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Our job is to design and implement a program workflow around your goals that leverage our technology and resources to save your firm time and money.

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We would welcome the opportunity to work with your organization from plan conception through final implementation.

The Patient Protection and Affordable Care Act (PPACA) Medical Loss Ratios for Employer Groups & Self-funding

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The Patient Protection and Affordable Care Act (hereinafter PPACA or the Act) provision under §1001, requires insurance companies to spend at least 80% of the premium dollars they collect on healthcare expenses and improving quality of healthcare. This is called the 80/20 rule or Medical Loss Ratio (MLR). The balance of premiums in excess of 20% that are used to pay administration expenses are to be refunded to the plan participants based upon each plan participant's percentage of premium contribution (United States Congress, 2010).¹

Many sources indicated that the minimum loss ratios depicted in the Act could further limit the number of insurers in a specific insurance market. In fact, a study from American Medical Association (AMA) stated that only one or two health insurers offering fully-insured health plans dominate many health insurance markets in the United States. The research also revealed that in 48 percent of the metropolitan areas, at least once insurer had 50 percent or more of the markets' share (Mills, 2011).²

According to testimony provided by Edmund F Haislmaier to the United States House of Representatives on May 18, 2012, minimum loss ratios will cause more insurers to exit the health insurance market. He further stated, "the minimum loss ratio regulation is likely to not only spur increased consolidation in the health insurance industry, but to also drive that consolidation toward a market dominated by a few, very large, for-profit insurers" (Haislmaier, 2012, p. 5).³ It is a reasonable assumption to expect fewer choices for employers who purchase traditional health insurance in the future.

Self-Insured Health Plans are exempt from the Medical Loss Ratio provision

On April 20, 2012, the Insurance Standards Bulletin Series from Centers for Medicare & Medicaid Services published issues related to MLR regulations for clarification. It stated that "A self-funded plan (sometimes referred to as a self-insured plan) is not a health insurance issuer, as defined by §2791(b)(2) of the PHS Act, and thus is not subject to MLR requirements. It does not matter if the self-funded plan is subject to the Employee Retirement Income Security Act of 1974 (ERISA) or if it is a non-ERISA plan" (Cohen, 2012, p. 2).⁴

Instead of purchasing a fully-insured plan with higher administrative fees and added regulations, a self-funded health plan with proper reinsurance to mitigate large claims can help employer(s) create a high quality health program, and build adequate reserves to meet the future needs of their employees' healthcare. In fact, consistent with Aon Hewitt 2011 Health Insurance Trend Driver Survey⁵, self-funded health programs tend to rise less dramatically than fully insured plans over time. Kaiser Family Foundation also published a report, which reflects that fully-insured health insurance plan premium adjustments increase at a higher pace than the self-insured plans (2011).⁶

Since self-insured health plans are exempt from many provisions under PPACA, and the pace of increases are clearly lower over time, a self-funded health plan (with proper reinsurance) becomes a vital option to consider in the post-PPACA healthcare economy.

¹ H.R. 3590: The Patient Protection and Affordable Care Act. (U.S. Congress, 2010).

² New AMA study finds anti-competitive conditions exist in 4 of 5 U.S. health insurance markets. (Mills, 2011).

³ Congressional Testimony: Health care consolidation and competition after PPACA. (Haislmaier, 2012).

⁴ Department of Health & Human Services: Centers for Medicare Services: Insurance Standards Bulletin Series – CCHIO technical guidance: Questions and answers regarding the medical loss ratio regulation. (Cohen, 2012).

⁵ 2011 Health insurance trend driver survey (Hewitt, A. 2011).

⁶ Employer health benefits: The Kaiser Family Foundation and Health research & educational trust: Annual Survey (The Kaiser Foundation and HRET, 2011).