



"How will medical loss ratios affect health plans and policyholders?"

## Implementing Medical Loss Ratio Requirements

The Patient Protection and Affordable Care Act ("PPACA") require health plans to maintain medical loss ratios of 80% and 85% for individual/small group plans and large group plans, respectively. Plans failing to meet minimum MLR must rebate the difference to policyholders. The MLR formula is as follows:

*Incurred claims + Expenditures for Activities that Improve Health Quality*

*Premiums - Federal and State taxes and licensing and regulatory fees*

The regulation specifically defines both numerator and denominator and creates the concept of permissible expenses. Permissible expenses focus insurers on activities that improve health quality and measurement thereof. Cost focused activities like claim adjudication, utilization review, and provider credentialing, are non-permissible costs and if rebated, create no value. Current managed care effectiveness metrics are cost driven. The regulation shifts the focus to clinical effectiveness, care coordination, chronic disease management, and other patient centered interventions. Health information technology expense to support the data extraction, analysis, and transmission of quality health information/medical records is permissible.

Since non-permissible cost have minimal value, expenses need to be qualified. Current accounting systems do not provide sufficient accounting detail to accurately identify, capture, and allocate these costs. Formal cost studies need to be performed and allocation methodologies adopted. Individual expense categories need to be analyzed to establish the relationship to health quality.

The current metrics may be financial but systems can be modified to report quality health management. Most managed care systems have elements designed to improve health quality, however, over time these aspects were de-emphasized. PPACA changes the game. Health quality improvement elements can be isolated, classified, and allocated. Permissible expense identification requires considerable judgment, expertise, and experience.

A systematic assessment of current processes, infrastructure, and costs can qualify costs or identify qualification opportunities. HRMSI works with companies to develop the process to identify current and future expenses; the process to capture and summarize the costs; and, creation of the policies and procedures to maintain the process.

HRMSI has clinical, financial, and information technology experience with health insurers and managed care entities. Our unique insight allows efficient qualifying activities analysis and the remediation to qualify other systems and processes. Contact HRMSI to discuss the impact of Medical Loss Ratio on your entity. We have a multi-disciplinary network of professionals who can assist you. Contact us at **(630) 243-0117** or [MFischer@riskinc.net](mailto:MFischer@riskinc.net).