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OPM Community Rating Guidelines – 2003

➢ General Policy For the 2003 Rate Year

Definition: We divide carriers into two groups, "large" and "small." For 2003, we define small carriers as those having less than 1500 FEHBP contracts at the time of the rate proposal. We define large carriers as those having 1500 or more contracts at the time of the rate proposal.

Documentation: The amount and nature of the back-up documentation we require for small carrier rate proposals differs from the large carrier requirements.

For the 2003 rate proposal, a small carrier has three options:

1) It may submit the same detailed documentation we require for large carriers.

2) If its 2002 income from the Federal group will be $500,000 or more, and the carrier does not elect to submit the same documentation as a large carrier, the carrier must submit only Attachments I, IA, IIB, and IIC. Such a carrier must also complete Attachments II and IIA and keep them on file and available for OPM review.

3) If its 2002 income from the Federal group will be less than $500,000 and the carrier does not elect to submit the same documentation as a large carrier, the carrier must submit only Attachments I, IIB, and IIC. Such a carrier need not complete or retain Attachments II and IIA.

In what follows, "small carrier" refers to a carrier with under 1500 FEHBP contracts choosing not to submit the detailed documentation we require for large carriers (i.e., a small carrier is one that chooses option 2 or 3 above).

All carriers must derive their Federal group rates according to OPM community-rating guideines. Small carriers whose 2002 Federal group income will be $500,000 or more must complete Attachment II (Proposed Biweekly Net-To-Carrier Rates For the 2003 Rate Year) and Attachment IIA (Community Rate Questionnaire) but should <u>not</u> send these documents to OPM. Such carriers must keep these documents on file, in accordance with the records retention clause of the contract. The OPM auditors will examine the documents during carrier audits, and the OPM Office of Actuaries may also periodically review the documents.

Small carriers whose 2002 Federal group income will be less than $500,000 are not required to complete or retain Attachments II and IIA.

Since small carriers will not submit detailed documentation, the Office of Actuaries will evaluate the proposed rates by using its reasonableness test. Rates failing this test will be further reviewed. For small carriers whose 2002 Federal group income will be $500,000 or more, the Office of Actuaries may request detailed documentation.

➢ **Special Audits**

OPM's Office of the Inspector General (IG) will perform special audits of carriers' 2003 rate reconciliations on a selected basis beginning in May 2003. Although these audits will focus on the 2003 rate reconciliation, the audit staff may need to analyze rate information for the Federal group and other groups for previous years. Keep all documentation used to develop the 2003 rates available for review by the audit staff.

➢ **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 an amended proposal and/or reconciliation (including a newly executed Certificate Of Accurate Pricing).

➢ ***Note: The above policy does not apply to proposals and/or reconciliations that the IG is auditing.***

➢ **New Rating Areas**

If you propose a rate for a new area (or to split a current area), please submit a letter explaining:
- why you have decided to add this area;
- how it relates to your previous service area (for example, is the new area a portion of an existing area that has been split into two or more sections?); and
- how your current enrollment will be affected by the addition of this new area.

➢ **Similarly Sized Subscriber Groups (SSSGs)**

The purpose of the SSSG concept is to ensure that the Federal group receives an equitable and reasonable rate.

➢ **Regulatory Definition**

48CFR 1602.170-13 defines SSSGs as follows:

(a) Similarly sized subscriber groups (SSSGs) are a comprehensive medical plan carrier's two employer groups that:

(1) Have a subscriber enrollment closest to the FEHBP subscriber enrollment

as of the date specified by OPM in the rate instructions; 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 is a potential SSSG (including separate lines of business, government entities, groups that have multi-year contracts, and groups having point of service products).

(c) Exceptions to the general rule stated in paragraph (b) of this section are (and the following groups must be excluded from SSSG consideration):

(1) Groups the carrier rates by the method of retrospective experience rating;

(2) Groups consisting of the carrier's 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 whose rate-setting is mandated by the State or local government.

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

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

- **<u>Enrollment and Contract Renewal Dates</u>**

For the 2003 rate year, the specific guidelines for SSSGs are as follows:

(1) All group enrollments including new groups (the Federal group and the SSSG enrollments) should be the latest 2003 enrollment available to the carrier (but no later than March 31, 2003).

