



A Brief Analysis of the 2014 Medical Loss Ratio and Rebates Results

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by Mark Farrah Associates

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, health plans reimbursed customers \$335 million equating to approximately \$80 per family receiving a refund. For 2014, health plans will reimburse customers \$478 million equating to approximately \$129 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 19, 2015 the Department of Health and Human Services (HHS) released the 2014 Medical Loss Ratio (MLR) data which includes MLR rebates due to consumers. Subscribers to Mark Farrah Associate's Health Coverage Portal and the SHCE and 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	2014 Total Adjusted	2014 Total MLR Rebate	Rebate as a % of Premium
CA	\$64,551,163,102	\$ 98,167,790	0.15%
FL	\$17,200,106,446	\$ 60,339,467	0.35%
MI	\$13,890,903,546	\$ 25,741,008	0.19%
MD	\$ 6,408,274,505	\$ 23,680,495	0.37%
MS	\$ 1,564,280,270	\$ 20,924,368	1.34%
GA	\$ 7,258,676,251	\$ 17,403,474	0.24%
TX	\$16,949,070,391	\$ 16,435,858	0.10%
SC	\$ 2,729,699,954	\$ 15,119,356	0.55%
DC	\$ 4,123,623,139	\$ 14,595,640	0.35%
MO	\$ 4,833,055,211	\$ 13,915,024	0.29%

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 2014, California led the country with \$98 million in MLR rebates, followed by Florida's \$60 million. While Mississippi was not one of the top states for rebate disbursements, the total amount of Mississippi's rebates represented a much higher percentage of rebates to total adjusted premiums at 1.34%. This generally indicates that health plans in Mississippi spent less on medical and health care quality improvement costs as compared to premiums charged. Mississippi led the nation in this regard.

As mentioned earlier, total rebates paid for 2014 were \$478 million up \$143 million from \$335 million in 2013. The following states had the greatest overall year-over-year increases in aggregate MLR Rebates paid by health plans:

Largest Increases in MLR Rebates			
State	2014 Total MLR Rebate	2013 Total MLR Rebate	YOY Change in Rebate
CA	\$ 98,167,790	\$ 12,692,117	\$ 85,475,673
FL	\$ 60,339,467	\$ 41,679,929	\$ 18,659,538
MS	\$ 20,924,368	\$ 6,671,650	\$ 14,252,717
MI	\$ 25,741,008	\$ 13,259,130	\$ 12,481,879
WA	\$ 11,024,698	\$ 792,846	\$ 10,231,853
Total	\$ 216,197,331	\$ 75,095,671	\$ 141,101,660

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

Not all states realized higher rebates for 2014. The following states had the greatest overall decreases in aggregate MLR Rebates paid by health plans:

Largest Decreases in MLR Rebates			
State	2014 Total MLR Rebate	2013 Total MLR Rebate	YOY Change in Rebate
TN	\$ 3,720,998	\$ 10,174,671	\$ (6,453,674)
IL	\$ 3,915,733	\$ 8,485,420	\$ (4,569,687)
NY	\$ 8,395,580	\$ 12,212,725	\$ (3,817,145)
LA	\$ 2,214,330	\$ 5,107,894	\$ (2,893,564)
UT	\$ 608,054	\$ 3,471,058	\$ (2,863,004)
Total	\$ 18,854,696	\$ 39,451,769	\$ (20,597,073)

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

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 2014 and 2013 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

2014 Individual Comprehensive - Largest Segment Rebates				
Company	Weighted Average MLR	Adjusted Premium	MLR Rebate	Rebate as a % of
BLUE SHIELD OF CA	77.43%	\$ 2,174,270,923	\$ 64,059,691	2.95%
UNITEDHEALTH	84.96%	\$ 2,317,335,002	\$ 34,083,720	1.47%
ANTHEM	81.21%	\$ 6,733,452,628	\$ 28,937,566	0.43%
HUMANA	85.63%	\$ 2,766,029,055	\$ 18,393,987	0.66%
HEALTHMARKETS	72.18%	\$ 189,445,180	\$ 17,835,317	9.41%

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

2014 MLR Rebates paid for the Individual segment were \$238 million which is a mere .5% of the \$51.5 billion collected in premiums for this segment. Anthem led the industry in terms of total Adjusted Premiums earned for the Individual Segment, however, Blue Shield of CA led the segment with \$64 million of MLR Rebates paid to consumers, equating to almost 3% of segment premiums. UnitedHealth's \$34 million in rebates, or 1.5% of segment premiums along with Health Markets' 72% MLR and rebate as a % of premium of 9.41% are 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, 3 of the top 5 segment leaders had MLR's above the ACA established 80% minimum for the segment. However, all of them had affiliate plans with MLRs, at the state-level, below the 80% standard leading to the rebates due.

