

5 Insights for executives

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Medical loss ratio (MLR) rebate exposure

What insurers need to do now

The Patient Protection and Affordable Care Act (PPACA) establishes MLRs as the mechanism to make sure that insurers with health business spend a minimum level of premium revenue on clinical services and activities to improve health care quality. If an insurer fails to reach the minimum level, it is required to provide a rebate to plan enrollees. Rebates are calculated using calendar-year activity, based on a formula developed by the National Association of Insurance Commissioners (NAIC). The rebate calculation is required to be filed with the Secretary of Health and Human Services (HHS) by 1 June of the following year, with any rebates paid by 1 August of that year.

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What's the issue?


Insurers need to take steps now to understand their MLR rebate exposure, and then take action soon to improve their MLR position and avoid or minimize rebate payouts, which will begin in 2012.

Minimum MLRs

Large group (101 enrollees or more) –
85% of premium revenue

Small group (1 to 100 enrollees) –
80% of premium revenue

Individual – 80% of premium revenue



*Insurers need
to take steps now
to understand their
MLR rebate exposure.*

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Why now?

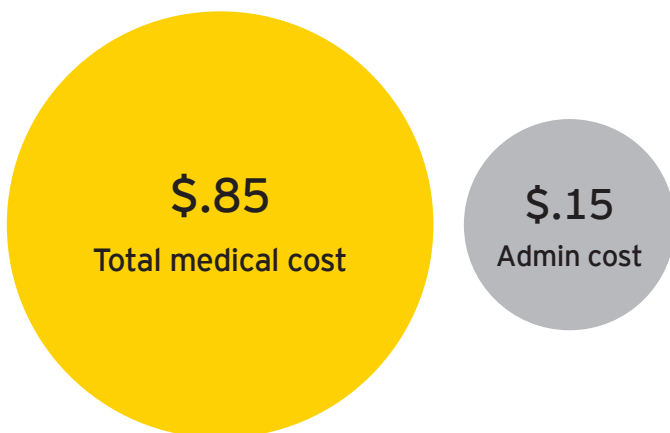
Insurers with health business completed their initial MLR filings to the NAIC on 1 April 2011. Analysts have completed a review of these initial filings and estimated that some insurers have a potential MLR rebate exposure in excess of \$300 million.

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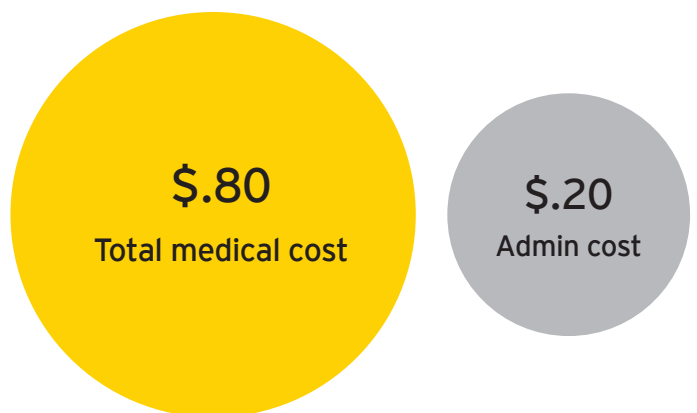
How does it affect you?

The MLR provisions define the target budgets for both medical and non-medical costs. Non-medical costs are targeted at \$.15/net premium dollar for large group plans, and \$.20/net premium dollar for individual and small group plans.

Total net premium dollar: large group



Total net premium dollar: individual, small group



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What's the fix?

Most importantly, health plans need to have a mechanism to estimate their MLR on a periodic basis (quarterly, monthly) during the course of the year, and a process for analyzing the results and determining where MLR is projected to be below target.

If your health plan's MLR is projected to be below target, there are generally four ways to improve the plan's MLR position:

1. Reduce administrative costs

Plans are looking to apply multiple cost-reduction levers – process transformation and automation, outsourcing, IT delivery improvements, streamlining of controls – across their business functions:

- ▶ Enrollment
- ▶ Provider contracting
- ▶ Broker/agent commissions
- ▶ Claims
- ▶ Information technology
- ▶ Medical management
- ▶ Utilization management

2. Reassess the classification of administrative costs

Your MLR position can be adversely affected if health care costs are inaccurately classified as administrative costs. It is critical for you to scrutinize all costs currently classified as administrative to identify any that can legitimately be reported as health care or quality improvement costs instead. Doing so will bring a double advantage, reducing the administrative component of MLR while increasing the health care component, thus making it easier for your plan to meet or exceed its MLR requirement.

3. Reinvest savings into your membership's wellness

By reinvesting administrative and medical savings into your membership's wellness, you can further decrease your plan's costs over time and thus continue to enhance your plan's MLR position.

By using advanced analytics to segment populations within your membership, you can create new types of programs with defined metrics. Employing and implementing a robust and integrated data set analytics solution will allow your plan to:

- ▶ Create relevant, health-related messaging and interventions targeted at high-risk members
- ▶ Invest in innovative delivery channels

Every plan should evaluate its population prior to executing any new or revised programs. While all programs have similarities across the population, the distributions across various disease states may vary significantly.

Expenditures to enhance your membership's wellness should be categorized as ongoing wellness programs and studies. The programs will evolve over time and become smarter as lessons are learned. The marriage of member data with outcomes and program data will become a strategic asset. A portfolio management approach should be used when you're managing multiple programs, allowing for real-time reporting on program status.

4. Reduce premiums

One method of directly affecting MLR is to reduce premiums for specific-state segments – large group, small group and individual. These premium adjustments are done as part of renewals, typically in combination with one or more of the expense-related MLR levers.

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What's the bottom line?

The introduction of the MLR reporting and rebate provisions in PPACA drives the need for health plans to develop new management disciplines to help minimize the effects of MLR on profitability:

- ▶ Developing and monitoring MLR estimates continually during the course of the year to evaluate and quantify their exposure to rebates
- ▶ Evaluating and applying multiple approaches to managing the impacts of MLR:
 - ▶ Reducing administrative costs
 - ▶ Reassessing the classification of certain administrative costs
 - ▶ Reinvesting savings into membership's wellness
 - ▶ Reducing premiums

A global approach to reducing utilization management (UM) costs

One of the limiting factors in reducing UM costs is the ongoing shortage of clinical reviewers and the associated higher labor costs. Other industries faced with a limited and (or) costly skilled labor force have effectively addressed this challenge by finding these resources globally. Take the example of MediCall.

MediCall is a specialized clinical services provider that currently processes more than 90,000 UM claims per month for more than 20 million US patients. US- and Philippine-licensed nurse teams, located in URAC-accredited operational centers, work as remote users within a client's own UM platforms. This approach has proven effective at significantly reducing UM costs while improving quality, consistency and productivity. MediCall's US- licensed registered nurses transparently provide services in a variety of UM aspects, such as:

- ▶ UM intake
- ▶ Inpatient precertification or predetermination
- ▶ Concurrent, outpatient or retrospective utilization review
- ▶ Network direction

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