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BULLETIN 14-20

Date: **August 27, 2014**

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**

Effective: **For new and renewing non-grandfathered small group plans in Maryland effective on or after December 1, 2014**

The Centers for Medicare and Medicaid Services (CMS) has approved a four-tiered composite premium methodology proposed by the Maryland Insurance Administration (MIA) for use with small group health benefit plans issued in Maryland. For plans years beginning on or after December 1, 2014, this alternative composite premium methodology will replace the two-tiered federal composite premium methodology set forth in the "HHS Notice of Benefit and Payment Parameters for 2015." Under Maryland's alternative composite premium methodology, 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 newly approved alternative composite premium methodology is a family-tiered composite premium with the following four tiers: Employee, Employee +Spouse, Employee + Children and Employee + Family. The MIA believes this methodology will facilitate defined employer contribution, simplify employee decision-making, and streamline the overall administration of small group policies. 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 new and renewing non-grandfathered small group plans in Maryland effective on or after December 1, 2014.

(2) Per-member rating premium will also be permitted and will be required for small employers offering employee choice through the SHOP exchange or offering multiple Qualified Health Plans through a single carrier.

(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.[1]*

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.

(6) Carriers may decide which plans will offer composite premium and which plans will not. Carriers would not need to submit to the MIA a list of plans that will allow composite premium, but must be prepared to provide a list on request.

Methodology:

Development of Aggregate Small Group Premiums

As required by 45 CFR §147.102(c)(1) and (3), 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.

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[1] 79 FR 13751

- *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 the 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 tier factor applicable to each employee's family composition (*i.e.*, employee only, employee + spouse, employee + children, and employee + family). Maryland will require standard tier definitions and factors for all carriers. 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.

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

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

For example, consider the following group of employees:
- *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**

Using the applicable tier factors and family composition of each employee, the tier-factor weighted employee count is calculated as follows:
- *Employee A:* Employee + family = **2.95**
- *Employee B:* Employee + spouse = **2.00**
- *Employee C:* Employee + family = **2.95**
- *Employee D:* Employee + children = **1.95**
- *Employee E*: Employee only = **1.00**

Weighted employee count = 2 x 2.95 + 1 x 2.00 + 1 x 1.95 + 1.00 = 10.85

To calculate the final monthly premium for each employee, the aggregate small group premium is divided by the weighted employee count and multiplied by each employee's applicable tier factor. Continuing with the example above, and assuming the total monthly premium for the group is **$5,275**, each employee's monthly premium is calculated as follows:
- *Employee A:* $5,275 / 10.85 x 2.95 = **$1,434**

- *Employee B:* $5,275 / 10.85 x 2.00 = **$973**
- *Employee C:* $5,275 / 10.85 x 2.95 = **$1,434**
- *Employee D:* $5,275 / 10.85 x 1.95 = **$948**
- *Employee E:* $5,275 / 10.85 x 1.00 = **$486**

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

Therese M. Goldsmith
Maryland Insurance Commissioner