STATE OF MAINE
DEPARTMENT OF PROFESSIONAL
AND FINANCIAL REGULATION
BUREAU OF INSURANCE
34 STATE HOUSE STATION
AUGUSTA, MAINE
04333-0034

Paul R. LePage
GOVERNOR

Eric A. Cioppa
Superintendent

Bulletin 404

Maine Composite Premium Methodology for Small Group Health Benefit Plans Issued or Renewed on or after January 1, 2016

Insurance carriers offering small group health benefit plans have the option of offering "composite premium rating" to small employers as an alternative to the standard per-person rating methodology. Under the standard methodology, each covered individual's premium is calculated on the basis of his or her own age and geographic area. Composite rating establishes a single base rate for the entire group, so that premiums only vary between employees within the group on the basis of family composition and tobacco use, as explained more fully below.

The Center for Medicare and Medicaid Services (CMS) has approved a four-tiered composite premium methodology proposed by the Maine Bureau of Insurance for plan years beginning on or after January 1, 2016. For small group policies issued in Maine with composite rating, the methodology described in this Bulletin will replace the two-tiered federal composite premium methodology set forth in the "HHS Notice of Benefit and Payment Parameters for 2016."

Requirements

This method will be the only permitted composite premium method for new and renewing non-grandfathered small group plans in Maine effective on or after January 1, 2016.

- Composite premium rating applies only if the carrier offers it and the employer accepts. Otherwise, the policy will be rated according to the per-member methodology outlined in 45 CFR § 147.102.

- Composite rating will not be available on the SHOP Exchange for the 2016 plan year. CMS anticipates being able to make composite rating available for SHOP coverage with effective dates on or after January 1, 2017.

- If a carrier offers composite rating, the offer must be available to all small employers without regard to group size or any other underwriting characteristics. Carriers may limit composite rating to certain plans, but must offer this option to all employers that choose to buy those plans. This does not prohibit carriers or producers from explaining the risks of composite rating to very small employers.

- Carriers that do not implement composite rating for the First Quarter of 2016 may begin offering it in the Second Quarter or at any subsequent time, upon approval by the Bureau.

- Tobacco surcharges are calculated on an individual basis regardless of the rating methodology that is used.

Composite Rating Tiers

The following four family tiers will be used for composite rating. Once the group's employee-only rate has been determined, each employee's share of the group premium, before adding any applicable tobacco surcharge, is calculated as follows:

Employee only

Employee + spouse
2× employee-only rate

Employee + children (including all covered children up to age 26)
1.85× employee-only rate

Employee + family (including spouse and all covered children up to age 26)
3.1× employee-only rate

Development of Composite Premiums

The fundamental principle underlying the composite premium methodology is that composite rating is premium-neutral for the group as a whole at the time the policy is issued or renewed. The differences between composite rating and per-member rating are: (1) how the premium is allocated among the employees; and (2) how the premium changes if the group's demographics change during the policy term.

The first step in developing an employer's composite premium is to determine the group's initial aggregate premium, before applying any tobacco surcharges. This is calculated using the same per-member rating methodology that would be used if the composite premium option were not chosen.[1] A premium is calculated for each covered individual, except that when an employee has more than three children under age 21, only the three oldest are counted. This premium is determined as though each covered individual were a nonsmoker, based on his or her age and geographic area at the time that coverage is issued to the group,

Then, as illustrated in the example that follows, a base premium for employee-only nonsmoker coverage is calculated so that the group's total premium would be the same – at the time of policy issuance or renewal – regardless of whether the policy is rated on a per-member or composite basis. The base premium equals the aggregate nonsmoker premium divided by the "weighted employee count," weighted according to the family tier factors above.

[1] 45 CFR §§147.102(c)(1) and (3).

Tobacco Use

For employees who use tobacco or have tobacco users as covered family members, the premium allocated to the employee is calculated by adding an individually determined tobacco surcharge to the composite nonsmoker premium for the employee's family tier. For each covered individual who is a tobacco user, the tobacco surcharge is the applicable tobacco rating factor multiplied by the nonsmoker premium for an individual the same age in the same rating area, all determined using the carrier's approved per-member small group rating methodology. The tobacco surcharge may not be applied unless the employer or carrier offers a tobacco cessation wellness program and the individual is not enrolled in the program.

Subsequent Changes

If composite rating is used, the group's employee-only nonsmoker rate remains the same for the rest of the plan year, and is only recalculated at renewal. An employee's allocated premium changes only if his or her family tier status or tobacco status changes. If new employees are added during the plan year, the premium for their coverage for the remainder of the plan year is the same employee-only rate times the applicable family tier factor, plus any tobacco surcharge that might apply. The tobacco surcharge is calculated on an individual basis, but the employer's base employee-only rate does not depend on the individual's age or location.

Example

Consider the following group of employees. The nonsmoker rates that would have been charged for each individual under the carrier's per-member rating plan are shown in parentheses. These "shadow" rates are used only to determine the employer's initial aggregate premium and to determine any tobacco surcharges that might apply:

Employee A: Employee ($450) + spouse ($500) + 2 children ($300 & $200)
Employee B: Employee ($525) + spouse ($400)
Employee C: Employee ($625) + spouse ($425) + 3 children ($200 × 3)
Employee D: Employee ($350) + 4 children ($200 × 3)
(because all four children are under 21, only the three oldest would count)
Employee E: Employee only ($550)

Total (before any tobacco surcharges): $5525

The tier-factor weighted employee count is calculated as follows:

Employee A: Employee + family	= 3.1
Employee B: Employee + spouse	= 2.0
Employee C: Employee + family	= 3.1
Employee D: Employee + children	= 1.85
Employee E: Employee only	= 1.0

Weighted employee count = 2×3.1 + 1×2.0 + 1×1.85 + 1×1.0 **= 11.05**

Therefore, the group's employee-only nonsmoker premium is $5525/11.05 = **$500**

Now suppose Employees B and E and Employee C's spouse are smokers, and the carrier's tobacco use factor is 20% regardless of age. Suppose further that the carrier offers a tobacco-cessation wellness program, but only C's spouse participates. In that case, B and E are subject to tobacco surcharges. These are based on their individual rates, not their composite rates, so B's surcharge is $105 (20% of $525), and E's surcharge is $110 (20% of $550). This means their individual premium rates would actually have been $630 and $660 respectively under the per-member rating methodology.

Under these assumptions, the following premium is allocated to each employee:

Employee A: Employee + family:	3.1 × $500 =	$1550
Employee B: Employee (smoker) + spouse:	2.0 × $500 + $105 =	$1105
Employee C: Employee + family:	3.1 × $500 =	$1550
Employee D: Employee + children:	1.85 × $500 =	$925
Employee E: Employee (smoker) only:	1.0 × $500 + $110 =	$610
Total premium =		**$5740**

As noted earlier, this is the same total premium the employer would pay for the first month under a per-member rating methodology. However, if the group's demographic composition changes during the plan year, the $500 base rate will not change. The same nonsmoker rates will apply to any new employees this employer hires during the plan year, regardless of age and geographic area: $500 for employee-only, $925 for employee + children, $1000 for employee + spouse, and $1550 for family. Any tobacco surcharges for new employees or family members will be calculated on the basis of the individual's own age and geographic factors, in the same manner as Employees B and E.

May 22, 2015

Eric A. Cioppa
Superintendent of Insurance

NOTE: This Bulletin is intended solely for informational purposes. It is not intended to set forth legal rights, duties, or privileges, nor is it intended to provide legal advice. Readers should consult applicable statutes and rules and contact the Bureau of Insurance if additional information is needed.