Consumer Alerts & Tips

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Medical Loss Ratio (MLR) and Rebates

What is a medical loss ratio?

In general, a medical loss ratio (or MLR) is the amount of health insurance premiums that an insurer spends on health care and activities to improve health care quality. It is expressed as a percentage: for example, an MLR of 80% means 80 cents out of every premium dollar the plan receives are spent on health care or quality improvement, with the other dollars spent on overhead, profits, and administrative costs.

Why is the federal medical loss ratio important?

The health care reform law, called the Affordable Care Act, features a number of tools to help make health insurance more affordable. The medical loss ratio is one way the law makes sure consumers get better value for their health care dollars.

What medical loss ratio do plans have to meet?

Under the Affordable Care Act, an insurer that offers health care coverage to individuals or small groups (50 or fewer employees) must meet an 80% medical loss ratio. This means that these insurers must spend at least 80% of annual premiums they take in on health care costs (or activities that improve health care quality) as opposed to administrative costs and profits, including executive salaries, overhead, and marketing.

An insurer that offers coverage in the large group (51 or more employees) market must meet an 85% MLR, by spending at least 85% of earned premiums on health care costs or quality improvement.

How can I tell what my insurer spent on health care for this year?

Beginning in 2011, each insurer must submit a report each year to the Department of Health and Human Services (HHS) showing what the insurer spent on health care and activities that improve care in the past year. Each year's report is due by June 1 of the following year. For example, an insurer must submit its yearly report for 2011 by June 1, 2012. HHS will post these reports on Healthcare.gov.

Will I receive any money back from my health insurer?

If you have an individual policy, you will get back some of the premium you paid if your insurer does not meet its MLR for the year. This is called a rebate. A rebate may be a credit toward your next premium payment if you still have the same health insurer, or it may be money refunded to you. This applies to your health care coverage beginning January 1, 2011. Each year's rebates must be provided to enrollees by August 1 of the following year. For example, any rebates based upon the insurer's MLR in 2011 must be provided by August 1, 2012.

How will I know if my insurer owes me a rebate?

Your insurer must provide you with a notice by August 1 even if you are not owed a rebate. For example, an insurer that owes rebates for 2011 must provide rebate notices and rebates by August 1, 2012.

To view which carriers are required to provide rebates for 2012:

http://cciio.cms.gov/resources/files/mlr-issuer-rebates-20120710.pdf

For more information call the Arkansas Insurance Department's Consumer Services Division at 501-371-2640 or 1-800-852-5494.