

Simplest to administer

- Unlike group rebates, individual policy rebates go to the individual who held the policy during the MLR year
- Cash rebate
- Premium Credit (must be applied to the first month after rebate is due)

Required Notices

With rebate

- To policyholder (group)
- To subscribers (group and individual)
- Delivery- Can be with rebate or separately, but must be by August 1. Must use US Postal Service or electronically if that is past practice.

Required Notices

With rebate

- Includes language regarding:
- Information about the MLR and its purpose
- The applicable standard for the recipient
- The insurer's actual MLR
- The amount of rebate and if a group policy, the employers obligations

Required Notices

Without rebate

- To policyholder (group)
- To subscribers (group and individual)
- Very generic
- Allowed to be delivered with “the first plan document” provided on or after July 1, 2012
- One year only- 2011 MLR rebate year

Required Notices

Potential Issues

- Rebate Notices to ERISA groups say “you will receive a rebate” . But ERISA groups have the option of enhancing future benefits so subscriber will likely find this language misleading
- Language is very technical and deviates from the “readability standards” imposed upon insurers in the ACA
- For “no rebate notices”, many “plan documents” go directly to the employer group and not the subscribers so a mass mailing may be required to comply

Attestation Requirement

CEO and CFO

- Back-up attesters:
- “qualified officers . . . as listed on the State annual filing documents”

Record Retention

Retain for 6+ years

All MLR documents

- Necessary for HHS to verify MLR filings

Including

- Books & records for compiling reports & rebates
- Evidence of accounting procedures/practices

Other Issues

Other issues

Tax implications

- To Issuer:
- Rebates are Return Premium
- Year in which insurer can take deduction is still an open issue

Other issues

Tax implications

- <u>To Rebate Recipients:</u>
- Individuals- Taxable if they took a deduction on 1040 for premiums paid
- Group rebates- If premium paid in after tax dollars, generally not subject to income or payroll tax. If premium was paid in pre-tax dollars (i.e. cafeteria type plans) rebates will generally be taxable.

Other issues

Interaction with 3 R's

- Risk Adjustment- Protection against adverse selection. Revenue neutral. Timing problems with MLR rebate calendar
- Reinsurance- State Run program that will be funded by per capita charges to both Insurers and ASO employer groups. Covers high claims. Three year life (2014-2016)
- Risk corridors (Individual & Small Group) - 97% - 103% of pricing MLR's. Three year life (2014-2016)

Other issues

Data required from employer group

- Group Size- Insurers know the number of subscribers enrolled, but not, in most cases, the number of employees. Will need to gather this information to properly classify to Large Group/Small Group/Individual
- Plan Classification- Will need to provide whether ERISA/Non Federal Governmental/Church
- Verification of Tax Information (Tax-ID, Name on file with IRS) for 1099 reporting

QUESTIONS

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