

# Medical Loss Ratio Frequently Asked Questions for Subscribers Receiving Rebates From Their Group Policyholders

**For additional information or questions regarding the attached letter, please contact Customer Service at 877-835-6082 Monday through Friday, 8 a.m. to 8 p.m. EST and Saturday 9 a.m. to 4 p.m. EST.**

On March 23, 2010, the Affordable Care Act (ACA) was signed into law. The law, which is commonly referred to as health care reform (HCR), contains mandates that must be implemented at specific times.

One requirement of the law relates to provisions regarding potential rebates from insurers and health maintenance organizations (HMOs) to employers and individuals if certain minimum standards regarding medical claims payment, also known as Medical Loss Ratio (MLR), are not met.

MLR is calculated by insurers and HMOs, such as various subsidiaries of Coventry Health Care, Inc. (collectively "Coventry Health Care"). The MLR is defined as the percentage of premiums insurers/HMOs spend on medical care, less federal and state taxes and licensing and regulatory fees. The MLR is used to determine if a refund is due in any of the market segments in which Coventry Health Care operates. Individual, small-group and large-group are examples of market segments. Rebates are calculated by legal entity, by state and then at the market segment level. It is a complex calculation. For instance, an insurer/HMO may owe rebates for one market segment but not for others, even within the same state.

Your group policyholder will be receiving a rebate. The questions and answers below are provided to help you learn more about the process.

Question	Answers
What is a Medical Loss Ratio (MLR)?	The MLR is the percentage of premiums, less federal and state taxes and licensing fees, that insurers/HMOs spend on medical care. Inpatient hospitalizations, doctor visits, preventive care and prescription drugs are examples of just some of the medical services that are considered in the calculation.
What are the minimum MLR thresholds that insurers must meet regarding premium rebates?	The minimum threshold varies based on group size. The ACA defines a small group as having one to 100 subscribers. Some states, however, can currently define a small group as having one to 50 subscribers. Groups that are not defined as small are considered large groups.  The minimum MLR thresholds for large and small groups are listed below: <ul style="list-style-type: none"> <li>Large group – 85%</li> <li>Small group – 80%</li> </ul> If the MLR is below the percentage shown above, the insurer/HMO owes a rebate payment to group policyholders in that market segment (i.e., small group) in that state. <b>Note:</b> Minimum MLR thresholds may vary in some states. Any state-specific variations would be noted in the enclosed letter.
When did Coventry Health Care need to report its MLR to the government?	Insurers/HMOs were required to provide MLR data to the federal government by June 1.
When will Coventry Health Care issue the rebates?	Rebates must be issued by August 1. The rebate will be issued to your group policyholder, who is required to use the rebates as outlined in the December 2011 guidance by the U.S. Department of Labor.



Question	Answers
<p>Why is the credit issued to my group policyholder and what are their obligations as an employer group?</p>	<p>This depends on a number of things. In most cases, the regulations allow insurers/HMOs to distribute the rebates to the policyholder (employer). The requirements differ, however, depending on whether or not the group 1) is subject to the Employee Retirement Income Security Act (ERISA); 2) is a nonfederal government plan; or 3) is not subject to ERISA and not a nonfederal government plan (i.e., church plans).</p> <ul style="list-style-type: none"> <li>• <b>Plans subject to ERISA:</b> With a few rare exceptions, nongovernmental and non-church plans are subject to ERISA. Rebates for plans subject to ERISA should be paid to the group policyholder (employer).</li> <li>• <b>Nonfederal government plan (state and local government):</b> Rebates should be paid to the group policyholder. Rebates must be used in the following manner: <ul style="list-style-type: none"> <li>– The group must use the amount of the rebate that is in proportion to the total amount of premiums contributed by subscribers as follows: <ul style="list-style-type: none"> <li>› Reduce the subscribers' part of the premium for the next policy year for all subscribers enrolled under any health benefit plan option offered by the group at the time the rebate is received; or</li> <li>› Reduce the subscribers' part of the premium for the next policy year for all subscribers enrolled <b>under the health benefit plan option for which the rebate is being paid</b>; or</li> <li>› Issue a cash refund to subscribers <b>enrolled under the health benefit plan option for which the rebate is being paid</b>; or</li> <li>› At the option of the group, divide the reduction in future premiums or cash refund evenly among such subscribers based on each subscriber's actual contributions to premium, or distribute the rebate in a manner that reasonably reflects each subscriber's actual contributions to premium.</li> </ul> </li> <li>– The portion of rebate based upon former subscribers' contributions to premiums must be aggregated and used for the benefit of current subscribers.</li> </ul> </li> <li>• <b>Non-ERISA, nonfederal government plans (mostly church plans):</b> In order to pay rebates to the group policyholder (employer), the insurer/HMO (such as Coventry Health Care) must receive written assurance from the policyholder that the rebates will be used to benefit members similar to the requirements for nonfederal government plans. Otherwise, the insurer/HMO must pay the rebates to the subscribers covered by the group policyholder during the MLR reporting year. If the rebates are paid to the subscribers, they are divided equally among the subscribers.</li> </ul>
<p>What if the group or subscriber terminated prior to the rebate being issued?</p>	<p>The MLR calculation is based on the previous year's premium paid, so the group or member would still be due the rebate.</p>
<p>What if the group or subscriber was terminated for nonpayment of premium?</p>	<p>The MLR calculation is based on the previous year's premium paid, not billed, so the group or member would still be due the rebate. The rebate would be calculated based on premiums paid.</p>
<p>Where can I obtain the calculations used to determine if my group qualifies for a rebate?</p>	<p>This notice is intended to inform you about the MLR process and how it may affect you. Coventry Health Care has followed the federal guidelines to calculate the MLR. We submitted the results to the appropriate federal agency. Details about specific MLR calculations will not be shared with our customers, as the outcomes are based on the experience of an entire segment of similar policyholders, not individual clients.</p>

