

80/20 Rule Delivers More Value to Consumers in 2012

The Affordable Care Act holds health insurance companies accountable to consumers and ensures that American families receive value for their premium dollars. Because of health care reform, insurance companies now must disclose how much they spend on health care and how much they spend on administrative costs, such as salaries and marketing. If an insurance company spends less than 80% (85% in the large group market) of premium on medical care and efforts to improve the quality of care, they must rebate the portion of premium that exceeded this limit. This rule is commonly known as the 80/20 rule or the Medical Loss Ratio (MLR) rule.

Consumers benefit from the 80/20 rule in two ways. First, they benefit upfront because insurance companies now keep premiums lower and operate more efficiently in order to meet the 80/20 rule. And second, if an insurance company doesn't meet the 80/20 rule, then the consumer benefits by receiving a rebate for the amount that exceeds this threshold. In 2012, the 77.8 million consumers in the three markets covered by this 80/20 rule saved \$3.4 billion upfront on their premiums because of the 80/20 rule and other Affordable Care Act programs. Additionally, consumers will save \$500 million in rebates, with 8.5 million enrollees due to receive an average rebate of approximately \$100 per family.

Insurance companies must pay the rebates by August 1, 2013. Rebates can be paid in four ways. You may receive a rebate check in the mail, a reimbursement to the account you used to buy your insurance, a reduction in next year's premium, or, if you bought your insurance through your employer, your employer must use the rebate for your benefit.

Figure 1 shows that savings went up from 2011 to 2012. While the amount of rebates declined in 2012 over 2011 (shown in red), the value for consumer premium dollar increased, reflected as premium savings, (shown in blue). Premium savings are the amount that consumers would have paid if their insurance company's MLR did not improve from 2011 to 2012. Figure 2 shows that the percent of enrollees receiving upfront value increased from 2011 to 2012. And, insurance company overhead was lower in 2012 than 2011 as can be seen in Figure 3.

Additional information on 2012 MLR rebates by state and by market can be found at:

<http://www.cms.gov/CCIIO/Resources/Data-Resources/Downloads/2012-mlr-rebates-by-state-and-market.pdf>