(2) The contract renewal date for 2003 SSSGs should be between July 2, 2002 and July 1, 2003. **Note: You should interpret "renewal date" to mean the date on which a rate change (if any) is effective for the SSSG.**

Note: 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 must be made for the SSSG in the following year, or the rate extension will be considered as a discount. The renewal date for the group would be the anniversary of the last renewal.

➢ Rules For the Number of SSSGs and How to Choose Them

Definition of a Rating Region

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

Example 1

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

Example 2

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

A carrier must choose two SSSGs for every unique Federal rate code. 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 area. It is possible that a carrier could have federal enrollees in several different geographical regions or states under the same rate code. We will choose the SSSG's as shown previously.

➢ Policy and Selection of SSSGs

We will use a potential SSSGs 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.

- **This is a change from the 2001 Instructions**

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

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

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

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

The carrier operates in the State of Texas. The FEHBP has two rate code areas in Texas: Dallas and Houston. 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 carrier should use total XYZ Corporation enrollment in **Texas** to compare with the FEHBP enrollment in **Dallas** to determine if a group is an SSSG. The XYZ Corporation's rates in **Texas** will be used to determine any Dallas discount. Carrier follows the same procedure to select SSSGs in Houston.

Case 6 One state, two federal rate code areas, two rating region 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 the Dallas region and one in the Houston region. 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 **Dallas** with the FEHBP enrollment in **Dallas** to determine if a group is an SSSG. The XYZ Corporation's rates in **Dallas** will be used to determine any discounts. Carrier follows the same procedure to select SSSGs in Houston.

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

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

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

The carrier operates in two states Texas and Arizona. The rate code is the same for all enrollees. The rating region is Texas and Arizona. The carrier contracts with the XYZ Corporation, which serves ten states. Two of the ten states are Texas and Arizona. If 5% of the total XYZ Corporation enrollment in Texas and Arizona combined is in the Federal rate code area, the carrier should compare the total XYZ Corporation enrollment in Texas and Arizona with the FEHBP enrollment in 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.

- **Instructions for Groups Contracting with Purchasing Alliances**

You should treat a Purchasing Alliance as one group and follow the above rules for choosing SSSGs. If a Purchasing Alliance turns out to be an SSSG and consists of more than one rate, use the weighted average of the rates to determine any discounts.

- **Consistency of Rating Methods**

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.**

- **Examination of Non-SSSG Groups**

At times, OPM may examine the rates of non-SSSG groups. The examination is to verify the 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. The purpose would be to verify that the SSSG received no hidden discount.

An OPM review of a non-SSSG commercial group does not make it a potential SSSG.

- **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. We are changing that 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. The plan must show that the discount was actually recovered from the SSSG.

- **Miscellaneous Remarks**

We do not request SSSG information now. Rather, we will ask for it in 2003 when we send you the rate reconciliation instructions.

The Federal group's rates must be equivalent to the lower of the two SSSG rates, including any discounts and reflecting any market advantage given to an SSSG.

Since your carrier is community rated, the rates for most groups are probably based on an underlying "community rate". Carriers using ACR normally base a group's rates on the underlying experience for that group.

Regardless of which community rating method the carrier uses (TCR, CRC or ACR), OPM now focuses on the rating method used for the two SSSGs to determine if a carrier has appropriately derived the Federal group rates.

➢ 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. If your Attachment II, Line 1 rates include an amount to recover such monies from the FEHBP, you should make an adjustment for this amount in the form of a negative special benefit loading in the Special Benefit Loadings section of Attachment II.

➢ Special Loading For Enrollment Discrepancies

Your contract provides for a special premium loading of 1% to account for unresolved enrollment discrepancies.

Note: The carrier must explicitly take this loading, but may eliminate its effect by also giving the Federal group a 1% 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)."

You should place this loading on Line 4e of Attachment II.

