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DEPARTMENT OF INSURANCE

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WILLIAM W. DEAL
Director

DATE: June 10, 2014

TO: CMS (*via electronic delivery to ratereview@cms.hhs.gov*)

FROM: Weston Trexler, Product Review Bureau Chief

RE: Idaho Small Group Composite Premium Methodology for Health Benefit Plans Issued on or after January 1, 2015

Idaho has for some time required that small group premium be determined as a build-up of per-member rating. Allowable case characteristics were limited by Idaho Code to age, individual tobacco use, geography, and gender. The average health status of the group was applied as the allowable risk characteristic, within certain limits. Carriers were then also permitted to offer final tier-based composite premiums at the request of the group that were equivalent to the per-member rating build-up in total at the time of the application and at each renewal.

The federal market rules require a very similar rating method, while further regulating the allowable rating characteristics and eliminating the group-specific risk load. The rules clarify that requirement for per-member rating does not preclude insurers from voluntarily offering composite or tier-based premiums that are in total equivalent to the total premium derived by the per-member methodology at the time of applicable enrollment. As such, in 2014, Idaho carriers continued to provide, at the request of groups enrolling in ACA-compliant small group products, a total premium based on per-member rating with equivalent tier-based composite premiums.

To minimize disruption in the small group market in 2015, Idaho is proposing a state-specific composite premium methodology to replace the federal method, as allowed by 45 CFR § 147.102(c)(3)(iii)(B). The proposed method would continue the use of tiered composite premiums, adding a standard number of tiers with standard tier factors to be used by all small group carriers. Carriers would have the flexibility to choose which (if any) small group products would permit employers the composite premium option; however carriers could not restrict the option of composite premiums to only groups above a certain size.

The Idaho specific composite premium methodology would:

- produce a total group premium equivalent to the sum of the per-member rating at the time of applicable enrollment,
- ensure the average enrollee premium amount calculated at the beginning of the plan year does not vary during the plan year (147.102(c)(3)(iii)(A)),

- not include in the average enrollee premium any rating variation for tobacco use (147.102(c)(3)(iii)(C)),
- apply uniformly to every group enrolling in a product with which carriers decide to offer the composite premium option (147.102(c)(3)(iii)(D)), and
- not be made available to small groups that decide to provide employee choice through the SHOP.

The following steps provide the required methodology for developing aggregate small group premiums and allocating these premiums to covered employees and their dependents using standard tiers and tier factors. This process would occur for the initial enrollment application and then annually for each renewal, so that the average enrollee premium amount would not vary during the plan year.

1. Development of the Total Small Group Premium

As required by 45 CFR § 147.102(c)(1) and (3), the total premium charged to a small group must be developed using the per-member rating methodology. Age, geographic area, and tobacco use (if applicable) are determined at the time that coverage is issued to the group. The small group's total premium is equal to the sum of the premiums for each covered employee and his/her covered spouse and/or dependents.

2. Allocation of Premium to Small Group Members

Once the small group's total premium has been calculated, it must be allocated back to covered employees based on the tier factor applicable to each employee's family composition. All carriers will use the same standard tier definitions and factors, as proposed here by the Idaho Department of Insurance:

- Employee Only = **1.00**
- Employee and Spouse = **2.00**
- Employee and Child(ren) = **1.9**
- Employee, Spouse, and Child(ren) = **2.9**

Any allowable tobacco use load must be allocated back separately to the corresponding individual, so that the average Employee Only premium does not include any tobacco use load. As such, this proposed methodology should meet the requirements of the rule.

Please advise us of any additional details concerning our proposed method of calculating composite premiums in the small group market that you may need to approve this alternate methodology for use in Idaho.