south dakota department of labor and regulation

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Bulletin 15-03

To: Health Insurance Issuers

From: Larry Deiter, Director

Date: April 23, 2015

Re: Composite Premium Billing

In response to recent requests the Division of Insurance proposed an alternate composite premium billing methodology to CMS for non-grandfathered (non-transitional) small employer health insurance issued off- exchange business. The methodology received federal approval on April 1, 2015.

With the approval CMS offered the following guidance:

- Issuers are to use this method when they offer the composite premium option to small groups.
- Small group issuers must first rate all the individuals in a group on a per-member basis following the Market Reform Premium Rules (e.g., standard age factors that reflect the 3:1 limit and state specific geographic rating areas).
- The Federally Facilitated SHOP will be unable to use any composite premium methods for the 2015 or the 2016 plan years.

The methodology that was approved by CMS is attached to this bulletin.

South Dakota Small Employer Composite Premium

Purpose and Applicability

The "HHS Notice of Benefit and Payment Parameters for 2015" finalized March 11, 2014 outlined the requirements for composite premium for small employer premiums under the Affordable Care Act (ACA). The notice defined a two-tiered federal compositing methodology that states could adopt or it allowed states to propose and submit to Health and Human Services (HHS) an alternate tiered-composite methodology for use in that state. South Dakota is requesting that HHS consider its proposal to use an alternate tiered-composite methodology, which we believe will work better for South Dakota's small businesses.

This alternate tiered-composite methodology applies to South Dakota's small employer premium rates for Affordable Care Act plans offered outside of the FF-SHOP exchange. Small employer plans offered on the exchange will continue to use either the federal two tiered composite premium system or per-member rating.

Considerations

- The South Dakota Division of Insurance (DOI) consulted with insurers on the proposed composite methodology. The DOI proposes to implement a four-tiered premium structure including:
  - Employee
  - Employee + Spouse
  - Employee + Child(ren)
  - Employee + Spouse + Child(ren)
- The final notice of benefit and payment parameters does not allow for tobacco loads to be easily integrated into the composite premiums.

  > "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 determination of the appropriate surcharge for tobacco users where a tobacco load is present. The insurer may decide whether or not a tobacco load will be included in premiums for small employer health plans at the time the rates are filed. However, if the insurer chooses to surcharge for tobacco, that choice must be uniformly applied to all employer groups, regardless of whether or not composite premium is used. Any tobacco load is applied for each individual tobacco user based upon the age-rated premium for that individual after the composite premiums are determined.
- Historically, issuers have retained the right to offer composite premium billing to groups based on size (for example only offering composite premium billing to groups with more than 20 employees). The final notice of benefit and payment parameters clarifies that:

  > "[I]f an issuer elects to offer composite premiums with respect to a particular product offered in the small group market in a State, the issuer cannot do so for only certain group health plans; the issuer must make the

[1] 79 FR 13751

option to composite premiums uniformly available to all group health plans enrolling in that product, to the extent permitted by applicable State law and subject to § 156.285(a)(4) of this final rule…[2]"

The South Dakota alternate tiered-composite methodology must be offered to all small employer groups without regard to size.

- Issuers may decide whether they will offer South Dakota alternate tiered-composite methodology. However, if the issuer decides to offer the alternate methodology, it must do so for all plans available in the state.
- This alternate tiered-composite premium methodology is the only tiered-composite methodology allowed for non-grandfathered small employer group products in South Dakota. Issuers may use either use the per-member rating methodology, or the alternate tiered-composite premium methodology.

Methodology

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. Any tobacco load that applies is not reflected at this step, but could be determined for later application.
- 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. Any tobacco load that applies is not reflected at this step, but could be determined for later application.

Age and geographic area are determined based on enrollment at issue or renewal. The small group's per-member aggregate premium is equal to the sum of the premiums determined for each covered employee and his/her covered dependents.

After the per-member aggregate premium is calculated, tiered-composite premiums are calculated such that the sum of the tiered-composite premiums equals the per-member aggregate premium. Below are the tiers and associated factors allowed in South Dakota's alternate tiered-composite methodology:

Tier	Factor
Employee	1.00
Employee + Spouse	2.00
Employee + Child(ren)	1.85
Employee + Spouse + Child(ren)	2.85

The Employee only premium is calculated as

Employee only premium = Per-member aggregate premium / (Weighted employee count)

Weighted employee count = $\Sigma(\text{Count}_{\text{Tier}} \times \text{Factor}_{\text{Tier}})$ over all Tiers

[2] 79 FR 13750

For example – Suppose the per-member aggregate premium is $25,000 and the distribution by tier is as below.

Tier	**Count**	**Factor**
Employee	5	1.00
Employee + Spouse	2	2.00
Employee + Child(ren)	5	1.85
Employee + Spouse + Child(ren)	15	2.85

Weighted employee count = 5 × 1.00 + 2 × 2.00 + 5 × 1.85 + 15 × 2.85 = 61

Employee only premium = $25,000 ÷ 61 = $409.84

Employee + Spouse premium = 2.00 × $409.84 = $819.67

Employee + Child(ren) premium = 1.85 × $409.84 = $758.20

Employee + Spouse + Child(ren) = 2.85 × $409.84 = $1,168.03

Total composite premium = 5 × $409.84 + 2 × $819.67 + 5 × $758.20 + 15 × $1,168.03
= $25,000 = Per-member aggregate premium

Tiered-composite premium billing factors are set at the beginning of the plan year and do not change through the year even if the distribution of employees among the tier levels changes. Annually at renewal the tiered-composite premium billing factors should be recalibrated to the distribution expected to be in- force at the renewal date.

If a tobacco load is used, it must be applied for each specific individual to the original age-rated premium for that individual, not to their tiered composite premium.

[2] 79 FR 13750