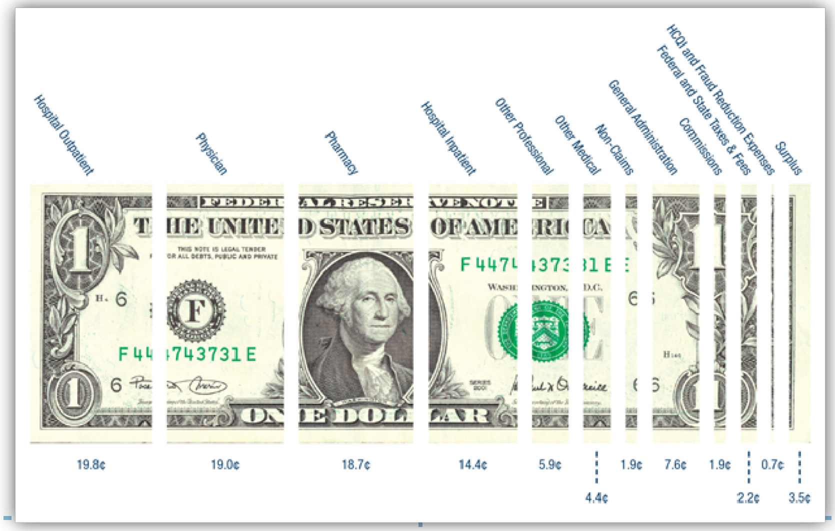
The Premium Dollar

How does a health plan spend the money it collects?

2020 Premium Dollar Distribution - Massachusetts



What is "MLR" and how does it impact premium spending?

In Massachusetts, health plans are required to spend 88% of premiums, **the highest Medical Loss Ratio in the country**, on direct medical services. If a health plan does not meet this percentage, they must rebate the excess premium to the consumer.

In 2020, the health plan MLR was 87% resulting in $58 million returned in MLR rebates to health plan members.

$58 million in rebates

returned to health plan members in 2020

How did COVID-19 impact MLR rebates?

MLR rebates are calculated on a 3-year retrospective. 2021 rebates will be calculated using data from 2018, 2019, and 2020 and will be reflective of the impact of COVID-19 on utilization for 2020, as well as the extraordinary measures health plans took to provide stability for consumers, employers, and providers, including:

- Waiving cost-sharing and copayments for testing and treatment
- Dedicated helplines and websites to educate consumers and respond to member inquiries about testing and treatment
- Open networks to facilitate rapid access to urgent testing and treatment
- Expanded telehealth coverage and payment at in-person rates
- Premium grace periods and/or waivers
- Coverage of vaccine administration fees
- Pre-emptive premium rebates

What's included in "non-medical spending"?

Non- medical spending includes taxes, fees, quality initiatives, fraud prevention, broker commissions, surplus contributions to reserves, and general administration. Administrative spending includes:

- enrolling and billing members
- paying claims to providers
- customer service
- investments in new technology and information systems
- care management programs for chronic diseases or complex conditions
- reporting requirements mandated by state and federal agencies
- government taxes and assessments on the health plans

Are there limits on health plan surplus?

1.9% cap on profit

Under state law, if a health plan's surplus exceeds 1.9%, premium rates filed by the health plan may be disapproved by the Division of Insurance. Surplus is typically directed into health plan reserves, money set aside to pay for unanticipated claims costs to ensure that hospitals and providers are paid.

Health plans are required to maintain a minimum percentage of reserves to protect against insolvency, ensure sufficient capital to pay unanticipated claims, and invest in new technology. This is known as risk-based capital (RBC). If a plan's RBC drops below a certain percentage, the DOI may place the health plan in receivership. If a plan's RBC exceeds 700% the plan is subject to a public hearing before the DOI.

700% cap on RBC