➢ Community Rating Policy

We accept three standard methods of community rating:

1) Traditional Community Rating (TCR)

2) Community Rating By Class (CRC)

3) Adjusted Community Rating (ACR)

We expect carriers using TCR or CRC for 2003 to develop rates from a community-based revenue requirement (normally in the form of a capitation rate) which is documented and verifiable. Once you establish the capitation rate, you may convert it to self and family rates using standard procedures.

A carrier using ACR may use a method based on utilization data or it may use a prospective method based on actual Federal claims data.

We ask you in the Community Rate Questionnaire to provide the criteria you use to determine your rating method for the Federal group.

CRC Rating

A carrier using CRC for the Federal group must provide a standard presentation of its rating method. The document "Instructions For Attachment II" includes details of this standard format and an example illustrating it. If a carrier using CRC cannot comply with OPM's standard format, it must submit its rate manual and/or other official documents that demonstrate the actuarial soundness of the carrier's CRC method.

We accept age and sex as legitimate factors for CRC. You must support any other proposed factor with carrier documentation showing that the factor predicts utilization. Our policy for industry factors is explained in the document entitled "Instructions for Attachment II". **A large carrier using CRC must furnish a table showing the age-sex distribution on which it based the Federal group's CRC adjustment factor.** You must clearly show how you used this table to derive the adjustment factor.

Carriers using TCR or CRC and demographic factors (such as family size) based on group-specific data must also use group-specific data for the SSSGs. You must base all demographic factors on actual in-force group data.

ACR Rating

The following rules apply for carriers using ACR for the Federal group:

1) The carrier must have a documented ACR method established and implemented by 2003.

2) The carrier may use a prospective method based on actual Federal claims data, or a method based on utilization data. **In either case, the carrier must keep on file all data necessary to justify the ACR rate (i.e., claims, utilization etc.)**

If you use ACR, you must completely and clearly explain your method. We may ask for additional documentation from carriers using ACR, including the carrier's rating manual.

The document "Instructions for Attachment II," includes specific rules for carriers using a claims based ACR method.

Attachment I

2003 RATE PROPOSAL - SMALL CARRIERS

(Use <u>BIWEEKLY</u> Net-To-Carrier Rates)

CARRIER NAME	STATE	CODE

Q1. What type(s) of community rating do you propose to use for the Federal group in 2002?

TCR (Traditional Community Rating)		
CRC (Community Rating By Class)		
ACR (Adjusted Community Rating)		

	SELF	FAMILY
Q2. What are your carrier's 2003 proposed Federal group rates? (For small carriers whose 2002 Federal group income will be Greater than or equal to $500,000, these rates are on Line 5, Attachment II.) **Line A:**		
Q3. What adjustments have you made to the proposed 2003 rates as the result of the reconciliation of the 2002 rates? (Note that if the actual 2002 rates turned out to be higher than the rates estimated in the 2002 proposal, you should increase the 2003 rates to recover the loss. Likewise, if the actual rates were overestimated, you should decrease the 2003 rates to return the gain to OPM.) **Line B:**		
Q4. What are the proposed 2003 Federal group rates (after adjustments)? (Line A ± Line B) **Line C:**		

OPM will complete the section below if it is necessary to reduce the proposed rates in order to draw down the contingency reserve.

Amount of excess contingency reserve:		
Rate reduction necessary to generate a contingency reserve payment approximately equal to the excess. Line D:		
2003 FEHBP Rates: Line E:		

Instructions for Attachment I

Q1. Indicate which method of community rating the carrier uses. Small carriers may use any of the following methods: Traditional Community Rating (TCR), Community Rating By Class (CRC), or Adjusted Community Rating (ACR).

We do not require small carriers to submit detailed documentation of the rate development. But please keep in mind that if your 2002 income from the Federal group will be greater than or equal to $500,000, you must complete Attachments II and IIA before submitting Attachment I and keep them on file at the carrier. The OPM audit staff will examine the documents during periodic audits of the carrier. The Office of Actuaries may also periodically review the documents.

Q2. Insert the rates that appear on Line 5 of Attachment II. These rates are the rates before any adjustments have been made as the result of the 2002 reconciliation.

