

FEHB Program Carrier Letter

Community-rated Carriers

U.S. Office of Personnel Management
Insurance Services Program

Letter No. 2008-05

Date: February 27, 2008

Fee-for-service [n/a] Experience-rated HMO [n/a] Community-rated HMO [3]

SUBJECT: Reconciliation Instructions for 2008 Rates -- Community-Rated Carriers

Most community rated carriers must complete some of the attached documents (Attachments III, IV, V and VI) to reconcile their 2008 Federal rates. To determine which documents apply to your plan, please use the following chart:

Step	If...	Then...
1.	Your 2007 income from the Federal group was <u>less</u> than \$500,000.	Stop here. You do not need to complete the enclosed documents. If your 2008 rates were reduced because you will receive a contingency reserve payment, it will be sent automatically in the summer.
2.	You are a small carrier whose 2007 income from the Federal group was more than \$500,000 and you did not file rates as a large carrier.	You must complete Attachments III, IIIA, IIIB, and V and keep them on file and available for OPM review. These documents are subject to audit.
3.	<ul style="list-style-type: none"> ✓ You had more than 1500 contracts at the time of the 2008 rate proposal, or ✓ You are a small carrier that filed as large carrier by submitting detailed documentation with your rate proposal. 	<p>You must e-mail Attachments III through VI by April 30, 2008, to actuary@opm.gov.</p> <p>Send any documents which cannot be e-mailed to:</p> <p style="padding-left: 40px;">Office of the Actuaries Office of Personnel Management 1900 E Street NW; Room 4307 Washington, DC 20415</p>

All carriers (except those with income less than \$500,000 from the Federal group in 2007) must complete the Reconciliation Questionnaire (Attachment IIIB) as indicated by the following table.

If you use...	Then you must complete...
Traditional Community Rating	Sections IIIB (1),(2),(3)
Community Rating by Class	Sections IIIB (1),(2),(4)
Adjusted Community Rating	Sections IIIB (1),(2),(5)

If you have questions about the rate reconciliation process, please call Sherry Simon or Sharon Tu at (202) 606-0722, or send an e-mail to actuary@opm.gov.

This year's reconciliation instructions and attachments are being e-mailed to you as word documents. Please e-mail the completed forms as word documents to the above e-mail address. Please send any documents which cannot be e-mailed by overnight delivery.

Sincerely,

Kay T. Ely
Associate Director
Human Resources Products and Services

Attachments

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OPM Rate Reconciliation Guidelines-2008

OPM requires an annual reconciliation be performed because most carriers estimated their rates. Rates must be recalculated based each carrier's **actual** 2008 community rates to determine if money is due the carrier or OPM. In reviewing the reconciliation, one of the most significant processes for the FEHB is to examine the rate development of Similarly-Sized Subscriber Groups.

Note: Definitions of underlined key terms may be found in Appendix I on page 46.

❖ Similarly-Sized Subscriber Groups (SSSGs)

Basis of SSSG Concept

The SSSG concept was developed to ensure OPM receives equitable and reasonable market-based rates. OPM shall determine the Federal group rates by selecting the lower of each carrier's rates derived by rating methods consistent with those used for the SSSG rates. For the 2008 rates, OPM will focus on the rating methods used for the two SSSGs to determine if the carrier appropriately derived the Federal group rates.

Definition

Similarly Sized Subscriber Groups (SSSGs) are a comprehensive medical plan's employer groups that:

- (1) As of the date specified by OPM in the rate instructions, have a subscriber enrollment closest to the FEHB subscriber enrollment;
- (2) Use any rating method other than retrospective experience rating;
- (3) Reside in the Federal group's rating region; and
- (4) Have at least 5% of the total subscriber enrollment in the Federal group's rate code area.

Any group with which an FEHB carrier enters into an agreement to provide health care services may be an SSSG including (but not limited to) the following groups:

- (1) Government entities;
- (2) Groups with multi-year contracts;
- (3) Groups having point of service products;
- (4) Groups whose first year renewal period extends beyond 30 months (initial contract period plus first year renewal period) for ACR rated carriers; and
- (5) Purchasing alliances (see exceptions noted below).

