



MEMORANDUM

TO: Steve Walls, Town Manager

FROM: Krystal Ebaugh, Human Resources Manager *KLE*

RE: Health Insurance Rebate for Year 2015

The Affordable Care Act requires health insurance companies to rebate part of the premiums it received if it does not spend at least 80 percent of the premiums the insurance companies receive on health care services, such as doctors and hospital bills, and activities to improve health care quality, such as efforts to improve patient safety. No more than 20 percent of premiums may be spent on administrative costs such as salaries, sales, and advertising. This is referred to as the "Medical Loss Ratio" standard or the 80/20 rule. The 80/20 rule in the Affordable Care Act is intended to ensure that consumers get value for their health care dollars. Additional information may be found at <https://www.healthcare.gov/health-care-law-protections/rate-review/>.

During the months of January through June of 2015, the Town was fully-insured through United Healthcare (Optimum Choice, Inc.). In the State of Maryland, Optimum Choice, Inc. did not meet the 80/20 standard. In 2015, Optimum Choice, Inc. spent only 76.4% of the total premium dollars on health care and activities to improve health care quality. Since it missed the 3.6% of the total health insurance premiums paid by the employer and employees in the Town's group health plan, Optimum Choice, Inc. sent the Town a rebate in the amount of \$4,268.96. Plan A (Silver plan) rebate totaled \$274.95 and Plan B (Gold plan) rebate totaled \$3,994.01. 85% of the totals were contributions paid by the Town employer and 15% of the totals were contributions paid by the employees. Approximately \$599 of the Gold Plan is the employee contributions. Approximately \$29 (before tax) would be divided among eligible employees if the 15% employee contribution was distributed. Employees who no longer work for the Town, but were employed during the plan year will be compensated for their portion of contributions of their premium cost.

A reserve account has been established specifically for the Medical Loss Ratio Rebate (MLR rebate) until such time a determination of what to do with the funds is made. The Town has two viable methods for applying rebates:

1. The Town can distribute to participants under a reasonable, fair and objective allocation method. If employees' contributions were done pre-tax then refunds would be taxable. Or

2. If distributing payments to participants is not cost-effective because the amounts are small or would cause tax consequences for the participants, the employer may utilize the rebate for other permissible plan purposes, such as applying the rebate towards future participant premium payments or benefit enhancements.

Effective July 1, 2015, the Town joined Local Government Insurance Trust (LGIT) and the Maryland Local Government Health Cooperative, which provides local governments an alternative to self-insuring or purchasing health insurance. The Cooperative model involves the joining of several local governments into a purchasing group to capitalize on the advantages of self-funding without bearing the risks of self-funding. Members are allowed to choose their own plan design, know what their costs will be because they pay the same amount every month, and have the opportunity to receive money back in subsequent years. The concept of the Medical Loss Ratio rebate is similar to the function of the Health Cooperative. Although the MLR requirements do not apply to self-insured plans, the Health Cooperative offers the opportunity for rebates through the return of unspent claim dollars.

Action Items:

1. Obtain employee feedback to determine if the employee contributions of 15% should be divided up among eligible employees who participated during that plan year or if the employees would prefer to keep the money in the reserve account to pay down future premium costs.
2. Determine future rebate options in order to maintain consistency.