Q3. If OPM owes the carrier money because of the 2002 reconciliation, OPM will pay that money through an increase in the carrier's 2003 rates. Compute the appropriate increase, based on the results of the reconciliation.

In the case where a small carrier owes OPM because of the reconciliation, the carrier's 2003 rates will be decreased by an appropriate amount.

The rate adjustments obtained by the carrier should be placed on Line B.

Q4. If the amounts on Line B are rate increases, then Line C = Line A + Line B. If the amounts on Line B are rate decreases, then Line C = Line A - Line B.

OPM completes the section below Line C based on negotiations between the carrier and Office of Actuaries. When we determine that sufficient excess has built up in the contingency reserve, we will propose a reduction to the carrier's rates in order to generate a contingency reserve payment.

Attachment IA

Certificate of Accurate Cost Or Pricing Data
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 2002 FEHBP rates were developed in accordance with the requirements of 48 CFR Chapter 16 and the FEHBP contract and are accurate, complete, and current as of the date this certificate is executed; and

2) The methodology used to determine the FEHBP rates is consistent with the methodology used to determine the rates for the carrier's Similarly Sized Subscriber Groups.

Firm	
Name	
Title	
Signature	
Date	

Attachment II

2003 RATE PROPOSAL – LARGE CARRIERS (Use BIWEEKLY Net-To-Carrier Rates)		
CARRIER NAME	**STATE**	**CODE**
	SELF	**FAMILY**
1. Proposed Unadjusted Federal Group Rates for Jan 1, 2003		
2. Special Benefit Loadings		
(a)		
(b)		
(c)		
3. Federal Group Rates Plus Special Loadings		
4. Standard Loadings		
(a) Extension of Coverage Loading [.004 x (3)]		
(b) Medicare Loading		
(c) Children's Loading		
4d. Subtotal [(3) + (4a) + (4b) + (4c)]		
4e. Enrollment Discrepancies Loading [.01 x (4d)]		
5. Proposed Federal Group Rates For 2003 [(4d) + (4e)]		

➢ Backup Line 1 Form

Plans should use the Form that applies to them. If neither of these Forms is appropriate, create/modify your own Form and place it here. Enter the results on line 1 of Attachment II.

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

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

<u>Backup Special Benefit Loadings Form</u>

Enter any loadings under line 2 of Attachment II.

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

<u>Note:</u> Put any necessary backup calculations to support these loadings below.

Backup Medicare Loading Form

Enter any loading on line 4b of Attachment II.

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

Or

Alternative Backup Medicare Loading Form

➢ <u>Backup Children's Loading Form</u>

Enter results onto Line 4(c) of Attachment II if eligible.

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

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

Instructions for Attachment II

➢ Lines By Line Instructions

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

1. Proposed FEHBP Rates - 2003
This is the most significant part of the proposal process. Please do it carefully. Refer to the Part I instructions on page 23.

2. Special Benefit Loadings
Refer to the instructions on page 26.

3. FEHBP Rates Plus Special Loadings
The sum of Lines 1 and 2.

4a. Extension of Coverage Loading
If you are entitled to this loading, multiply Line 3 by .004 (or the same factor you used in the proposal).

4b. Medicare Loading
Refer to the instructions on Page 26.

4c. Childrens Loading
Refer to the instructions on page 28.

4d. Subtotal
Add lines 3, 4(a), 4(b), and 4(c)

4e. Enrollment Discrepancies Loading
This is a 1% load to the rates which compensates the carrier for possible enrollment discrepancies.

5. Proposed FEHBP Rates - 2003
Add lines 4(d) and 4(e).

Instructions for Attachment II

➢ **Backup: Line 1 Form Instructions**

This should be the carrier's best possible estimate of the 2003 FEHBP biweekly self and family rates. These rates must be based on the carrier's community rate(s) or on an OPM approved ACR methodology. You must indicate in detail how you arrived at the Line 1 rates. We provide work spaces for this in Attachment IIA, the Community Rated Questionnaire.

Carriers may use "Traditional Community Rating" (TCR), "Community Rating By Class" (CRC), or "Adjusted Community Rating" (ACR), which allows the carrier to base its rate for a group on the projected revenue of that group.

