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Medical Loss Ratios: What to Expect

ACA's Medical Loss Ratio Requirements

A provision of the Affordable Care Act (ACA), known as the medical loss ratio (MLR), requires medical insurance companies to issue rebates to policyholders if the insurance companies don't spend a certain amount of their premium income on claims and quality improvements. Read on for more information about the MLR provisions and how they could affect you and your worksite employees.

What this means to ADP TotalSource® clients

As with any federal law, the rules are intricate and complicated. On December 2, 2011, the U.S. Department of Labor (DOL) issued Technical Release 2011-04, which provides guidance regarding the duties of an employer and/or plan sponsor on how to handle MLR rebates received. ADP TotalSource, as the plan sponsor of the ADP TotalSource, Inc. Health and Welfare Plan, has worked with its outside advisors to ensure we're prepared to administer any MLR rebates received from our carriers in accordance with the applicable guidance.

The details

The MLR rules require that a carrier whose MLR is less than 85% in the large group market or 80% in the small group market must provide a rebate to policyholders.¹ The ADP TotalSource, Inc. Health and Welfare Plan is a large group plan. As a result, the 85% MLR threshold applies to all policies ADP TotalSource sponsors for the benefit of participants in the ADP TotalSource, Inc. Health and Welfare Plan.

How MLRs are calculated

MLRs are calculated by dividing health care claims and quality improvement by the carrier's premium income (minus taxes and regulatory fees).

Medical loss ratio calculations

ACA MLR

=

Health Care Claims +
Quality Improvement Expenses

Premiums - Taxes, Licensing &
Regulatory Fees

Source: Kaiser Family Foundation.

Just the facts:

Top things to know about medical loss ratios

- ADP TotalSource is a large group plan, subject to carriers' 85% MLR threshold.
- ADP TotalSource is the plan sponsor of the ADP TotalSource, Inc. Health and Welfare Plan.
- Rebate calculations are based on the 2013 calendar year.
- Rebates are calculated by state, market segment and carrier's legal entity.
- Important Date: By August 1, carriers are required to send rebate-qualifying policyholders notice of their rebate and send members notice of whether their plan is eligible for a rebate.
- You and your worksite employees may receive multiple notices from carriers if you were both a member and policyholder under different carriers and/or policies in 2013.
- Carriers must pay rebates no later than August 1.
- ADP TotalSource works with its carriers to identify any states and policies that may be eligible for rebates.
- ADP TotalSource will administer any MLR rebates received in accordance with applicable DOL guidance.



Carriers must calculate MLR based on three criteria:

- State (based on policies issued in the state)
- Market segment (i.e., large group, small group and individual)
- Carrier's legal entities (i.e., carrier's HMO and PPO filings may be under different entities)

MLR reporting and timing

The MLR provisions require carriers to submit an annual report of their premiums and expenses to the U.S. Department of Health and Human Services (HHS) on June 1 after the end of the previous calendar year. Carriers that are required to issue rebates must notify members and policyholders and issue rebates to policyholders by August 1. Generally, policyholders that choose to distribute rebates must do so within three months of receiving the rebates.

What happens to rebates paid by carriers

The MLR rules require carriers in the group market to provide MLR rebates to the policyholder, but only if the rebate owed is greater than \$20. In the case of an ERISA²-regulated group health plan, all or a portion of any rebate paid may be considered a plan asset, which subjects it to the ERISA fiduciary rules under DOL Technical Release 2011-04.

Generally, the portion of a rebate attributable to participant contributions is considered plan assets. Rebates that are plan assets must be used for the exclusive benefit of plan participants and beneficiaries. How the rebate is allocated is an ERISA fiduciary decision that may take into account the costs to the plan and the ultimate plan benefit, as well as the interests of the participants, but must be reasonable, fair and objective. If the plan fiduciary determines that distributing payments to participants is not cost-effective, the fiduciary may apply the rebate toward future participant premium payments or toward benefit enhancements.

Communications you and worksite employees may receive from carriers

Insurance carriers must provide notices of rebates to members and group policyholders if a rebate is due. The carrier's rebate notice will include general information about the MLR calculations, the carrier's actual MLR, and the rebate due to the policyholder.

We want you to be aware of this notification requirement, because current or former worksite employees may ask you questions about the notice and what it means to them. We know that most carriers will be using the "rebate to be issued" template notices issued by HHS and will mail these notices by the end of July.

As an ADP TotalSource client company, you won't receive any policyholder-specific notification from carriers. This is because the ADP TotalSource, Inc. Health and Welfare Plan provides benefits through fully insured policies that have been issued in various states through different insurance carriers, and ADP TotalSource, as the plan sponsor, is the policyholder. As a plan participant, however, you receive member-specific notifications directly from applicable carriers.

Did you have medical plan changes in 2013?

Please note that although the ADP TotalSource, Inc. Health and Welfare Plan has a Plan Year that runs from June 1 through the following May 31, the MLR rebates are calculated on a calendar year basis. As a result, if you changed coverage during Open Enrollment for the 2013-2014 Plan Year, you and your worksite employees were likely covered through different policies which will each have a separate MLR calculation. Also, if you joined ADP TotalSource after January 1, 2013, you may receive MLR correspondence related to your prior plan coverage in addition to correspondence that you may receive related to coverage received through the ADP TotalSource, Inc. Health and Welfare Plan.

ADP TotalSource is proud to offer a medical plan that compares with those offered by Fortune 500® companies. We remain committed to keeping you informed of the most recent health care reform developments and their potential impact on your company and worksite employees. If you have any questions, we encourage you to contact your ADP TotalSource HR Business Partner.

¹ Under health care reform, the large group market is defined to include any "employer with an average of 101 or more employees during the preceding calendar year." Until 2016, states have the option of defining large employers as those having 51 or more employees, and small employers as those having 50 or fewer employees during the preceding calendar year. Self-insured plans are not subject to the MLR requirement.

² Employee Retirement Income Security Act of 1974, as amended, a federal law that sets minimum standards for pension and welfare plans.