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The word "carrier" means the entity contracting with OPM and the word "plan" means the policy/contract.

➤ Similarly-Sized Subscriber Groups (SSSGs)

The reconciliation requests information on your carrier's Similarly Sized Subscriber Groups (SSSGs). At the time of your 2005 proposal, our regulation, 48 CFR 1602.170-13, defined SSSGs as follows:

- (a) Similarly Sized Subscriber Groups (SSSGs) are a comprehensive medical plan's two employer groups that:
 - (1) As of the date specified by OPM in the rate instructions, have a subscriber enrollment closest to the FEHBP subscriber enrollment; and
 - (2) Use any rating method other than retrospective experience rating; and
 - (3) Meet the criteria specified in the rate instructions issued by OPM.

"Subscriber enrollment" refers to contract enrollment. This could be the total self and family contract enrollment, or the total self, couples, and family contract enrollment, or some other sum, depending of the rate structure of the group.

- (b) Any group with which an FEHB carrier enters into an agreement to provide health care services may be an SSSG (including separate lines of business, government entities, groups that have multi-year contracts, and groups having point of service products).
- (c) Exceptions to the general rule stated in paragraph (b) of this section are (and the following groups must be excluded from SSSG consideration):
 - (1) Groups the carrier rates by the method of retrospective experience rating;
 - (2) Groups consisting of the carriers own employees;
 - (3) Medicaid groups, Medicare groups, and groups that have only a stand alone benefit (such as dental only); and
 - (4) A purchasing alliance (as defined on page 3) whose rate-setting is mandated by the State or local government.
 - (5) A new group (e.g., a group the carrier first contracts with between July 2, 2004, and July 1, 2005).
 - (6) A second year group (a group starting its second contract year between July 2, 2004, and July 1, 2005) that normally would be rated by adjusted community rating.

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- (7) Provider Partners – Employee Groups in which the carrier has a financial interest or there is a risk sharing arrangement;
- (8) Any employee group with at least a 100% increase enrollment within the last 12 months; and
- (9) A purchasing alliance (as defined below) in which every employer in the alliance has less than 100 enrollees.

OPM shall determine the FEHBP rate by selecting the lower of the two rates derived by using rating methods consistent with those used to derive the SSSG rates.

Purchasing Alliances are any groups bonding together to purchase health insurance. Purchasing Alliances are considered employee groups and may be SSSGs.

New Rules on SSSG Selection

For the 2005 plan year we revised our rules for choosing SSSGs. The rules were stated in the 2005 rate instructions as follows:

For the 2005 rate year a plan will look at the most current FEHB enrollment available (but no later than May 31, 2004) to choose the potential SSSGs. The plan will find all employer groups which are potential SSSGs and have an enrollment that is a) greater or equal to 90% and b) less than or equal to 110% of the FEHP enrollment. If the number of these groups is five or more those groups will be the potential SSSGs. If the number of these groups is less than five, the next groups closest in size to the Federal Group will be added to make a total of five. Only these groups will be potential SSSGs. We require at least five groups but there could be many more.

The actual SSSGs used at the time of reconciliation will be limited to those on the list of potential SSSGs that were provided to OPM with the 2005 Rate Proposal if at least one of the groups listed is still eligible to be an SSSG. The potential SSSGs shown on that list will be ranked according to the most current enrollment available at the time of the 2005 Reconciliation, but no later than March 31, 2005. The 2005 Rate Instructions under Regulatory Definition, (b) 1-9 reference the groups that are excluded from SSSG consideration.

If only two of the potential SSSGs are still eligible to be an SSSGs, then these will be the 2 groups selected as SSSGs. The carrier will not be required to have 5 potential SSSGs at the time of Reconciliation.

If only one of the potential SSSGs is still eligible to be an SSSG then this group will be the first SSSG. For the second SSSG we will look at the next group closest in size to the FEHBP at time of proposal until we find one that qualifies to be an SSSG. For example, if the 6th group closest in size qualifies it will be the second SSSG. If not we will look at the 7th group and so on.

If none of the potential SSSGs is still eligible to be an SSSG, then we will look at the next two

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groups closest in size to the FEHBP at time of proposal as stated above until we find two that qualify to be SSSGs.

Enrollment and Contract Renewal Dates

For the 2005 rate year, the specific guidelines for SSSGs are as follows:

- (1) All group enrollments (the Federal group and the SSSG enrollments) should be the latest 2005 enrollment available to the carrier up to March 31, 2005.
- (2) The contract renewal date for 2005 SSSGs should be between July 2, 2004 and July 1, 2005. **"Renewal date" means the date a rate change (if any) is effective for the SSSG.**

We stated the above guidelines in the 2005 rate instructions.

If an SSSG's rate is extended beyond twelve months (i.e. the carrier allows an SSSG to change its renewal date), a premium adjustment that reflects the entire value of the extension must be made for the SSSG in the following year, or the rate extension will be considered a discount. The renewal date for this type of group would be the anniversary date after the last rate change.

We developed the SSSG concept to ensure that OPM receives an equitable and reasonable market-based rate. For the 2005 rate year, OPM will focus on the rating methods used for the two SSSGs to determine if the carrier appropriately derived the Federal group rates.

The OPM audit staff may examine the rates and benefit loadings of non-SSSG groups. The purpose of such analysis is to make certain the Federal group rates are fair in relation to the SSSG rates. For example, if an SSSG had a special benefit not included in the Federal group benefit package, OPM would compare what the carrier charged the SSSG with what it charged other groups for this benefit. The purpose would be to verify that the SSSG received no discount.

All rate agreements between OPM and the carrier are subject to audits by the OPM Office of the Inspector General. The results of such audits may require modifications to previous agreements and subsequent rate adjustments. **Pursuant to contract clause 3.4, Contractor Records Retention (FEHBAR 1652.204-70), OPM requires all carriers to maintain documentation to support all calculations and statements pertaining to this reconciliation. This includes documentation supporting the SSSG rates and the rates for all of the 10 largest groups. And, for carriers using an ACR method, this includes detailed reports (including the database) supporting all data (e.g., claims data) used to derive the rates.**

OPM will review the carrier's SSSGs to verify that the carrier complies with OPM rating principles including Federal group rate adjustments based on the carrier's treatment of its SSSGs.

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➤ **Definition of a Rating Region**

A rating region is the total area over which the carrier controls its rates. This is usually the state.

Example 1

HMO ABC operates in Pennsylvania and has two separate rating entities HMO ABC Pittsburgh and HMO ABC Philadelphia. Pittsburgh and Philadelphia determine rates for groups within their area only. Therefore, Pittsburgh is HMO ABC Pittsburgh's **rating region** and Philadelphia is HMO ABC Philadelphia's **rating region**.

Example 2

HMO DEF operates in Florida. It has five separate rating codes throughout the State of Florida. HMO DEF controls the rates for each rate code. Therefore, the State of Florida is the **rating region**.

➤ **Number of Required SSSGs**

A rate code area is generally the area under which the rate code covers. In the case where an additional product is offered in the same area (other than the traditional HMO) such as a consumer driven plan or HSA and a different rate code is assigned to that product the rate code area will be the area covered by the traditional HMO.

Two SSSGs will be selected for each rate code area if only one product is offered in that coverage area. If a carrier offers more than one product for a given coverage area, two SSSGs will be selected for each product with a unique rate development. That is, if the products are rated independently then two SSSGs are required for each product, but if they are rated interdependently then two SSSGs will be required. You should choose both SSSGs from groups that have at least 5% of their enrollees in the federal group's rate code area. Total enrollment is defined as enrollment in a rating region. It is possible that a carrier could have federal enrollees in several different geographical regions or states under the same rate code.

