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How Employers Should Handle MLR Rebates

The Affordable Care Act (ACA) requires health insurance issuers to spend a minimum percentage of their premium dollars on medical care and health care quality improvement. This percentage, or medical loss ratio (MLR), is _____ for issuers in the large group market and _____ for issuers in the small and individual group markets. Issuers that do not meet the applicable MLR standard must provide _____ to consumers.

The MLR requirements, which are enforced by the Department of Health and Human Services (HHS), became effective for issuers in 2011. Rebates must be paid by August 1 following the end of the MLR reporting year. Thus, issuers are required to pay rebates by _____

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Is the Rebate a Plan Asset?

According to Technical Release 2011-4, in the absence of specific plan or policy language addressing these types of distributions, whether the rebate will constitute a plan asset depends, in part, on the and on the

If the plan or its trust is the policyholder, the policy is an asset of the plan and the entire rebate must be treated as a plan asset.

If the employer is the policyholder, as is most often the case, the portion of the rebate that must be treated

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employer's general assets (including employee payroll deductions). In Technical Release 2011-4, the DOL provides relief from the trust requirement for premium rebates that are used within _____ of their receipt.

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Pre-tax Premium Payments

If premiums were paid by employees on a pre-tax basis under a cafeteria plan, the rebate will generally be taxable income to employees in the current year and will be subject to employment taxes. This is the case whether the rebate is paid in cash or is applied to reduce current year premiums. A premium reduction in the current year will reduce the amount that an employee can contribute on a pre-tax basis. Thus, there is a corresponding increase in the employee's taxable salary that is also wages subject to employment taxes.

A copy of DOL Technical Release 2011-4 is available at: www.dol.gov/ebsa/newsroom/tr11-04.html.

A copy of the IRS' FAQs is available at: www.irs.gov/newsroom/article/0,,id=256167,00.html.

More MLR guidance is available from HHS at: <http://cciio.cms.gov/programs/marketreforms/mlr/index.html>.

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