

Why GAO Did This Study

To help ensure that Americans receive value for their premium dollars, the Patient Protection and Affordable Care Act (PPACA) established minimum “medical loss ratio” (MLR) standards for health insurers. The MLR is a basic financial indicator, traditionally referring to the percentage of premiums spent on medical claims. The PPACA MLR is defined differently from the traditional MLR (see fig.). Beginning in 2011, insurers must meet minimum MLR requirements or pay rebates to enrollees. While insurers’ first set of data subject to the MLR requirements will be for 2011, and is not due until June 2012, insurers prepared preliminary PPACA MLR data for 2010. GAO examined: (1) what can be learned from the traditional MLR data reported by health insurers prior to PPACA; (2) what factors might affect the MLRs that insurers will report under PPACA; and (3) what changes in business practices, if any, have insurers made or planned to make in response to the PPACA MLR requirements. GAO analyzed premiums, claims, and traditional MLR data for nearly all insurers for 2006–2009 and interviewed a judgmental sample of seven insurers—selected to provide a range based on their size, profit status, and the number of states in which they operated—about their experiences using the PPACA MLR definition.

In commenting on a draft of this report, the Department of Health and Human Services (HHS) said that the MLR provision will increase transparency in the insurance market and value for consumers’ premiums.

View [GAO-11-711](#) or key components. For more information, contact John E. Dicken at (202) 512-7114 or dickenj@gao.gov.

PRIVATE HEALTH INSURANCE

Early Experiences Implementing New Medical Loss Ratio Requirements

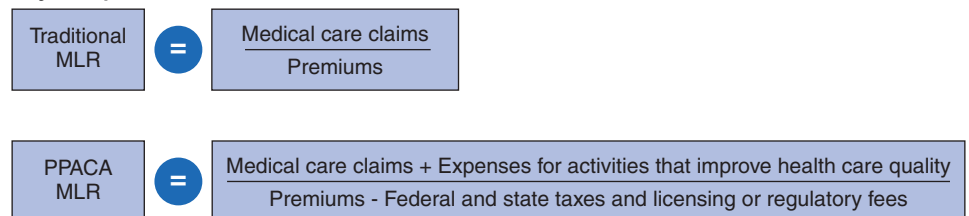
What GAO Found

From 2006 through 2009, traditional MLRs on average generally exceeded PPACA MLR standards. This is even without the additional components in the new PPACA MLR that will generally increase MLRs. However, traditional MLRs also varied among insurers. Traditional MLRs within the individual market varied more than those within the small and large group markets, and a larger proportion of individual market insurers generally had lower MLRs. Additionally, traditional MLRs varied more among smaller insurers than among larger insurers in all three markets. Some components of the PPACA MLR requirements may mitigate the implications of some of these variations.

The insurers GAO interviewed said their PPACA MLRs will be affected by changes in the MLR formula and their ability to provide more precise data in 2011 and beyond. Most of these insurers reported that the deduction of taxes and fees in the PPACA MLR formula would contribute to the largest change in their 2010 MLRs. Including expenses for activities to improve health care quality was also cited as a factor affecting insurers’ MLRs but to a lesser extent. In addition, because insurers had limited time to respond to HHS’s interim final rule on PPACA MLRs, which was published in late 2010, they said that their 2010 MLRs were based in part on best estimates. Insurers said they expect their ability to provide more precise PPACA MLR data will improve in 2011 and beyond.

Most of the insurers GAO interviewed were reducing brokers’ commissions and making adjustments to premiums, as well as making changes to other business practices, in response to the PPACA MLR requirements. Almost all of the insurers said they had decreased or planned to decrease commissions to brokers in an effort to increase their MLRs. Insurers varied on how the PPACA MLR requirements might affect their decisions to implement activities to improve health care quality. While one insurer said that their decision to implement new activities would be affected by whether or not an activity could be included as a quality improvement activity in the PPACA MLR formula, other insurers said that the PPACA MLR requirements are not a factor in such decisions. Insurers also differed on how the PPACA MLR requirement may affect where they do business. One insurer said that they have considered exiting the individual market in some states in which they did not expect to meet the PPACA MLR requirements, while several other insurers said that the PPACA MLR requirements will not affect where they do business.

Key Components of Traditional and PPACA MLR Formulas



Source: GAO.