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BULLETIN 15-34

Date: **December 30, 2015**

To: **Insurers, Nonprofit Health Service Plans, Health Maintenance Organizations Offering Health Benefits Plans in the Small Group Market in Maryland ("Carriers") and Producers Licensed to Sell Health Insurance Products**

Re: **Maryland Small Group Health Composite Premiums for Multiple plans**

Effective: **For new and renewing non-grandfathered small group plans in Maryland effective on or after April 1, 2016**

On August 27, 2014, the Maryland Insurance Administration (MIA) issued Bulletin 14-20 (http://insurance.maryland.gov/Pages/newscenter/LifeHealthBulletins.aspx). The Bulletin allows Insurers, Non-Profit Health Service plans, Health Maintenance Organizations offering health benefit plans in the small group market ("Carriers") to use a four-tiered composite premium methodology with small group health benefit plans issued in Maryland. As stated in the Bulletin, the methodology only applies to employer groups offering a single health benefit plan. To prevent adverse selection, the methodology is not permitted and per-member rating is required for employer groups offering multiple plans.

The Centers for Medicare and Medicaid Services (CMS) has approved a four-tiered composite premium methodology for multiple plans proposed by the Maryland Insurance Administration (MIA). Multiple plans can only come from a single Carrier. The proposed methodology is not permitted for employer groups offering multiple plans from affiliated carriers such as HMO and PPO plans due to concerns of premium redistribution among the affiliated carriers. Under Maryland's alternative composite premium methodology for multiple plans, small group issuers still must determine the total premium charged to a group health plan by summing the premiums of covered participants and beneficiaries in accordance with 45 C.F.R. § 147.102(c).

The MIA believes this methodology will facilitate defined employer contribution, simplify employee decision-making, and streamline the overall administration for small group employers offering multiple plans. Requirements under the alternative tiered composite premium methodology and the MIA's approved family-tiered composite premium methodology are set forth in this Bulletin.

Requirements:

(1) The method will be the only permitted composite premium method for multiple plans for new and renewing non-grandfathered small group plans in Maryland effective on or after April 1, 2016.

(2) Per-member rating premium will also be permitted and will be required for small employers offering employee choice through the SHOP exchange.

(3) The final HHS Notice of Benefit and Payment Parameters for 2015 does not allow for tobacco loads to be easily integrated into the composite rates:

> *If an issuer offering composite premiums wishes to rate for tobacco use, consistent with applicable Federal and State law, the issuer must calculate the tobacco rating factor based on the applicable enrollee's per member premium, not the composite premium for all enrollees. The resulting tobacco rating factor is added to the composite premium for the enrollee who uses tobacco to create a premium specific to each tobacco user.*

This essentially requires individual premium billing for tobacco users where a tobacco load is present and can offset any administrative simplicity afforded by composite premium. If a carrier is using tobacco factors, they shall not be incorporated into the composite premium. The issuer may only apply the tobacco use factor to the per member premium rate for the particular covered individual who is a tobacco user.

(4) Throughout a small group's policy period, employees may come and go and employees may qualify for special enrollment periods due to various life events. The methodology described below determines an employee's monthly premium based on a census of employees and their covered dependents at the time the group's policy is issued. The monthly premium for each of the tiers must remain in effect throughout the entire policy period and may not increase or decrease to reflect changes in the small group's census. The monthly premium must be recalculated annually, based on the census at the time of the policy's actual enrollment.

(5) The Maryland alternative tiered-composite premium methodology will be required to be offered to all small employer groups without regard to size of the small group.

(6) Carriers may decide which products will offer composite premium and which products will not. There is no limit to the number of products a group can use for composite rating purposes. Carriers would not need to submit to the MIA a list of products that will allow composite premium, but must be prepared to provide a list on request.

Revised Methodology:

Development of Aggregate Small Group Premiums

Similar to Bulletin 14-20, the total premium charged to a small group must be developed using a per-member rating methodology. For each covered employee and his/her covered dependents, the premium must be determined as follows:

- *For each covered adult age 21 or older*: Calculate the rate for each person by multiplying the base rate by the applicable age and geographic area factors.
- *For each covered child age 0 to 20*: Calculate the rate for each of the oldest three children by multiplying the base rate by the applicable age and geographic area factors. Age and geographic area are determined at the time that coverage is issued to the group. The small group's aggregate premium is equal to the sum of all composite rating plans' premiums determined for each covered employee and his/her covered dependents.

Allocation of Premium to Small Group Members

Once the small group's aggregate premium has been calculated, it must be allocated back to covered employees based on the adjusted tier factor applicable to each employee's family composition. The adjusted tier factor is defined as the standard tier factor multiplied by the plan's relativity factor.

As defined in the Bulletin 14-20, the standard tier definitions and factors are as follows:

- Employee only = 1.00
- Employee + spouse = 2.00
- Employee + children (including all covered children up to age 26) = 1.95
- Employee + family (including spouse and all covered children up to age 26) = 2.95

Note that all children under age 26 are considered to meet the definition of "children" for employee + family and employee + children tiers.

