Insurers to Pay 80%-85% of Premium for Care

BY ALICIA AULT

FROM A PRESS CONFERENCE HELD BY THE HEALTH AND HUMAN SERVICES DEPARTMENT

Beginning this year, health insurance companies will be required to prove that they spend at least 80% of premium dollars collected on direct medical care and quality improvement efforts under new federal regulations.

The interim final rule took effect Jan. 1 and was required by the Affordable Care Act. The so-called medical loss ratio rule was developed by the National Association of Insurance Commissioners, which submitted its recommendations to the Health and Human Services department in late October.

According to the rule, HHS will review insurers' medical loss data at the end of 2010. Companies that spend less than 80%-85% of their premium dollar on direct medical care will be required to issue rebates to consumers, said HHS Secretary Kathleen Sebelius at a press briefing. The rebate checks will begin arriving in 2012.

In some markets, insurers spend as little as 60% of the premium dollar on direct care, said Ms. Sebelius, who added that under the rule, those companies might have "to return nearly $3,500 to every family they insure." Her calculation was based on an average annual premium of $13,250 paid by a family of four.

Ms. Sebelius and other HHS officials said the rule was an important new consumer law. An estimated 74.8 million Americans will be protected by the new medical loss ratio requirements, and up to 9 million Americans could be eligible for rebates in the first year, according to HHS.

Timothy Jost, a professor of law at Washington and Lee University, Lexington, Va., who advised the NAIC task force, said he estimated that insurers currently spend 12% of the premium dollar on pharmaceuticals and 31% for physician services, and 31% on administrative costs.The rule "will drive insurers to become more efficient," and "incentivize them to not raise premiums more than necessary," he said during the briefing.

Perhaps in response to opponents who have complained that the passage of the ACA was a closed-door process, HHS and NAIC officials at the briefing said that the medical loss ratio rule had been developed in a very public fashion, with open hearings.

"These rules were carefully developed through a transparent and fair process with significant input from the public, the states, and other key stakeholders" said Jay Angoff, director of the HHS Office of Consumer Information and Insurance Oversight.

Jane Cline, president of the NAIC and insurance commissioner for West Virginia, said there were safeguards in the rule to ensure that it would not destabilize the insurance markets. The HHS Secretary will have the ability to adjust the medical loss ratio on a state-by-state basis to ensure that there is access to insurance.

Four states – Georgia, Iowa, Maine, and South Carolina – have already asked HHS to change the requirements for insurers operating there; others could follow suit, Mr. Angoff said.

Transparency will be required of insurers as well. Starting in 2011 they will have to report publicly how they spend their premium dollars. ■

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