
FEHB Program Carrier Letter

All FEHB Carriers

Letter No. 2017-02

Date: March 16, 2017

Fee-for-Service [n/a]

Experience-rated HMO [n/a]

Community-rated [2]

SUBJECT: Plan Performance Assessment Community Rated Adjustment

The purpose of this Carrier Letter is to announce a proposed update to the Federal Employees Health Benefits (FEHB) Program Plan Performance Assessment for Community Rated Carriers. Beginning with the 2017 performance assessment period and for future rating periods a Community-Rated Adjustment (CRA) would be applied to the overall performance score (OPS) of community-rated carriers in the FEHB Program to incentivize high performance.

The Office of Personnel Management's Plan Performance Assessment is intended to assess and measure performance through the use of common, objective, and quantifiable performance measures. The framework is outlined at 48 CFR § 1615.404-70. The implementation of the CRA is consistent with our structured approach and it furthers our goal of treating FEHB Program plans consistently.

One challenge to consistent treatment is the existence of different FEHB contract structures and payment mechanisms. The experience-rated and community-rated contracts are fundamentally different, and this difference is among the reasons we allowed community-rated carriers to receive the full contract oversight score for 2016 performance if the carrier received a score of 0.7 or above in Contract Oversight (CO). This adjustment was only for the 2016 CO scores. Without implementing the CRA all community rated plans, including high performing plans, would receive premium withholding based on their respective Performance Assessment scores for 2018. The CRA will be uniform for all community-rated plans. The CRA will enable high performing community-rated carriers to receive their full net-to-carrier premiums if performance merits. The CRA applied will allow plans performing at better than the 50th percentile of the QCR benchmark and higher than the mid-range of *exceeds most expectations* in Contract Oversight to avoid premium withholding. The CRA will be derived in the following manner.

The value of the CRA will be based on a combination of QCR and CO scores that, together, reflect OPM's view that plans performing at or above this level should not be penalized by withholding of net-to-carrier premium. The QCR portion of the calculation used to establish the CRA is set at 0.6, which is the standardized value of an initial score of any given QCR measure at its 50th percentile benchmark. As outlined in Carrier Letter 2015-10, a QCR measure that is the same as its 50th percentile benchmark receives a score of 3 on a scale of 0 to 5. The

standardized version of such a score when it is used in the calculation of the OPS is 0.6 (3 divided by 5 is 0.6). The CO portion of the calculation used to establish the CRA is set at 0.95, which is a score at the mid-range of *exceeds most expectations*. For 2017, the CRA will be the complement (one minus the outcome) of the following calculation: 0.5 times the 50th percentile 2017 QCR benchmark, plus 0.5 times 0.95 (the mid-range of *exceeds most expectations*). The weight of the QCR and CO components will be 0.65 and 0.35 respectively for 2018 and beyond to align with the overall QCR and CO weighting established in Carrier Letter 2015-04.

The Performance Adjustment Percentage (PAP) for individual community-rated FEHB Program carriers for 2017 performance will be one percent (the maximum adjustment percentage) minus the Performance Based Percentage (PBP). The PBP is the amount calculated by the Overall Performance Score plus the Community-Rated Adjustment with this result then multiplied by one percent. A plan will have no Performance Adjustment (PA) withheld if the overall calculation of the PAP results in zero or an amount less than zero. If this figure is positive it will be multiplied by the plan's subscription income to arrive at the Performance Adjustment. OPM is continuing to explore methods to positively incentivize superior performance by FEHB Program plans. OPM may allow plans who achieve a negative PAP to account for a performance incentive equal to the PAP during the rate reconciliation. If this additional incentive is implemented, the procedures will be outlined in the upcoming rate instructions for community-rated carriers.

The calculations described above are shown in formulas below:

$$\text{CRA (2017): } 1 - ((0.5 * 0.6) + (0.5 * 0.95)) = 0.2250$$

$$\text{CRA (2018): } 1 - ((0.65 * 0.6) + (0.35 * 0.95)) = 0.2775$$

$$\text{PAP} = 1\% - \text{PBP}$$

$$\text{PBP} = (\text{OPS} + \text{CRA}) * 1\%$$

$$\text{PA} = \text{PAP} * \text{Subscription Income}$$

Below are two examples for a community-rated carrier using the 2017 CRA:

Given an OPS of 0.8892 and Subscription Income of \$5,000,000:

$$\text{Performance Adjustment} = (0.01 - (0.8892 + 0.2250) * 0.01) * \$5,000,000$$

$$\text{Performance Adjustment} = (0.0) * \$5,000,000$$

$$\text{Performance Adjustment} = \$0$$

No amount will be withheld from the subscription income of the plan.

Given an OPS of 0.7518 and the same subscription income:

$$\text{Performance Adjustment} = (0.01 - (0.7518 + 0.2250) * 0.01) * \$5,000,000$$

$$\text{Performance Adjustment} = (.000232) * \$5,000,000$$

$$\text{Performance Adjustment} = \$1,160$$

This \$1,160 will be withheld from the plan's subscription income and placed in the plan's contingency reserve.

A conforming amendment to the 2017 community-rated FEHB Program contracts will be forthcoming. If you have any questions or comments regarding this proposal, please contact your Contracting Officer.

Sincerely,

Alan P. Spielman
Director
Healthcare and Insurance