2014 Individual Comprehensive - Segment Leaders				
Company	Weighted Average MLR	Adjusted Premium	MLR Rebate	Rebate as a % of Premium
ANTHEM	81.21%	\$ 6,733,452,628	\$ 28,937,566	0.43%
HCSC	85.49%	\$ 4,821,653,878	\$ -	
AETNA	87.73%	\$ 2,863,269,441	\$ 1,069,027	0.04%
HUMANA	85.63%	\$ 2,766,029,055	\$ 18,393,987	0.66%
KAISER FAMILY FOUNDATION	91.21%	\$ 2,749,656,163	\$ -	
UNITEDHEALTH	84.96%	\$ 2,317,335,002	\$ 34,083,720	1.47%
GUIDEWELL MUTUAL	83.55%	\$ 2,181,370,166	\$ -	
BLUE SHIELD OF CA	77.43%	\$ 2,174,270,923	\$ 64,059,691	2.95%
BCBS OF NC	88.00%	\$ 1,940,627,522	\$ -	
ASSURANT	85.98%	\$ 1,145,299,421	\$ 11,913,112	1.04%

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 2014, based on premium, independent of MLR Rebates paid. Anthem led in this segment with \$6.7 billion in Adjusted Premiums. Anthem's relatively low Weighted Average MLR 81.21% was one of the lowest amongst the segment leaders. Their MLR Rebate as a % of premium was second lowest amongst the top rebate payers. HCSC, the second largest plan in the segment, had an average MLR that was approximately 5% higher than the Anthem's, reflecting greater spending of premium income on medical costs. Kaiser's 91% MLR was the highest amongst the leaders in this segment, reflecting a higher portion of spending on medical costs. Kaiser's Average MLR improved from 102% in 2013 to 91% in 2014. Considering that the MLRs reported are calculated based upon the activity of the previous three years, the 11 percentage point change is noteworthy.

Small Group Comprehensive Segment

2014 Small Group Comprehensive - Largest Segment Rebates				
Company	Weighted Average MLR	Adjusted Premium	MLR Rebate	Rebate as a % of Premium
UNITEDHEALTH	82.75%	\$ 10,877,648,960	\$ 41,142,809	0.38%
BLUE SHIELD OF CA	80.17%	\$ 1,806,859,134	\$ 21,819,095	1.21%
GUIDEWELL MUTUAL	79.28%	\$ 1,198,295,676	\$ 18,752,207	1.56%
ANTHEM	81.27%	\$ 7,965,921,256	\$ 18,671,914	0.23%
TUFTS	86.85%	\$ 361,652,895	\$ 9,713,235	2.69%

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

2014 MLR Rebates for the Small Group segment were \$142 million, or .2% of the \$70.2 billion segment. Within the segment, UnitedHealth paid the highest volume of 2014 rebates with an aggregate outlay of \$41 million. Tufts ranked fifth with \$9.7 million in rebates, however, this equated to over 2.7% of their segment premiums. Each company's MLR rebates are calculated at the plan and state level. On average, 4 of the top 5 companies, required to pay 2014 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.

2014 Small Group Comprehensive - Segment Leaders				
Company	Weighted Average MLR	Adjusted Premium	MLR Rebate	Rebate as a % of Premium
UNITEDHEALTH	82.75%	\$ 10,877,648,960	\$ 41,142,809	0.38%
ANTHEM	81.27%	\$ 7,965,921,256	\$ 18,671,914	0.23%
HCSC	84.86%	\$ 5,591,842,198	\$ -	
AETNA	85.44%	\$ 5,345,457,081	\$ 2,429,582	0.05%
KAISER FAMILY FOUNDATION	91.57%	\$ 3,421,212,731	\$ -	
HUMANA	82.62%	\$ 2,707,166,123	\$ 7,816,421	0.29%
BLUE SHIELD OF CA	80.17%	\$ 1,806,859,134	\$ 21,819,095	1.21%
CAREFIRST	82.69%	\$ 1,568,074,992	\$ -	
BCBS OF NJ	81.17%	\$ 1,547,454,741	\$ -	
INDEPENDENCE BLUE CROSS	85.37%	\$ 1,369,526,025	\$ -	

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

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 2014. Naturally, they each had average MLRs that were higher than their segment leading peers.

