Impact of COVID-19 on 2021 Commercial MLR Rebates

The Affordable Care Act (ACA) medical loss ratio (MLR) provision requires commercial health insurance providers to spend a certain percentage of premiums on medical care and limits the portion of premium dollars that can be spent on administration, marketing, and profits. In the individual and small group markets, health insurance providers must spend at least 80% of premiums on claims and quality improvement. The MLR threshold for large group plans is 85% of premiums.[1] If plans do not meet these thresholds, they are required to pay rebates. MLR rebates are based on a three-year average. Rebates paid in 2021 will based on 2018, 2019, and 2020 financial data and will be paid to consumers who were enrolled in rebate-eligible coverage for plan year 2020.[2]

Preliminary estimates predict MLR rebates to be paid in the 2021 calendar year will total $2.1 billion.[3] Rebate amounts vary by market, ranging from about $95 per member in the large group market to $299 per member in the individual market. These rebates represent a small percentage of total premium dollars relative to the value consumers receive.

Average Premiums and Rebates by Market[4,5]

Value delivered to consumer through medical care and quality improvement activities

How did COVID-19 affect health care costs for the 2020 plan year?

MLR provides a backstop when spending on medical costs is lower than health plans predicted when they finalized premiums. Premiums for the 2020 plan year were finalized by health plans and approved by states in summer 2019—well before anyone could have predicted the COVID-19 pandemic.[6] Some issuers, but not all, experienced health care utilization that varied greatly from plan estimates when premium rates were finalized. During the pandemic, many hospitals and providers cancelled elective care to limit the spread of the virus and free up space for COVID-19 patients, while consumers postponed routine care or sought care through telemedicine.

To ensure continued access to coverage and care throughout the pandemic, many plans voluntarily waived cost-sharing for COVID-19 treatment, offered premium holidays, or waived out-of-pocket costs for telemedicine or other services to account for these changing utilization trends.[7] These strategies were adopted across many insurance products including those not subject to MLR requirements, such as vision and dental insurance.

Even with these investments, the $2.1 billion in rebates projected to be paid in 2021 would be the second highest amount of rebates issued since the ACA's MLR program was implemented. Large projected MLR rebates for 2021 are driven largely by the impact of the COVID-19 pandemic on health care utilization and spending during the 2020 plan year.

What other factors impacted 2021 MLR rebates?

Another factor impacting 2021 MLR rebates is the lingering effect of adopting the practice of silver-loading in response to the loss of cost-sharing reduction (CSR) funds in individual market plans. In 2018 and 2019, uncertainty related to the loss of CSR funding and new silver-loading practice resulted higher premiums for silver metal level premiums, and in some cases over-corrected for the loss of CSRs. Rebates paid in 2019, 2020, and 2021 all reflect financial data from the 2018 and 2019 plan years.

Will every plan have to issue rebates for the 2020 plan year?

The impact of COVID-19 on health care utilization differs across communities, health insurance providers and markets, and some insurance providers that offer fully insured plans did not experience significant savings during the 2020 plan year. Some health insurance providers met or exceeded MLR thresholds for 2020, and not all health insurance providers experienced significant savings for the 2020 plan year in all markets.

Will plans continue to see COVID-19 impacts into the 2021 plan year and beyond?

In addition to decreased utilization, health insurance providers experienced significant enrollment losses in 2020 due to the COVID-19 pandemic. Some health insurance providers experienced significant enrollment losses due to job loss. Enrollment losses also mean significant premium losses. CMS' open enrollment period and the *American Rescue Plan Act's* enhanced premium tax credits will increase access to affordable health care options. Looking forward to 2022 and beyond, insurance providers will continue to face pandemic-related challenges, such as forecasting the pent-up demand for care and COVID-19 vaccination rates.

1 MLR provisions only apply to fully-insured large group plans. Self-funded plans are not subject to MLR requirements.

2 Additional background on the MLR program can be found in AHIP's ACA Commercial Medical Loss Ratio Requirements One-Pager

3 Data Note: 2021 Medical Loss Ratio Rebates. Kaiser Family Foundation. April 12, 2021.

4 Individual Market: Kaiser Family Foundation Average Marketplace Premiums by Metal Tier, 2018-2021. Small Group and Large Group Market: Kaiser Family Foundation Employer Health Benefit Survey, 2020

5 Data Note: 2021 Medical Loss Ratio Rebates. Kaiser Family Foundation. April 12, 2021.

6 Individual and small group premiums are finalized before the beginning of the plan year. For example, 2020 premiums were finalized by issuers and approved by state regulators in summer 2019.

7 Additional information on AHIP member's COVID-19 response can be found here: https://www.ahip.org/wp-content/uploads/Answering-the-call-the-COVID-19-Solution.pdf.