Traditional Community Rating

If you use TCR for the Federal group, the starting point is normally a capitation (per member/per month) rate. This capitation is then converted to a self rate and a family rate. The conversion process may involve group specific demographic adjustment factors. The carrier must provide the details of this conversion process.

We allow variations in the process that are consistent with OPM principles of community rating. For example, a carrier might choose to use a standard set of two-tiered rates for all its groups.

Community Rating By Class

If you use CRC for the Federal Group, we require a standard presentation of the rating method. The presentation assumes that the carrier begins with an overall per member/per month rate (capitation). As in the case of TCR, we accept minor variations that are consistent with OPM principles of community rating.

Industry Factors

Our policy on industry factors is as follows:

1) The industry factor used for the Federal group in the rate proposal must be 1.0 or less. The proposed factor may change in the reconciliation, but in no case can it be larger than 1.0.

2) We will examine the industry factors used for the SSSGs. We require that the Federal group industry factor must be no larger than the lowest industry factor used for an SSSG and 1.00 or less.

Example Of CRC Method

If a carrier uses CRC, we require a method, which is essentially as follows:

1. Derive a CRC adjustment factor (AF), which is used to adjust the capitation rate. Normally, you should base this adjustment factor on the age-sex distribution of the Federal group, although we do allow certain variations of this concept.

2. Determine the adjusted capitation rate for the Federal group (AF x capitation).

3. Convert the adjusted capitation rate to self and family rates using the same

Example:

Class	Percentage Distribution of Members	Relative Utilization Factor
1	.10	.40
2	.20	.80
3	.45	1.20
4	.25	1.60

AF = (.10 x .40)+(.20 x .80)+(.45 x 1.20)+(.25 x 1.60) = 1.14

Capitation	= $60.00 pm/pm	
Adjusted Capitation	= $60.00 x 1.14	= $68.40
1st Level Step-Up Factor	= 1.2	
2nd Level Step-Up Factor	= 2.9	
Self Rate	= $68.40 x 1.2	= $ 82.08
Family Rate	= $82.08 x 2.9	= $238.03

method that would be used under TCR.

Note The Following:

1) You must include your CRC worksheets (i.e. sheets showing the relative utilization factors and the age/sex distribution for the Federal group) in your submission.

2) The relative utilization factors used for the federal group must be the same as those used for all your other CRC-rated groups.

3) Federal annuitants over age 65 should normally not be included in the calculation of the CRC factor.

4) A carrier using CRC for the Federal group should compute a Medicare loading in the normal way (i.e. along the lines of OPM's suggested method on Page 27).

<u>Adjusted Community Rating</u>

A carrier using ACR for the Federal Group, may use a method based on utilization data or a prospective method based on actual Federal claims data. **In either case, the carrier must keep on file all data necessary to justify the ACR rate (i.e. claims, utilization etc.)** You should save backup tapes of your claims database for audit purposes.

The rules that apply for a claims-based ACR method are:

Instructions for Attachment II

1) The experience period (and the claims used within that period) may not change in the reconciliation. It must be the same period (and the same claims) you used in the proposal.

2) If you used completion factors to convert paid claims to incurred claims, such factors must be the same for all groups for which you used a claims-based ACR method.

3) Any method used to convert paid claims to incurred claims should be consistent for all groups you rated by a claims-based ACR method.

4) If claims include special benefit claims, you should take no special benefit loadings (either in the proposal or reconciliation). Note that the claims should reflect extension of coverage, which means that you should not take the extension of coverage loading.

5) If claims include those of annuitants age 65 and over, you must reduce claims by an amount equal to Medicare income from the Centers for Medicare or Medicare Servces (CMS) <u>or</u> we must receive a credit for monies received from CMS. See questions Q19 and Q20.

6) Loadings for administrative expenses must be either:

   a) a flat community rated pm/pm amount or

   b) a standard percentage of claims.

   c) A method consistently applied to the FEHBP and the SSSGs.

7) Any trend factor used for the Federal group must be the same as the trend factor the carrier used for other groups (that is, you may not base a trend factor for the Federal group on the Federal group's experience).