➤ **Guidance for Choosing SSSGs**

We will use a potential SSSG's local enrollment within a rating region to decide if a group is an SSSG. If we determine that a group is an SSSG, the rating methodology within the rating region will be used to determine any discounts. In the following examples "rate code area" will mean coverage area.

The following examples illustrate the above policies.

Case 1 One state, one federal rate code area, one rating region and all groups are in one state:

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The carrier operates in the State of Texas. The FEHBP has one rate code area in Texas. Two SSSGs are required. The carrier controls the rates for all of Texas. Therefore, Texas is the rating region. All the groups the carrier contracts with are in Texas. The total enrollment in Texas for each group that has 5% of its enrollment in the Federal rate code area should be compared with the FEHBP enrollment to decide if the group is an SSSG.

Case 2 One state, two federal rate code areas, one rating region and all groups are in one state:

The carrier operates in the state of Texas. The FEHBP has two rate code areas in Texas: one in Dallas and one in Houston. Two SSSGs are required for each federal rate code area. The carrier controls the rates for all of Texas. Therefore, Texas is the rating region. All the groups the carrier contracts with are in Texas. If at least 5% of the total enrollment of a group is in the Federal rate code area in **Dallas**, the carrier should use the total enrollment of that group in **Texas**. The carrier should compare the group's total enrollment with the FEHBP's enrollment in **Dallas** to determine if the group is an SSSG for the **Dallas** rate code area. Carrier follows the same procedure to select SSSGs in Houston.

Case 3 One state, two federal rate code areas, two rating regions are in one state:

The carrier operates in the State of Texas. The Dallas rating region controls rates in Dallas. The Houston rating region controls the rates in Houston. Therefore, there are two rating regions in Texas. The FEHBP has two rate code areas in Texas: one in Dallas and one in Houston. Two SSSGs are required for each federal rate code area. The carrier contracts with the XYZ group in Texas. If at least 5% of the total XYZ Group enrollment in the **Dallas** rating region is in the Federal rate code area in Dallas, then the carrier should use the total XYZ group enrollment in **Dallas**. The carrier should compare the group's total enrollment in Dallas with the FEHBP's enrollment in Dallas to determine if the group is an SSSG for the **Dallas** rate code area. The XYZ Group's rates in **Dallas** will be used to determine any discounts. Carrier follows the same procedure to select SSSGs in Houston. The XYZ group may be an SSSG in Houston based on its enrollment there.

Case 4 One state, one federal rate code area, one rating region and some groups are in more than one state:

The carrier operates in the State of Texas. The FEHBP has one rate code area in Texas. Two SSSGs are required. The carrier controls the rates in Texas. Therefore, Texas is the rating region. The carrier contracts with XYZ Corporation, which has enrollees in Texas and nine other states. If at least 5% of the total XYZ Corporation enrollment in Texas is in the Federal rate code area, then the carrier should use the total XYZ Corporation enrollment in Texas to compare with the FEHBP enrollment in Texas to determine if the group is an SSSG. The XYZ Corporation's rates in Texas will be used to determine any discounts.

Case 5 One state, two federal rate code areas, one rating region and some groups are in more than one state:

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The carrier operates in the State of Texas. The FEHBP has two rate code areas Houston and Dallas. Two SSSGs are required for each federal rate code area. The carrier controls the rates in Texas. Therefore, Texas is the rating region. The carrier contracts with XYZ Corporation, which has enrollees in Texas and nine other states. If at least 5% of the total XYZ Corporation enrollment in Texas is in **Dallas**, then the carrier should use total XYZ Corporation enrollment in **Texas**. The carrier should compare the group's total enrollment in Texas with the FEHBP's enrollment in **Dallas** to determine if the group is an SSSG for the **Dallas** rate code area. The XYZ Corporation's rates in Texas will be used to determine any Dallas discount. Carrier follows the same procedure to select SSSGs in Houston.

Case 6 One state, two federal rate code areas, two rating regions and some groups are in more than one state:

The carrier operates in the State of Texas. The Dallas region controls rates in Dallas. The Houston region controls the rates in Houston. Therefore, there are two rating regions in Texas. The FEHBP has two rate code areas in Texas: one in Dallas and one in Houston. Two SSSGs are required for each federal rate code area. The carrier contracts with XYZ Corporation, which has enrollees in Texas and nine other states. If at least 5% of the total XYZ Corporation enrollment in the **Dallas** rating region is in the **Federal rate code area in Dallas**, then the carrier should compare the total XYZ Corporation enrollment in the **Dallas** rating region with the FEHBP enrollment in **Dallas** to determine if the group is an SSSG for the **Dallas** rate code area. The XYZ Corporation's rates in **Dallas** will be used to determine any discounts. Carrier follows the same procedure to select SSSGs in Houston.

Case 7 Two states, one federal rate code area, one rating region and groups are in two states:

The carrier operates in two states Texas and Arizona. The rate code is the same for all enrollees. The rating region is Texas and Arizona combined. All the groups the carrier contracts with are in Texas and Arizona. The total enrollment for each group that the carrier contracts with in Texas and Arizona that has 5% of its enrollment in the Federal rate code area, should be compared with the FEHBP enrollment to decide if the group is an SSSG. The group's rates in the two states will be used to determine any discounts.

Case 8 Two states, one federal rate code area, one rating region and some groups are in more than two states:

The carrier operates in two states Texas and Arizona. The rate code is the same for all enrollees. The rating region is Texas and Arizona. The carrier contracts with the XYZ Corporation, which serves ten states. Two of the ten states are Texas and Arizona. If 5% of the total XYZ Corporation enrollment in Texas and Arizona combined is in the FEHBP rate code area, the carrier should compare the total XYZ Corporation enrollment in Texas and Arizona with the FEHBP enrollment in the Texas and Arizona to determine if a group is an SSSG. The XYZ Corporation's rates in Texas and Arizona will be used to determine any discounts.

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OPM requires the Federal group rates to be at least equivalent to the rates for the SSSGs. Therefore, we expect the Federal group to receive at least the largest rate discount given to either SSSG and any other advantages given to the SSSGs. For example, if the carrier gives an early rate quote (based on a lower community rate than the rates later quoted other groups) to an SSSG and does not revise it at a later date, we will interpret the SSSG rate as a discounted rate, and require a similar rate discount for the Federal group.

➤ **Instructions: Contracting with Purchasing Alliances**

You should treat a Purchasing Alliance as one group and follow the above rules for choosing SSSGs.

If a Purchasing Alliance turns out to be an SSSG and consists of more than one rate, use the weighted average of the discounts to determine any discounts.

➤ **Instructions: for Total Replacement Groups Qualifying as an SSSG**

An employee group is a total replacement group in a given area when the plan is the only health insurance provider for that employer in that area. For a total replacement group we will not view the first 2% discount on their rates as a discount that will have to be given to the Federal group if it is the carrier's policy to adjust the rates of all total replacement groups by this amount.

➤ **Consistency**

We normally expect the carrier to use the same rating method for the Federal group as it uses for the SSSGs. We accept different rating methods in some situations. **If, however, the carrier rates an SSSG not consistent with the carrier-established policies, the Federal group is entitled to a discount based on the SSSG rating method applied to the Federal group.**

➤ **Special Adjustments to SSSG Rates**

We will accept adjustments to rates of SSSGs based on estimated new business if the carrier can give a reasonable justification, the method is not intended to give a discount and it is the carrier's policy to make such adjustments.

The following are two examples of acceptable justifications:

1. Closure of competitive HMO's in the SSSG's area.
2. Mergers or Divestitures.

➤ **Policy On Rate Reconciliation Audits (RRAs)**

Each year the Office of Inspector General (OIG) audits the rate reconciliations of some carriers. The Office of Actuaries (OA) uses the audit results to set the final rates. The OIG will not

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conduct subsequent audits of that year's rates for these plans.

