Utah Small Employer Composite Rating

Purpose and Applicability

The "HHS Notice of Benefit and Payment Parameters for 2015" finalized March 11, 2014 outlined the requirements for composite rating 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. While Utah considers developing composite rates for small employer groups to be a billing exercise and beyond the scope of the ACA, Utah finds that the federal two-tiered method is unconventional and will be unfamiliar to small employer groups. The purpose of this document is to present Utah's alternate tiered-composite methodology.

This alternate tiered-composite methodology applies to Utah small employer premium rates for Affordable Care Act plans offered outside of Utah's SHOP exchange (Avenue H). Small employer plans offered on the exchange are subject to employee choice and must use per-member premium rating.

Considerations

- The Utah Insurance Department (UID) solicited comments on composite methodologies from issuers involved in the small employer off exchange ACA market. The general consensus was to implement a four-tiered rating 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 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 removes any administrative simplicity afforded by composite rating. Because of this, Utah has decided that no additional tobacco load can be included in premiums for any small employer plan where the alternate composite method will be utilized.[2] That is, the tobacco rate must be the same as the non-tobacco rate for each age and geographic area combination.

- Historically, issuers have retained the right to offer composite rating to groups based on size (for example only offering composite rates to groups with more than 20 employees). The final notice of benefit and payment parameters clarifies that:

[1] 79 FR 13751

[2] Issuers may still choose to include a tobacco load for small employer groups off the exchange, but if they do, then they must use per-member premium rates.

> "[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…[3]"

The Utah 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 which plans will offer composite rating and which plans 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…[4]"

Issuers do not need to submit a list of plans to the UID that will allow composite rating; however, issuers should be prepared to provide a list upon request.

- This alternate tiered-composite rating methodology is the only tiered-composite methodology allowed for small employer group ACA plans in Utah. Issuers can either use the per-member rating methodology, or this alternate tiered-composite rating 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. No additional tobacco load can be assumed for plans that will use this alternate tiered-composite methodology.
- 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. No additional tobacco load can be assumed for plans that will use this alternate tiered-composite methodology.

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 Utah's alternate tiered-composite methodology:

[3] 79 FR 13750

[4] 79 FR 13750

Tier	Factor
Employee	1.00
Employee + Spouse	2.00
Employee + Child(ren)	2.10
Employee + Spouse + Child(ren)	3.10

This assumes that there are 2.75 children per household with children and that children cost about 40% of an adult. (2.75Kids * 40% + 1Adult = 2.10; 2.75Kids * 40% + 2Adults = 3.10.)

Note that all children under age 26 and all disabled adult dependents are considered to meet the definition of "children" for Employee + Child(ren) and Employee + Spouse + Child(ren) tiers.

The Employee only premium is calculated as

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

where

Weighted employee count = SUMPRODUCT(Count by Tier, Factor by Tier)

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	2.10
Employee + Spouse + Child(ren)	15	3.10

Weighted employee count = 5 * 1.00 + 2 * 2.00 + 5 * 2.10 + 15 * 3.10 = 66

Employee only premium = $25,000 / 66 = $378.79

Employee + Spouse premium = 2.00 * $378.79 = $757.58

Employee + Child(ren) premium = 2.10 * $378.79 = $795.45

Employee + Spouse + Child(ren) = 3.10 * $378.79 = $1,174.24

Total composite premium = 5 * $378.79 + 2 * $757.58 + 5 * $795.45 + 15 * $1,174.24
= $25,000 = Per-member aggregate premium

Tiered-composite premium rates 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 rates should be recalibrated to the distribution expected to be in-force at the renewal date.