IRS (Internal Revenue Service) Releases Final Medical Loss Ratio Rule

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On January 7th, the Internal Revenue Service (IRS) published a final rule outlining guidance on computing and applying medical loss ratios (MLR) under the Affordable Care Act (ACA). The MLR provision (Section 2718 of the ACA) requires health insurers to spend 80% or 85% of all premium dollars on medical care or activities that improve health care quality. Insurers that fail to meet the MLR targets must provide their customers with rebates for the difference between actual expenditures and the target.

The ACA added MLR requirements to the Internal Revenue Code (IRC) for Blue Cross and Blue Shield organizations and certain other qualifying health care organizations. The final IRS rule provides guidance on the following MLR provisions:

1. Determining the MLR (i.e., the MLR numerator and denominator)
2. Elements used to compute the MLR
3. Non-application of the MLR IRC provisions for insurers that have an insufficient MLR (i.e., a MLR of less than 85%)
4. When a change under the MLR IRC provisions will be treated as a material change in the operations of the organization or its structure
5. Accounting for unearned premiums

Additional information regarding the MLR is available via our blog posts: CMS MLR Ruleand HHS guidance on MLR.

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