What Is the Medical Loss Ratio?

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California Health Care Foundation

Background

Prior to the Affordable Care Act (ACA), many insurance companies were spending a substantial portion of premium dollars on administrative costs and profits. To ensure that enrollees receive value for their premiums, the ACA established minimum medical loss ratio (MLR) standards, which took effect in 2011. The Department of Health and Human Services (HHS), which implemented the MLR, enforces these standards.

What Is a Medical Loss Ratio?

The medical loss ratio is the percent of premium that insurers spend on medical care and quality improvement activities. For example, if an insurer receives $100 million in premiums and spends $80 million paying enrollee medical claims and improving health care quality, the medical loss ratio is 80% ($80 million/$100 million).

The MLR minimum standard for spending on medical care and quality improvement activities is 80% for insurers in the individual and small group markets and 85% for insurers in the large group market. Insurers not meeting the MLR standard must pay rebates to their enrollees.

How Will the MLR Standards Help Consumers?

The MLR rules are intended to hold insurance companies accountable and increase value for consumers by:

- **Providing transparency.** Insurance companies must publicly report how premium dollars are spent.
- **Ensuring value for the premium dollar.** For insurers in the individual and small group markets, no more than 20% of premium dollars may be spent on administrative costs and profits, including executive salaries, overhead, and marketing; in the large group market, no more than 15% may be spent.
- **Providing rebates.** Insurance companies not meeting the MLR standard must provide rebates to their enrollees. The rebate may be provided directly to the enrollee or indirectly through their employer. Rebates must be proportional to the premium amount paid.

MLR Reporting Requirements

HHS has responsibility for overseeing MLR standards and requirements and carries out these duties through its Center for Consumer Information and Insurance Oversight (CCIIO). Their standardized MLR reports determine whether rebates are owed.

Insurers are required to report their MLR data to the HHS annually for a calendar year period, January through December, and must file this information by June 1 of the following year. A MLR report must be filed for each state in which business is conducted. Insurers with operations in multiple states must also file a grand total report. Information must be provided for each market segment (individual, small group, and large group). The reports are available on the CMS website (see links in the Online Resources section).

Information reported by market includes:

- Total earned premiums
- Total dollars paid in claims for clinical services
- Total spending on activities to improve quality
- Total spending on all other non-claim costs, excluding federal and state taxes and fees
- Enrollment (life years, member months, and year end)

Penalties for reporting and rebate violations are per entity, per day, per individual affected by the violation.

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Glossary

Credibility Adjustment. Using a set formula, this adjustment is added to the MLR to offset the volatility inherent in small pools of experience. Credibility adjustments are applied when the number of life years in a market is at least 1,000, but fewer than 75,000.

Credible Experience

- **Fully Credible.** 75,000 or more life years for a market. No credibility adjustment is made.
- **Non-Credible.** Insurers with fewer than 1,000 life years lack sufficient experience to calculate a meaningful or reliable MLR. The insurer is not required to provide rebates.
- **Partially Credible.** Insurers with at least 1,000 but fewer than 75,000 life years in a market. The insurer receives a credibility adjustment.

Covered Lives. The number of enrollees as of December 31.

Issuer. An insurance company, insurance service, or insurance organization (including an HMO) that is required to be licensed to engage in the business of insurance in a state and that is subject to state law that regulates insurance.

Life Years. The average number of enrollees in a year, computed as member months/12.
Note that "life years to determine credibility" may be different, as multiple years can be combined to reach the credibility threshold needed for computing a rebate.

Market Sector. A business line of insurance, e.g., individual, small group, and large group are the three main commercial market sectors.

MLR Reporting Year. January to December of the year reported.

Quality Improvement Activities. A comprehensive set of activities that allow for future innovations. These activities count toward the 80% or 85% standard and must:

- Be grounded in evidence-based practices
- Take into account the specific needs of the patients
- Be designed to increase the likelihood of desired health outcomes in ways that can be objectively measured.

About This Series

The California Health Care Almanac is an online clearinghouse for data and analysis examining the state's health care system. It focuses on issues of quality, affordability, insurance coverage and the uninsured, and the financial health of the system with the goal of supporting thoughtful planning and effective decisionmaking. Learn more at **www.chcf.org/almanac**.

For information on MLR report data, see the companion piece, *How to Use the California Medical Loss Ratio Database*, available at www.chcf.org.

Online Resources

CMS, CCIIO

- Medical Loss Ratio Data and System Resources, including public use files
  (raw data submitted by carriers; includes data dictionary)
- MLR Refunds by State and Market, 2012–17
- List of Health Insurers Owing Refunds, 2012–17

www.cms.gov/cciio/resources

MLR Search Tool
(allows search for specific filings by state and company name)
www.cms.gov/apps/mlr

Medical Loss Ratio: Getting Your Money's Worth on Health Insurance
www.cms.gov/cciio/resources

CCIIO Instructions for MLR Filers, 2012–17
www.cms.gov/cciio/resources/forms-reports-and-other-resources

Medical Loss Ratio Regulations and Guidance
www.cms.gov/cciio/resources

Federal Definitions Relating to Health Insurance Coverage (45 CFR 144.103)
www.ecfr.gov