Once the rates are finalized, OPM will not change the rates, or accept new or additional information from the carrier to change the audit results or final rates. The OIG's auditor will inform the carrier of the audit results before the rates are finalized, and the OA will discuss the results with the carrier. Therefore, **it is the carrier's responsibility to inform the OA of any disagreement they have with the RRA results and/or final rates before they are finalized.**

The only condition under which rates finalized in conjunction with an RRA will be changed is when OPM determines it is justified and in the carriers best interest to do so.

➤ **Policy On Error Reporting**

If a carrier discovers that a previous rate proposal and/or reconciliation submitted to OPM is incorrect (e.g., through the discovery of an error or omission), the carrier **must**:

- 1) Notify OPM, and
- 2) Prepare and submit to OPM amended proposals or reconciliations (including a newly executed Certificate of Accurate Pricing).

Note: The above policy does not apply to proposals and/or reconciliations that have already been or are currently in the process of being audited by OPM's audit staff or audits that have been resolved by OPM's Office of Insurance Programs (OIP).

➤ **Special Loading for Enrollment Discrepancies**

Since 1997, as the result of negotiations between OPM and representatives of community-rated carriers, we amended the Standard Contract for Federal Employees Health Benefits. The contract now provides for a special premium loading of 1% to account for enrollment discrepancies. **Note: The carrier must explicitly take this loading, but may eliminate all or some of its effect by also giving the Federal group a discount. The carrier should keep in mind that its contract with the FEHBP states in Section 3.6(b) "the Carrier accepts the adjustment to the subscription charges in full resolution of all obligations of the Government in connection with the subscription payments as described in this section 3.6 and waives any rights it may have to claims for subscription payments under Section 3.1(a)."**

➤ **State Taxes**

5 U.S.C 8909(f)(1) prohibits the imposition of taxes, fees, or other monetary payment, directly or indirectly, on FEHBP premiums by any State, the District of Columbia, or the Commonwealth of Puerto Rico, or by any political subdivision or other governmental authority of those entities.

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You must make an adjustment for this amount in the reconciliation in the form of a negative special benefit loading if your 2005 rates include an amount to recover such monies from the FEHBP.

➤ **Small Carrier Contingency Reserve Payments**

A small carrier whose rates were reduced by the Office of Actuaries to generate a contingency reserve payment need not request this payment. OPM will automatically make this payment during the summer of 2005.

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➤ Instructions for Attachment III

Large carriers must complete lines 1 through 7 and line 10 of the reconciliation sheet. OPM will complete lines 8, 9, 11 and 12 for large carriers. Small carriers must complete lines 1 through 12 and use the results on line 12 to compute a 2006 rate adjustment.

OPM requires a reconciliation because most carriers estimated their 2005 rates. You must recalculate the rates, based on the carrier's actual community rates to determine if money is due OPM or you.

The enrollment data you used in the proposal should have been current data. **If you used group-specific demographic assumptions (i.e., family size, self/family enrollment mix, etc.) in the proposal, you must use the same figures in the reconciliation.** You may not revise the self/family enrollment mix to reflect the 2004 open season.

If, however, you used carrier-wide enrollment-mix or other demographic assumptions, and you revised these assumptions after you submitted the proposal (and before Jan. 1, 2005) and you used the revisions for your SSSGs, you should base the reconciliation on the revised assumptions.

There are certain other factors you **should** change for the reconciliation. If your rate is a weighted average of rates in several geographic areas, you should base the weight factors in the reconciliation on the March 31, 2005, enrollment in each area (which you provide OPM). Also, if you recalculate the Medicare loading, you should use the latest Medicare enrollment available.

➤ Special Reconciliation Instructions for Using ACR

If a carrier uses ACR, it may use a prospective method based on actual Federal claims data or some other method to calculate their rates. **In either case, the carrier must keep on file all data necessary to support the ACR rate (i.e., claims, utilization etc.). You must save backup tapes of your claims database for audit purposes. Note: this information should also be available for the SSSGs.**

If a carrier uses a method not based on actual claims data they should do the reconciliation similar to TCR or CRC reconciliation. The following special rules that apply for a claims-based ACR method were stated in the 2005 rate instructions and are as follows:

- 1) The experience period (and the claims used within that period) may not change in the reconciliation. It must be the same period (and the same claims) you used in the proposal.
- 2) If you used completion factors to convert paid claims to incurred claims, such factors must be the same for all groups for which you used a claims-based ACR method.

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- 3) Any method you used to convert paid claims to incurred claims must be consistent for all groups you rated by a claims-based ACR method.
- 4) If claims include special benefits claims, you should take no special benefits loadings (either in the proposal or reconciliation). Note that claims should reflect extension of coverage, which means that you should not take the extension of coverage loading.
- 5) If claims include those of annuitants age 65 and over, you must reduce claims by an amount equal to Medicare income from CMS (Centers for Medicare or Medicaid Services) or we must receive a credit for monies received from CMS. (See ACR Questions QA10 and QA11) **The amount of Medicare income from CMS must be clearly stated.**
- 6) Loadings for administrative expenses must be either:
 - a) a flat community rated pm/pm amount or
 - b) a standard percentage of claims
 - c) a method consistently applied to the FEHBP and the SSSGs.
- 7) Any trend factor used for the Federal group must be the same as the trend factor the carrier used for other groups (that is, you may not base a trend factor for the Federal group on the Federal group's experience).

The reconciliation for a carrier using a claims-based ACR method for the Federal group should differ only slightly from the original rate proposal. The only components that can change are:

- 1) **Trend Factor.** If you used an estimated trend factor in the 2005 proposal and later changed it (before January 1, 2005) for all groups for which you used a claims-based ACR method, you must use the revised factor in the 2005 reconciliation.
- 2) **Administration Cost Factor.** If you used an estimated administration cost factor in the 2004 proposal and later changed it (before January 1, 2005) for all groups for which you used a claims-based ACR method, you must use the revised factor in the 2005 reconciliation.

Both the trend factor and the administration cost factor must be consistent with the lowest such factors used for either SSSG.

Reconciliation Instructions

➤ **Lines By Line Instructions**

The following gives a line-by-line explanation of how to fill out the reconciliation sheet. Item numbers correspond to line numbers on Attachment III.

1. Actual FEHBP Rates - 2005

This is the most significant part of the reconciliation process. Please do it carefully. Refer to the Part I instructions on page 15.

2. Special Benefit Loadings

Refer to the Part II instructions on page 16.

3. FEHBP Rates Plus Special Loadings

The sum of Lines 1 and 2.

4a. Extension of Coverage Loading

If you are entitled to this loading, multiply Line 3 by .004 (or the same factor you used in the proposal).

4b. Children's Loading

Refer to Part III instructions on Page 17.

4c. Medicare Loading

Refer to Part IV instructions on page 17.

4d. Subtotal

Add lines 3, 4(a), 4(b), and 4(c)

4e. Enrollment Discrepancies Loading

This is a special 1% load to the rates which compensates the carrier for possible enrollment discrepancies.

5. Total FEHBP Rates - 2005

Add lines 4(d) and 4(e).

6. Contract Rate - 2005

For large carriers, the negotiated, biweekly, net-to-carrier contract rates, as agreed to during the summer of 2004. This rate is not the brochure rate (which is the net-to-carrier rate times 1.04).

NOTE: SMALL CARRIERS SHOULD PLACE IN LINE 6 THE RATES FOUND ON

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LINE C, ATTACHMENT I OF THEIR ORIGINAL 2005 RATE PROPOSAL

7. Difference

Subtract line 6 from line 5.