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The following groups should be **excluded** from SSSG consideration:

- (1) Groups the carrier rates using [retrospective experience rating](#);
- (2) Groups consisting of the carrier's own employees;
- (3) Medicaid groups, Medicare groups, and groups that have only a stand-alone benefit (such as dental only);
- (4) A [purchasing alliance](#) where the rate-setting is mandated by the State or local government;
- (5) A [purchasing alliance](#) in which at least 90% of the groups in the alliance have fewer than 100 enrollees and the remaining percentage of groups (10% or less) would not have sufficient aggregate enrollment to qualify as SSSG on their own;
- (6) A new group (e.g., a group starting its first contract year between July 2, 2007 and July 1, 2008);
- (7) A second-year group (a group starting its second contract year between July 2, 2007 and July 1, 2008) that normally would be rated by [ACR](#);
- (8) [Provider Partners](#);
- (9) Any employee group with at least a 100% increase in enrollment within the last 12 months (from most recent available enrollment); and
- (10) Groups covered under a separate line-of-business that meet all of the following criteria:
 - 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 workforce and separate management involved in the design and rating of the healthcare product.

Rules for SSSG Selection

Two SSSGs must be selected in each [rate code area](#). See Appendix II for specific cases of SSSG selection based on rating regions and rate code areas.

If a carrier:

- **Submitted a list of ten potential SSSGs with the proposal** – The two groups

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closest in size to the Federal group at the time of reconciliation, 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 does not qualify the list will be followed until two SSSGs are chosen.

- **Opted not to submit a list of ten potential SSSGs with the proposal** – The carrier should select two groups which meet the SSSG requirements at the time of reconciliation.

High Deductible Health Plans

The HDHP requires a unique set of SSSGs if:

- (1) The carrier's HDHP product is rated independently from its other FEHB product(s); or
- (2) The HDHP is the only FEHB product the carrier offers in the [rate code area](#).

It is acceptable if a carrier use an SSSG with a different rating methodology from the HDHP if the SSSG is closest in size to the Federal group and meets all other SSSG criteria.

Enrollment and Contract Renewal Dates

Group size for the selected SSSGs in the current year reconciliation and the potential SSSGs in the following year proposal should be determined on the same day and based on the most recent enrollment available, but not later than March 31 of the current year.

For the 2008 rate year, the specific guidelines for SSSGs are as follows:

- (1) All group enrollments (the Federal group and the SSSG enrollments) should be based on the latest 2008 enrollment available to the carrier up to March 31, 2008.
- (2) The contract [renewal date](#) for the SSSGs should be between July 2, 2007 and July 1, 2008.

❖ SSSGs and 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 and any other advantage given to either SSSG. Discounts should be determined by the rating methodology applied within the [rating region](#).

Early Rate Quote

If the carrier gives an early rate quote to an SSSG based on a lower community rate and does not revise it at a later date, we will interpret the SSSG rate as a discounted rate.

OPM Rate Reconciliation Guidelines-2008

Multi-Year Rate Agreements

If a group has negotiated a multi-year contract and is determined to be an SSSG, the following rules will apply:

First year of a multi-year agreement - The process of determining discounts as defined above applies.

Second and all subsequent years of a multi-year agreement – The process of determining discounts as defined above applies. Any additional costs incurred in previous years of the multi-year rate agreement will be considered when determining the discount.

Purchasing Alliances

If a carrier's SSSG is a purchasing alliance that consists of more than one rate, a minimum of the weighted average of all discounts (based on enrollment) must be applied to the Federal group.

Total Replacement Groups

The first 2 % discount given to a total replacement group will not be viewed as a discount 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 not apply.

Recovery of Discounts

The FEHB must receive all discounts given to an SSSG in the rate reconciliation of the same year the discounts were given. If the carrier can show discounted funds are recovered from an SSSG, the carrier can recoup these funds from the FEHB.

A carrier cannot recover an FEHB discount if the discount is created by a carrier's decision to:

- Voluntarily omit a loading a carrier is entitled to take;
- Provide a larger than expected or larger than required discount to FEHB; or
- Use an unconventional rating methodology in order to give FEHB lower rates.

If a Federal group discount at the time of the carrier's proposal is based upon an estimated SSSG discount, it may be reduced during or after the reconciliation process to be consistent with the actual SSSG discount. Note: The estimate of the expected SSSG discount used in the proposal must be agreed to by OPM.

