



Following Patients' Premium Dollars: Examining the Medical Loss Ratio (MLR)

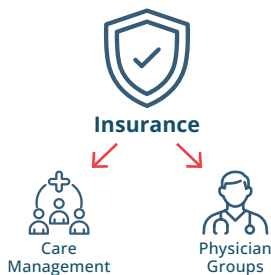
At a time when Americans are paying more than ever for health coverage, it is critical that their premium dollars support their care. **Medical Loss Ratio (MLR)** standards were enacted by Congress to help **ensure consumers' premiums are spent on patient care**, but the insurance market has changed dramatically since those rules were adopted. Rising premiums and out-of-pocket costs are raising questions about whether existing rules are sufficient to ensure health insurance premiums accurately reflect the cost of medical care.

Vertical Integration in Today's Insurers

Today's insurers look very different than they did when MLR was enacted. Many are now vertically integrated, operating not only insurance businesses but also physician groups, pharmacies, pharmacy benefit managers and utilization management companies.

Traditional Insurance Market

Insurance is core business, with limited owned assets



Today's Insurance Market

Insurers operate across the care continuum, including pharmacy, PBM, physician and care management assets.



Medical Loss Ratio

Medical Loss Ratio (MLR) rules were designed by Congress to ensure a majority of patients' premium dollars are spent on their health care.



Allowable Medical Expenses
(Claims + Quality Improvement +
Other Patient Care)

MLR = _____



Net Premiums Earned
(Premiums - Taxes, Licenses & Fees)

Under federal law, insurers generally must spend at least 80 to 85 percent of premium dollars on patient care, while up to 15 to 20 percent may be used for administrative costs and profit.

How Vertical Integration Changed the Equation

As insurers have expanded into physician practices, pharmacy benefit management, pharmacies and utilization management services, a growing share of health care spending now flows through entities owned by insurance companies.



Under current rules, these payments may still be reported as "medical spending," even when they are not clearly tied to patient care, raising new questions about transparency, accountability, and whether existing MLR requirements work in today's health care market and provide patients with a clear picture of how premium dollars are spent.