The Check’s In The Mail

If you are a small business owner who provides health benefits to your employees, there's a fairly good chance you'll get a check in the mail from your insurer in August. How good of a chance? Some analysts are predicting a greater than one in four, actually. But don’t hold your breath!

The Kaiser Family Foundation, just released a report that says health insurance providers are expected to owe businesses and individuals an eye-popping $1.3 billion this year. That's because of the Medical Loss Ratio provision of the Affordable Care Act, which requires insurance companies to spend at least 80 percent of small groups' premium expenses on patient care and quality improvement, and limit administrative costs to 20 percent of premium contributions. If they go over the limits, they've got to hand out rebates for the difference. (Although many large employer plans already meet that standard, it’s the first time the government has imposed such a requirement on the entire health insurance industry.)

The MLR rule, as it's called, went into effect January 1, 2011, making this the first year insurer rebates will be issued. Kaiser analyzed the insurers' filings to state insurance departments (all figures exclude California, where data was not available.)

According to the report, 28 percent of small business employers offering benefits in 42 states will receive a rebate. (Small group plans cover approximately 4.9 million enrollees.) Nationwide, 246 insurance plans are expected to hand back an estimated $377 million to small business.

The average amount is projected to be $76 per enrollee, though amounts are estimated to be much higher in states such as Alaska ($517), Alabama ($203), Oregon ($172), Louisiana ($170) and Massachusetts ($167).

But, don’t spend your check yet!!!! Insurers offering coverage to small businesses in eight states (Hawaii, Minnesota, North Dakota, New Hampshire, New Mexico, Rhode Island, South Dakota and Vermont) are not expecting to issue rebates. For example, Blue Cross of Minnesota plans meet medical loss ratio requirements and will not be issuing any rebates

Blue Cross of Minnesota issued a statement last week in response to the Kaiser report saying that they are “not planning on issuing any rebates. Our plans comply with the required medical loss ratio requirement that 80 to 85 percent of premiums be spent on health care and improvements in the quality of care. We continue to provide health plans that ensure our mutual clients and their employees get better value for their health care dollar.” Therefore, because Blue Cross plans meet medical loss ratio requirements they will not be issuing any rebates.

The insurance industry says those receiving rebates shouldn't be too delighted, because premiums are likely to rise because of the new benefits and other requirements of the law. Robert Zirkelbach, a spokesman for industry trade group America's Health Insurance Plans, told the Insurance Journal that "the net of all the requirements will be an increase in costs."

The Kaiser report suggested the opposite, saying the rebate requirement could keep insurers from hiking premiums—both to avoid criticism and having to pay out refunds later. The report said that “The presence of these thresholds and the corresponding rebate requirement have provided an incentive for
insurers to seek lower premium increases than they would have otherwise. This 'sentinel’ effect on premiums has likely produced more savings for consumers and employers than the rebates themselves.”

Employers don't have to pass their rebates on to workers, and can also take them as a discount on next year’s premiums.

The future of rebates, like everything else about the health care reform laws, is wait-and-see: The Supreme Court decision on the fate of the overhaul is not expected until June.

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