10. Brochure Printing Costs

Refer to the part V instructions on page 18.

10A. Section 508 Compliance

Refer to the part V instructions on page 19

8, 9, 11, and 12

For large carriers, OPM's actuarial staff will fill in these lines. Enrollment will be based on the March 31, 2005, semi-annual headcount.

➤ Additional Instructions for Small Carriers Only

Small carriers must do some additional work on Attachment III. Since small carriers do not send this document to OPM, you must complete Line 12, Attachment III, which requires completing Lines 8, 9, and 11.

Detailed instructions are as follows:

8. March 31, 2005 Enrollment

Normally, OPM would put the March 31, 2005 headcount enrollment numbers on Line 8. Since these numbers will not be available at the time the small carrier does the calculation, the carrier should use its March 31, 2005 Table 1 enrollment numbers. The Table 1 report is the enrollment data the carrier normally submits to OPM in April.

9. Payment Due Carrier/ (FEHBP)

To compute Line 9, multiply the amounts on Line 7 by line 8; then times 26 (since the rates are bi-weekly).

11. Outstanding Amount Due Carrier/ (FEHBP)

This is any amount due the carrier or OPM from previous years. As an example, suppose OPM owed the carrier \$50,000 last year, and the 2005 rates were purposely increased to pay the carrier this debt. In the 2005 rate reconciliation, \$50,000 would be placed in line 11.

12. Total Amount Due Carrier/ (FEHBP)

The sum of lines 9 through 11.

A small carrier must use the amount on line 12 to determine the 2006 rate adjustments. You will place the 2006 rate adjustments on Line B of your 2006 rate proposal sheet (Attachment I) which we will send you at a later date. An example of how you might compute the rate adjustments follows.

Example:

Assume the amount on line 12 is \$76,000. You must determine a self and family loading

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equivalent to this amount. Suppose the carrier expects the Federal group enrollment in 2006 to increase by 10 percent over the 2005 enrollment (i.e., 2006 enrollment will be 220 self and 440 family). Then, the adjustment could be \$2.66 self and \$5.32 family, since

$$[220 \times \$2.66 \times 26] + [440 \times \$5.32 \times 26] = \$76,000$$

OPM will allow reasonable flexibility in determining the amount of the rate adjustment based on reasonable enrollment assumptions. All assumptions will be subject to audit or verification at a later date. Therefore, you must keep on file all supporting calculations for the Federal group's rates and the SSSG rates.

Important Special Instruction to Small Carriers:

Line 6, Attachment III is for the 2005 contract rates. Small carriers should put the rates from Line C, Attachment I of the original rate proposal onto Line 6, Attachment III. This avoids the possibility that OPM would pay twice to a small carrier whose 2005 rates were reduced by OPM to generate a contingency reserve payment.

➤ **Backup: Line 1 Form Instructions**

These instructions should be used to fill out the corresponding backup forms. Your reconciliation is a revision of your original proposal.

TCR and CRC Carriers

For carriers using TCR or CRC, the reconciliation usually involves substituting the carrier's actual 2005 capitation rate (or equivalent) for the estimates you used in the proposal. The enrollment mix and all other demographic assumptions remain the same as in the proposal (with some exceptions, as indicated earlier). **Note that these "actual" rates should be the basis for the Federal group's rates and for the rates of both SSSGs.**

Community-rated carriers use different rating methods. Those using TCR or CRC usually base their rates on a "per member per month" or capitation rate that is converted to self and family rates by "step-up" factors. These factors are related to family size and market considerations, and are in accordance with the standard documented procedures.

There is usually a step-up factor that converts the capitation rate to a self rate and another factor that converts the self rate to a family rate. Some carriers have a step-up factor that converts the capitation rate directly to a family rate.

The 2005 reconciliation must be based on the same factors and procedures used to derive the 2005 self and family rates in the 2005 proposal submitted in May 2004. The reconciliation must use the **actual** January 1, 2005, capitation rate. Use the **same** step-up factors you used in the proposal (unless the step-up factors were changed before January 1, 2005 as the result of a revision of carrier-wide demographic assumptions and you used the revisions for your SSSGs).

Some carriers using TCR or CRC derive rates in other ways. The principles described above still apply. To compute the Line 1 rates, simply go through the same procedure used in the original proposal, substituting actual rates for the proposed rates. The procedures you use should also be

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the same as those used for your SSSGs.

For large carriers, we require documentation of your actual community rates, as explained in Attachment IV. If your State requires that you file your rates with the State Insurance (or other) Department, **enclose a copy of that filing**. Otherwise, follow the instructions in Attachment IV.

So that OPM's actuaries can easily verify the rates on Line 1, we require that:

- 1) your computations be clear
- 2) you highlight the actual community rates and step-up factors used in your computations.

An example of an acceptable presentation of the line 1 calculation follows.

Example:

Actual capitation rate as of 1/1/05:		\$20.00*
First level step-up factor used in proposal:	1.2**	
Actual Self Rate: (\$20 x 1.2)		\$24.00
Second level step-up factor used in proposal:	2.9**	
Actual Family Rate: (\$24 x 2.9)		\$69.60

*see insurance filing

**see attached sheet from original proposal

ACR Carriers

Carriers using ACR should refer to the "Special Reconciliation Instructions for Carriers Using ACR" on pages 11 and 12 of this document.

You must go through the same procedure you used to derive the Line 1 rates in the original 2005 rate proposal, changing the trend factor and/or administration cost factor if appropriate. All other parts of the reconciliation should be done the same way you did the original proposal.

Please keep in mind that the reconciliation for a carrier using a claims-based ACR method should differ only slightly from the original rate proposal.

➤ Backup: Special Benefit Loadings Form Instructions

OPM sometimes purchases special benefits that are not in the carrier's basic community package. The cost of the special benefit must not change if it was approved by OPM during the 2005

Reconciliation Instructions

rating period.

If the special benefit is a community-rated rider, enter either the self and family rates filed with the State Insurance Department or calculate the actual loading based on the actual capitation rate for the special benefit. The procedure would be similar to that used for the Line 1 rates. If you do not file with the State, submit other appropriate documentation for this rider.

If the special benefit loading is a function of the carrier's community rate (say a percentage of the Line 1 rate), calculate the Line 2 rate by multiplying the actual Line 1 rate by the same percentage used in the 2005 rate proposal.

➤ **Backup: Children's Loading Form Instructions**

This loading usually is a function of the community rate plus any special loadings. If the actual rates are different from those in the 2005 rate proposal, the children's loading will differ. Recalculate, using the same method used in the original proposal.

You may take this loading only if the carrier's normal practice is to take such a loading for all other groups whose age limit for children's coverage differs from the carrier's community standard.

In general, if you included coverage dependents in your group-specific demographics (especially the average family size) and use these numbers to create your self and family rates (through step-up factors, etc.), **YOU ARE NOT ENTITLED TO A CHILDREN'S LOADING.**

We present a "suggested method" format for your convenience. If you have another method, please use it and give the details of your method.

If the actual biweekly cost per child is known, and the average number of children per family is known, the children's rate may be computed by multiplying the two figures together. In general, if you can compute the overall rate for children in a more accurate way than that suggested in line (C) of the suggested method shown on the Form, use that result in line(C).

Enter the loading on line 4b of Attachment III.

➤ **Backup: Medicare Loading Form Instructions**

If you derived this loading using estimated community rates, recompute the derivation, using the actual community rates and the latest Medicare enrollment distribution available. Also, if you used estimated revenue from the Centers for Medicare and Medicaid Services (CMS) to derive this loading, you should now use the CMS approved numbers. **Include a copy of the original derivation so we can easily see the difference between the estimated and actual loading.**

If you use CRC or ACR to derive your rates, you must make sure that you have considered the

Reconciliation Instructions

effect of Coordination-Of-Benefits (COB) income the carrier received from CMS. A carrier using a claims-based ACR method will normally not have a Medicare loading. You should pay particular attention to questions QC16, QA10, and QA11 of the questionnaire.