A carrier using ACR for the Federal group may also use a method based on utilization data.

WE EXPECT A CLEAR AND COMPLETE EXPLANATION OF YOUR ACR METHOD, WHETHER A CARRIER USES AN ACR USING FEDERAL CLAIMS DATA, OR UTILIZATION DATA. YOU SHOULD PRESENT THIS EXPLANATION AS YOUR RESPONSE TO VARIOUS QUESTIONS IN ATTACHMENT IIA.

****

A carrier using TCR or CRC should normally base the Line 1 rates on its estimated capitation rate (or equivalent) for 2003. At a later date, after you determine the actual January 1, 2003, capitation rate, you will do a rate reconciliation.

Note that if a carrier uses an ACR method based on Federal claims data, its reconciliation will differ very little from the proposal. **The only elements of the reconciliation that might differ**

from the proposal are:

(i) **Trend Factor.** Your trend factor must be revised from that proposed if necessary to comply with the requirement that the trend be community based.

(ii) **Administration Cost Factor.** Your factor must be revised if necessary to meet the requirement that the FEHBP be charged the lowest loading (either capitation or percentage) charged to an SSSG.

Note that the trend factor must be consistent with the lowest such factor used for an SSSG.

- **<u>Backup: Special Benefits Form Instructions</u>**

These loadings are for differences between Federal group's benefit package and the carrier's community benefits package. You must provide all backup calculations for the costs that appear on lines 2(a) through 2(c). You should clearly indicate all utilization and cost assumptions. If the benefit is a rider that you sell to other groups, there should be a uniform price (i.e., a capitation rate, or standard set of two-tiered community rates) for the benefit. Indicate clearly in your backup calculations the adjustments (if any) you have made to the uniform rate to arrive at the Federal rates shown on lines 2(a) through 2(c).

You should offset through negative loadings any benefits not provided to the Federal group which are part of the basic package. You should enter a cost of $0.00 for benefit differences with no cost.

- **<u>Backup: Medicare Loading Form Instructions</u>**

Federal annuitants who retired after December 31,1983, are entitled to coverage under Part A and Part B of Medicare when they reach age 65. In addition, the majority of retirees over age 65 who retired before 1984 are covered under Medicare as a result of employment in the private sector.

You must document the Medicare status of Federal annuitants and their covered spouses age 65 and over, and compute a Medicare loading.

You should clearly explain your method, and provide backup calculations.

The best source of data for your Medicare distribution is the match tape we send to you each year. However, do not include annuitants from that tape with codes X, Z, or N who are under age 65 in your count of no coverage. A carrier claiming a Medicare loading must have appropriate documentation to justify the distribution of its Medicare population submitted in Q38.

Note: As explained above, the carrier is either underpaid or overpaid for Federal annuitants and their covered spouses age 65 and older (hereafter referred to as "Federal annuitants"), and this underpayment or overpayment depends on the Federal annuitant's Medicare status.

The purpose of the Medicare loading is to adjust a carrier's premium to provide the correct income for

Instructions for Attachment II

FEHB retirees age 65 and older. Most other groups generally cover their retirees by Medicare Plus Choice Plans or Medicare Supplement Plans and are excluded from the employee plan.

Below is an example of the sort of method we suggest. If, however, you use another method for other groups that is reasonable and well documented, you should also use it for the Federal group.

EXAMPLE:

Medicare Coverage	Distribution of Federal Annuitants and Covered Spouses*	Cost of CMS Benefits	Average FEHBP Payment	Gain/(Loss) Payment**	to Carrier
A + B	100	$120	$100	$50	$30
A	65	120	60	50	(10)
B	10	120	40	50	(30)
None	50	120	0	50	(70)

(1) Revenue Loss: (65 x $10) + (10 x $30) + (50 x $70) = $4,450
(2) Revenue Gain: 100 x $30 = $3,000
(3) Net Loss = $4,450 - $3,000 = $1,450

* From Question 38, Attachment IIA
** If you use this method, the FEHBP payment should be the single rate

This positive loading of $1,450 could be spread over the self and family contracts in any reasonable manner. Note that whether the loading comes out negative or positive depends on the distribution of Federal enrollees by Medicare status.

