Virginia – Small Employer Group
Approved Methodology for Computing Composite Premiums
For Plan Years Beginning On and After 1/1/2015

<u>Methodology</u>

Development of Aggregate Small Group Premiums

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.
- *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.

Age and geographic area are determined at the time that coverage is issued to the group. The small group's aggregate premium is equal to the sum of the premiums determined for each covered employee and his/her covered dependents.

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 (*i.e.*, employee only, employee + spouse, employee + children, and employee + family). Virginia will require standard tier definitions and factors for all carriers. 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) = **1.95**
- Employee + family (including spouse and all covered children up to age 26) = **2.95**

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]

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 = **2.95**
- *Employee B:* Employee + spouse = **2.00**
- *Employee C:* Employee + family = **2.95**
- *Employee D:* Employee + children = **1.95**
- *Employee E*: Employee only = **1.00**

  Weighted employee count = 2 x 2.95 + 1 x 2.00 + 1 x 1.95 + 1.00 = 10.85

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 / 10.85 x 2.95 = **$1,434**
- *Employee B:* $5,275 / 10.85 x 2.00 = **$972**
- *Employee C:* $5,275 / 10.85 x 2.95 = **$1,434**
- *Employee D:* $5,275 / 10.85 x 1.95 = **$948**
- *Employee E: $5,275 / 10.85 x 1.00* = **$486**

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 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.

Application of Tobacco Use Factors

The 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 above. 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 a premium of $600 contributing to the aggregate $5,275, is a tobacco user, and the carrier has a tobacco use factor of 20%. The total premium for Employee C and family would be $1,434 plus $120 ($600 times 20%), for a total of $1,554. Application of any tobacco use factor is subject to all requirements of federal regulation.

Please note:

- Issuers in Virginia 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.