Surcharges

OPM will not accept any surcharge which is not established by a carrier's defined rating

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methodology regardless if the SSSG receives the surcharge.

Special Adjustments to SSSG Rates

We will consider adjustments to SSSG rates based on estimated new business if:

- 1) The carrier can give a reasonable justification;
- 2) The method is not intended to give a discount; and
- 3) It is the carrier's policy to make such adjustments.

The following are two examples of acceptable justifications:

- 1) Closure of competitive HMOs in the SSSG's area.
- 2) Mergers or divestitures.

Rate Extensions for SSSGs

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 as a discount. The renewal date for such a group would be the anniversary date after the last rate change.

Discounts with HDHPs

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

Rating Period Beyond 24 Months

If an SSSG is rated ACR and its initial contract period is more than 24 months, the Federal group would be rated like the SSSG to determine any applicable discounts on the portion of the rating period extending beyond 24 months.

Consistency of Rating Methods

The carrier is expected to use the same rating method for the Federal group as it uses for the SSSGs though different rating methods are acceptable in some situations. **If, however, the carrier rates an SSSG using a method inconsistent with the carrier-established policies, the Federal group is entitled to a discount based on the SSSG rating method applied to the Federal group.**

Examination of Non-SSSG Groups

At times, OPM may examine the rates of non-SSSG groups. The examination is to verify the

OPM Rate Reconciliation Guidelines-2008

equivalence of the Federal group and SSSG rates. For example, if an SSSG had a special benefit (e.g., dental 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 the benefit to verify the SSSG received no hidden discount. An OPM review of a non-SSSG commercial group does not make it a potential SSSG.

❖ Audits

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.**

The OPM audit staff may also 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 the benefit. The purpose would be to verify that the SSSG received no discount.

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 for the audited year. Once a final agreement is met and rates are set, 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.

❖ Miscellaneous

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:**

OPM Rate Reconciliation Guidelines-2008

- 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).

Late Payment Loadings

Late Payment Loadings are not acceptable.

Special Loading for Enrollment Discrepancies

The 1997 amendment to the FEHB standard contract provides for a special premium loading of 1% to account for enrollment discrepancies. **Carriers must explicitly take this loading, but may eliminate all or some of its effect by giving the Federal group a discount.**

Note that the FEHB contract 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 FEHB premiums by any State, the District of Columbia, 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 your reconciliation in the form of a negative Special Benefit Loading if your 2008 rates include an amount to recover such monies from the FEHB.

Rate Reconciliation Instructions

❖ Reconciliation Instructions

Demographics

If group-specific demographic assumptions (i.e., family size, self/family enrollment mix, etc.) were used in the proposal, the same figures must be used in the reconciliation. The self/family enrollment mix may not be revised to reflect the open season for 2008.

If, however, a carrier-wide enrollment-mix (or other demographic assumption) was used and the assumption was revised after the proposal was submitted but before Jan. 1, 2008 and the revisions were used for your SSSGs, the reconciliation should be based on the revised assumption.

Certain factors **should** change for the reconciliation. If the Federal group rates are based on a weighted average of rates in several geographic areas, the weight factors in the reconciliation should be based on the March 31, 2008 enrollment in each area (which you provide OPM). Also, if the Medicare Loading is recalculated the latest Medicare enrollment available should be used.

TCR and CRC

For carriers using TCR or CRC, the reconciliation involves updating the estimated capitation rate used in the proposal with the carrier's actual 2008 capitation rate (or equivalent).

The 2008 reconciliation must be based on the same factors and procedures used to derive the 2008 self and family rates in the 2008 proposal. The reconciliation must use the actual January 1, 2008 capitation rate and the same step-up factors used in the proposal (exceptions to this rule are described in the second paragraph of the Demographics section above).

If you are a TCR or CRC carrier and derive your rates differently than described, the principles above still apply. To compute the Line 1 rates, go through the same procedure used in the original proposal, substituting actual rates for proposed rates. The procedures used should also be the same as those used for the SSSGs.

ACR

An ACR rated carrier may use a prospective method based on actual Federal claims data or a method based on utilization data to calculate rates. **In either case, the carrier must keep on file all data necessary to support the ACR rates (i.e., claims, utilization etc.). Backup tapes of the claims database for FEHB as well as SSSGs must be saved for audit purposes.**

Utilization Based ACR

If a carrier uses a method based on utilization data, the reconciliation should be performed similar to a TCR or CRC reconciliation.

