ODI
Ohio Department
of Insurance

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Composite Rating

Effective October 1, 2015

On March 11, 2014, Health and Human Services (HHS) issued the "HHS Notice of Benefit and Payment Parameters for 2015," outlining the requirements for composite rating for small employer premiums under the Affordable Care Act (ACA).

The notice defines a two-tiered federal compositing methodology that a state may adopt, or allows states to propose and submit to HHS an alternate tiered-composite methodology. HHS approval was received for the method outlined below on 9/9/2015.

Effective for plan years beginning on or after January 1, 2016, Ohio's tiered-composite methodology may be used to set small employer premium rates in the off-exchange market.

Below are the tiers and associated factors allowed in Ohio's alternate tiered-composite methodology:

Tier	Factor
Employee only	1.00
Employee + Spouse	2.00
Employee + Child(ren) (including covered children up to age 26)	1.85
Employee + Family (including spouse and all covered children up to age 26)	3.10

Pursuant to 45 CFR 147.102, an issuer may decide which products will offer alternate tiered-composite rating, but the alternate tiered-composite methodology must be offered to all small employer groups enrolling in that product, regardless of group size. Any rating for tobacco cannot be included in a composite premium but must be applied individually after the composite premium is determined.

In addition, 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 issued and renewed. The Ohio Department of Insurance (Department) may request that issuers provide to the Department a listing of products and the associated plans that will allow composite rating.

This is the only alternate tiered-composite rating methodology allowed for off-exchange, small employer group plans in Ohio. Issuers can either use the per-member rating methodology, or the alternate tiered-composite rating methodology. An issuer may explain to a small employer risks associated with offering composite premiums to very small groups.

The development of aggregate small group premiums is as follows:

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.

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 = **3.10**
- *Employee B:* Employee + spouse = **2.00**
- *Employee C:* Employee + family = **3.10**
- *Employee D:* Employee + children = **1.85**
- *Employee E*: Employee only = **1.00**

  Weighted employee count = 2 x 3.10 + 1 x 2.00 + 1 x 1.85 + 1.00 = 11.05

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 $5,540, each employee's monthly premium is calculated as follows:

- *Employee A:* $5,540 / 11.05 x 3.10 = **$1,554.21**

- *Employee B:* $5,540 / 11.05 x 2.00 = **$1,002.71**
- *Employee C:* $5,540 / 11.05 x 3.10 = **$1,554.21**
- *Employee D:* $5,540 / 11.05 x 1.85 = **$927.51**
- *Employee E*: $5,540 / 11.05 x 1.00 = **$501.36**

Group total = $5,540

Superintendent of Insurance

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