Plan relativity factor is defined as the following:

1. From the plans offered, select the plan with the lowest base rate to use as the benchmark plan where the base rate is defined as the plan's age 21 non-smoker rate in the employer's rating area.
2. Divide each plan's base rate by the benchmark plan's base rate. This will yield each plan's relativity factor. By definition, the benchmark plan's relativity Factor will be 1.

The formula to determine the final premium for each employee is as follows:

Final employee premium = [Group aggregate premium] / [Total adjusted employee count] x [Employee's adjusted tier factor]

For example, consider the following group of plans and employees:

Plan A (Base Rate: $200)
- *Employee A:* Employee + spouse + 2 children = **Employee + family**
- *Employee B:* **Employee + spouse**
- *Employee C:* Employee + spouse + 3 children = **Employee + family**
- *Employee D:* Employee + 4 children = **Employee + children**
- *Employee E:* **Employee only**

Plan B (Base Rate: $300)
- *Employee F:* **Employee only**
- *Employee G:* Employee + 3 children = **Employee + children**
- *Employee H:* Employee + spouse + 2 children = **Employee + family**

- *Employee I:* **Employee + spouse**
- *Employee J:* **Employee only**

By selecting Plan A as the benchmark the plan Relativity Factors are derived as follows:

- Plan A Relativity Factor = \$200/\$200 = 1
- Plan B Relativity Factor = \$300/\$200 = 1.5

Using the applicable tier factors and family composition of each employee, **the adjusted tier factor** for each employee is calculated as follows:

Plan A (Base Rate: \$200)
- *Employee A:* (Employee + spouse + 2 children) x Plan A Relativity Factor = **2.95 x 1 = 2.95**
- *Employee B:* (Employee + spouse) x Plan A Relativity Factor = **2.00 x 1 = 2.00**
- *Employee C:* (Employee + spouse + 3 children) x Plan A Relativity Factor = **2.95 x 1 = 2.95**
- *Employee D:* (Employee + 4 children) x Plan A Relativity Factor = **1.95 x 1 = 1.95**
- *Employee E:* (Employee only) x Plan A Relativity Factor = **1.00 x 1 = 1.00**

Plan B (Base Rate: \$300)
- *Employee F:* (Employee only) x Plan B Relativity Factor = **1.00 x 1.5 = 1.50**
- *Employee G:* (Employee + 3 children) x Plan B Relativity Factor = **1.95 x 1.5 = 2.93**
- *Employee H:* (Employee + spouse + 2 children) x Plan B Relativity Factor = **2.95 x 1.5 = 4.43**
- *Employee I:* (Employee + spouse) x Plan B Relativity Factor = **2.00 x 1.5 = 3.00**
- *Employee J:* (Employee only) x Plan B Relativity Factor = **1.00 x 1.5 = 1.50**

Weighted adjusted employee count = 2 x 2.95 + 2.00 + 1.95 + 1.00 +2 x 1.50 + 3.00 + 2.93 + 4.43 = 24.21

To calculate the final monthly premium for each employee, the aggregate small group premium is divided by the weighted adjusted employee count and multiplied by each employee's applicable adjusted tier factor. Continuing with the example above, and assuming the total monthly premium as developed under "Development of Aggregate Small Group Premium" for the group is \$5,275, each employee's monthly premium is calculated as follows:

Plan A
- *Employee A:* \$5,275 / 24.21 x 2.95 = \$ 642.76
- *Employee B:* \$5,275 / 24.21 x 2.00 = \$ 435.77
- *Employee C:* \$5,275 / 24.21 x 2.95 = \$ 642.76
- *Employee D:* \$5,275 / 24.21 x 1.95 = \$ 424.88
- *Employee E:* \$5,275 / 24.21 x 1.00 = \$ 217.89

As shown above, Plan A's 4-Tier rates are:
- Employee only = \$ 217.89
- Employee + spouse = \$ 435.77
- Employee + children (including all covered children up to age 26) = \$ 424.88
- Employee + family (including spouse and all covered children up to age 26) = \$ 642.76

Plan B

- *Employee F:* \$5,275 / 24.21 x 1.50 = \$ 326.83
- *Employee G:* \$5,275 / 24.21 x 2.93 = \$ 638.40
- *Employee H:* \$5,275 / 24.21 x 4.43 = \$ 965.23
- *Employee I:* \$5,275 / 24.21 x 3.00 = \$ 653.66
- *Employee J:* \$5,275 / 24.21 x 1.50 = \$ 326.83

As shown above, Plan B's 4-Tier rates are:

- Employee only = \$ 326.83
- Employee + spouse = \$ 653.66
- Employee + children (including all covered children up to age 26) = \$ 638.40
- Employee + family (including spouse and all covered children up to age 26) = \$ 965.23

Group total = \$ 5,275

Any question about this bulletin may be directed to Sarah Li, Chief Actuary, Office of the Chief Actuary, at sarah.li@maryland.gov.

Signature on original
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