Rate Reconciliation Instructions

Claims Based ACR

If a carrier uses a claims-based method, the following rules apply:

- 1) The experience period and the claims used within that period cannot be changed in the reconciliation. It must be the same period and the same claims used in the proposal.
- 2) If completion factors were used to convert paid claims to incurred claims, such factors must be the same for all claims-based ACR rated groups.
- 3) Any method used to convert paid claims to incurred claims must be consistent for all claims-based ACR rated groups.
- 4) If special benefits are included in the claims, no Special Benefit Loadings should be taken.
- 5) If claims include those of annuitants age 65 and over, claims must be reduced by an amount equal to Medicare income from CMS (Centers for Medicare and Medicaid Services) or a credit for monies received from CMS must be applied. **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;
 - b) A standard percentage of claims; or
 - c) A method consistently applied to both the FEHB and the SSSGs.
- 7) Any trend factor used for the Federal group must be the same factor the carrier used for other groups. A trend factor for the Federal group cannot be based on the Federal group's experience.

The only components that can change from proposal to reconciliation are:

- 1) Trend Factor - If a carrier used an estimated trend factor in the 2008 proposal and changed the factor before January 1, 2008 for all claims-based ACR groups, the revised factor must be used in the 2008 reconciliation. The factor must be consistent with the lowest such factor used for either SSSG.
- 2) Administration Cost Factor - If a carrier used an estimated administration cost factor in the 2008 proposal and changed the factor before January 1, 2008 for all claims-based ACR groups, the revised factor must be used in the 2008 reconciliation. The factor must be consistent with the lowest such factor used for either SSSG.

Rate Reconciliation Instructions

❖ Attachment III Instructions – Lines 1 – 5 (All Carriers)

1. Actual FEHB Rates - 2008

Complete the Backup Line 1 Form (Attachment III A) on page 21 or attach equivalent document.

Enter the final self and family rates from the Backup Line 1 Form on Line 1 of Attachment III.

2. Special Benefit Loadings

If the Special Benefit is offered only to FEHB enrollees and the cost was approved by OPM in the 2008 proposal, it cannot be changed in the reconciliation. Enter the Special Benefit Loading from the 2008 proposal in Line 2 of Attachment III.

If the Special Benefit is a community-rated benefit, complete the Backup Special Benefits Loading Form (Attachment III A) on page 22 and enter the loading in Line 2 of Attachment III.

3. FEHB Rates Plus Special Loadings

Add Lines 1 and 2 and enter the sum in Line 3 of Attachment III.

4a. Extension of Coverage Loading

If entitled to the Extension of Coverage Loading, multiply Line 3 by .004 (or the same factor used in the proposal) and enter the result in Line 4a of Attachment III.

4b. Children's Loading

A carrier may take a Children's Loading only if the 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 over-age dependents are included in the group-specific demographics (especially-average family size) and these numbers are used to derive self and family rates (through step-up factors, etc.), a Children's Loading is not applicable.

If a Children's Loading is appropriate, provide a detailed explanation of the method used to derive the loading and all backup documentation. Enter the loading in Line 4b of Attachment III.

Rate Reconciliation Instructions

4c. Medicare Loading

The Medicare Loading adjusts a carrier's premium to provide the correct income for FEHB retirees age 65 and older, since most of a carrier's other groups cover retirees through Medicare Advantage Plans or Medicare Supplement Plans.

The carrier must compute the cost of benefits for the Federal annuitants and compare the cost with the income it receives on behalf of these annuitants from OPM and CMS. If a carrier receives more income than the cost of benefits for FEHB retirees age 65 and over, the Medicare Loading should be negative. If the plan receives less income than the cost of benefits, the loading should be positive.

If Coordination-Of-Benefits (COB) income is received from CMS, it must be considered when calculating the loading. A carrier using a claims-based ACR method will normally not have a Medicare Loading.

If entitled to the Medicare Loading, complete the Backup Medicare Loading Form (Attachment III A) on page 23 or attach equivalent document.

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

The best source of Medicare distribution data is the match tape we send each year. However, do not include annuitants from that tape with codes X, Z, or N who are under age 65 in the 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 of the questionnaire.

