

# Medical Loss Ratio

## What is Medical Loss Ratio (MLR)?

A basic financial measurement used in the Affordable Care Act (ACA) to encourage health plans to provide value to enrollees. The ACA requires health insurers to submit data on the proportion of premium revenues spent on clinical services, also known as the Medical Loss Ratio (MLR). This measurement discourages insurers from spending a substantial portion of premium dollars on administrative costs, marketing, and profits.

## How is MLR calculated?

<b>Medical Expense</b>	Medical encounters fee-for-service claim ICD-10 Codes
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<b>Total Premium</b>	Per Member Per Year "Allowance" measured by RAF x average Medicare Cost report beneficiary expenditures
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<b>Medical Loss Ratio</b>	Percent of total premium spend on medical care

## What are MLR standards?

The Medical Loss Ratio provision of the ACA imposes an MLR requirement of 85% on Medicare Advantage plans. That means 85% of their revenue must be used for patient care and quality improvements, and their administrative costs can't exceed 15% of their revenue.

If a Medicare Advantage plan fails to meet the MLR requirement, a rebate must be sent to the Centers for Medicare and Medicaid Services (CMS). If it fails to meet the MLR requirement for 3 consecutive years, CMS will not allow that plan to continue to enroll new members. And if a plan fails to meet the requirement for 5 consecutive years, the Medicare Advantage contract will be terminated.

## Example....

\$1,000 PMPM  
100 Members

Budget = \$1,000,000

Status Quo		Utilization	
<b>Inpatient</b>		<b>Inpatient</b>	
3 COPD Admissions	\$ 30,000	3 COPD Admissions	\$ 20,000
2 Sepsis Admissions	\$ 25,000	2 Sepsis Admissions	\$ 25,000
<b>Outpatient</b>		<b>Outpatient</b>	
Primary care	\$ 1,400	Primary care	\$ 1,600
Specialty Care	\$ 2,000	Specialty Care	\$ 2,000
Labs	\$ 500	Labs	\$ 500
ED Visits	\$ 6,000	ED Visits	\$ 6,000
Part B Drugs	\$ 5,000	Part B Drugs	\$ 5,000
<b>Imaging</b>		<b>Imaging</b>	
MRI/CT/Etc.	\$ 5,000	MRI/CT/Etc.	\$ 5,000
<b>Post Acute</b>		<b>Post Acute</b>	
SNF	\$ 10,000	SNF	\$ 10,000
HH	\$ 1,000	HH	\$ 1,000
<b>Total Spend</b>	<b>\$ 85,900</b>	<b>Total Spend</b>	<b>\$ 76,100</b>
<b>Medical Loss Ratio</b>	<b>86%</b>	<b>Medical Loss Ratio</b>	<b>76%</b>

