Consumers Benefitted From 80/20 Rule in 2013

The 80/20 Rule

The 80/20 rule of the Affordable Care Act offers important consumer protections to 78 million people nationwide who have health insurance coverage through their employer (known as the group market) or purchase their own health insurance in the individual market. The 80/20 rule, also known as the Medical Loss Ratio (MLR) rule, generally requires health insurance companies in the individual and small group markets to spend at least 80 percent of premium dollars they collect on medical care or activities to improve health care quality, and 85 percent in the large group market. Companies report their premiums and spending by market (individual, small group, and large group markets) for each state in which they operate. As shown in **Figure 1**, the percent of consumers insured by companies that met or exceeded the MLR standard has risen each year since the 80/20 rule went into effect in 2011.

Refunds

If insurance companies do not meet or exceed the 80 or 85 percent MLR standard, they must pay refunds to make up the difference. In the first three years of the MLR program, individual and employer plan enrollees received or will receive over $1.9 billion in refunds. In this year alone, 6.8 million consumers across all states and markets will receive over $330 million in refunds, with an average refund value of $80 per family. Health insurance companies are required to provide the 2013 refunds by August 1, 2014 in one of the following ways: as a check in the mail; a reimbursement to the account that was used to pay the premium; a direct reduction in their future premiums; or, if the consumer bought insurance through their employer, the employer must provide the refund in one of these three ways or apply the refund in a manner that benefits its employees.