Enter the loading in Line 4c of Attachment III.

4d. Subtotal

Add Lines 3, 4(a), 4(b), and 4(c) and enter the sum on Line 4d of Attachment III.

4e. Enrollment Discrepancies Loading

Multiply Line 4d by .01 and enter the result on Line 4e of Attachment III. You must explicitly take this loading but you may eliminate all or some of its effect by giving the Federal group a discount.

5. Total FEHB Rates - 2008

Add Lines 4(d) and 4(e) and enter the total on Line 5 of Attachment III.

Rate Reconciliation Instructions

Large Carrier Instructions – Lines 6 - 12

The following instructions apply only to large carriers. For small carriers, follow instructions beginning on page 15.

6. Contract Rates - 2008

Enter the biweekly, net-to-carrier contract rates agreed to during the summer of 2007 on Line 6 of Attachment III. These rates are not the brochure rates (which are the net-to-carrier rates times 1.04).

7. Difference

Subtract Line 6 from Line 5 and enter the result on Line 7 of Attachment III.

8. March 31, 2008 Enrollment

PLEASE LEAVE THIS LINE BLANK – It will be completed by OPM's actuarial staff based on the March 31, 2008 semi-annual headcount.

9. Payment Due Carrier/ (FEHB)

PLEASE LEAVE THIS LINE BLANK – It will be completed by OPM's actuarial staff.

10. Brochure Printing Costs

Complete the Backup Brochure Printing Costs Form on page 24 and provide backup documentation.

Enter the Total Allowable Costs from the Backup Form on Line 10 of Attachment III.

11. Outstanding Amount Due Carrier/ (FEHB)

PLEASE LEAVE THIS LINE BLANK – It will be completed by OPM's actuarial staff.

12. Total Amount Due Carrier/ (FEHB)

PLEASE LEAVE THIS LINE BLANK – It will be completed by OPM's actuarial staff.

Rate Reconciliation Instructions

Small Carrier Instructions – Lines 6 - 12

The following instructions apply only to **small carriers**. For large carriers, see instructions on page 14.

6. Contract Rates - 2008

Enter the rates on Line C of Attachment I of the original 2008 rate proposal in Line 6.

7. Difference

Subtract Line 6 from Line 5 and place the result in Line 7.

8. March 31, 2008 Enrollment

Enter the March 31, 2008 Table 1 enrollment numbers in Line 8. The Table 1 report is the enrollment data the carrier submits to OPM in April.

9. Payment Due Carrier/ (FEHB)

Multiply the amounts on Line 7 by Line 8 and then multiply the result by 26 to achieve a total payment due carrier/ (FEHB). Place the result in Line 9.

10. Brochure Printing Costs

Complete the Backup Brochure Printing Costs Form on page 24 and provide backup documentation.

Enter the Total Allowable Costs from the Backup Form on Line 10 of Attachment III.

11. Outstanding Amount Due Carrier/ (FEHB)

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 2008 rates were purposely increased to pay the carrier this debt. In the 2008 rate reconciliation, \$50,000 would be placed in Line 11 of Attachment III.

12. Total Amount Due Carrier/ (FEHB)

Add Lines 9, 10, and 11 and place the result in Line 12 of Attachment III.

The amount on Line 12 will be used to determine 2008 rate adjustments. You will place the 2008 rate adjustments on Line B of your 2009 rate proposal sheet (Attachment I) which will be sent at a later date. An example of how the rate adjustment may be computed is presented below.

Example:

Assume the amount on Line 12 is \$76,000. A self and family loading equivalent to \$76,000 must

Rate Reconciliation Instructions

be calculated. Suppose the carrier expects the Federal group enrollment in 2009 to increase by 10 percent over the 2008 enrollment of 200 self and 400 family contracts. Then, the adjustment could be \$2.66 self and \$5.31 family, since

$$[220 \times \$2.66 \times 26] + [440 \times \$5.31 \times 26] \approx \$76,000$$

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, all supporting calculations for the Federal group's rates and the SSSG rates must be kept on file.

Rate Reconciliation Instructions

❖ Backup SSSG Comparison Form Instructions

The SSSG Comparison Form shows the method by which the billed rates for the SSSGs and the Federal group are determined. 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 ACR rating was used for the groups, include utilization data. If the method used for the SSSGs differs from that used for the Federal group, explain the difference.

