APPROVED North Carolina Small Employer Group
Alternate Composite Premium Methodology - Updated October 14, 2015

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 group (also referred to as "small group" in this document) 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. The purpose of this document is to present North Carolina's alternate tiered-composite methodology.

This alternate tiered-composite methodology applies to North Carolina small employer group premium rates for non-grandfathered ACA-compliant Affordable Care Act plans offered outside of the FF-SHOP exchange. Small employer group plans offered on the FF-SHOP are subject to FF-SHOP rules and are limited to use of the composite premium methodology specified by the FF-SHOP.

Considerations

- The North Carolina Department of Insurance (NCDOI) solicited comments on composite methodologies from issuers involved in the small employer group ACA market. The general consensus was to implement a **4-tier** rating structure including:
  - **Employee**
  - **Employee + Spouse**
  - **Employee + Child(ren)**
  - **Employee + Spouse + Child(ren)**
- The Notice of Benefit and Payment Parameters for 2015 does not allow for tobacco loads to be easily integrated into the composite premium.

  > "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]"

  If a tobacco use factor is used, it must be applied to the specific individual, and is applied to the premium that individual contributed to the aggregate premium (as calculated on a per-member basis). This additional premium is then added to the monthly premium for that

[1] 79 FR 13751

individual based upon the tier allocation. See the Methodology Section below for further detail.

- Historically, issuers have retained the right to offer composite premiums to groups based on size (for example only offering composite premiums to groups with more than 20 employees). The Final Notice of Benefit and Payment Parameters for 2015 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 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 North Carolina alternate tiered-composite methodology must be offered to all small employer groups without regard to size. However, this does not preclude the issuer from explaining to a small employer the risks associated with offering composite premiums to very small groups and encouraging them to opt for per-member premium billing.

- Issuers can decide upon which products they will offer composite premium and which products they will not.

> "[W]e specify that an issuer offering composite premiums with respect to a particular product offered in the small group market in a State must do so uniformly for all group health plans enrolling in that product, giving those group health plans the option to pay premiums based on a composite premium methodology…[3]"

  Issuers do not need to submit a list of products to the NCDOI that they will allow composite premiums; however, issuers should be prepared to provide a list upon request.

- This alternate tiered-composite premium methodology is the only tiered-composite methodology allowed for small employer group non-grandfathered ACA-compliant plans in North Carolina. Issuers can either use the per-member premium methodology, or this 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 premium 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 premium 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 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, i.e. on a per-member basis.

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[2] 79 FR 13750

[3] 79 FR 13750

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). North Carolina will require standard tier definitions and factors for all issuers. 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) = **1.85**
Employee + family (including spouse and all covered children up to age 26) =**3.10**

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])~~

Final employee premium = [Group aggregate premium] / [Weighted employee count] x [Employee's tier factor] – (**See note below for explanation of change)

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 =* ***3.10***
- *Employee B: Employee + spouse =* ***2.00***
- *Employee C: Employee + family =* ***3.10***
- *Employee D: Employee + children =* ***1.85***
- *Employee E: Employee only =* ***1.00***

Example: Weighted employee count = (2 x 3.1) + (1 x 2.00) + (1 x 1.85) + 1.00 =11.05

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.

*** Error in formula. Removed first set of parentheses in the denominator.*

Continuing with the example above, and assuming the total monthly premium for the group is $5,275 (calculated using the aggregate per member rating), each employee's monthly premium is calculated as follows:

- *Employee A: $5,275/11.05 x 3.1 =* ***$1,480***
- *Employee B: $5,275 /11.05 x 2.00 =* ***$ 955***
- *Employee C: $5,275 / 1105 x 3.1 =* ***$1,480***
- *Employee D: $5,275 / 11.05 x 1.85 =* ***$ 883***
- *Employee E: $5,275/11.05 x 1.00 =* ***$ 477***
- ***Group total = $5,275***

Recalculation of Average Monthly Premiums

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 above determines an employee's monthly premium based on a census of employees and their covered dependent(s) at the time the group's policy is issued. The average 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. A group's average monthly premium must be recalculated annually, at renewal, based upon the group's census at the time of renewal.

Application of Tobacco Use Factors

The composite premiums do not include a tobacco use factor. If a tobacco use factor is used, it must be applied to the specific individual, and must be applied to the premium that individual contributed to the aggregate premium, calculated using the per-member rating methodology required by federal regulation. This additional premium is then added to the monthly premium for that individual based upon the tier allocation.

For example, assume 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 20%. The total premium for Employee C and family would be $1,434 plus $120 ($600 X 20%), for a total of $1,554. Application of any tobacco use factor is subject to all requirements of state and federal laws.

Items to Note

- Issuers in North Carolina may **only** use this method when they offer the composite premium option to small groups.
- An issuer's decision to provide a composite premium option to small groups shall only be implemented on the first day of a calendar quarter (1/1, 4/1, 7/1, or 10/1) and must be available to all small groups issued or renewing applicable products during that calendar quarter.
- Small group issuers must first rate all the individuals in a group on a per-member basis following all applicable state and federal laws, including use of the federal age curve and the state-specific geographic rating areas.

- Small group plans offered on the FF-SHOP are subject to FF-SHOP rules and are limited to use of the composite premium methodology specified by the FF-SHOP.
- Issuers offering the composite premium option shall educate and inform its agent/broker force on this methodology, and must stress in that training that only this methodology is to be used with North Carolina small groups. Any other methodology to composite premiums is prohibited and the use of such may subject the issuer and/or agent/broker to Departmental disciplinary action.

Notification to NCDOI

- Issuers must submit an email to the Life & Health Division informing the Department of the issuer's decision to provide the composite premium option to small groups in North Carolina. The following information shall be included in that email:

  Issuer Name
  Affected Product(s) listed by the HIOS Product ID
  Date the option will be made available

Questions relating to this memorandum should be directed to Jean Holliday at jean.holliday@ncdoi.gov or 919-807-6061.