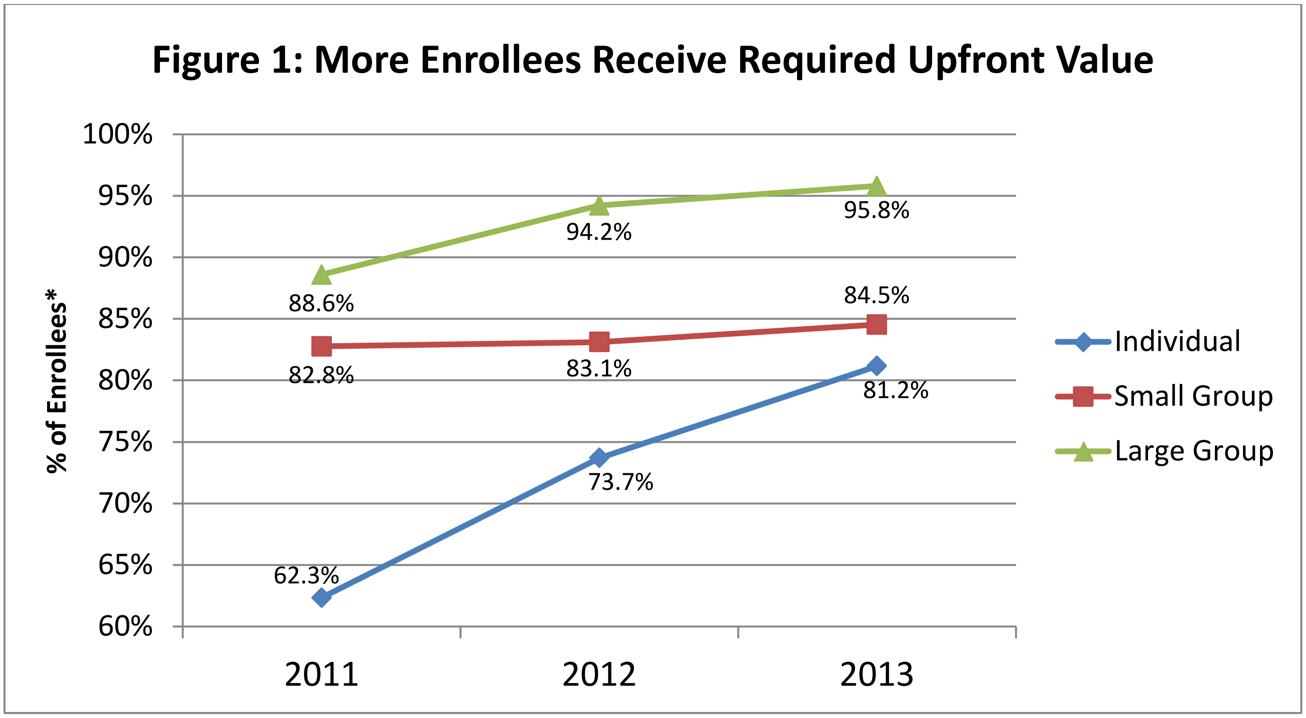
Premium Savings

While refunds serve as a stopgap measure to ensure that consumers receive the required value for their premium dollars, consumers are also saving money upfront because companies are charging lower premiums and operating more efficiently than they would have in the absence of the 80/20 rule and other health care reforms. If insurance companies had maintained their 2011 ratios of premiums relative to the cost of medical care, consumers would likely have paid an estimated $3.8 billion in additional premiums in 2013. **Figure 2** shows the total savings by market, broken down into refund savings and estimated upfront premium savings. Since 2011, consumers have saved an estimated $9 billion.

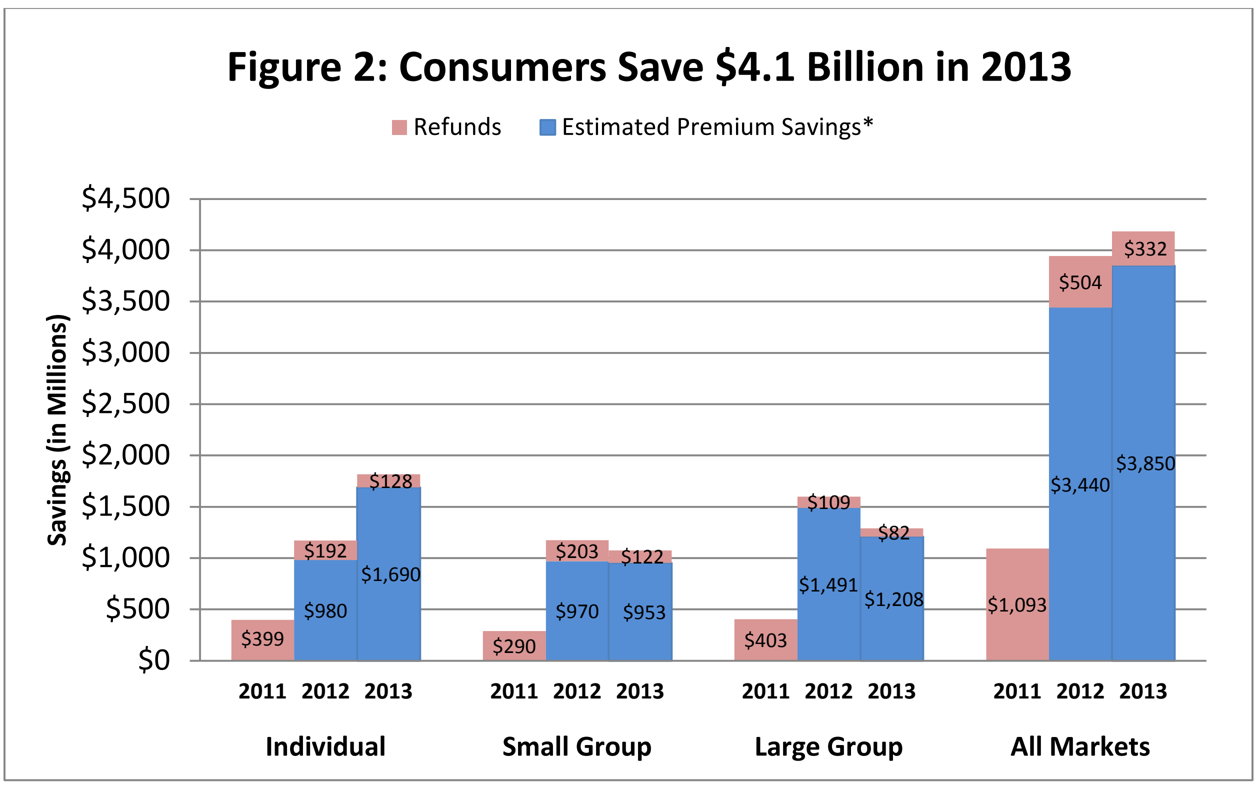
Administrative Expenses

Another way to measure the value for consumers is to look at how insurance companies are spending money on expenses other than medical claims and quality improvement activities. A smaller portion of premium dollars directed to administrative costs and profit indicates that consumers are receiving a higher return on their premium dollars. **Figure 3** shows that the percent of premium dollars allocated to administrative costs and profit dropped in all markets since the introduction of the 80/20 rule. The largest decline is in the individual market, where profits and overhead spending as a percent of premium dropped from 15.3 percent in 2011 to 11.7 percent in 2013. In the group markets, administrative spending increased slightly from 2012 to 2013, but shows a net drop from 2011 to 2013.

