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U.S. CONSUMERS WOULD HAVE RECEIVED NEARLY $2 BILLION IN HEALTH INSURANCE REBATES IF PROTECTIONS UNDER THE AFFORDABLE CARE ACT HAD TAKEN EFFECT IN 2010

State-By-State Analysis: Medical Loss Ratio Limits in the Health Reform Law Likely To Deliver Cost Savings to Consumers Across the Nation Via Rebates or Reduced Premiums

April 5, 2012, New York, NY—Consumers nationwide would have received an estimated $2 billion in rebates from health insurers if the new medical loss ratio (MLR) rules enacted as part of the Affordable Care Act had been in effect in 2010, according to a new study from The Commonwealth Fund. The MLR rules, which went into effect in 2011, aim to control private insurance costs for consumers and government by requiring a minimum percentage of premium dollars to be spent on medical care and health care quality improvement, as opposed to administrative costs and corporate profits. Insurers must meet a minimum MLR of 80 percent in the individual and small-group markets, and 85 percent in the large group market, and issue rebates if they do not.

Almost $1 billion in rebates would have been issued to about 5.3 million people who receive coverage through the individual market, or 53 percent of all those with individual coverage nationwide, if the MLR rule had been in effect a year earlier, in 2010. Another $1 billion would have gone to about 10 million people with policies in the small- and large-group markets. About one-quarter (23%) of privately insured consumers in all markets would have received rebates.

In the report, *Estimating the Impact of the Medical Loss Ratio Rule: A State-by-State Analysis*, Mark Hall of Wake Forest University and Michael McCue of Virginia Commonwealth University estimate how much consumers in each state would have received in total rebates, and the number of insurers that would have been required to give rebates if the rule had applied in 2010. People with private insurance in Texas would have received the most, with $255 million in rebates owed by 22 insurers, going to 39 percent of policy holders. Florida consumers would have received the second highest amount, with total rebates of $202 million owed by 11 insurers going to nearly half (47%) of those with private coverage. Individual rebates would likely have ranged from $100 to $300.

The estimates offer a prediction of what consumers may expect to see in August of this year when insurers are required to issue rebates to 2011 policy holders if the insurers do not meet the new MLR thresholds, which took effect January 1, 2011. According to the study, insurers will either be motivated to reduce rates or expand medical coverage to avoid rebates, or they will have to issue them.

"Consumers can expect to see some relief from high premium costs beginning this year, either in the form of rebates or a reduction in their premiums as insurers lower rates to meet the medical loss ratio minimums," said Commonwealth Fund Vice President Sara Collins. "Cutting down on administrative and other non-medical costs will lower premiums and help make health insurance more affordable for all."

Highlights from the report:

- States with a high number of insurers below the MLR minimum and large market share would have the highest total estimated rebates owed to consumers. Total estimated annual rebates for the top rebate states would have been: Texas ($255 million); Florida ($202 million); Virginia ($128 million); Illinois ($112 million); and Maryland ($109 million).

- For-profit insurance companies are more likely to fall below the MLR limits and owe rebates to their customers than non- profit insurers, according to the estimates.

- Provider-sponsored health plans are substantially less likely than other insurers to owe rebates. Provider-sponsored insurers may be more inclined to favor provider incentives over corporate profits.

- A greater proportion of consumers purchasing insurance individually would have received rebates versus those covered by small- (under 50 employees) or large-group policies. If the MLR rule had been in effect in 2010, rebates would have gone out to 53 percent of members in the individual market, 24 percent of members in the small group market, 15 percent in the large group market, and 23 percent of privately insured consumers in all markets.

Individual Market Waivers

States may request a waiver from the Department of Health and Human Services if they can show that complying with the 80 percent MLR would force too many insurers to exit the individual market, leaving members with fewer insurance options. Seven states have been granted a waiver, out of 17 that have applied, with allowable MLRs ranging from 65 percent to 75 percent. The authors used these waivered levels to calculate the expected rebates in those particular states as well.

Looking Ahead

It is almost certain that the MLR rule will produce different results in 2011 and future years, as insurers take steps to reduce their premiums to conform to the new requirements. This may include reducing administrative costs, increasing spending related to improving quality of care, or accepting lower profit margins. Even if rebates dwindle or cease entirely, the MLR rule will have significantly improved the efficiency of health insurance operations, lowering overall costs to consumers, the authors say.

"The Affordable Care Act sets rules for insurers to ensure that consumers are not bearing the burden of unreasonably high administrative and overhead costs," said Commonwealth Fund President Karen Davis. "Consumers will potentially see immediate relief through cash rebates, and will realize better value in the long term, with more of their premium dollars directed to medical care."

The report will be available on The Commonwealth Fund Web site on April 5, 2012 at: http://www.commonwealthfund.org/Publications/Issue-Briefs/2012/Apr/Estimating-Rebates.aspx.

The Commonwealth Fund is a private foundation supporting independent research on health policy reform and a high performance health system.