

A True Game Changer:

MLR Requirements Under Health Care Reform (Part 2)



Joe Torella

By Joe Torella

The Medical Loss Ratio (MLR) provision in the new health care law, as noted last month, is a game changer of seismic proportion. But why the game change?

It certainly doesn't reduce health care expenses. It merely forces carriers to keep their expenses below a legislatively prescribed percentage of claims against total premium. Carriers must maintain an 80% MLR for small employers (100 or fewer employees) and 85% for large employers (101 or more).

So, last month we examined three key carrier-based considerations – precision pricing, creating competition and inspiring innovation; this month, we focus on employer and broker/consultant considerations.

Fourth Consideration – Employer Expectations:

One consistent and critical objective is setting and meeting client expectation. That expectation will change as MLR requirements impose heightened data transparency standards. New rules will naturally generate client questions regarding the available data for employers of varying sizes.

Expectations of smaller organizations (<100 lives) will probably not change much since MLR requirements are less stringent and transparency around claim and utilization data has always been somewhat limited. Nevertheless, improved transparency should help these groups manage disease and introduce targeted wellness initiatives. By contrast, large employees will certainly expect more claims information in order to better manage and control premium.

Although employers with 100, 500 or 1,000/more employees have traditionally expressed wildly different expectations about data, MLR requirements should dramatically level the playing field as comparatively smaller-sized employers (but still within the 101+ employee category) will have heightened expectations more closely corresponding with their still larger peers.

Why? For one thing, any employer that recognizes that a carrier cannot assess more than 15% for administrative expense will want to confirm that its own organization's particular expense component of premium is 15% or less. This is a game changer!

So exactly how will MLR's enhanced data transparency impact employer expectations?

- A greater number of employers, especially those down market, will seek a self-funded option; consistent with a greater interest by the carriers to offer such options. (See **FA** article, November 2010.) Self insured options for larger employers have always provided a unique advantage in the array of tools they offer in analyzing claim and administrative cost. It's no wonder that self insured plans are excluded from MLR calculations.

- Employers with 1,000+ lives will use claims information to ensure their claims/expense ratio is 85/15; followed in expectation by employers with 500 employees with a natural progression toward smaller-sized employers (i.e. 350, 250 or 150 employees). The problem is that carriers don't necessarily set premium levels on that basis; part of the difficulty lies in the vastly different needs required by employers which MLR simply lumps together and defines as "101+". Specifically, ratios exceeding 15% administrative expense may be impossible to correlate for some large accounts – particularly when many smaller accounts may be using more resources and subsidizing expense loads.

- Since MLR defines 'claim reducing' costs as expenses that don't count toward the 15%, there will be an increased emphasis on, and interest in, wellness and disease management.

Fifth Consideration – Broker Basics:

This leads us to some very good news for brokers and consultants who promote data analysis and use it to help better manage their client's employee benefit programs. We can expect more robust detail for an increasing number of our clients.

Moreover, as described above, we should be better positioned to assess the impact of disease on an employer's population, reduce health risk through targeted wellness programs and observe improvement in the claims and trending of those claims.

Mandating an 85% claims expense, although not technically measured at the individual employer level, should position advisors to drive carrier pricing from a perspective that provides clients with a true understanding of their cost components as a basis for market selection. Perhaps even more importantly, clients still left unsatisfied with insured options will need our help in considering self-funding . . . and thinning margins will likely challenge carrier service models, thus driving the need for greater advisor engagement than ever before.

Finally, because fees and commissions will be more visible than ever before, *we're well positioned to demonstrate the relative value, not the cost, of our services.* That value becomes more obvious and tangible when we focus on fundamental client needs and stick to the basics that drive results: improving the health status of the population, managing cost and trend and reducing complexity – all while maintaining compliance in an increasingly challenging environment. **FA**

Joe Torella is President of the Employee Benefits Division at HUB International, Northeast and can be reached at 908-790-6842.