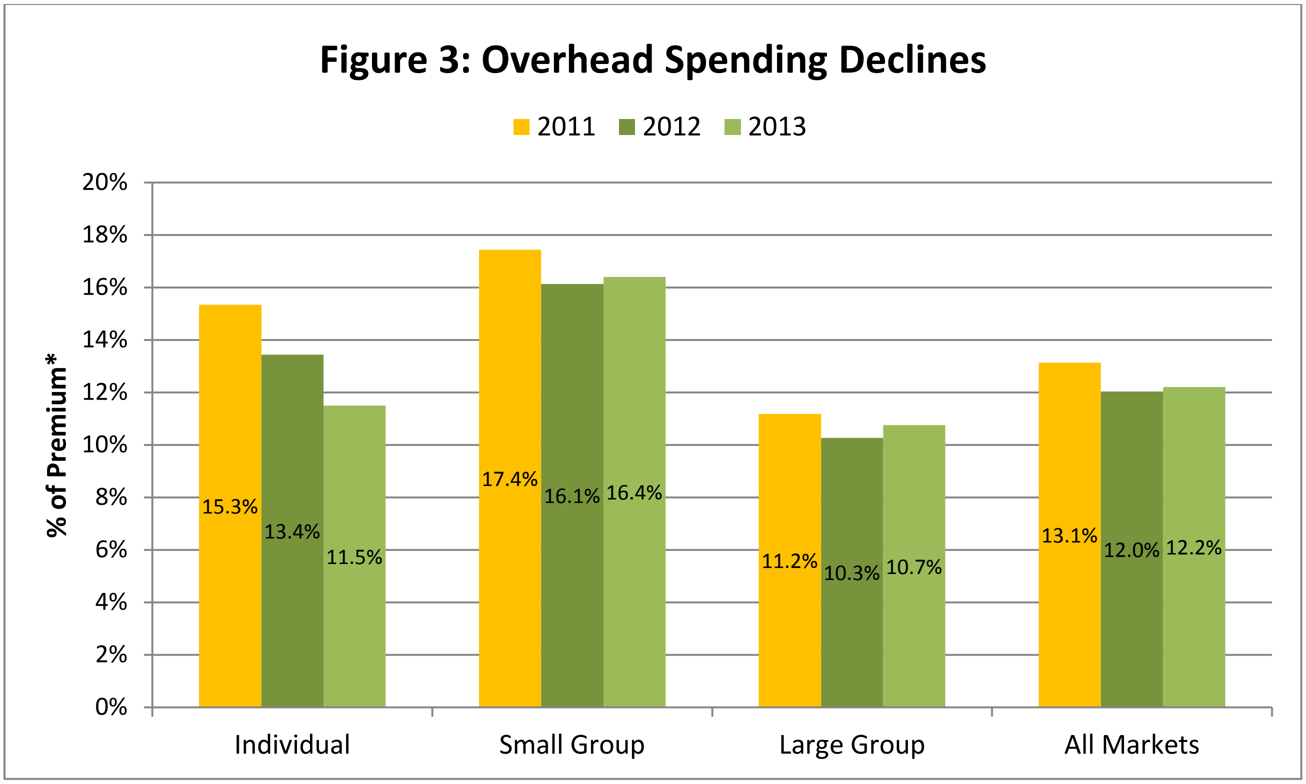
For more information on 2013 MLRs and refunds by state and by market, visit http://www.cms.gov/CCIIO/Resources/Data-Resources/mlr.html.



**Enrollees covered by insurance companies that met or exceeded the MLR standard in the respective state and market.*



**Estimated premium savings are calculated relative to 2011, the first year of the 80/20 rule and data collection.*



**Values reflect reported administrative costs and profits as a percent of premium.*