The best source of data for your Medicare distribution is the match tape we send to you each year. However, do not include annuitants from that tape with codes X, Z, or N who are under age 65 in your count of no coverage. A carrier claiming a Medicare loading must have appropriate documentation to justify the distribution of its Medicare population submitted in QG8.

The purpose of the Medicare loading is to adjust a carrier's premium to provide the correct income for FEHB retirees age 65 and older. Most other groups generally cover their retirees by Medicare Plus Choice Plans or Medicare Supplement Plans and are excluded from the employee plan.

The HMO must compute the cost of benefits for the Federal annuitants, and compare this with the income it receives on behalf of these annuitants from OPM and CMS. If a plan receives more income than is needed to cover the cost of benefits for this group, the Medicare loading should be negative. If the plan receives less income than is needed, the loading should be positive.

We suggested a method to derive the loading in the 2005 rate instructions, but want to make clear here that the HMO may derive the loading in any reasonable way that it can document.

The difference between the cost for these enrollees and revenue received from CMS should roughly equal the premium charged to Medicare enrollees for either Medicare Supplement Plans or Medicare Plus Choice Plans with adjustments made for differences in levels of benefits. Please verify the reasonableness of your loading. We will verify the accuracy of your calculation based on the answers you provide in questions QG9 and QG10.

➤ **Backup: Brochure Costs Form Instructions**

This is the amount the carrier actually spent to produce the **OPM-approved quantity** of brochures. We will evaluate for reasonableness. Submit any documentation you think will be helpful to us in evaluating the reasonableness of your requested amount. **Note that the amount claimed may be for OPM brochures or rate sheets only. No costs for provider directories, business cards, or other promotional materials** may be included.

Reconciliation Instructions

➤ **Backup: Section 508 Compliance**

Carrier Letter 2005-07 provided new and important instructions for meeting OPM's requirement to provide Section 508 Web accessible health plan brochures. These instructions apply to current year 2005 and forthcoming year 2006 health plan brochures. The letter stated the following:

Health plans are responsible for creating a 2005 PDF brochure that meets Section 508 Web accessible compliance requirements. We require each plan to provide a certificate of compliance from a vendor specializing in 508 compliance work, as well as a compliant and readable PDF brochure.

The additional cost a plan incurs to obtain 508 compliance certification is an allowable expense for community-rated plans. Any plan wishing to be reimbursed for these costs must submit documentation showing the actual cost. We will not be reimbursing plans for consulting fees. Plans should have obtained cost estimates from at least 3 vendors. We will evaluate this cost for reasonableness.

➤ **Backup: SSSG Comparison Form Instructions**

Use the SSSG Comparison Form to show the method by which you determined the billed rates for your SSSGs and the Federal group. Indicate in a step-by-step manner how you got from your starting point (in the TCR and CRC cases, this is usually a capitation rate) to the billed rates. If you used ACR for the groups, include utilization data. Explain how the method used for the SSSGs differs from that used for the Federal group.

Include calculations, and be sure to maintain backup documentation for all calculations. This documentation will be subject to audit at a future date. Use additional sheets if necessary.

Make sure that by the time we finish reading your explanation, it will be clear to us why the federal rates differ from the SSSG rates. If you have included rate development sheets for these groups, do not refer us to these sheets at this point. What we want here is a simple explanation of how the SSSG rates differ from the federal group rates.

We give simple examples on the following pages to serve as a guide. Do not hesitate to elaborate in your presentation. **Carriers using ACR should keep in mind that the following is only an example, and that you may need to include more information, depending on how your ACR method works.**

This form will be referred to in SSSG Questionnaire (#13). In the example, the capitation for the Federal group is \$100, but only \$98 for SSSG #1. In SSSG Question 13, the explanation could be as follows:

SSSG #1 Capitation	\$ 98.00
Adjustment for "Gold Plan"*	\$ <u>2.00</u>

Reconciliation Instructions

Federal Group Capitation \$100.00

* The Federal group has the "Gold Plan", which includes extra psychiatric benefits and a durable medical equipment benefit. SSSG #1 has the "Silver Plan", which is the "Gold Plan" without the aforementioned extra benefits. The capitation for these benefits is as follows:

Psychiatric Benefit	\$1.50
DME Benefit	<u>\$.50</u>
Gold Plan Extra Benefits	\$2.00

Note: The above enables us to see precisely why the capitation for SSSG #1 is different from the Federal group's capitation. The goal of your explanation is to make any such differences in capitation rates clear to us.

Reconciliation Instructions

EXAMPLE of TCR / CRC COMPARISON SHEET

	Federal Group	SSSG#1	SSSG#2
1. Group Renewal Date	1-1-05	1-1-05	2-1-05
2. Rating Method (a)	CRC	CRC	CRC
3. Capitation (b)	\$100.00	\$98.00	\$101.00
4. Age/Sex Factor	.92	.98	1.04
5. Industry Factor (c)	.95	.95	.98
6. Other Discounts	.95	1.00	.95
7. Total Discount (d)	.95 x .98	.95 x 1.00	.95 x .98
8. 1st Level Step-Up Factor (e)	1.30	1.12	1.22
9. Self Rate (f)	\$111.35	\$102.19	\$119.31
10. Family/Self Ratio	2.71	2.80	2.55
11. Family Rate	\$301.76	\$286.13	\$304.24

- (a) If all three methods are not the same, explain why.
- (b) **IMPORTANT! If these capitation rates are not the same, explain why in QS13.**
- (c) The Federal group receives the lowest industry factor < 1.0 given to an SSSG.
- (d) **IMPORTANT:** The Federal group receives at least the lowest total discount given to an SSSG. In this case, one SSSG received a total discount of (.95 x 1.00) and the other received a total discount of (.95 x .98) Therefore the Federal group would get a discount of (.95 x .98) , the lower of the two. Note: The Federal group can receive the largest discount.
- (e) Show How Factors Are Derived.
- (f) $\$100 \times .92 \times (.95 \times .98) \times 1.3 = \111.35

Reconciliation Instructions

EXAMPLE of an ACR COMPARISON SHEET

This shows one way you might present your ACR rate development. You should modify this example to fit your particular ACR procedure. Note that although this example is for the Federal group only, your comparison sheet must include the SSSGs as well as the Federal group.

