Frequently Asked Questions about Medical Loss Ratio (MLR)

AmeriHealth has begun work to implement the MLR provision of the Affordable Care Act – commonly called health care reform. The information below is to help employers and businesses better understand what the MLR provision is and why AmeriHealth needs to collect the average employee count and ERISA status of each customer group.

1. **What is medical loss ratio?**
   Medical loss ratio (MLR) is the percentage of each health care premium dollar, adjusted for taxes and fees that is used to pay claims, clinical services and activities that improve health care quality. For example, an MLR of 85 percent means that an insurer spent 85 cents of every premium dollar to pay claims, clinical services and activities that improve health care quality for enrollees.

2. **How will the average employee count information be used?**
   The average employee counts that AmeriHealth is collecting from customer groups will be used to determine if groups are considered small or large under the federal health care reform law. The MLR percentage thresholds vary by the small group market segment and the large group market segment, so it is important that each employer group is reported in the correct market segment. Failure to submit this information could result in misreporting to the U.S. Department of Health and Human Services and could impact any potential MLR rebates for employers and their employees.

3. **How does the law define 'employee' as it relates to the MLR provision?**
   The federal definition of an employee is any person for which an employer issues a W-2 form (including full-time, part-time or seasonal employees) and regardless of whether or not the employee has medical coverage through the employer.

4. **How do employer groups report their average employee count?**
   Employer groups that receive a letter from AmeriHealth requesting their average employee count and ERISA status can report their information by calling 1-888-575-6159 before February 20, 2012.

5. **Will employer groups be required to provide this information every year?**
   Yes. Beginning in early 2012 and ever year thereafter, we will collect customer groups' prior year's average employee count. The information will be used to determine MLRs and potential rebates due.

6. **Who is *not* considered an employee?**
   Retirees and 1099 contractors are not considered employees.

7. **How does the employer group calculate the correct number of employees?**
   The employer must provide the average number of employees employed by his or her company and any affiliated companies during the 2010 and 2011 calendar years.
   Ex: From January 1 through December 31, this average must include all persons employed by the company and any affiliated companies in the preceding calendar year, whether an employee was full-time, part-time, or seasonal. The government requires the total number, regardless of whether employees were eligible to enroll or participate in medical health plan coverage. Only include employees to whom the company issues a W-2. This number will essentially be the sum of all monthly employee counts, divided by 12 months.

8. **The law requires that AmeriHealth collect this information to place customer groups in the appropriate market segment. What are the market segments?**
   Employer groups with 50 or fewer average employees will be considered 'Small.' Employer groups with 51 or more average employees will be considered 'Large.' Individual coverage for individuals and families are considered 'Individual.'

9. **Does this categorization potentially change the market segment that the group will be rated in? (small versus large group)**
   Employer group size for this initiative is separate from rating categorization.

10. **What is ERISA?**
    ERISA (the **E**mployee **R**etirement **I**ncome **S**ecurity **A**ct of 1974) is a Federal law which covers employee benefit plans, both Qualified Retirement Plans and Welfare Benefit Plans such as group insurance and other fringe benefit plans. The goals of ERISA are to provide uniformity and protections to employees. ERISA imposes certain reporting and disclosure (to plan participants) requirements on employers. ERISA compliance is enforced by the Department of Labor. Failure to comply with ERISA can result in enforcement actions, penalties, and employee lawsuits.

11. **Which employers are subject to ERISA?**
    ERISA applies to virtually all private-sector corporations, partnerships, and proprietorships, including non-profit corporations—regardless of their size or number of employees. Churches and governmental employers are exempted from ERISA's Welfare Benefit Plan provisions.

12. **How is ERISA related to Health Care Reform and its medical loss ratio (MLR) provision?**
    Based on the Medical Loss Ratio Final Rules, AmeriHealth needs to track the ERISA status of each group customer. If a group is eligible for a rebate, ERISA-exempt plans are required to provide written documentation in the form of an affidavit, certifying that they will use the rebate to benefit enrollees. If written documentation is not provided, the rebate payment will be made to the individual subscribers instead of the group policyholder. ERISA covered plans are required to handle the rebate as a plan asset. The Department of Labor has published guidance for ERISA plans on its website at www.dol.gov/ebsa/healthreform.

13. **Does AmeriHealth expect that many of its customer groups will receive a premium rebate in 2012?**
    Your receipt of this letter does not indicate that you will receive a rebate in 2012. We are required to ask every customer group to help us with the group size and ERISA status, and at this point it is too early for us to know whether rebates may be issued by AmeriHealth in 2012.

14. **When will groups be notified if they are due a rebate?**
    Groups who are due a rebate will receive notification of the rebate when the rebate is issued.

15. **If AmeriHealth's MLR calculations result in a rebate for an employer group, when will the rebate be paid?**
    Rebates must be distributed by August 2012 for the 2011 MLR reporting year.

16. **Do employers need to provide the information, even if they no longer have health plan coverage through AmeriHealth?**
    Yes. If the employer had coverage with AmeriHealth at any time during 2011, we will need to collect this information.

17. **How is MLR calculated? What goes into the MLR calculation?**
    MLR is calculated by dividing the cost of medical services (incurred claims paid, plus expenses for health care quality improvement activities) for a period of time by the premium collected, minus federal or state taxes and licensing and regulatory fees, for the same period. For example, if an insurer uses 85 cents out of every premium dollar collected to pay its customers' medical claims and activities that improve the quality of care, the insurer has a medical loss ratio of 85%.

18. **What are the minimum MLR threshold requirements as outlined by the Affordable Care Act?**

Individual/Direct segment – 80%
Small Group segment – 80%
Large Group segment – 85%

19. **What do health care quality improvement activities include?**
Examples of quality improvement activities include case management, wellness programs, and disease management. Quality improvement activities generally fall into four categories:

- The activity is designed to improve health quality.
- The activity is designed to increase the likelihood of desired health outcomes in ways that can be objectively measured and can produce verifiable results.
- The activity is directed toward individual enrollees or segments of enrollees, as well as populations outside the enrollees, (as long as no additional costs are incurred for the non-enrollees).
- The activity is based on evidence-based medicine, best clinical practices, or criteria issued by professional medical associations.

20. **Can a group qualify for an MLR rebate on its own or is their part in this calculation part of a larger analysis by the insurer?**
Under the law, the MLR calculation is done by insurers in aggregate for each line of business. The calculations are not specific to an individual customer group's experience.