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Insurance Regulation

2010 Data Show Small Group, Individual Health Plans Would Have to Make Rebates

Twenty-seven percent of small group health insurance plans and 46 percent of individual plans surveyed would have potential exposure to rebates if they do not change their spending patterns in 2011, according to a preliminary survey released May 2 by HealthScape Advisors LLC.

The review of 2010 spending data for health plans operated by approximately 30 large health insurance companies also found that adjustments made for taxes helped insurers significantly, but adjustments for quality improvement expenses had little effect.

The preliminary findings of both not-for-profit and for-profit plans, which were reported on a state-by-state basis, found that the average "medical loss ratio" for small group plans was 83.08 percent, while the average ratio for individual plans was 80.24 percent and the average for large group plans was 89.77 percent. Only 8 percent of the large group plans examined in the survey would have potential exposure to rebates.

The individual market is significantly smaller than the small group market, and both markets are much smaller than the large group market, John Steele, managing director of HealthScape Advisors, told BNA in a telephone interview. The survey is based on data that most health insurers were required to file April 1 on a statewide basis.

HealthScape Advisors is a health care management consulting firm based in Chicago.

The Patient Protection and Affordable Care Act requires individual and small group health plans to spend at least 80 percent of premium revenues on medical claims or quality improvements, and large group plans to spend at least 85 percent. Plans that do not meet the spending requirements must refund the difference to policyholders beginning in 2012. While the 2012 rebates are based on 2011 ratios, insurers were required to begin reporting their medical loss ratios for 2010 by April 1, and some received extensions until May 1, HealthScape Advisors manager Alexis Levy told BNA.

First Findings to Include New Regulations

HealthScape Advisors said in a release that its findings are the first to include adjustments made to the medical loss ratio under a regulation issued in November 2010 by the Department of Health and Human Services (*see previous article*). Medical loss ratio measurements previously used by some states simply divided medical claims by premium revenues and did not require insurers to issue rebates, Levy said.

In addition to requiring rebates, PPACA required that the ratio include quality improvement expenses along with medical claims, and the HHS regulation allowed insurers to exclude federal and state taxes as well as licensing and regulatory fees. Those two provisions make it easier for insurers to meet the loss ratio requirement and less likely that they will have to pay rebates.

However, nine states and Guam have applied for adjustments from the loss ratio regulation for individual plans on the basis that it would destabilize their markets. So far, only Maine has been granted permission to adjust its individual plan ratio to 65 percent, an adjustment that will be reviewed in 2013 (*see previous article*).

In 2014, the 80 percent ratio for individual plans will be applied in Maine, as major market reforms, such as guaranteed issue of plans to people with pre-existing medical conditions and the creation of state health insurance exchange markets for individual and small group plans, will start under PPACA.

Quality Improvements Had Little Impact

The HealthScape Advisors survey found that allowing quality improvements to be included along with medical claims in the ratio boosted plans' loss ratios by an average of only 0.65 percent, while allowing plans to exclude taxes from the ratio resulted in an average increase of 2.18 percent in the ratios. Without the exclusion of taxes, the loss ratio for the average individual plan would have been below the required 80 percent, the level at which rebates are triggered.

In dollar terms, HealthScape Advisors reported average expenditures were \$2.31 per member per month for quality improvements. That included \$1.08 for improving health outcomes, 39 cents for health information technology expenses that were considered to improve quality, 39 cents for wellness and health promotion activities, 25 cents to prevent hospital readmissions, and 20 cents for patient safety and reducing medical errors.

HealthScape Advisors' estimate of the impact of quality improvement expenses was well below HHS's estimates. In its interim final regulation, HHS estimated that allowing quality improvements to be added to medical claims would raise the ratio for individual plans by an average of 3 percentage points, while excluding taxes was estimated to add about

3.6 percentage points.

HealthScape Advisors also noted that the "lack of expense reporting" for quality improvements was in contrast to "highly publicized and scrutinized quality improvement categories" that were debated when the regulation was issued. Health insurers had argued that the regulation should include more quality improvement expenses, such as those for fraud prevention. In its comment letter on the interim final rule, America's Health Insurance Plans charged that the regulation "threatens innovation in quality and in the design of benefit plans and delivery system payment models." AHIP represents most of the health insurance market, about 1,300 health insurers covering 200 million Americans.

Steele told BNA that the ratios are likely to change in 2011, which is the first year on which rebates will be based. "I think that they've moderated some of the premium increases they were putting in," he said of health insurers. "I don't think 2011 is going to look just like 2010."

In addition to moderating premium increases, quality improvement expenses "will increase in 2011 as people put more focus and rigor into the accounting of it," Steele predicted. "People reported zero [quality improvement expenses] for certain categories," he said. "They really treated it more like a dry run. I think that some of these numbers will increase for a variety of reasons."

By Sara Hansard

HealthScape Advisors' preliminary survey on the medical loss ratio is available at http://gallery.mailchimp.com/351e723f2128c046762ac2dcf/files/HSA_MLR_Benchmarking_Quick_Sheet.2.pdf. Information on state requests for medical loss ratio adjustments is available at <http://cciio.cms.gov/programs/marketreforms/mlr/index.html>.

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