If you use ACR to compute your rates, you must make sure that you have considered the effect of COB (coordination of benefits) income the carrier received from CMS. You should pay particular attention to Q19 and Q20 of the questionnaire.

Note:

1) **A carrier using a claims-based ACR method will normally not have a Medicare loading.**

2) **A carrier claiming a Medicare loading must have appropriate documentation to justify the distribution of its Medicare population submitted in Q38.**

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

The difference between the cost for these enrollees and revenue received from CMS should roughly equal the premium charged to Medicare enrollees for either Medicare Supplement Plans or Medicare

Plus Choice Plans with adjustments made for differences in levels of benefits.
Please verify the reasonableness of your loading. We will verify the accuracy of your calculation based on the answers you provide in questions Q35 and Q36
.

- **<u>Backup: Children's Loading Form Instructions</u>**

All carriers in the Federal Employees Health Benefits Program must cover unmarried dependent children until their 22nd birthdays (through age 21). If the carrier has a different age limit for children's coverage, a loading to the Federal family rate may be appropriate.

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

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

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

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

Enter the loading on line 4c of Attachment II.

Attachment IIA

Q1. What type(s) of community rating do you propose to use for the Federal Group in 2003?

[ ] Traditional Community Rating (TCR)

a. [ ] Standard (Book) Rating

b. [ ] Variable (Group Specific) Rating

[ ] Community Rating By Class (CRC) **Go To Q5**

[ ] Adjusted Community Rating (ACR) **Go To Q16**

****

Questions 2 through 4 pertain to carriers that use traditional community rating (TCR) for the Federal Group.

****

Q2. Do you use a standard set of tiered rates applicable to all groups with a tiered rate structure?

[ ] YES [ ] NO If Yes, what are they?

Self __________ Family __________

Self __________ Couple __________ Family __________

Q3. Do you begin your rate development with a capitation rate, and then convert it to the self and family rates?

[ ] YES [ ] NO If Yes, what is the capitation rate?

Capitation Rate = ___________

Note that you may check both Q2 and Q3 "Yes" if you use a standard set of tiered rates that are derived from a capitation rate.

Q4. Do you use "step-up" factors to convert the capitation rate to the self and family rates?

[ ] YES If Yes, **Go To Q28** [ ] NO If No, explain, then **Go To Q29**

****

Questions 5 - 15 pertain to carriers that use Community Rating by Class (CRC) for the Federal group.

****

Attachment IIA

Q5. Do you use CRC for all your groups?

[ ] YES [ ] NO If No, what is your criteria for using CRC?

Q6. What CRC factors do you use?

[ ] Age [ ] Sex [ ] Other __________, __________, __________,

Q7. What capitation rate do you begin with?

Capitation Rate = __________

Q8. What is the adjustment factor you use to adjust the capitation?

Adjustment Factor = __________

What is your adjusted capitation rate? Adjusted Capitation Rate = __________

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?**

Q9. Give a simple narrative explanation of how you derive your rates including how you the adjust the capitation rate.
DO NOT SKIP THIS QUESTION. WHAT WE WANT IS A SIMPLE NARRATIVE EXPLANATION OF HOW YOU DERIVE YOUR RATES. IF THERE ARE OTHER SHEETS WITH DETAILED CALCUATIONS, TELL US HERE IN SIMPLE LANGUAGE WHAT IS DONE ON THOSE SHEETS.

Q10. Have you enclosed any worksheets (i.e. sheets showing age/sex distribution and relative utilization factors) that you used to derive the CRC adjustment factor? **Please note that you must have documented support for the CRC age/sex factors.**

[ ] YES [ ] NO [ ] NA

If No or NA, explain. **(Note: We normally expect to see the worksheets from which you derive the CRC adjustment factor)**

Q11. Do you use "step-up" factors to convert the adjusted capitation rate to the self and family rates?

[ ] YES [ ] NO If No, explain

Q12. 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.

IMPORTANT! DO NOT SKIP THIS QUESTION

Q13. When you derive the CRC adjustment factor, do you include the number of Federal annuitants over age 65 anywhere in the calculation? What about the number of Federal annuitants **under** age 65? 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?

