HR knowledge
YOUR SOLUTION FOR HUMAN CAPITAL MANAGEMENT

Tufts Health Plan Medical Loss Ratio (MLR)

What is Medical Loss Ratio (MLR)?

Due to the Affordable Care Act enacted in May 2010, both Massachusetts and Federal law (Affordable Care Act) require that health insurance companies spend a minimum percentage of premium dollars on medical claims, including clinical services and activities designed to improve health care quality. The MLR standard applies to health insurance plans offering group or individual coverage. It does not apply to self-insured plans.

What was the required Medical Loss Ratio for 2014?

For 2014, Massachusetts requires Tufts Health Plan to rebate part of the premiums it received if it did not spend at least 89% on health care services, such as doctors and hospital bills, and activities to improve health care quality, such as efforts to improve patient safety. No more than 11% of premiums may be spent on administrative costs such as salaries, sales, and advertising. This is referred to as the “Medical Loss Ratio” standard.

For the 2014 reporting year, Tufts Health Plan spent 88.3% of a total of $446 million in premium dollars on health care and activities to improve health care quality. The difference between the 89% target and Tufts spending of 88.3% of the premium dollars received is 0.7%. Therefore, Tufts Health Plan must rebate 0.7% of the total health insurance premiums paid by the employer and employees in applicable group health plans.

So what should an employer do if it receives a rebate check?

First, it should determine what portion of the rebate its employees are entitled to receive. For example, if the employer pays 75% of the premium and an employee pays 25%, the employer would distribute 25% of the rebate to the employees. Second, the employer should determine an equitable way to use the rebate for the employee’s benefit. For example, the employer can weight the rebate so that employees with family coverage (and therefore paid a larger share of premiums) would get a larger share of the rebate. Once the employer has decided each employee’s share of the rebate, it has three options:

1. Issue rebate checks
2. Give participants a “premium holiday” by applying the rebate amount toward future premium payments, or
3. Use the rebate to provide enhanced benefits to the participants

Example:

- Total group health plan premiums paid to a carrier during 2014 = $180,000
- Total employee payroll deductions during 2014 plus COBRA premium payments received by the employer = $45,000 (i.e. participants paid 25% of total plan premiums for the year)
- The employer receives a $1,260 rebate check from the carrier
- In this example $315 (25% of the $1,260) must be returned to participants

Calculations have determined that Tufts Health Plan’s Massachusetts-based fully insured small group HMO, POS, and some PPO plans qualify for a 2014 Massachusetts State rebate. All other groups, including

Advantage PPO, will not receive a rebate. Regardless of the option the employer chooses, it must distribute the rebate to employees within 90 days.

It will then be the employer's responsibility to distribute the rebate to their enrolled employees. For questions about MLR, we recommend these websites:

- www.healthcare.gov
- www.irs.gov
- www.cms.gov

*For more information regarding the MLR rebate, please visit the IRS website or call the toll-free IRS tax assistance line at 800.829.1040.

You may already have received this same information from your medical carrier. In the event you have not received this notice HR Knowledge is here to assist you with any questions you might have regarding this subject. Please contact us via email at HR@hrknowledge.com.

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