News Release

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MILLIMAN STUDY HIGHLIGHTS THE IMPACT OF MEDICAL LOSS RATIO RULES ON HSAs

WASHINGTON – A new report by Milliman Inc. says that high-deductible health plans, including those with health savings accounts (HSAs), will likely be more adversely impacted by the medical loss ratio requirements under the Patient Protection and Affordable Care Act (PPACA) than other types of comprehensive medical plans.

The American Bankers Association's HSA Council engaged Milliman Inc. to analyze the current medical loss ratio rules issued under the act. The council's subsequent analysis of Milliman's report titled, "Impact of Medical Loss Ratio Requirements Under PPACA on High Deductible Plans/HSAs in Individual and Small Group Markets," revealed that consumers who rely on HSA-qualified plans to finance their health care may experience greater costs in their current health plans and may eventually have to find more expensive replacement coverage.

"HSAs were widely anticipated to be the low-cost bronze plans for consumers under the Patient Protection and Affordable Care Act," said Kevin McKechnie, executive director of ABA's HSA Council. "The medical loss ratio requirements make this very difficult and the requirements with respect to HSAs need to be adjusted, as we have repeatedly advised Health and Human Services. We urge the U.S. Senate and the White House to prevail upon HHS to revise this rule to prevent politically difficult, unintended consequences."

The primary issues of concern for high-deductible plans are that:

- **The medical loss ratio formula doesn't take into account contributions to HSAs.** Many high deductible health plans are accompanied by an HSA, which covers much of the first-dollar costs before the plan's deductible is reached. HSA contributions are currently not reflected in the medical loss ratio calculations.

- **High deductible health plans may not be able to raise rates fast enough to keep up with rising costs.** High deductible health plans will require larger annual rate increases than typical medical plans because medical inflation will have a greater impact on claim levels than plans with lower deductibles.

- **High deductible health plans have fewer premium dollars to cover their fixed expenses.** Every plan has fixed expenses that it covers with premiums. Since high deductible health plans have lower premiums than other plans, a greater percentage of the premium must be used to pay

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these fixed expenses. For example, $400 of fixed expenses represents 40 percent of a $1,000 premium, but only 20 percent of a $2,000 premium and just 8 percent of a $5,000 premium. Therefore, it is harder for a lower premium plan to keep its non-claim expenses below 20 percent of its adjusted premiums as the medical loss ratio rule requires.

- **High deductible health plans have less predictable claims experience that could increase the risk of paying rebates.** High deductible insurance plans pay fewer claims than plans with low deductibles. But when high deductible health plans pay claims, the claim dollar amounts tend to be larger. This lower-frequency/high-payment creates less actuarial predictability which can result in high claims in one year and low claims in another. If the plan has low claims, it may not meet the 80 percent medical loss ratio and be required to pay rebates. If the plan has high claims, it may lose money that it cannot "make up" in other years.

The HSA Council is a joint effort of the American Bankers Association and its insurance subsidiary, the American Bankers Insurance Association. The HSA Council is an organization of banks, insurers and technology leaders committed to increasing the adoption velocity of health savings accounts in the United States. The HSA Council represents its members before Congress, the White House and U.S. Courts in order to preserve the ability of Americans to pay for healthcare using an HSA.

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