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MISSISSIPPI INSURANCE DEPARTMENT BULLETIN 2016-5

TO: ALL ISSUERS OF SMALL GROUP HEALTH INSURANCE PRODUCTS IN MISSISSIPPI

**FROM: MIKE CHANEY
COMMISSIONER OF INSURANCE**

DATE: May 13, 2016

SUBJECT: MISSISSIPPI'S SMALL GROUP COMPOSITE PREMIUM METHODOLOGY

I. Purpose

The purpose of this bulletin is to notify all health carriers issuing non-grandfathered small group health insurance products of an alternate composite premium methodology that will be allowed for all policy years and rates implemented on or after October 1, 2016.

II. Background

On March 11, 2014, the Department of Health and Human Services ("HHS") issued the "HHS Notice of Benefit and Payment Parameters for 2015," outlining composite premium methodology requirements for small employers under the Affordable Care Act. The notice provides that, as an alternative to using the federal two-tiered composite methodology, a state may establish an alternate tiered-composite methodology with approval from HHS. On May 10, 2016, HHS approved Mississippi's 4-tiered composite methodology (see page 2). The 4-tiered composite methodology will be allowed for all policy years and rates implemented beginning on or after October 1, 2016. MID believes that the 4-tiered composite methodology will provide a more uniform composite premium methodology across Mississippi's entire group market, make member enrollment decisions easier, reduce administrative burdens, and alleviate potential market confusion.

The 4-tiered composite methodology will only apply to small employer plans offered outside of the SHOP exchange. Additionally, the 4-tiered composite methodology will be optional for insurers.

However, if an insurer chooses to offer composite premiums under the 4-tiered composite methodology, the insurer must make composite premiums available to all of its small groups regardless of size. Lastly, small groups that elect to use the 4-tiered composite methodology must not vary composite premiums during the plan year, regardless of any census changes within the group.

III. 4-Tiered Composite Methodology

First, as required by 45 CFR §147.102(c)(1) and (3), the total premium charged to a small group must be developed using a per-member rating methodology. For each covered employee and his/her dependent(s), 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. A tobacco use factor must not be applied at this time.

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. A tobacco use factor must not be applied at this time.

Note: age and geographic area are determined at the time that coverage is issued to the group

Once the group's per-member premiums are determined, the sum is then allocated back to covered employees based on the tier factor applicable to each employee's family composition. The final employee premium is then calculated using a specific formula. Below are the tiers, the associated factors, and the final employee premium formula used in the 4-tiered composite methodology:

TIER	FACTOR
Employee Only	1.0
Employee + Spouse	2.0
Employee + Children	1.85
Employee + Family	2.85
Note: all children under age 26 are considered to meet the definition of "children" for employee + children and employee + family tiers	
EMPLOYEE FINAL PREMIUM FORMULA = [Group aggregate premium] / [Weighted employee count] x [Employee's tier factor]	

Rating for Tobacco Use

The "HHS Notice of Benefit and Payment Parameters for 2015" also provides that any rating for tobacco use cannot be included in the composite premium for all enrollees but instead must be applied on a per-member basis. Therefore, a tobacco use factor must be applied to a specific covered individual's monthly premium based upon the individual's corresponding tier allocation. Below is the final employee premium formula used in the 4-tiered composite methodology if a tobacco use factor is utilized (see page 3):

$$\text{EMPLOYEE FINAL PREMIUM FORMULA PLUS TOBACCO USE} = \frac{[\text{Group aggregate premium}]}{[\text{Weighted employee count}] \times [\text{Employee's tier factor}] + [\text{Tobacco use factor}]}$$

Adjusting for Final Enrollment

When group premiums are computed on a composite basis, some employees might have to pay more for group coverage compared to a plan purchased individually through the market. If those employees opt out of group coverage, the composite premiums would no longer be consistent with the group plan enrollment. In order to ensure fairness and consistency in the market, carriers can recalculate composite premiums based on final enrollment figures for the plan.

Example

Consider the following groups 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 = 2.85
- Employee B : Employee + spouse = 2.00
- Employee C: Employee + family = 2.85
- Employee D: Employee + children = 1.85
- Employee E: Employee only = 1.00

$$\text{Weighted employee count} = (2 \times 2.85) + 2.00 + 1.85 + 1.00 = 10.55$$

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: $\$5,275 / 10.55 \times 2.85$ = \$1,425
- Employee B: $\$5,275 / 10.55 \times 2.00$ = \$1,000
- Employee C: $\$5,275 / 10.55 \times 2.85$ = \$1,425
- Employee D: $\$5,275 / 10.55 \times 1.85$ = \$925
- Employee E: $\$5,275 / 10.55 \times 1.00$ = \$500
- Group total** = **\$5,275**

Now assume that the spouse of employee C had a premium of \$600 contributing to the aggregate \$5,275, is a tobacco user, and the carrier has a tobacco use factor of 50%. The total premium for employee C and family would be \$1,425 plus \$300, ($\$600 \times 50\%$), for a total of \$1,725. Thus, the total monthly premium for the group would now be \$5,575, and each employee's monthly premium is calculated as follows (see page 4):

- Employee A: $\$5,275 / 10.55 \times 2.85$ = \$1,425
- Employee B: $\$5,275 / 10.55 \times 2.00$ = \$1,000
- Employee C: $\$5,275 / 10.55 \times 2.85 + \300 = \$1,725
- Employee D: $\$5,275 / 10.55 \times 1.85$ = \$925
- Employee E: $\$5,275 / 10.55 \times 1.00$ = \$500
- **Group total** = **\$5,575**

Application of any tobacco use factor is subject to all requirements of federal regulation.

Questions

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