

Consumers benefitted nearly \$1.5 billion from the ACA's medical loss ratio rule in 2011

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Consumers saw nearly \$1.5 billion in insurer rebates and overhead cost savings in 2011, due to the Affordable Care Act's medical loss ratio provision requiring health insurers to spend at least 80 percent of premium dollars on health care or quality improvement activities or pay a rebate to their customers, according to a new Commonwealth Fund report. Consumers with individual policies saw substantially reduced premiums when insurers reduced both administrative costs and profits to meet the new standards. While insurers in the small- and large-group markets achieved lower administrative costs, not all of these savings were passed on to employers and consumers, as many insurers increased profits in these markets.

"The medical loss ratio requirements are intended to give insurers an incentive to be more efficient and use most of their premium dollars for patient care," said Sara Collins, [Commonwealth Fund](#) Vice President for Affordable Health Insurance. "This report is encouraging, as it demonstrates that these new rules are improving value for people buying [health insurance](#) on their own, which has traditionally been very challenging. However, it will be crucial to monitor insurers' responses to this regulation over time to ensure that all purchasers and consumers benefit from the savings the law is designed to encourage."

The new report, Insurers' Responses to Regulation of Medical Loss Ratios, by Michael McCue of Virginia Commonwealth University and

Mark Hall of Wake Forest University, looks at how insurers selling policies for individuals, small-employer groups (up to 100 workers), and large-employer groups (more than 50 or 100 workers, depending on the state) in every state reacted to the [Affordable Care](#) Act's medical loss ratio requirement between 2010, the year just before the new rule took effect, and 2011, the first year the rule was in place. The authors find that in the individual [insurance market](#), improvements were widespread: 39 states saw [administrative costs](#) drop, 37 states saw medical loss ratios improve, and 34 states saw reductions in operating profits. Some states stood out for significant improvements. In New Mexico, Missouri, West Virginia, Texas, and South Carolina, medical loss ratios improved 10 percentage points or more, while administrative costs dropped \$99 or more per member in Delaware, Ohio, Louisiana, South Carolina, and New York.

However, the report finds that in small- and large-group markets, medical loss ratios were largely unchanged, and while spending on administrative costs dropped, profits increased. For example, in the small-group market, administrative costs were reduced by \$190 million, profits increased by \$226 million, and the medical loss ratio remained at 83 percent, unchanged from 2010. In the large-group market, insurers reduced administrative costs by \$785 million, increased profits by \$959 million, and kept their medical loss ratio at 89 percent, also unchanged from 2010.

The authors note that while insurers in the individual market have a less stringent medical loss ratio requirement—80 percent, as opposed to 85 percent in the large-group market—their traditionally higher overhead costs and lower medical loss ratios mean they have to work harder to reach the new standard. As a result, these insurers lowered both administrative costs and profit margins, therefore reducing growth in premiums.

Conversely, insurers in the small- and large-group markets generally already have medical loss ratios in the range of the required 85 percent, so while they reduced administrative costs, they had the option of turning those cost savings into profits instead of passing them along to consumers. In light of rising profits and falling administrative costs, the authors suggest it is possible insurers took profit increases in the small- and large-group markets to offset the reduced profits in the individual market. And because many insurers sell policies in all three markets, any reduction in administrative costs could have been spread across all of a given insurer's lines of business.

Provided by Commonwealth Fund

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