SUBJECT: New Premium Rating Methodology for Most Community Rated Carriers

This letter provides information on the Office of Personnel Management (OPM)’s interim final regulation published June 29, 2011 regarding a new premium rating methodology for most community rated FEHB carriers. Note that plans that use Traditionally Community Rating (TCR) due to state mandates will not be subject to the new premium rating methodology.

This new medical loss ratio (MLR)-based methodology will be phased in with participation in the first year being optional. For plan year 2012, non-TCR community rated FEHB plans will have the option of using the current similarly sized subscriber group (SSSG) methodology or using the new MLR-based methodology. For plan year 2013, MLR rating will replace the SSSG methodology for all non-TCR community rated plans.

The new rating methodology will be based on comparing a plan’s negotiated rates with an FEHB-specific MLR, defined as health claims costs to premium. OPM will publish each year’s FEHB-specific MLR threshold in the rate instructions to community rated carriers. Plans that do not meet the FEHB-specific MLR threshold will be required to pay any premium received in excess of the threshold to a fund that will be shared with all plans subject to MLR rating.

This premium rating methodology is separate from and in addition to the MLR standard required by the Affordable Care Act (ACA). Carriers choosing to use the MLR-based methodology for FEHB in 2012 must submit an election form with their proposal by July 20, 2011. These carriers must calculate and submit their FEHB-specific MLR to OPM at the end of the plan year and after the carrier has calculated the ACA-required MLR. Beginning in 2013, all non-TCR community rated FEHB plans will be required to do this.

Attached is a copy of the Federal Register Notice with the new OPM regulation. Specific instructions will be included in supplemental rating guidance. If you have any questions, please contact Louise Dyer at Louise.Dyer@opm.gov.

Sincerely,

John O’Brien
Director
Healthcare and Insurance