

**Frequently Asked Questions for  
Medical Loss Ratio  
July 17, 2013**

**[Frequently Asked Questions for June 1 MLR Report](#)**

**What information did Blue Shield report to the Department of Health and Human Services on June 1?**

The report sent to the Department of Health and Human Services (HHS) contained the data that Blue Shield used to calculate the medical loss ratio (MLR) for our health plans and a calculation of whether we met the MLR requirements for our membership segments.

**The filing stated that certain Blue Shield Large Group, Small Business and Individual and Family plans did not meet the MLR thresholds and members of those plans will be receiving a rebate. What does this mean?**

Blue Shield did not meet the MLR thresholds for

- Large group plans (51 or more employees) regulated by the California Department of Insurance (DOI). The MLR threshold for this market segment is 85%. Blue Shield reported an MLR of 84.8%.
- Small business plans (businesses with 50 or fewer employees) regulated by the California Department of Managed Health Care (DMHC). The MLR threshold for this market segment is 80%. Blue Shield reported an MLR of 76.6%.
- Individual and Family plans regulated by the California Department of Insurance (DOI). The MLR threshold for this market segment is 80%. Blue Shield reported an MLR of 78.0%.

Large Group, Small Business and Individual and Family policy holders who are owed a rebate will receive a notification and rebate check by August 1, 2013.

**Why are other employer groups and Individual and Family subscribers not getting a rebate?**

Blue Shield met or exceeded the MLR thresholds for our other employer group and Individual and Family plans, which means that the members in these plans are receiving the required value for their healthcare dollars.



### **How will eligible subscribers and policy holders be notified that they are getting a rebate?**

Blue Shield will send a notification letter and rebate check to the Large group and Small business policy holders (employers) and Individual and Family subscribers who are eligible to receive a rebate by August 1, 2013.

### **How will rebates be distributed to Large and Small Business employees?**

Eligible Large groups and Small businesses will receive a MLR rebate check from Blue Shield. It will be the responsibility of the group to distribute the rebate to its employees according to the [distribution rules established by the Department of Labor \(DOL\)](#).

### **What are some of the ways rebates can be distributed to Large and Small Business employees?**

Examples of ways that Large and Small Business policy holders may distribute part or all of the refund include:

- Reducing premium for the upcoming year; or
- Providing a cash refund to employees or subscribers that were covered by the health insurance on which the refund is based.

Note: These are only examples of how employers can distribute MLR rebates. Employers should consult their own legal counsel or tax professional for guidance.

### **Is the rebate amount based on how much premium the policyholder/subscriber paid?**

Yes.

### **Does Blue Shield know which specific employers and Individual and Family subscribers are getting a rebate, and the amount of their rebates?**

A total of \$399,933 will be returned to 2,685 Large Group policyholders who were enrolled in the Blue Shield Life plans that did not meet the MLR threshold. The average rebate amount per Large Group policyholder is about \$149.

A total of \$24.5 million will be returned to 29,232 Small Business policyholders who were enrolled in the Blue Shield plans that did not meet the MLR threshold. The average rebate amount per Small Business policyholder is about \$827.

A total of \$13.3 million will be returned to 226,034 Individual and Family plan subscribers who were enrolled in the Blue Shield Life plans that did not meet the MLR threshold. The average rebate amount per subscriber is about \$59.



**What do subscribers and employers need to do to qualify for a rebate from Blue Shield or to claim a rebate that is owed?**

Blue Shield calculates the MLR for each of our market segments based on requirements provided by HHS. If subscribers or employers in a certain market segment are owed a rebate, they do not need to take any action to claim it. They will be notified by Blue Shield per the HHS requirements and a rebate check will be sent to them.

**Last year employer groups and subscribers who did not get a rebate were informed of their status by letter or through their *Evidence of Coverage and Disclosure Form*. Will that process happen again this year?**

No. HHS required only that employer groups and subscribers be notified that they would not receive a rebate during the first year of MLR implementation. These notifications will no longer be sent.

**Is the rebate considered income/profit for the subscriber and policy holder?**

Under certain circumstances, the rebates may be taxable to individuals and employer groups. They would need to consult a tax professional for more information.

**Is a subscriber or employer who cancelled mid-year 2012 still eligible for a rebate if their plan qualified?**

Yes. A subscriber or employer only needs to be active at any point in time during 2012 to receive a rebate in 2013.

**If an Individual plan member or employer group made a plan change during the MLR plan year which resulted in their being on a plan that did not meet the MLR for a portion of the year, how will their rebate be affected?**

The Individual or employer group will receive a pro-rated rebate for the amount of time they were on the plan that did not meet the MLR.

**What language is included when Blue Shield mails rebate checks and notifications to eligible clients/members?**

The mailing will include the following HHS mandated language:

***Large Group Clients***

"The Medical Loss Ratio rule is calculated on a State by State basis. In your State, Blue Shield of California Life & Health Insurance Company did not meet the 85/15 standard. In 2012, Blue Shield of California Life & Health Insurance Company spent only 84.8% of a total of \$340,284,511 in premium dollars on health care and activities to improve health care quality. Since it missed the 85 percent target by 0.2% of premium it receives, Blue Shield of California Life



& Health Insurance Company must refund 0.2% of the total health insurance premiums paid by the employer and employees in your group health plan. We must send this refund to your employer by August 1, 2013. Employers or group policyholders must follow certain rules for distributing the refund to you."

