

Indiana Composite Premium Basis for Health Benefit Plans Issued on or after January 1, 2015

The Indiana Small Group Market

For many years, Indiana has had the option to develop small group premium established on a tiered composite rating basis. This means that all small group employees pay a premium based on the combined rating characteristics of the entire group, with adjustment factors to each employee's premium to include covered dependents. Indiana's composite premium methodology ensures that premium is equitably distributed across the small group, simplifies employee decisions, facilitates defined employer contributions, and streamlines overall administration of the small group policy. Because composite premiums are also widely used in the large group market, the use of composite premiums also ensures consistent practices across the entire group market. This consistency will become even more important once the small group market expands to groups with up to 100 employees in 2016.

Implementation of Federal Market Rules

The final federal market rules, as published in the Federal Register on February 27, 2013, require that the total premium charged for small group plans issued on or after January 1, 2014 be derived using a per-member rating methodology. This means that the rating factors (age and geographic area) must be applied to each covered employee and his/her covered dependents to determine an aggregate composite premium. Any tobacco use factor, if applicable, would be applied to the individual after the composite rate is developed. The tobacco use factor must not be applied if the individual enrolls in a tobacco cessation program. For any one family, no more than the three oldest covered children under age 21 can be considered in determining the composite premium.

The market rules clarify that the per-member rating methodology does not preclude a state from requiring insurers to offer an average rate per enrollee as long as the total composite premium equals the aggregate premium derived by the per-member methodology without consideration of a tobacco surcharge. In the current Indiana small group legacy market, employees of larger sized small groups pay an average rate, adjusted by tier factors based on the type of coverage purchased (e.g., employee only, employee + spouse, employee + children, and employee + family). To minimize disruption in the small group market in 2015, Indiana will apply its tiered-composite rating methodology to all of its small group ACA business outside of the Federally Facilitated Marketplace.

The following sections outline the methodology for developing aggregate composite premiums and allocating these premiums to covered employees and their dependents.

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 adult age 21 or older:* Calculate the rate for each person by multiplying the base rate by the applicable age and geographic area. Any tobacco use factor would be applied after the composite rate is developed. The tobacco use factor must not be applied if the individual enrolls in a tobacco cessation program.
- *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. Any tobacco use factor would be applied after the composite rate is developed. The tobacco use factor must not be applied if the individual enrolls in a tobacco cessation program.

Age and geographic area are determined at the time that coverage is issued to the group. Any tobacco use factor would be applied after the composite rate is developed. The tobacco use factor must not be applied if the individual enrolls in a tobacco cessation program. The composite premium is equal to the sum of the premiums determined for each covered employee and his/her covered dependents on a per member basis without consideration of a tobacco surcharge.

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 (e.g., employee only, employee + spouse, employee +

children, and employee + family). Indiana will require standard tier definitions and factors for all carriers outside of the Marketplace. 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:

Final employee premium = [Group aggregate premium] / [Weighted employee count] x [Employee’s tier factor] + [Applicable Tobacco Surcharge, if any]

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 composite premium is divided by the weighted employee count and multiplied by each employee’s applicable tier factor. Any tobacco surcharge would be applied on top of the tier premium. 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**

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 dependents 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.