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 2006 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 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, 2005, and July 1, 2006).

(6) A second year group (a group starting its second contract year between July 2, 2005, and July 1, 2006) that normally would be rated by adjusted community rating.

(7) Provider Partners – Employee Groups in which the carrier shares a financial interest, provides medical services to the carrier, or maintains a risk sharing agreement. The fact a carrier conducts business with an employee group does not render it a provider partner.

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

**Separate Lines of Business:**
Groups covered under a separate line of business of a carrier that offers an FEHBP product are excluded from consideration as an SSSG. To be considered a separate line of business all of the following criteria must be satisfied:

- It must be a separate organizational unit, such as a division.
- It must have separate financial accounting with “books and records that provide separate revenue and expense information”.
- It must have a separate work force and separate management involved in the design and rating of the healthcare product.

## ➢ New Rules on SSSG Selection

As of the 2006 rate year, our rules for choosing SSSGs allow plans to provide a list of ten potential SSSGs with their rate submission.

**At the time of this reconciliation, the two groups closest in size among the first five potential SSSGs will become SSSGs.** If two groups do not continue to contract with the plan from the first five, then the sixth group on the list will be reviewed. If that group also no longer contracts with the plan, the list will be followed until two SSSGs are chosen.

If the carrier made the choice not to submit the list of ten potential SSSGs at the time of proposal, then the carrier will select two SSSGs according to the basic rule of SSSG selection stated in the Rate Instructions. The basic rule is to select the two groups that meet the SSSG requirements and are closest in size to the Federal group according to the reconciliation enrollment.

Group size for the selected SSSGs in the current year’s reconciliation and the potential SSSGs in the following year's proposal should be determined on the same day and based on the most recent enrollment available, but no later than March 31 of the current year.

## ➢ Enrollment and Contract Renewal Dates

For the 2006 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 2006 enrollment available to the carrier up to March 31, 2006.

(2) The contract renewal date for 2006 SSSGs should be between July 2, 2005 and July 1, 2006. **"Renewal date" means the date a rate change (if any) is effective for the SSSG.**

We stated the above guidelines in the 2006 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 2006 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.

## ➢ <u>Definition of a Rating Region</u>

**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.**

## ➢ <u>Number of Required SSSGS</u>

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 HDHP 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.

## ➢ <u>Rules on SSSG Selection for HDHP's</u>

If separate SSSGs are needed for an HDHP plan (because it is rated separately from your traditional HMO's or you have no other plans in that region) the two SSSGs will be chosen based on size. If your HDHPs are rated ACR and the groups closest in size are rated differently that will be acceptable if that is your current policy and it is done in a consistent matter. All other rules for choosing SSSGs will be consistent with the current rules for choosing SSSGs for traditional plans.

If either of the SSSGs is given a discount, that discount should only be passed to the insurance portion and not the pass through.

## ➢ Policy and Selection of 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:**

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.

**<u>Case 4</u> 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.

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

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.

**<u>Case 6</u> 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.

**<u>Case 7</u> 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.

**<u>Case 8</u> 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.

**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.

## ➢ <u>Instructions: Contracting with Purchasing Alliances</u>

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.

## ➢ <u>Instructions for Total Replacement Groups Qualifying as an SSSG</u>

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. **If some of the replacement groups are given non standard or preferential discounts, this policy will <u>not apply</u>.**

## ➢ <u>Consistency of Rating Methods</u>

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 Recovery of Discounts

In the past, if a plan had a policy to recoup a discount made to an SSSG, the FEHBP's current rates may not have included that discount. This is no longer the policy. **The FEHBP must receive the discount in the rate reconciliation the same year the SSSG received a discount**. If the discounted funds are recovered from an SSSG, the plan can recoup these funds from the FEHBP as they become available in the reserves. The plan must show that the discount was actually recovered from the SSSG.

## ➢ 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 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. You must make an adjustment for this amount in the reconciliation in the form of a negative special benefit loading if your 2006 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 2006.