Large Group Comprehensive Segment

2014 Large Group Comprehensive - Largest Segment Rebates				
Company	Weighted Average MLR	Adjusted Premium	MLR Rebate	Rebate as a % of Premium
UNITEDHEALTH	87.36%	\$ 17,584,874,259	\$ 42,399,750	0.24%
AETNA	88.26%	\$ 14,373,097,074	\$ 11,076,145	0.08%
NIPPON LIFE	81.72%	\$ 221,718,083	\$ 9,192,798	4.15%
CIGNA HEALTH	90.06%	\$ 6,213,131,546	\$ 8,849,968	0.14%
GUIDEWELL MUTUAL	89.80%	\$ 5,150,312,041	\$ 6,348,183	0.12%

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

2014 MLR Rebates for the \$203 billion Large Group segment were \$90.5 million. Within the segment UnitedHealth paid the highest volume of MLR Rebates, outlaying \$42.4 million. Nippon Life's \$9.7 million in rebates ranked third in the segment, however, this equates to over 4% 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.

2014 Large Group Comprehensive - Segment Leaders				
Company	Weighted Average MLR	Adjusted Premium	MLR Rebate	Rebate as a % of Premium
KAISER FAMILY FOUNDATION	90.33%	\$ 28,717,277,212	\$ -	
ANTHEM	90.33%	\$ 22,473,271,618	\$ -	
UNITEDHEALTH	87.36%	\$ 17,584,874,259	\$ 42,399,750	0.24%
AETNA	88.26%	\$ 14,373,097,074	\$ 11,076,145	0.08%
HCSC	90.95%	\$ 13,480,477,665	\$ -	
BCBS OF MI	86.41%	\$ 7,126,824,641	\$ -	
BLUE SHIELD OF CA	90.84%	\$ 7,054,506,192	\$ -	
CIGNA HLTH	90.06%	\$ 6,213,131,546	\$ 8,849,968	0.14%
GUIDEWELL MUTUAL	89.80%	\$ 5,150,312,041	\$ 6,348,183	0.12%
CAREFIRST	91.27%	\$ 4,907,512,423	\$ 330,473	0.01%

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 2014. While this is the largest segment based on premiums, Large Group business generated the lowest volume of MLR rebate dollars. Also note that the relative spread between the high and low average MLRs within the segment was approximately 5 percentage points, much lower than the more volatile Individual Segment's 14 percentage point spread.

Conclusion

In 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 2014 average rebate per family of \$129 was not a significant factor in reducing the consumer's health insurance cost. However, it is important to note that consumers benefitted from \$2.4 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 Associate's website or call 724-338-4100.

About Mark Farrah Associates (MFA)

Mark Farrah Associates (MFA) is a leading aggregator of health plan market data and provides analysis tools for the healthcare industry. Our products include Med Supp Market Data™, Medicare Business Online™, Medicare Benefits Analyzer™, Health Coverage Portal™, County Health Coverage™, Health Insurer Insights™, and Health Plans USA™.

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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 calculation are average ratios based upon the 2012 – 2014 years as reported on line 6.2 of Part 3 of the MLR and Rebate Calculation schedule within the HHS MLR data set.

Sources

Centers for Medicare & Medicaid Services

"MLR Refunds by State and Market for 2013 (as of June 30, 2014)"

https://www.cms.gov/CCIIO/Resources/Data-Resources/Downloads/2013_MLR_Refunds_by_State.pdf

(https://www.cms.gov/CCIIO/Resources/Data-Resources/Downloads/2013_MLR_Refunds_by_State.pdf).

Centers for Medicare & Medicaid Services

"Public Use File for 2014 (as of October 7, 2015)"

"MLR Refunds by State and Market for 2014 (as of October 7, 2015)"

https://www.cms.gov/CCIIO/Resources/Data-Resources/Downloads/2014_MLR_Refunds_by_State.pdf

(https://www.cms.gov/CCIIO/Resources/Data-Resources/Downloads/2014_MLR_Refunds_by_State.pdf).



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