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## Medical loss ratio sounds like a good thing, but isn't necessarily

A controversial federal directive emanating from the Patient Protection and Affordable Care Act is the medical loss ratio, or MLR. It requires insurers to spend at least 80 to 85 percent of premium income for small-group and individual policies on direct medical care or to improve quality of care, rather than use it for "administrative costs."

If they fall below this, they must give back to the enrollees the amount of the deficit in the form of a premium rebate.

On the surface, the idea that the consumer could get back some of their premium sounds like a great benefit. But there are some underlying factors that may have a heavy impact on the marketplace.

One segment of "administrative costs" revolves around sales or limiting any kind of marketing expenses. A potential consequence of this will be to put a constraint on any form of policy owner services that now are pretty much taken for granted.

Instead of your insurance broker answering any enrollment questions, correcting claim or billing errors, etc., these issues may fall into either the employer's lap or insurance bureaucracy.

In other words, the MLR is eliminating, by default, the least expensive form of consumer advocacy.

Then, any payment an insurer makes to a doctor or hospital will count as medical care. That being the case, insurers will be



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motivated to shift administration costs to the providers. And the principal way of accomplishing this is to have a fixed fee for services, or an HMO.

Any efforts to detect and prevent fraud or doctor credentialing will not count as medical care, so fraud may be overlooked, and getting rid of bad doctors will not be a priority.

In addition, the MLR restricts what insurers can spend to compete with one another, meaning large insurers will be favored over small regional ones.

We're already seeing an exodus of insurers from the market, including one regional carrier pulling out of 20 states and another pulling out of 16 states.

So, although the MLR seemingly is capitalizing on the public's general resentment of the insurance industry, its intentional interference may cause these and other lasting problems.

Henry Grosjean has been an insurance broker since 1979 and was instrumental in passage of the Uniform Health