

A Brief Analysis of the 2015 Medical Loss Ratio and Rebates Results

January 27, 2017

The Medical Loss Ratio (MLR) provision established by the Affordable Care Act (ACA) requires health insurers who fail to spend specified percentages of their premium income on medical and quality care improvement expenses to pay their customers rebates. The goal of this provision is to curb the growth in health care premiums while ensuring that plans are adequately covering healthcare expenses. In 2013 and 2014, health plans reimbursed customers \$332 million and \$469 million, respectively. For 2015, health plans showing improved management of their MLRs reimbursed customers \$397 million, equating to approximately \$138 per benefiting family.

Key Details about the MLR

- The ACA provision for rebates based upon MLR applies to commercial (risk) insurance lines and does not apply to self-funded plans.
- Beginning in 2014, rebate payments will be determined by using an average MLR calculated using medical costs and premiums from the past three years.
- For Individual and Small Group segments, insurers must spend 80% of their premium funds on health related expenses.
- For the Large Group segment, insurers must spend 85% of their premium funds on health related expenses.

On November 18, 2016, the Department of Health and Human Services (HHS) released the 2015 Medical Loss Ratio (MLR) data which includes MLR rebates due to consumers. Subscribers to Mark Farrah Associates' Health Coverage Portal™ and the SHCE & MLR Data may access this important data with the benefit of NAIC company codes mapped to HIOS codes used for government reporting by health plans.

In this month's Healthcare Business Strategy, MFA summarizes some of the key findings found within the HHS report, with a focus on health plan performance as it relates to the Medical Loss Ratio and the related rebates due to consumers.

State Focus

States Leading in MLR Rebates			
State	Adjusted Premiums	2015 Total MLR Rebate	Rebate as a % of Premium
FL	\$19,789,157,324	\$46,714,311	0.24%
NY	\$23,545,882,177	\$46,661,492	0.20%
MD	\$6,722,179,848	\$46,195,431	0.69%
CA	\$65,048,189,560	\$37,164,092	0.06%
MI	\$11,052,155,640	\$34,411,448	0.31%
MO	\$5,177,039,054	\$21,423,338	0.41%
GA	\$8,281,949,362	\$20,394,796	0.25%
VA	\$9,110,871,296	\$19,217,933	0.21%
DC	\$4,197,844,424	\$18,159,792	0.43%
MS	\$1,726,903,103	\$16,020,721	0.93%

Sources: Health Coverage Portal™, Mark Farrah Associates, aggregate data observations from the HHS | CMS Annual MLR Reporting Requirements

Beginning with assessing rebates by state, MLR premiums and rebate figures were aggregated for all health plans that reported doing business in each state. For 2015, Florida led the country with approximately \$47 million in MLR rebates, down from \$60 million in 2014. While Mississippi was not one of the top states for rebate disbursements, the total amount of Mississippi's rebates continue to represent a much higher percentage of rebates to total adjusted premiums at .93%, although improved from 1.34% in 2014. This generally indicates that health plans in Mississippi spent less on medical and health care quality improvement costs as compared to premiums charged. Mississippi continues to lead the nation in this regard.

As mentioned earlier, total rebates paid for 2015 were \$397 million, down 15% from \$469 million in 2014. The table below indicates which states had the greatest overall year-over-year increases in aggregate MLR Rebates paid by health plans.

Largest Increases in MLR Rebates			
State	2015 Total MLR Rebate	2014 Total MLR Rebate	YOY Change in Rebate
NY	\$46,661,492	\$8,395,580	\$38,265,912

MD	\$46,195,431	\$23,680,495	\$22,514,936
MI	\$34,411,448	\$25,741,008	\$8,670,440
MO	\$21,423,338	\$13,915,024	\$7,508,314
VA	\$19,217,933	\$12,130,809	\$7,087,124
Total	\$167,909,642	\$83,862,916	\$84,046,725
<i>Sources: Health Coverage Portal™, Mark Farrah Associates, aggregate data observations from the HHS CMS Annual MLR Reporting Requirements</i>			

Not all states realized higher rebates for 2015. The following states had the greatest overall decreases in aggregate MLR Rebates paid by health plans:

