Illinois Department of Insurance

BRUCE RAUNER
Governor

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Acting Director

TO: All Insurers

FROM: Anne Melissa Dowling, Acting Director of Insurance

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RE: COMPANY BULLETIN CB #2016-02
ILLINOIS-SPECIFIC SMALL GROUP COMPOSITE PREMIUM METHOD

Family Composite Premiums in the Illinois Small Group Market for Health Benefit Plans Issued or Renewed on or after January 1, 2016

Illinois has allowed the use of family tiered composite premiums in the small group market, and its use has been well established in the marketplace. Under a tiered composite approach, the premium levels for all small group employees are derived from the combined rating characteristics of the entire group, adjusted to allow for the inclusion of an employee's covered dependents. The Illinois Department believes that the use of a composite premium methodology may reduce administrative burdens on issuers and small group employers, will reduce premium instability for employers and employees, will simplify employee decisions, and may facilitate defined employer contributions. As the use of composite premiums is also widespread in the large group market, providing the use of composite premiums for smaller employers also ensures consistent practices across the entire group market.

The following sections outline the requirements for issuers looking to implement composite rating methodology in the small group market outside the Federal Marketplace – both for developing aggregate composite premiums and allocating these premiums to covered employees and their dependents.

A. Development of Composite Premiums

As required by 45 CFR §147.102(c)(1) and (3), a composite premium 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 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. Tobacco use factors must not be applied at this time.
- *For all other individuals:* Calculate the rate for each person by multiplying the base rate by the applicable age and geographic area factors. Tobacco use factors must not be applied at this time.

Age and geographic area are determined at the time that coverage is issued to or renewed with the group. The composite premium prior to tobacco use surcharges is equal to the sum of the premiums determined for each covered employee and his/her covered dependents.

B. Allocation of Composite Premiums

Once a composite premium has been calculated, it must be allocated back to covered employees based on the tier factor applicable to each employee's family composition. Illinois requires standard tier definitions and factors for all issuers where tiered composite rating is used, 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 Weighted Employee Count is equal to the sum of the tier factors determined across all covered employees. From this the Final Tier Premium prior to tobacco use surcharges can be calculated as:

Final Tier Premium = [Group aggregate premium] / [Weighted Employee count] x [Tier factor]

For any employee, the premium applicable can then simply be derived per the formula below:

Final Employee Premium = Final tier Premium + [Applicable Tobacco Surcharge, if any]

C. Example

As an example of the above approach, 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**

For each of the employees, the applicable tier factor is then assigned.

- *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**

The Weighted Employee Count can then be derived as follows:

Weighted employee count = 2.85 + 2.00 + 2.85 + 1.85 + 1.00 = 10.55

Assuming the total monthly premium for the group is $5,275 (prior to any tobacco surcharge), the Final Tier Premium for each tier can be derived consistent with the formula above.

- Employee only = 5,275/10.55 x 1.00 = **500**
- Employee + spouse = 5,275/10.55 x 2.00 = **1,000**
- Employee + children = 5,275/10.55 x 1.85 = **925**
- Employee + family = 5,275/10.55 x 2.85 = **1,425**

Each employee is then assigned the premium applicable to their tier.

- *Employee A:* Employee + family = **1,425**
- *Employee B:* Employee + spouse = **1,000**
- *Employee C:* Employee + family = **1,425**
- *Employee D:* Employee + children = **925**
- *Employee E*: Employee only = **500**

  TOTAL = 1,425 + 1,000 + 1,425 + 925 + 500 = $5,275

The final premium for any employee would be the amount shown above plus any tobacco surcharges applicable to the employee and his/her covered dependents.

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 premiums for each tier based on a census of employees and their covered dependents at the time the group's policy is issued or renewed. The average monthly premium for each of the tiers ("Final Tier Premium" above) must remain in effect throughout the entire policy period and may not increase or decrease to reflect changes in the small group census. The Final Tier 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 premium applicable to that individual if per-member rating were applicable (the same amount the member would contribute to the Development of Composite Premiums as outlined in Section A above). This additional surcharge is then added to the monthly premium for that individual previously determined 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 tobacco surcharge applicable to the spouse of employee C = 50% x $600 = $300.
- The total premium for employee C and family would be $1,425 + $300 = $1,725.

F. Additional items

1) The method will be the only permitted composite premium method for new and renewing non-grandfathered small group plans in Illinois offered outside the marketplace, effective on or after January 1, 2016. Plans offered through the marketplace are offered in partnership with the Federal SHOP, which does not currently allow for composite premiums to be offered. When the Federal SHOP does implement composite premiums, it will only utilize the federal two tiered approach and not the state specific composite premium approach utilized outside of SHOP.

2) This bulletin does not intend to restrict per-member rating in the small group market. Per-member premiums will also be permitted.

3) If an issuer elects to offer the tiered-composite premium methodology in Illinois, the issuer is required to offer this option to all small employer groups without regard to size.

Please direct questions regarding this bulletin to Eric Anderson at eric.anderson@illinois.gov.