### ***Small Business Clients***

"The Medical Loss Ratio rule is calculated on a State by State basis. In your State, Blue Shield of California did not meet the 80/20 standard. In 2012, Blue Shield of California spent only 76.6% of a total of \$719,915,972 in premium dollars on health care and activities to improve health care quality. Since it missed the 80 percent target by 3.4% of premium it received, Blue Shield of California must refund 3.4% of the total health insurance premiums paid by the employer and employees in your group health plan. We must send this refund to your employer by August 1, 2013. Employers or group policyholders must follow certain rules for distributing the refund to you."

### ***For your Individual and Family Plan Members***

"The Medical Loss Ratio rule is calculated on a State by State basis. In your State, Blue Shield of California Life & Health Insurance Company did not meet the Medical Loss Ratio standard. In 2012, Blue Shield of California Life & Health Insurance Company spent only 78% of a total of \$666,394,138 in premium dollars on health care and activities to improve health care quality. Since it missed the 80 percent target by 2% of premiums it received, Blue Shield of California Life & Health Insurance Company must refund 2% percent of your health insurance premiums. We are required to provide this refund to you by August 1, 2013."

### **Blue Shield of California recently increased premium rates for certain market segments this year. However, Blue Shield is now required to pay premium rebates. Are these events related?**

No. They are not related. Health plan premiums are based on estimated future costs of healthcare while the MLR is based on the previous year's actual results.

Estimated future costs and actual expenses differ in every industry, especially health care. Insurers will raise premiums when they anticipate an increase in medical costs or utilization in the upcoming year.

### **How does Blue Shield's 2% Pledge relate to MLR?**

Blue Shield's pledge to limit profits to 2% of revenue and return the excess profits to consumers is not related to MLR. MLR is a federal health reform mandate, while the 2% Pledge is an internal program initiated by Blue Shield.

## General Frequently Asked Questions

### **What is the Medical Loss Ratio mandate?**

Under the Affordable Care Act, health carriers are required to spend a minimum percentage of premium revenue on medical expenses. The percentage of premium spent on medical expenses is called the Medical Loss Ratio (MLR).

### **What are the health reform requirements for Medical Loss Ratio?**

For individuals and small business health plans – health insurers must spend no less than 80% of premium revenue on medical expenses. For large groups – insurers must spend no less than 85% of premium revenue on medical expenses.

### **Which plans and lines of business are subject to MLR?**

The MLR reporting and rebate requirements apply to all comprehensive health coverage, group and individual (IFP), underwritten by Blue Shield—including grandfathered plans.

### **Does MLR apply to self-funded (ASO) groups?**

The MLR requirements of health reform do not apply to self-funded (ASO or ASC) business.

### **Does MLR apply to Medicare Supplemental (Med Supp) plans?**

The MLR requirements of health reform do not apply to Medicare Supplemental plans.

### **What if Blue Shield does not meet the MLR thresholds?**

If carriers do not meet the required MLR for a calendar year, they will be required to pay rebates to employers and individuals by August 1<sup>st</sup> of the year following the calendar year to comply with a federally mandated deadline.

### **What are MLR calculations and rebate determinations based upon?**

MLR calculations and rebate determinations are based on market segment. All plans are grouped by market (Individual market, Small Business market, and Large Group market), and rebates are paid to all plans in the market if the medical loss ratio is not met.

**Are Individual and Family Guarantee Issue (GI) plans included in the rebate distribution?**

Yes.

**How is MLR calculated?**

The basic calculation for determining MLR is to divide the medical expenses of the plan by the earned premiums. This will determine the percentage of revenue spent on claims costs.

$$\text{MLR} = \frac{\text{medical expenses}}{\text{earned premium}} = \text{\% of revenue spent on claims}$$

- Medical expenses are payments for clinical services (incurred claims) and expenditures for activities to improve healthcare quality.
- Earned premiums is revenue generated from plan premiums, minus state and federal taxes, licensing fees, and regulatory fees.

**How are MLR rebates determined?**

If a plan expends more than the allowed amount on administrative expenses as compared to medical claims, a rebate will be required. All rebates must be distributed by August 1st, 2013.

- Large Group  
If less than 85% is spent on medical expenses, the difference must be returned to the employer group.
- Small Business and IFP  
If less than 80% is spent on medical expenses, the difference must be returned to the employer group. If rebates are due to IFP subscribers, the subscriber will receive a rebate check.

REBATE EXAMPLE: If the MLR for a Large Group segment (51 or more employees receiving a W2 from the employer) is 75%, then 10% of the premium (the difference of 85% MLR threshold minus the actual MLR of 75%) must be paid back to the employer group by August 1st, 2013.