§ 158.221 Formula for calculating an issuer's medical loss ratio.

(a) Medical loss ratio. (1) An issuer’s MLR is the ratio of the numerator, as defined in paragraph (b) of this section, to the denominator, as defined in paragraph (c) of this section, subject to the applicable credibility adjustment, if any, as provided in §158.232 of this subpart.

(2) An issuer’s MLR shall be rounded to three decimal places. For example, if an MLR is 0.7988, it shall be rounded to 0.799 or 79.9 percent. If an MLR is 0.8253 or 82.53 percent, it shall be rounded to 0.825 or 82.5 percent.

(b) Numerator. The numerator of an issuer’s MLR for an MLR reporting year must be the issuer’s incurred claims, as defined in §158.140 of this part, plus the issuer’s expenditures for activities that improve health care quality, as defined in §§158.150 and 158.151 of this part, that are reported for the years specified in §158.220 of this subpart.

(1) The numerator of the MLR for the 2012 MLR reporting year may include any rebate paid under §158.240 of this subpart for the 2011 MLR reporting year if the 2012 MLR reporting year experience is not fully credible as defined in §158.230 of this subpart.

(2) The numerator of the MLR for the 2013 MLR reporting year may include any rebate paid under §158.240 of this subpart for the 2011 MLR reporting year or the 2012 MLR reporting year.

(3) The numerator of the MLR for policies that are reported separately under §158.120(d)(3) of this part must be the amount specified in paragraph (b) of this section, except that for the 2011 MLR reporting year the total of the incurred claims and expenditures for activities that improve health care quality are then multiplied by a factor of two.

(c) Denominator. The denominator of an issuer’s MLR must equal the issuer’s premium revenue, as defined in §158.130, minus the issuer’s Federal and State taxes and licensing and regulatory fees, described in §§158.161(a) and 158.162(a)(1) and (b)(1) of this part.

§ 158.230 Credibility adjustment.

(a) General rule. An issuer may add to the MLR calculated under §158.221(a) of this subpart the credibility adjustment specified by §158.232 of this section, if such MLR is based on partially credible experience as defined in paragraph (c)(2) of this section. An issuer may not apply the credibility adjustment if the issuer’s experience is fully credible, as defined in paragraph (c)(1) of this section, or non-credible, as defined in paragraph (c)(3) of this section.

(b) Life-years. The credibility of an issuer’s experience is based upon the number of life-years covered by the issuer. Life-years means the total number of months of coverage for enrollees whose premiums and claims experience is included in the report to the Secretary required by §158.110 of this part, divided by 12.

(c) Credible experience. (1) An MLR calculated under §158.221(a) through (c) of this subpart is fully credible if it is based on the experience of 75,000 or more life-years.

(2) An MLR calculated under §158.221(a) through (c) of this subpart is partially credible if it is based on the experience of at least 1,000 life-years and fewer than 75,000 life-years.

(3) An MLR calculated under §158.221(a) through (c) of this subpart is non-credible if it is based on the experience of less than 1,000 life-years.