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Monday, November 22, 2010 1:19 PM EST

Spend healthcare premiums on healthcare, rule says

By Joseph Picard

Another section of the Affordable Care Act, the Obama administration's massive overhaul of the American healthcare system, was wheeled out today, when Secretary of Health and Human Services Kathleen Sebelius introduced a new regulation that will require insurers to spend between 80 and 85 percent of their customers' premiums directly on their customers' health care.

"Thanks to the Affordable Care Act, millions of Americans will get better value for their health insurance premium dollar," Sebelius said. "These new rules are an important step to hold insurance companies accountable and increase value for consumers."

Known as the "medical loss ratio" provision of the APA, the regulation will take effect in January 2011.

Noting that many insurers spend a "substantial portion of consumers' premium dollars" on administrative costs and profits, Sebelius said insurers will now have to show that 80 to 85 percent of the costs to consumers went directly to consumers healthcare or, starting in 2012, insurance companies will have to provide rebates to make up the difference.

The government estimated that up to 9 million Americans could be eligible for rebates, starting in 2012, worth up to $1.4 billion.

"These new rules fill a hole in consumer protections in the majority of states," said Kathleen Stoll, deputy executive director of Families USA, a national nonprofit and healthcare advocate.

"The rules make sure that, in every state, the lion's share of consumers' premiums will be used for quality medical services rather than be pocketed by insurance companies for CEO salaries, advertising, administrative costs, and profits," Stoll said.

The Affordable Care Act required the National Association of Insurance Commissioners, or NAIC, to develop uniform definitions and methodologies for calculating insurance companies' medical loss ratios. Today's regulation certifies and adopts the recommendations submitted to the Secretary of HHS in October 2010 by the NAIC, authorities said.

"The new, required premium-to-medical care ratio rules were drafted by the National Association of Insurance Commissioners through a long, careful process that was transparent and that allowed consumers and all interested stakeholders a place at the table and an opportunity to voice their concerns," said Stoll from Families USA. "The resulting recommended rules represent a fair balance of interests, and we are very pleased that HHS has adopted the NAIC recommendations."

Not everyone is pleased.

Michael Tanner, senior fellow at the Cato Institute and a prominent critic of the Affordable Care Act, said the medical loss ratio regulation may prove another example of the "law of unintended consequences."

"Some administrative costs are probably wasteful and should be curtailed, but in other cases this regulation may be stopping insurance companies from doing things we'd want them to do," Tanner said.

For example, studying how different prescription drugs may adversely react with each other when taken by the same patient is valuable research done by insurers and paid for by administrative costs, Tanner said.

"The administrative costs for most insurance companies are not as high as many believe, and are already down in the 20 percent area," Tanner said. "Enacting this regulation could amount to throwing out the baby with the bathwater."

Tanner said that several states have tried such measures and had to abandoned them, because the insurers threatened to take their business elsewhere.

While it is unlikely that insurance companies will start to flee the U.S., this regulation could "cause insurance companies to significantly reduce their underwriting," he said.