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BULLETIN 14-L&H-1

TO: **Insurers Writing Small Group Health Insurance in Georgia**

FROM: **Ralph T. Hudgens**
Insurance & Safety Fire Commissioner

DATE: **August 1, 2014**

RE: **Georgia Small Group Health Composite Rating**

EFFECTIVE: **Immediately – for use in preparing 2015 Small Group Health rates**

This Bulletin provides guidance for Small Group Health Family Composite Premiums for policy years beginning on and after January 1, 2015.

Family Composite Premiums

Georgia allows for the use of family composite premiums in the small group market. The use of family composite premiums has been well established in the market place. The use of family composite premiums reduces administrative burdens for both carriers and small group employers and further it reduces premium instability for employers and employees.

A carrier may choose not to provide family composite premiums, instead using the filed member level rates, summing the premiums for all members in a small group. If a carrier does offer this family composite approach in a market, it must make it available for each small employer in the market. The only method available to a carrier that uses a family composite premium approach is the method described below.

The following paragraphs outline the required methodology for developing aggregate small group premiums and allocating these premiums to covered employees and their dependent(s):

A) Development of Aggregate Small Group Premiums

For each covered employee and his/her covered dependent(s), 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. A tobacco use factor must not be applied at this time.
- 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. A tobacco use factor must not be applied at this time.

Age and geographic area are determined at the time that coverage is quoted to the group. The small group's aggregate premium prior to any tobacco use factors is equal to the sum of the premiums determined for each covered employee and his/her covered dependent(s).

B) 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 (e.g., employee only, employee + spouse, employee + children, and employee + family). Georgia will require standard tier definitions and factors for all carriers using a composite premium approach. 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) = 2.85

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:

C) Final employee premium

Final employee premium = [Group aggregate premium] / [Weighted employee count] x [Employee's tier factor]

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 = 2.85
- Employee B: Employee + spouse = 2.00
- Employee C: Employee + family = 2.85
- Employee D: Employee + children = 1.85
- Employee E: Employee only = 1.00

Weighted employee count = 2 x 2.85 + 1 x 2.00 + 1 x 1.85 + 1.00 = 10.55

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. Continuing with the example above, and assuming the total monthly premium for the group is $5,275, each employee's monthly premium is calculated as follows:

- Employee A: $5,275 / 10.55 x 2.85 = $1,425
- Employee B: $5,275 / 10.55 x 2.00 = $1,000
- Employee C: $5,275 / 10.55 x 2.85 = $1,425
- Employee D: $5,275 / 10.55 x 1.85 = $925
- Employee E: $5,275 / 10.55 x 1.00 = $500

Group total = $5,275

D) 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. The average monthly premium must be recalculated annually, based on the census at the time the policy is rated.

E) Application of Tobacco Use Factors

The family 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 is applied to the premium that individual contributed to the aggregate premium, (as calculated in section A). 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 premium of $600 contributing to the aggregate $5,275, is a tobacco user, and the carrier has a tobacco use factor of 50%. The total premium for employee C and family would be $1,425 plus $300, ($600 * 50%), for a total of $1,725. Application of any tobacco use factor is subject to all requirements of federal regulation.

Please note:

- Issuers in Georgia need 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).
- Note that the FF SHOP will not use composite premium methods for the 2015 plan year. The FF SHOP plans to use the federal default composite premium method for the 2016 plan year.

Questions concerning this bulletin may be directed to: Thomas F. Carswell, Assistant Director, Division of Product Review, Room 604 West, 2 Martin Luther King, Jr. Drive, Atlanta, Georgia 30334
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