	Federal Group	SSSG#1	SSSG#2
a. Rating Method	ACR		
b. Group Renewal Date	1/1/05		
c. Experience Period	1/1/2003-12/312003		
d. Paid Claims			
Before CMS Reimbursement	\$12,000,000		
After CMS Reimbursement	\$10,000,000		
e. Annual Trend (if different, explain)	12%		
f. Trend From Experience Period To Renewal Period $[(1 + .12/12)^{24} - 1]$ Show how you obtained the percentage.	27%		
g. Expected Claims $[(d) \times 1.27]$	\$12,700,000		
h. Administration (if different, explain)	15%		
i. Claims + Administration $[(g)/(1-.15)]$	\$14,941,176		
j. Member Months	100,000		
k. Per/Person Rate $[(i)/(j)]$	\$149.41		
l. First Level Step-Up Factor	1.2		
m. Bi-weekly Self Rate $[(l) \times (k) \times 12/26]$	\$82.75		
n. Family/Self Ratio	2.6		
o. Family Rate $[(m) \times (n)]$	\$215.15		
p. Discount	10%		
q. Rates After Discount	Self \$74.48 Family \$193.64		

Attachment III

RECONCILIATION				
CARRIER NAME		STATE		CODE
BIWEEKLY NET-TO-CARRIER RATES (2005 CONTRACT YEAR)				
		SELF	FAMILY	TOTAL
1. Actual FEHBP Rates – 2005				
2. Special Benefits Loadings				
(a)				
(b)				
(c)				
(d)				
(e)				
3. FEHBP Rates Plus Special Loadings				
4. Standard Loadings				
(a)	Extension of Coverage [.004x(3)]			
(b)	Children's Loading			
(c)	Medicare Loading			
4d. Subtotal				
4e. Enrollment Discrepancies Loading [.01x(4d)]				
5. Total FEHBP Rates - 2005*				
6. Contract Rate - 2005* Small Carriers Use Line C, Attachment I Here				
7. Difference ((5) - (6)) + = Underpayment to Carrier - = Overpayment to Carrier				
8. March 31, 2005 Enrollment				
9. Payment Due Carrier/(FEHBP)				
10. Brochure Printing Costs				
10A. Section 508 Compliance Cost				
11. Outstanding Amount Due Carrier/(FEHB)				
12. Total Amount Due Carrier/(FEHBP)				

* - These rates are subject to audit in accordance with the carrier's contract with OPM.

Attachment IIIA - Reconciliation Backup Forms

➤ **Backup Line 1 Form**

Plans should use the Form that applies to them. If neither of these Forms is appropriate, create/modify your own Form and place it here.

Enter the results on line 1 of Attachment III.

Backup Line 1 Form – TCR & CRC	
Beginning Capitation Rate	
Age/Sex Factor	
Total Discount Factor	
Percentage of Self Contracts	
Percentage of Family Contracts	
Average Family Size	
Revenue Ratio (Family/Self Ratio)	
1 st Level Step-Up Factor (Self/Capitation)	
Self Rate	
Family Rate	

Backup Line 1 Form – ACR	
Experience Period	
Total Paid Claims (before any COB)	
Total COB (including CMS)	
Annual Trend	
Total Trend from Experience Period	
Expected Claims	
Administration (& Profit)	
Total Expected Claims + Admin + Profit	
Members	
Per Member Rate	
Percentage of Self Contracts	
Percentage of Family Contracts	
Average Family Size	
Revenue Ratio (Family/Self Ratio)	
1 st Level Step-Up Factor (Self/Capitation)	
Self Rate	
Family Rate	

Attachment IIIA - Reconciliation Backup Forms

Backup Special Benefit Loadings Form

Enter any loadings under line 2 of Attachment III.

Backup Special Benefits Loading Form			
Benefit	Cost/Member	Self Rate	Family Rate
(a)			
(b)			
(c)			
(d)			
(e)			
(f)			
(g)			
(h)			
(i)			
(j)			

Note: Put any necessary backup calculations to support these loadings below.

Attachment IIIA - Reconciliation Backup Forms

Backup Medicare Loading Form

Enter any loading on line 4c of Attachment III.

Backup Medicare Loading Form					
Medicare Coverage	(A) Count	(B) Cost Of Benefits	(C) FEHB Premium	(D) CMS COB	Plan Cost A*(B-C-D)
Part A Only					
Part B Only					
Parts A & B					
No Coverage					
Total		(E)			
Total FEHBP Members (F)					
Cost Per Member (E / F)					
Self Loading					
Family Loading					

Or

Alternative Backup Medicare Loading Form	

Attachment IIIA - Reconciliation Backup Forms

➤ **Backup Children's Loading Form**

Enter results onto Line 4(b) of Attachment III if eligible.

Backup Children's Loading Form	
A. Family Rate (Line 3 of Attachment III)	
B. Self Rate (Line 3 of Attachment III)	
C. Children's Rate { $A - (2 \times B)$ } ¹	
D. Children are insured up to what age?	
E. Years Extended { 22 - D Years }	
F. Do you cover Full Time Students?	
G. Loading Factor (Enter .2 if you answered 'yes' to F, .55 if you answered 'no')	
H. Children's Loading (apply to Family Rate)	

- 1** If the actual biweekly cost per child is known, and the average number of children per family is known, the children's rate may be computed by multiplying the two figures together. In general, if you can compute the overall rate for children in a more accurate way than that suggested, use that result in line (C).

Attachment IIIA - Reconciliation Backup Forms

Backup Brochure Printing Costs Form

Enter this amount on line 10 of Attachment III.

Backup Brochure Printing Costs Form				
OPM Approved Allowable Brochure Quantity (A)				
Variable Printing Costs	Quantity (B)	Total Cost (C)	Price/Item (D = C / B)	Allowable Cost (A * D)
1. Brochures Printed				
2				
3.				
4.				
TOTAL (E)				
Fixed Printing Costs				Total Cost
Artwork				
Brochure Design				
Shipping & Handling				
TOTAL (F)				
Total Allowable Costs (E + F)				

Attachment IIB, Section 1 – General Questionnaire

General Questions

(To be completed by all plans.)

QG1. What method of community rating did you use in your 2005 rate proposal?

- TCR (Traditional Community Rating)
- Standard (Book) Rating
- Variable (Group Specific) Rating
- CRC (Community Rating By Class)
- ACR (Adjusted Community Rating)

QG2. Is the method you have used for the 2005 reconciliation the same as the method used in the 2005 proposal?

- YES
- NO

If No, explain.

QG3. Do your Line 1 rates reflect any tax, fee or monetary payment imposed on the carrier by a state or local government?

- YES
- NO

If Yes, have you included a negative loading in the Special Benefits Section of the reconciliation?

- YES
- NO

If No, explain why.

QG4. Are the special loadings given in the reconciliation the same as they were in the proposal?

- YES
- NO

If No, explain.

QG4A. Do you have any special benefit loadings which are contracted out from an outside source?

- YES
- NO

If Yes, explain which benefits. If Yes and an SSSG was given a rate discount, the loading for this benefit does not have to be discounted for the FEHB as long as an SSSG did not have this benefit.

Attachment IIIB, Section 1 – General Questionnaire

QG5. Are you required to file your community rates with any State regulatory agency?

YES NO

QG6. If you answered Yes to QG5, have you highlighted the appropriate community rates in red on the copy of the insurance department filing that you have enclosed?

YES NO

If No, explain.

If Yes, what is the page number of the insurance department filing on which the appropriate rates appear (please number the pages by hand if necessary)? _____

QG7. If you use different rating methods (i.e. TCR, CRC, ACR) for different groups, describe your criteria for the use of each method.

QG8. Show the number of Federal annuitants and their covered spouses covered in the plan age 65 and older using the following categories:

	Counts
Medicare Part A and Part B	
Medicare Part A Only	
Medicare Part B Only	
Neither Part A nor Part B	
Cannot Determine	

Notes: The sum of the numbers in the 5 blanks above should be the total number of Federal annuitants and their covered spouses in the plan age 65 and older. **If you have revised your Medicare loading in this reconciliation, you should be using the above distribution.**

Important! Before you complete the above table, review paragraph 2 on page 16 pertaining to the list of Medicare enrollees OPM sends the carrier each year.

Attachment IIIB, Section 1 – General Questionnaire

QG9. Does your HMO have a Medicare Advantage Plan with CMS?

YES

NO

If Yes, explain the arrangement you have with CMS, describe all benefit packages you offer enrollees under the Medicare Advantage Plan, and the premiums (if any) the enrollees enrolled under the Medicare Advantage Plan pay the HMO.

QG10. Does your HMO sell a Medicare supplement policy?

YES

NO

If Yes, describe the benefit packages of any Medicare supplement policies you offer, and the premiums you charge for them.