Largest Decreases in MLR Rebates			
State	2015 Total MLR Rebate	2014 Total MLR Rebate	YOY Change in Rebate
CA	\$37,164,092	\$98,196,846	(\$61,032,755)
SC	\$964,695	\$15,119,356	(\$14,154,661)
FL	\$46,714,311	\$60,339,467	(\$13,625,156)
MA	\$353,864	\$12,617,420	(\$12,263,556)
WA	\$464,382	\$11,024,698	(\$10,560,316)
Total	\$85,661,342	\$197,297,787	(\$111,636,444)
<i>Sources: Health Coverage Portal™, Mark Farrah Associates, aggregate data observations from the HHS CMS Annual MLR Reporting Requirements</i>			

It is important to note that Mark Farrah Associates is reporting all data as filed with CMS in the annual MLR reporting requirements. We are not adjusting the data to account for differences in the number of reporting plans between 2015 and 2014, nor have we adjusted for missing plans year-over-year.

Market Segment Analysis

In order to provide competitive insights, MFA assessed the Individual, Small Group and Large Group Comprehensive market segment's Adjusted Premiums, MLR Rebates and Weighted Average MLR for the leading companies. The next three sections will address our findings in each segment.

Individual Comprehensive Segment

2015 Individual Comprehensive - Largest Segment Rebates
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Company	Weighted Average MLR	Adjusted Premium	MLR Rebate	Rebate as a % of Premium
ANTHEM INC GRP	80.58%	\$7,228,100,582	\$36,174,655	0.50%
NEW YORK STATE CATHOLIC HLTH PLAN	78.20%	\$380,690,545	\$14,466,241	3.80%
UNITEDHEALTH GRP	91.98%	\$4,299,403,747	\$10,304,527	0.24%
INDIANA UNIVERSITY HLTH GRP	76.50%	\$219,971,836	\$7,699,014	3.50%
CIGNA HLTH GRP	90.46%	\$872,100,403	\$6,751,847	0.77%

Sources: Health Coverage Portal™, Mark Farrah Associates, aggregate data observations from the HHS | CMS Annual MLR Reporting Requirements

2015 MLR Rebates paid for the Individual segment were \$107 million which is a mere .2% of the \$68 billion collected in premiums for this segment. Anthem led the industry in terms of total Adjusted Premiums earned for the Individual segment, and with \$36 million of MLR Rebates paid to consumers, equating to almost .5% of segment premiums. NY State Catholic Health Plan's \$14.5 million in rebates, or 3.8% of segment premiums is also notable for this segment. It is important to point out that, for payment purposes, health insurance company MLR Rebates are calculated at the plan and state level. On average, all of the top 10 leading companies had MLR's above the ACA established 80% minimum for the segment. However, half of them had affiliate plans with MLRs, at the state-level, below the 80% standard, leading to the rebates due.

2015 Individual Comprehensive - Segment Leaders				
Company	Weighted Average MLR	Adjusted Premium	MLR Rebate	Rebate as a % of Premium
ANTHEM INC GRP	80.58%	\$7,228,100,582	\$36,174,655	0.50%
HCSC GRP	98.47%	\$6,648,531,965	-	
UNITEDHEALTH GRP	91.98%	\$4,299,403,747	\$10,304,527	0.24%
AETNA GRP	91.50%	\$3,766,649,849	\$3,295,121	0.09%
HUMANA GRP	94.98%	\$3,636,534,832	\$5,991,247	0.16%
KAISER FOUNDATION GRP	91.71%	\$3,397,900,002	-	
BLUE SHIELD OF CA GRP	81.12%	\$2,656,922,497	-	
GUIDEWELL MUT HOLDING GRP	80.76%	\$2,623,883,783	-	
BCBS OF NC GRP	87.90%	\$2,288,715,086	-	
ASSURANT INC GRP	96.42%	\$1,549,783,089	\$1,234,878	0.08%

Sources: Health Coverage Portal™, Mark Farrah Associates, aggregate data observations from the HHS | CMS Annual MLR Reporting Requirements

