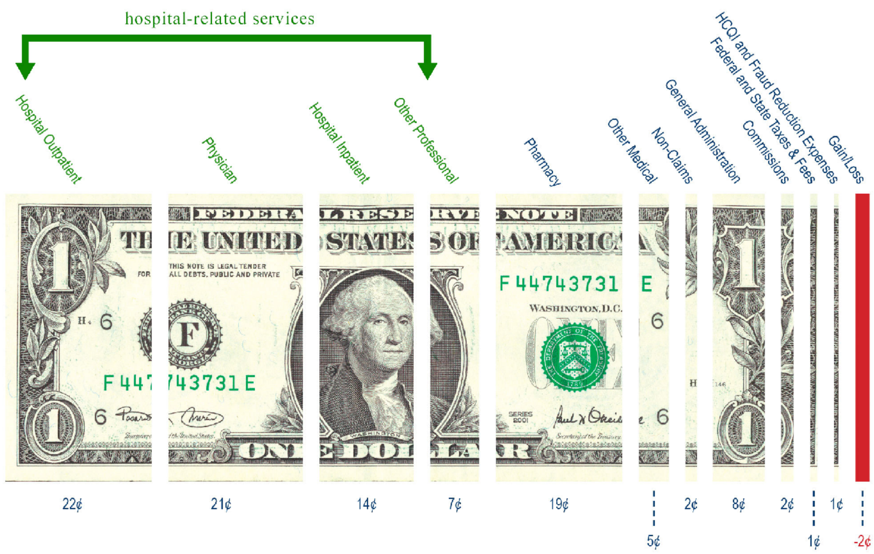
The Premium Dollar

How does a health plan spend the money it collects?

2022 Premium Dollar Distribution - Massachusetts



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

Massachusetts has the **highest Medical Loss Ratio (MLR) in the country**, requiring health plans in the merged market to spend 88% of premiums on direct medical services. If a health plan does not meet 88%, they are required to rebate the excess premium to the consumer.

In 2020 and 2021, health plans in Massachusetts issued a total of $58 million and $47 million in premium rebates to health plan members.

$105 million in rebates

returned to health plan members in 2020 and 2021

Reserves, Surplus and MLR rebates: Explained

MLR rebates are calculated on a 3-year retrospective. 2022 rebates will be calculated using data from 2019, 2020, and 2021 and will be reflective of the impact of COVID-19 on utilization for 2020 and 2021. The MLR limits the amount of premium income that insurers can keep for administration, marketing, and profits. Insurers are required to pay back excess profits or margins in the form of rebates to their members.

Reserves represent liabilities, and are funds set aside to cover expenses for which an insurer has accepted liability, and which are currently due or will become due in the future. Health Plans use reserves to protect members, accounts, and providers.

Surplus is the money set aside to pay for unanticipated financial losses due to changes in the economy, regulatory changes or new requirements. Federal and State laws regulate surplus as adequate levels of surplus are essential for consumer protection and to meet obligations to health care providers.

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

Non- medical spending includes taxes, fees, quality initiatives, fraud prevention, broker commissions, **contributions to surplus**, 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 contribution to surplus exceeds 1.9% of premiums or if the aggregate MLR for plans is less than 88 per cent, premium rates filed by the health plan may be disapproved by the Division of Insurance (DOI).

Health plans are required to maintain a minimum capital and surplus to protect consumers, ensure sufficient capital to pay unanticipated claims or financial losses and invest in new technology. This is risk-based capital (RBC) requirement. 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