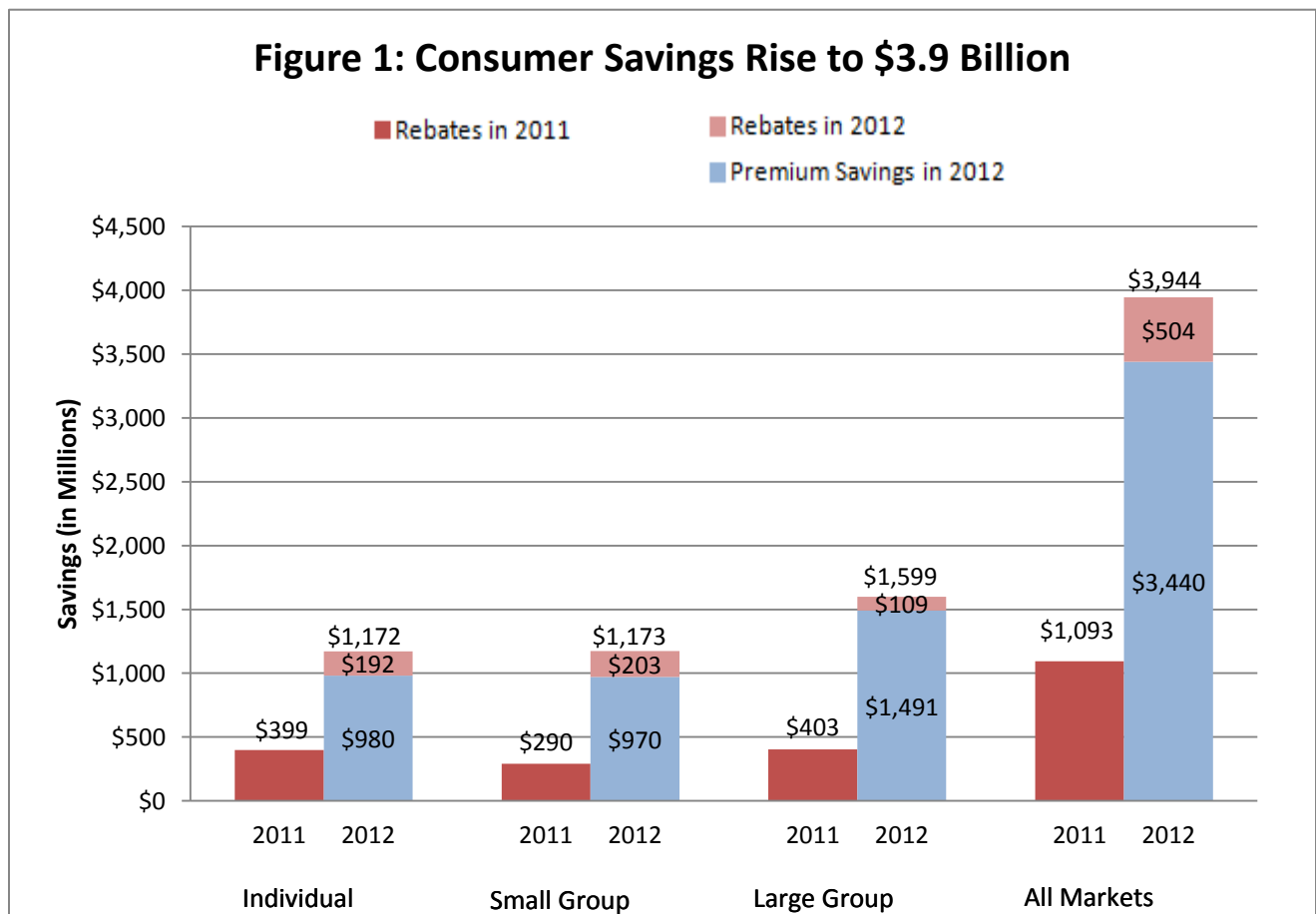


Figure 2: More Enrollees Receive Upfront Value

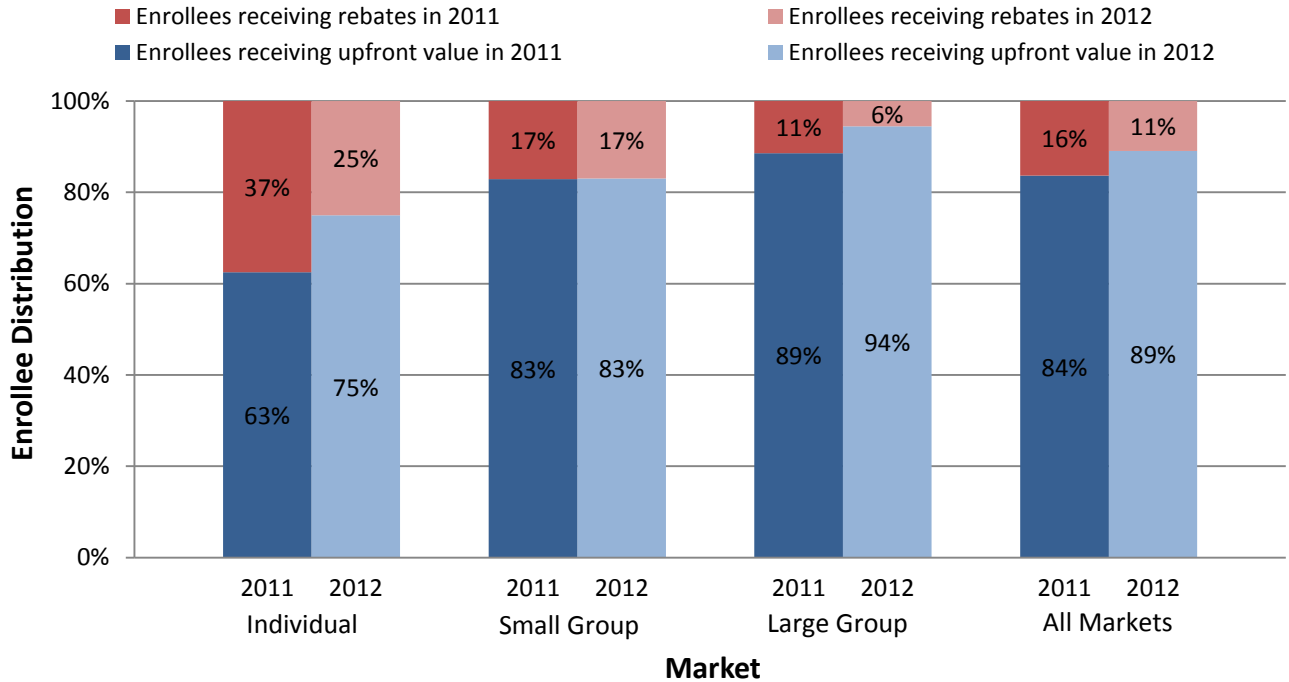


Figure 3: Overhead Spending Declines