QG11. If you answered Yes to either question G9 or G10 and do not use a claims based ACR method to compute your rates, did you use the cost data from your Medicare risk or supplement policy to calculate your Medicare loading?

YES

NO

N/A

If No, explain why.

QG12. If you have revised your Medicare loading in this reconciliation, explain how you obtained the distribution in QG8. Also, what is the source of this distribution? Note that this source material must be on file with the carrier, and available to OPM auditors.

Attachment IIB, Section 2 – SSSG Questionnaire

SSSG Questions

(To be completed by all plans.)

QS1. Name your potential SSSGs listed in the rate proposal. Also, give the number enrolled (and the "as of" date of enrollment) in each potential SSSG. Include information on whether the group is still eligible to be an SSSG. Add more rows if necessary.

Keep in mind that your SSSG selection is subject to audit. Therefore, we expect you to maintain complete rate documentation for at least the ten groups closest in contract size to the Federal group.

Name	Enrollment		Group Eligible		Date
	Self	Family	Yes	No	
1.					
2.					
3.					
4.					
5.					
6.					
7.					
8.					

Note: If an SSSG has more than two rating tiers, include the enrollment for all tiers.

QS2. Name the two SSSGs. Are they the two groups listed above that are still eligible to be SSSGs and have enrollment closest to the FEHBP?

- 1.
- 2.

If no, explain why and give information on the SSSGs including enrollment at proposal and reconciliation time.

QS3. How do the benefit packages for your SSSGs differ from the benefit package for the Federal group?

QS4. What method of community rating (TCR, CRC, ACR) did you use to rate the following groups?

Attachment IIB, Section 2 – SSSG Questionnaire

	Federal Group	SSSG #1	SSSG #2
Method			

QS5. What are the 2005 net-to-carrier rates for the Federal group and your SSSGs?

Federal Group		SSSG #1		SSSG #2	
Self	Family	Self	Family	Self	Family

Note: Federal Rates from Line 5, Attachment III. If an SSSG has more than two rating tiers, include the rates for all tiers. Make sure that at least 5% of the SSSGs enrollment is in the Federal rate code area.

QS6. What is the rating region (as defined earlier on page 5) used to determine the SSSGs?

QS7. Did you make sure you compared the enrollment in the rating region for a potential SSSG with the federal enrollment in the rate code area?

YES NO If No, please do so.

QS8. What are the five groups you do business with that are closest in total contract size to the Federal group, and what type of benefit plan do they have? Include purchasing alliances. Include information on the Federal group. Also, **include groups that are not eligible to be SSSGs.**

Group	Total # of Contracts	Effective Rate Date	Coverage	Rating Method
Federal Group				
1.				
2.				
3.				
4.				
5.				

QS9. Are there any groups you do business with that are closer in total contract size to the Federal group than either of your SSSGs?

YES NO

Attachment IIB, Section 2 – SSSG Questionnaire

If Yes, explain why the groups are not SSSGs.

QS10. Did either of the SSSGs receive any type of discount, or any other type of rate advantage over the Federal group? We consider an early rate quote that is not updated to reflect the actual community rates and is lower than the actual community rates to be a discount. (Note that we interpret an industry factor less than 1.0 as a discount factor)

YES NO

If Yes, explain what kind of discount or rate advantage the SSSG received.

If Yes, did you apply the discount to the Federal group?

YES NO If no, explain why.

QS11. Did you use **projected** demographics for an SSSG's CRC factors and/or step-up factors?

YES NO

If Yes, explain why you used these projections, and show what the factors would be if you had used actual enrollment data.

Projected demographics may only be used if there is a clear justification for expecting a change in the enrollment characteristics.

QS12. Did you rate the SSSGs using a method other than that used for the Federal group?

YES NO

If Yes, explain why and provide your underwriting guidelines.

QS13. If you use TCR or CRC, are the capitation rates shown on the Backup SSSG Comparison Sheet Form the same for the Federal group and the SSSGs?

YES NO If No, explain (see p. 18)

EXPLANATION

Attachment IIB, Section 3 – TCR Questionnaire

TCR Questions

(Answer only if the carrier uses TCR to develop rates.)

QT1. On what type of community rate did you base your 2005 rates for the Federal group and other groups?

Standard set of tiered rates applicable to all groups with a tiered rate structure.

Per member/per month capitation rate

You may check both blocks if you use a standard set of tiered rates which are derived from a capitation rate.

Other (Explain)

QT2. If you used a standard set of tiered rates (applicable to all groups) what are they?

Self _____ Family _____ NA

QT3. If you used a capitation rate, what is the actual (as opposed to what may have been estimated in the proposal) capitation rate on which the 2005 Federal group rates should be based?

_____ NA

QT4. If you used a capitation rate for 2005 and converted it to a self rate and a family rate using step-up factors, what are these step-up factors? Specifically, what is the step-up factor used to convert the capitation rate to the self rate? What is the step-up factor used to convert the self rate to the family rate?

$\frac{\text{Self}}{\text{Capitation}} = \underline{\hspace{2cm}}$ $\frac{\text{Family}}{\text{Self}} = \underline{\hspace{2cm}}$

NA (Do not use step-up factors) **Go To Question QT8**

Attachment IIIB, Section 3 – TCR Questionnaire

QT5. Are the above step-up factors the same as those used in the 2005 rate proposal which you submitted in May 2004?

YES NO

If No, is the reason because the carrier revised its community-wide demographics after the 2005 rate proposal was made (and used the revised step-up factors for its SSSGs)?

YES NO

If No, what was the reason for the change in the step-up factors?

QT6. How did you derive the above step-up factors? Explain briefly (a numerical formula for each factor is the preferred form of explanation).

Example:

$$\text{Self/Capitation} = 1.17 = \frac{.40 + .60(3.5)}{.40 + .60(2.9)}$$

QT7. Do you use step-up factors for all groups?

YES NO

If No, explain the criteria that you use to determine when step-up factors are applicable.

QT8. If you use enrollment-mix or other demographic assumptions at any point in the development of the 2005 Federal group rates, (including development of step-up factors), what are they?

% Self Contracts	% Family Contracts	Family Size	Other

Attachment IIB, Section 3 – TCR Questionnaire

QT9. Are the demographic assumptions in QT8 the same as they were in the 2005 rate proposal?

YES NO NA

If No, or NA, is the reason because the carrier revised its community-wide demographics after the 2005 rate proposal (and used the revised demographics for its SSSGs?)

YES NO If No, explain.

QT10. What is the source of your demographic information? Is the same source used for all groups? If not, where do you get the demographic information for other groups? Note: You must maintain the source of your demographic data on file for possible examination by the OPM audit staff.

Attachment IIIB, Section 4 – CRC Questionnaire

CRC Questions

(Answer only if the carrier uses CRC to develop its rates.)

QC1. Did you begin with a capitation rate?

YES NO

If Yes, what is the actual capitation rate (as opposed to your estimated capitation used in the proposal) on which the 2005 Federal group rates (Line 1 of Attachment III) should be based?

Capitation Rate = _____

If No, explain how you did begin.

QC2. What CRC factors do you use?

AGE SEX OTHER _____, _____, _____

QC3. What is your CRC adjustment factor? _____

Explain how you derived the CRC adjustment factor. **In particular, on what population data are the CRC utilization factors based? How often do you update the data on which the CRC utilization factors are based?**

QC4. Have you enclosed any worksheets (i.e. sheets showing age/sex distribution and relative utilization factors) you used to derive the CRC adjustment factors? **Please note that you must have documented support for the CRC age/sex factors for both the Federal group and the SSSGs.**

YES NO

If No, please enclose worksheets and change this answer to YES.

