REPUBLIC HEALTHCARE

Navigating the Medical Loss Ratio in the Time of COVID-19

Insurance Companies Have a Spending Problem. Here's How to Solve It.

Under the Affordable Care Act, insurance companies are required to spend at least 80-85% of their premiums on medical care, clinical services, and quality improvements for their insured individuals and employer groups. The remaining 15% may be used for administrative costs and profits, including executive salaries, overhead, agent commissions, and marketing. Anything related to the operation of their business sits outside that 85%.

If the MLR standards are not met, a rebate will be paid back to the customer.

In a normal health environment, the MLR provides increased value to consumers and transparency on the part of insurance companies. During a pandemic, the MLR leads to writing huge checks in the form of rebates and risking the poor public perception that premiums are too high and of little value.

Making Up the 85%: Medical Expenses During COVID-19

At the beginning of the Coronavirus outbreak, the American College of Surgeons (ACS) released a set of guidelines advising hospitals to postpone elective surgeries. This was a necessary effort to conserve critical resources and lessen the risk of contagion. But, it also meant that billions of dollars worth of medical expenses to pay for these optional operations were no longer being spent by insurance companies.

Despite the perceived increase in medical expenditures due to COVID-19, **insurance companies typically spend 60-70% of their medical expenses on these elective surgeries.**

With these procedures being canceled or postponed, **the bulk of the 85% reserved for medical care is not being spent during a pandemic. Meaning, insurance companies will be paying back significant portions of their premiums.**

In fact, in this year alone, **insurance companies with Affordable Care Act plans are giving back a record $2.6 billion.** The goal and the challenge for insurance companies during these unprecedented times is to get as close to that 85% as possible. Otherwise, they are not going to be able to utilize that money. As costs go down, the ability to retain profit goes down with it.

THE PROBLEM: HIGH REBATES EQUALS POOR CUSTOMER PERCEPTION

While no one is complaining about receiving a check in the mail, consumer behavior tells us that money returned comes with a price to pay for your reputation. Every dollar sent back in the form of a rebate is a dollar an employer group or individual customer will assume they were overcharged to begin with.

This won't only hurt the reputation of many insurance companies, but it could deter customers from renewing contracts in 2021. With premiums increasing 5-15% annually, customers will question the value of their coverage if they perceive they were overcharged in 2020.

Don't Write a Check, Provide a Service.

Rather than write a check, why not provide a valuable service for customers that is constituted as a medical expense and falls under the 85%?

This may include, for example, COVID-19 swab tests, back-to-work safety programs, contact tracing applications, face masks and other PPE, and more timely, value-added healthcare expenses.

If postponed elective surgeries have removed 60-70% of medical care costs, then those margins must be filled and COVID-19 provides a unique opportunity to add to your benefits package.

Added Benefit Opportunities for Insurance Companies

"I'M HEALTHY TODAY" PROGRAM

The "I'm Healthy Today" Get Back to Work Safely Program is designed to protect employees, customers, and business reputation. This program uses a doctor-designed proprietary testing algorithm to monitor and protect people as they return to work. The application includes COVID-19 testing, medical tele-visits, contact tracing, and containment through safety protocols for all industries.

The "I'm Healthy Today" Program takes the responsibility out of the hands of the employers for managing the health of their employees, and puts it where it should ultimately be anyway, which is in the hands of physicians.

Insurance companies may include the "I'm Healthy Today" program with their insurance coverage, creating a per-member per-month fixed subscription cost that is a value-added benefit. This healthcare expense allows you to increase your costs to drive more profit to your bottom line. But, perhaps more importantly, it gives you an opportunity to provide fixed-cost screening and tele-health visits for your employer groups.

Rather than individual doctor visits, unmonitored testing, and little to no screening measures, the I'm Healthy Today program equips employer groups to abide by CDC guidelines for their reopening efforts. Insurance companies can be instrumental in getting America back to work and helping their customers understand the benefit they are providing in these uncertain times.

PERSONAL PROTECTION EQUIPMENT (PPE)

If an insurance company is looking at their MLR margins and seeing only 82% of their premiums have gone toward medical expenses, there is an opportunity to fill that deficit with the purchase of PPE for their employer groups.

Adjustable, antimicrobial face masks and hospital-grade MicroBIOstatic hand sanitizer are both examples of quality PPE for protection during COVID-19. As a trusted advisor, insurance companies can provide the information to source quality PPE to their employer groups.

An Opportunity for Goodwill

This is an opportunity for insurance companies to be on the forefront of providing certain benefits that will fall within the medical expenses category under the MLR rule.

Not only will this increase your margin by the percentage you can make on the medical expenses, but it will also generate a very significant move in the market, compared to competitors, related to delivering additional benefits to the employer groups that you service.

Ultimately, providing a service rather than sending cash payments will improve public perception and enable employer groups to get back to work quicker.