The above table provides a look at the largest plans in the Individual segment for 2015 based on premiums, independent of MLR Rebates paid. Anthem led in this segment with \$7.2 billion in Adjusted Premiums. Anthem's relatively low Weighted Average MLR of 80.58% was the lowest amongst the segment leaders. However, their MLR Rebate as a % of premium was the highest amongst the top rebate payers with approximately 75% of the rebates due to policy holders in Georgia, Ohio and New Hampshire. HCSC, the second largest plan in the segment, had an average MLR that was approximately 22.21% higher than the Anthem's, reflecting greater spending of premium income on medical costs. HCSC's 98.47% MLR was the highest amongst the leaders in this segment, up significantly from 85.5% in 2014. Kaiser's Average MLR improved from 83.55% in 2014 to 80.76% in 2015.

Small Group Comprehensive Segment

2015 Small Group Comprehensive - Largest Segment Rebates				
Company	Weighted Average MLR	Adjusted Premium	MLR Rebate	Rebate as a % of Premium
UNITEDHEALTH GRP	82.80%	\$10,358,918,196	\$39,610,212	0.38%
BLUE SHIELD OF CA GRP	79.20%	\$1,805,599,211	\$24,732,610	1.37%
CAREFIRST INC GRP	80.07%	\$1,491,545,088	\$21,402,328	1.43%
BCBS OF MI GRP	78.27%	\$1,150,960,976	\$19,883,074	1.73%
ANTHEM INC GRP	81.16%	\$6,847,399,561	\$18,876,812	0.28%

Sources: Health Coverage Portal™, Mark Farrah Associates, aggregate data observations from the HHS | CMS Annual MLR Reporting Requirements

2015 MLR Rebates for the Small Group segment were \$154 million, or .22% of the \$68.2 billion segment. Within the segment, UnitedHealth paid the highest volume of 2014 rebates with an aggregate outlay of \$39.6 million. BCBS of MI ranked fourth with \$19.9 million in rebates, however, this equated to over 1.73% of their segment premiums. Each company's MLR rebates are calculated at the plan and state level. On average, 2 of the top 5 companies, required to pay 2015 rebates on Small Group business, had MLR's above the ACA established 80% segment minimum. However, all of them had affiliate plans with MLRs at the state-level below the 80% standard which led to the rebates due.

2015 Small Group Comprehensive - Segment Leaders				
Company	Weighted Average MLR	Adjusted Premium	MLR Rebate	Rebate as a % of Premium

UNITEDHEALTH GRP	82.80%	\$10,358,918,196	\$39,610,212	0.38%
ANTHEM INC GRP	81.16%	\$6,847,399,561	\$18,876,812	0.28%
HCSC GRP	87.00%	\$5,770,427,352	-	
AETNA GRP	86.22%	\$5,171,395,568	\$10,510,407	0.20%
KAISER FOUNDATION GRP	90.38%	\$3,568,544,377	-	
HUMANA GRP	84.29%	\$2,858,718,010	\$3,775,130	0.13%
BLUE SHIELD OF CA GRP	79.20%	\$1,805,599,211	\$24,732,610	1.37%
CAREFIRST INC GRP	80.07%	\$1,491,545,088	\$21,402,328	1.43%
BCBS OF NJ GRP	80.70%	\$1,383,695,348	-	
HEALTH NET INC GRP	85.75%	\$1,370,994,134	-	
<i>Sources: Health Coverage Portal™, Mark Farrah Associates, aggregate data observations from the HHS CMS Annual MLR Reporting Requirements</i>				

The table above provides a look at the largest plans in the Small Group segment. HCSC and Kaiser were two of the larger players in this segment that incurred no rebates in 2015. Naturally, they each had average MLRs that were higher than their segment leading peers.