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.

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 more information may be needed to clearly explain the rate process.**

Rate Reconciliation Instructions

EXAMPLE of TCR / CRC COMPARISON SHEET

	Federal Group	SSSG #1	SSSG #2
1. Group Renewal Date	1-1-08	1-1-08	2-1-08
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	.98	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 Rates (f)	\$111.35	\$102.19	\$119.31
10. Family/Self Ratio	2.71	2.80	2.55
11. Family Rates	\$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 QS15.**
- (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

Rate 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	1/1/08		
c. Experience Period	1/1/2006-12/31/2006		
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 $[(1 + .12/12)^4]$ 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 Rates $[(i)/(j)]$	\$149.41		
l. First Level Step-Up Factor	1.2		
m. Bi-weekly Self Rates $[(l) \times (k) \times 12/26]$	\$82.75		
n. Family/Self Ratio	2.6		
o. Family Rates $[(m) \times (n)]$	\$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 (2008 CONTRACT YEAR)				
		SELF	FAMILY	TOTAL
1. Actual FEHB Rates – 2008				
2. Special Benefits Loadings				
(a)				
(b)				
(c)				
(d)				
(e)				
3. FEHB 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 FEHB Rates - 2008*				
6. Contract Rates - 2008* Small Carriers Use Line C, Attachment I Here				
7. Difference ((5) - (6)) + = Underpayment to Carrier - = Overpayment to Carrier				
8. March 31, 2008 Enrollment				
9. Payment Due Carrier/(FEHB)				
10. Brochure Printing Costs				
11. Outstanding Amount Due Carrier/(FEHB)				
12. Total Amount Due Carrier/(FEHB)				

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

Attachment IIIA - Reconciliation Backup Forms

Backup Line 1 Form

Enter the results on line 1 of Attachment III.

If neither of these Forms is appropriate, create/modify a form and place it here.

Backup Line 1 Form – TCR & CRC	
Beginning Capitation Rates	
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 Rates	
Family Rates	

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 Rates	
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 Rates	
Family Rates	

Attachment IIIA - Reconciliation Backup Forms

Backup Special Benefit Loadings Form

List your Special Benefit Loadings below and provide backup calculations for all loadings. Enter either the actual rates filed with the State Insurance Department or recalculate the loading based on the actual 2008 capitation rate. If you do not file with the State, submit other appropriate documentation for this benefit.

Backup Special Benefits Loading Form			
Benefit	Derivation	Self Rates	Family Rates
<i>Ex. \$10/\$20/\$45 Rx Benefit</i>	<i>Comm. Rated Benefit See State Filing pg. 34</i>	<i>\$25.44</i>	<i>\$58.51 (Rates are Self Rates times Family Ratio of 2.3)</i>
<i>Ex. \$20 Urgent Care</i>	<i>Capitation Rate(303.75) * .008 see attached backup derivation of .008</i>	<i>\$2.43</i>	<i>\$5.59</i>
(a)			
(b)			
(c)			
(d)			
(e)			
(f)			
(g)			
(h)			

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 FEHB Members (F)					
Cost Per Member (E / F)					
Self Loading					
Family Loading					

Or

Alternative Backup Medicare Loading Form	

Attachment IIIA - Reconciliation Backup Forms

Backup Brochure Printing Costs Form

Enter this amount on line 10 of Attachment III.

OPM will reimburse the amount the carrier actually spent to produce the **OPM approved quantity** of brochures. Submit documentation, such as paid invoices, helpful in evaluating the reasonableness of your requested amount. Note that the amount claimed may be for OPM brochures or rate sheets and corresponding shipping and handling only. No costs for provider directories, business cards, or other promotional materials may be included.

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
Shipping & Handling				
TOTAL (F)				
Total Allowable Costs (E + F)				

Attachment IIB, Section 1 – General Questionnaire

General Questions

(To be completed by all carriers.)

QG1. What method of community rating did you use in your 2008 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 2008 reconciliation the same as the method used in the 2008 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 aged 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 aged 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 page 13 regarding 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 carriers.)

QS1. Did you choose to provide a list of 10 potential SSSGs in the 2008 rate proposal?