QC5. Is the CRC adjustment factor the same as it was in the 2005 rate proposal?

YES NO If No, why not?

Attachment IIIB, Section 4 – CRC Questionnaire

QC6. If you used a CRC-adjusted capitation rate for 2005 and converted it to a self rate and a family rate using step-up factors, what are these step-up factors? Specifically, what is the step-up factor used to convert the capitation rate to the self rate? What is the step-up factor used to convert the self rate to the family rate?

$\frac{\text{Self}}{\text{Capitation}} = \underline{\hspace{2cm}}$ $\frac{\text{Family}}{\text{Self}} = \underline{\hspace{2cm}}$

NA (Do not use step-up factors) **Go To Question QC10**

QC7. Are the above step-up factors the same as those used in the 2005 rate proposal (which you submitted in May 2004)?

YES NO

If No, is the reason because the carrier revised its community-wide demographics after the 2005 rate proposal was made (and used the revised step-up factors for its SSSGs)?

YES NO

If No, what was the reason for the change in the step-up factors?

QC8. How did you derive the above step-up factors? Explain briefly (we prefer a numerical formula for each factor here).

Example: $\text{Self/Capitation} = 1.17 = \frac{.40 + .60(3.5)}{.40 + .60(2.9)}$

QC9. Do you use step-up factors for all groups?

YES NO

If No, explain the criteria you use to determine when step-up factors are applicable.

Attachment IIIB, Section 4 – CRC Questionnaire

QC10. If you use enrollment-mix or other demographic assumptions at any point in the development of the 2005 Federal group rates, (including development of step-up factors), what are they?

% Self Contracts	% Family Contracts	Family Size	Other

QC11. Are the demographic assumptions in QC10, the same as they were in the 2005 rate proposal?

YES NO NA

If No, or NA, did the carrier revise its community-wide demographics after the 2005 rate proposal was made (and used the revised demographics for its SSSGs?)

YES NO If No, explain.

QC13. If either of your SSSGs has an industry factor less than 1.00, did you apply the lowest factor less than 1.00 to the Federal group rates?

YES NO If No, explain.

QC14. If both SSSGs have industry factors greater than 1.00, did you apply an industry factor of 1.00 to the Federal group rates?

YES NO If No, explain.

QC15. Explain how you derive the "relative utilization factors" associated with your age/sex distribution sheet.

Note that we would expect the factors to be based on the utilization experience of the different age groups of the total employee population the carrier services. In some cases, a carrier might use factors based on some other large population. Please make it clear to us exactly where your relative utilization factors come from, and on what population they are based.

Attachment IIB, Section 4 – CRC Questionnaire

QC16. When you derive the CRC adjustment factor, do you include the number of Federal annuitants over age 65 anywhere in the calculation? In general, explain how you use the group of Federal retirees (if at all) in your calculation of the CRC factor. **IMPORTANT! DO NOT SKIP THIS QUESTION**

YES

NO

If yes, have you given us a credit for Medicare Reimbursement?

Attachment IIIB, Section 5 – ACR Questionnaire

ACR Questions

(Answer only if the carrier uses ACR to develop its rates.)

QA1. What method of ACR did you use for your 2005 rate proposal?

A Method Using Actual Claims Data

Any Other Method (Go to question 12)

Note: You should have on file any claims/utilization data supporting the rates for the Federal group and SSSGs.

Note: If your method used actual claims data, the claims data used to develop the FEHBP rates and the SSSGs' rates should be saved on an accessible computer medium (cartridge tape, CD-ROM, etc). This data used in the rate reconciliation should be maintained for a time period stated in the financial records section of your contact with OPM. (five full years plus the current year). Actual claims records should also be maintained according to the contract (three full years plus the current year).

QA2. Did you use the same experience period (and the same claims within that period) in the reconciliation that you used in the proposal?

YES

NO

If No, explain. As a general rule, neither the experience period nor the claims should change between the proposal and the reconciliation.

QA3. Did you use the same trend that you used in the proposal?

YES

NO

If No, explain

What trend do you use in the reconciliation? _____

What trend did you use in the original proposal? _____

QA4. Did you use the same trend for the SSSGs that you used for the Federal group?

YES

NO

If No, explain.

Attachment IIIB, Section 5 – ACR Questionnaire

QA5. If you use completion factors to derive incurred claims, do you use the same set of factors for all groups?

YES NO NA If No, explain

QA6. If you use a completion factor to derive incurred claims, did the factor remain the same between the proposal and the reconciliation?

YES NO NA If No, explain

QA7. What kind of administrative loading did you use?

A flat community rated pm/pm administrative charge.

A percentage of claims

Other

Explain how you computed the administrative charge.

QA8. Did the claims used in the rate development reflect special benefits? **Note: If special benefits were not included in the claims, please have on file claims/utilization reports to support this assertion.**

YES NO

QA9. Did you reduce claims used in the rate development by Coordination-Of-Benefits (COB) income that the carrier received from other insurance carriers (Excluding CMS)?

YES NO

If No, you should give us a credit for any monies received from other insurance carriers.

Attachment IIIB, Section 5 – ACR Questionnaire

QA10. Do you include age 65 or above retirees in the claims or utilization data used to determine the ACR factor or rates?

YES

NO

If No, you should include a standard Medicare loading.

QA11. If you answered Yes to QA10, are CMS reimbursements included in the group's experience?

YES

NO

If No, the Medicare loading should be a credit for all monies received from CMS. If Yes, there should be no Medicare loading.

All Medicare funds collected on behalf of Federal retirees must be applied to the Federal rate.

QA12. Explain in narrative form how you derived your line 1 rates. **INCLUDE CALCULATIONS.** If you derived a capitation rate from claims data, and used step-up factors to adjust it, show this. If you used a method based on utilization factors, show how you broke the capitation rate into components, what you used for utilization factors, what the adjusted capitation rate is, etc. Use extra sheets if necessary. **DO NOT SKIP THIS SECTION OR REFER US TO ANOTHER SHEET. WHAT WE WANT HERE IS A SIMPLE EXPLANATION OF YOUR LINE 1 RATES.**

Attachment IV

Documentation of 2005 Community Rates and Riders **(Large Carriers Only)**

If the State requires the carrier to file its official community rates with the State insurance department, OPM requires a copy of this filing. If the insurance department must approve such a filing, also send us a copy of the approval. **BE SURE TO CIRCLE IN RED ALL RATES AND RIDERS ON THE INSURANCE FILING THAT APPLY TO THE FEHBP.**

If the State does not require the carrier to file its community rates, we require some other form of documentation.

Acceptable documentation includes:

- 1) Rate development sheets for the carrier's SSSGs.
- 2) Rating guidelines used by the carrier's rating personnel.

The Reconciliation Questionnaire contains some questions pertaining to the rate development of the SSSGs. You should provide any backup documents that will enable us to better understand the answers to these questions.

Attachment V

Certificate of Accurate Pricing
For Community Rated Carriers

This is to certify that, to the best of my knowledge and belief:

- 1) The cost or pricing data submitted (or, if not submitted, maintained and identified by the carrier as supporting documentation) to the Contracting Officer or the Contracting Officer's representative or designee in support of the 2005 FEHBP rates were developed in accordance with the requirements of 48 CFR Chapter 16 and the FEHBP contract and are accurate, complete, and current as of the date this certificate is executed; and
- 2) The methodology used to determine the FEHBP rates is consistent with the methodology used to determine the rates for the carrier's Similarly Sized Subscriber Groups.

Firm	
Name	
Title	
Signature	
Date	

Attachment VI

Carrier Contacts

For information about your reconciliation, we should contact:

Name	
Phone Number	
Fax Number	
Email	

OR

Name	
Phone Number	
Fax Number	
Email	