Large Group Comprehensive Segment

2015 Large Group Comprehensive - Largest Segment Rebates				
Company	Weighted Average MLR	Adjusted Premium	MLR Rebate	Rebate as a % of Premium
UNITEDHEALTH GRP	87.57%	\$19,137,068,768	\$55,797,405	0.29%
AETNA GRP	88.65%	\$14,092,316,616	\$20,983,381	0.15%
GUIDEWELL MUT HOLDING GRP	90.41%	\$5,292,541,413	\$12,368,279	0.23%
CIGNA HLTH GRP	89.26%	\$6,263,383,742	\$11,530,110	0.18%
NIPPON LIFE INS CO OF AMER	81.60%	\$236,617,954	\$11,254,415	4.76%
<i>Sources: Health Coverage Portal™, Mark Farrah Associates, aggregate data observations from the HHS CMS Annual MLR Reporting Requirements</i>				

2015 MLR Rebates for the \$201 billion Large Group segment were \$136 million. Within the segment, UnitedHealth paid the highest volume of MLR Rebates, outlaying \$55.8 million. Nippon Life's \$11.3 million in rebates ranked fifth, however, this equates to 4.8% of segment premiums. Once again, the company's MLR rebates are calculated at the plan and state level. On average 4 of the top 5 companies required to pay Large Group rebates had MLR's above the ACA

established 85% segment minimum. However, all of them had affiliate plans with MLRs at the state-level below the 85% standard leading to the rebates due.

2015 Large Group Comprehensive - Segment Leaders				
Company	Weighted Average MLR	Adjusted Premium	MLR Rebate	Rebate as a % of Premium
KAISER FOUNDATION GRP	89.15%	\$30,291,451,400	-	
ANTHEM INC GRP	90.26%	\$23,251,035,794	\$4,714,326	0.02%
UNITEDHEALTH GRP	87.57%	\$19,137,068,768	\$55,797,405	0.29%
AETNA GRP	88.65%	\$14,092,316,616	\$20,983,381	0.15%
HCSC GRP	91.37%	\$13,540,816,941	-	
CIGNA HLTH GRP	89.26%	\$6,263,383,742	\$11,530,110	0.18%
GUIDEWELL MUT HOLDING GRP	90.41%	\$5,292,541,413	\$12,368,279	0.23%
CAREFIRST INC GRP	91.33%	\$5,063,506,598	\$4,420,711	0.09%
BCBS OF MI GRP	87.69%	\$4,392,826,685	-	
BLUE SHIELD OF CA GRP	90.41%	\$4,366,912,061	-	

Sources: Health Coverage Portal™, Mark Farrah Associates, aggregate data observations from the HHS | CMS Annual MLR Reporting Requirements

The above table provides a look at the largest plans in the Large Group segment for 2015. While this is the largest segment based on premiums, Large Group business generated the lowest amount of MLR rebate dollars in terms of percent of sales with only .07% returned to customers.

Conclusion

Overall, the rebates paid to consumers were a relatively small portion of industry premiums. With a limited number of exceptions, rebates due to customers were generally not financially material and have had a minimal overall impact on insurance companies. Likewise, the 2015 average rebate per family of \$138 was not a significant factor in reducing consumers' health insurance costs. It is important to note that consumers benefitted from \$2.68 billion in Health Care Quality improvements undertaken by insurance companies, in part due to the ACA MLR provision. As the industry continues to change, Mark Farrah Associates will continue to analyze and report on important ACA related topics. Please stay tuned for future analysis briefs with valuable insights about the health care industry.

SCHE & MLR Data

The data used in this analysis brief was obtained from Mark Farrah Associates' Health Coverage Portal™ as available from the Department of Health and Human Services. Each year, MFA updates its products with the latest MLR data. Additionally, MFA maintains financial data as well as enrollment and market share for the health insurance industry in the subscription-based Health Coverage Portal™.

For more information about these products, refer to the product videos and brochures available on Mark Farrah Associates' website or call 724-338-4100.

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Glossary

Weighted Average MLR – For analysis purposes, Mark Farrah Associates calculated average MLR weighted on the adjusted premiums for each company by segment. The MLRs used in the calculations are average ratios based upon the 2013 – 2015, years as reported on line 6.2 of Part 3 of the MLR and Rebate Calculation schedule, within the HHS MLR dataset.

Sources

Centers for Medicare & Medicaid Services

"Public Use File for 2015 (as of October 19, 2016)"

<https://www.cms.gov/CCIIO/Resources/Data-Resources/mlr.html>

"MLR Refunds by State and Market for 2015 (as of October 19, 2016)"

https://www.cms.gov/CCIIO/Resources/Data-Resources/Downloads/2015_Rebates_by_State.pdf