YES

NO

If yes, relist them here in the same order as listed in the proposal. If no, skip to question QS4.

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 at Proposal		Enrollment at Reconciliation		Group Eligible	
	Enrollment	Date	Enrollment	Date	Yes	No
1.						
2.						
3.						
4.						
5.						
6.						
7.						
8.						
9.						
10.						

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

QS2. What is the source of the enrollment information given in QS1? Note that this source material must be on file with the carrier, and available to OPM auditors.

QS3. Are the two SSSGs closest in enrollment size to the FEHB still eligible to be SSSGs? And if you answered yes to QS1, are they listed above?

YES NO

If no, provide an explanation below.

Attachment IIB, Section 2 – SSSG Questionnaire

QS4. Name the two SSSGs.

- 1.
- 2.

QS5. How do the benefit packages for your SSSGs differ from the benefit package for the Federal group?

QS6. What method of community rating (TCR, CRC, ACR) did you use to rate the following groups?

	Federal Group	SSSG #1	SSSG #2
Method			

QS7. What are the 2008 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.

QS8. What is the rating region used to determine the SSSGs?

QS9. 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.

Attachment IIB, Section 2 – SSSG Questionnaire

QS10. 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 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.				

If you did not provide a list of potential SSSGs in your proposal, you must answer QS11. Otherwise skip to question QS12.

QS11. 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

If Yes, explain why the groups are not SSSGs.

QS12. Did either of the SSSGs receive any type of discount, or any other type of rate advantage over the Federal group? (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.

QS13. Did you use **projected** demographics for an SSSG's CRC factors and/or step-up factors?

YES NO

Attachment IIB, Section 2 – SSSG Questionnaire

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.

QS14. 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.

QS15. 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 Appendix IV)

Attachment IIIB, 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 2008 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 2008 Federal group rates should be based?

_____ NA

QT4. If you used a capitation rate for 2008 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 2008 rate proposal which you submitted in May 2007?

YES NO

If No, is the reason because the carrier revised its community-wide demographics after the 2008 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 2008 Federal group rates, (including development of step-up factors), what are they?

% Self Contracts	% Family Contracts	Family Size	Other

Attachment IIIB, Section 3 –TCR Questionnaire

QT9. Are the demographic assumptions in QT8 the same as they were in the 2008 rate proposal?

YES NO NA

If No, or NA, is the reason because the carrier revised its community-wide demographics after the 2008 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 2008 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 2008 rate proposal?

YES NO If No, why not?

Attachment IIIB, Section 4 – CRC Questionnaire

QC6. If you used a CRC-adjusted capitation rate for 2008 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 2008 rate proposal (which you submitted in May 2007)?

YES NO

If No, is the reason because the carrier revised its community-wide demographics after the 2008 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 2008 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 2008 rate proposal?

YES NO NA

If No, or NA, did the carrier revise its community-wide demographics after the 2008 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 2008 rate proposal?

A Method Using Actual Claims Data

Any Other Method (Go to QA12)

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

If your method used actual claims data, the claims data used to develop the FEHB 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 the time period stated in the financial records section of your contract with OPM.

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 rates.

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 IIB, Section 5 – ACR Questionnaire

Documentation of 2008 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 FEHB.**

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. 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 2008 FEHB rates were developed in accordance with the requirements of 48 CFR Chapter 16 and the FEHB contract and are accurate, complete, and current as of the date this certificate is executed; and
- 2) The methodology used to determine the FEHB 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	
E-mail	

OR

Name	
Phone Number	
Fax Number	
E-mail	

Appendix I

Definitions

ACR – The acronym for Adjusted Community Rating.

Capitation Rate – A per member per month revenue requirement.

Carrier – The entity contracting with OPM.

Employer Groups – Any group with which an FEHB carrier enters into an agreement to provide health care services.

Plan – A carrier's contract within a rate code area.

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.

Purchasing Alliances – Any groups bonding together to purchase health insurance.

Rate Code Area – The area under which the rate code covers. In the case where an additional product other than the traditional HMO is offered in the same area, 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.

Rating Methodology – A series of well defined procedures a carrier follows to determine the rates it will charge to its subscriber groups. An independent professional must be able to follow these procedures and reach the same conclusion. Some examples that are not considered as a valid rating methodology are:

- Arbitrarily setting rates by a rating committee that meets to determine final rates;
- Setting a fixed rate increase over the prior year rates

Rating Region – The total area over which the carrier controls its rates. This is usually the state. See Appendix III for examples.

Renewal Date – The date a rate change (if any) is effective for the SSSG.

Retrospective Experience Rating – Experience rating where gains and losses are carried forward.

"Step-up" Factors - One that converts the capitation rate to a self rate. These factors are related to family size and market considerations, and are in accordance with the standard documented procedures. Some carriers have a step-up factor that converts the capitation rate directly to a family rate.

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.

Surcharge – A loading that is not definable based on any established rating method.

Appendix I

Total Enrollment – Refers to enrollment in a rating region.

Total Replacement Group – An employee group where the carrier is the only health insurance provider for that employer in the rate code area.

Appendix II

Selection of SSSGs - Examples

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 FEHB has one rate code area in Texas. Two SSSGs are required. The carrier operates in the state of Texas with one Federal rating region. All the groups the carrier contracts with are in Texas. The carrier controls rates for all of Texas; therefore, Texas is the rating region. The total enrollment in Texas for each group, that has at least 5% of its total enrollment in the Federal rate code area, should be compared with the FEHB 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 FEHB 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 operates in the state of Texas with one rating region. All the groups the carrier contracts with are in Texas. The carrier controls rates for all of Texas; therefore, Texas is the rating region. 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 FEHB's enrollment in **Dallas** to determine if the group is an SSSG for the **Dallas** rate code area. The carrier follows the same procedure to select SSSGs in Houston.

Case 3 One state, two Federal rate code areas, two rating regions, and all groups are in one state:

The FEHB 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 operates in the state of Texas with two rating regions. The Dallas rating region controls the rates in Dallas and the Houston rating region controls the rates in Houston. The carrier contracts with the XYZ Corporation in Texas. 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 use the total XYZ Corporation enrollment in **Dallas**. The carrier should compare the group's total enrollment in Dallas with the FEHB's 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. The carrier follows the same procedure to select SSSGs in Houston. The XYZ Corporation 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 FEHB has one rate code area in Texas. Two SSSGs are required. The carrier operates in the state of Texas. The carrier controls rates for all of 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 FEHB enrollment in Texas to determine if the group is an SSSG. The XYZ Corporation's rates in Texas will be used to determine any

Appendix II

discounts.

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

The FEHB 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 operates in the state of Texas with one rating region. The carrier controls rates for all of 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 the total XYZ Corporation enrollment in Texas. The carrier should compare the group's total enrollment in Texas with the FEHB'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. The 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 FEHB 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 operates in the state of Texas with two rating regions. The Dallas rating region controls the rates in Dallas and the Houston rating region controls the rates in Houston. The carrier contracts with the 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 FEHB 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. The 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 FEHB has one rate code for all enrollees. Two SSSGs are required. The carrier operates in two states: Texas and Arizona. The carrier controls rates for all of Texas and Arizona; therefore, Texas and Arizona is the rating region. The total enrollment for each group the carrier contracts with in Texas and Arizona, that has at least 5% of its total enrollment in the Federal rate code area, should be compared with the FEHB 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 FEHB has one rate code for all enrollees. Two SSSGs are required. The carrier operates in two states: Texas and Arizona. The carrier controls rates for all of Texas and Arizona; therefore, Texas and Arizona is the rating region. The carrier contracts with XYZ Corporation, which has enrollees in Texas and Arizona and eight other states. If at least 5% of the total XYZ Corporation enrollment in Texas and Arizona is in the Federal rate code area, then the carrier should compare the total XYZ Corporation enrollment in Texas and Arizona with the FEHB enrollment in Texas and Arizona to determine if the group is an SSSG. The XYZ Corporation's rates in Texas and Arizona will be used to determine any discounts.

Appendix III

Examples of Rating Regions

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**.

Appendix IV

Further Details for Question S15

Question S15

Make sure that by the time we finish reading your explanation in QS15, 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 in this answer is a simple explanation of how the SSSG rates differ from the Federal group rates.

The SSSG Comparison Form will be referred to in SSSG Questionnaire (#15). In the example shown on page 18, the capitation for the Federal group is \$100, but only \$98 for SSSG #1. In SSSG Question 15, the explanation could be as follows:

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