Q14. If you use industry factors as part of your CRC method, do **you anticipate that either of your SSSGs will have an industry factor less than 1.0?**

[ ] YES [ ] NO

Q15. If you answered Q14 Yes, did you apply to the Federal group rates the lowest industry factor anticipated for an SSSG?

[ ] YES [ ] NO

If No, explain. The Federal group should receive the lowest industry factor less than 1.0 given to an SSSG.

****
If you do not use ACR in any part of your rate development, **Go To Q29**.
****

****
Questions 16 through 28 pertain to carriers that use adjusted community rating (ACR) for the Federal group.
****

Attachment IIA

Q16. Do you use ACR for all your groups?

[ ] YES [ ] NO If No, what is your criteria for using ACR?

Q17. What method of ACR do you use to rate the Federal group in 2003?

[ ] A Method Based On Federal claims

[ ] Other

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

Q18. If your answer was "Other" for Q17, give a simple, but comprehensive explanation of how you developed your rates. Use extra sheets if necessary.

Q19. Are age 65 or above retirees included 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.

Q20. If you answered yes to Q19, are CMS reimbursements included in the Federal group's experience?

[ ] YES [ ] NO

If No, you should take a negative Medicare loading which accounts for all monies received from CMS or saved because Medicare was the primary payer (i.e. responsible for most of the claim payments).

If Yes, there should be no Medicare loading.

Q20. Did you reduce claims used in the rate development by 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.

****
Questions 21 through 28 are for carriers that answered Q17 by checking "A Method Based On Actual Federal Claims Data
****

Q21. If you used an ACR method using Federal claims data to compute rates, clearly explain this method. **DO NOT SKIP THIS QUESTION,AND DO NOT REFER US TO OTHER SHEETS. WHAT WE WANT HERE IS A SIMPLE NARRATIVE DESCRIPTION OF YOUR METHOD.**

Q22. Do you use completion factors to derive incurred claims?

[ ] YES [ ] NO

Q23. If you answered Yes to Q22, you should use the same set of completion factors for all your groups. Do you?

[ ] YES [ ] NO [ ] NA If No, explain.

Q24. Explain how you compute the administrative charge.
DO NOT SKIP THIS QUESTION

Q25. Did the claims used in the rate development reflect special benefits?

[ ] YES [ ] NO

Q26. Do you derive an adjusted capitation rate by using an ACR factor that was derived from actual claims data?

[ ] YES [ ] NO If Yes, Adjusted Capitation Rate = ____________

Q27. Do you use step-up factors to convert an adjusted capitation rate to the self and family rates?

[ ] YES [ ] NO If No, **Go To Q29**

****

Q28. a. If you use step-up factors, what are they? Specifically, what step-up factor do you use to convert the capitation rate (or the adjusted capitation rate) to the self rate? What step-up factor do you use to convert the self rate to the family rate?

Self/Capitation = ____ Family/Capitation = ____

b. How do you derive the above step-up factors? Explain briefly (we prefer a numerical formula for each factor as the explanation). Example:

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

c. Are these step-up factors group-specific (i.e., derived using the demographics of the Federal group)? Or, are the step-up factors based on overall population demographics?

[ ] Group Specific [ ] Based on Overall Carrier Population Demographics

d. If you use group-specific factors, do you use them for all groups.
If No, what is your criteria for using group-specific factors?

Q29. a. If you use enrollment-mix or other demographic assumptions at any point in the development of the 2002 Federal group rates (including development of step-up factors), what are they?

% Self Contracts __________ % Family Contracts __________

Family Size __________ Other:

What is the "as of" date of the above enrollment? __________

b. If you use group-specific family size in developing the Federal group rates, were overage dependent children (i.e., children older than the age limit for all unmarried dependents given in Q2a) included in determining the group's family size?

[ ] YES [ ] NO

Q30. 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?

Q31. If you do not use step-up factors to convert a capitation rate to the self and family rates, explain in detail what you do.

Q32. With regard to dependent coverage:

a. Your basic community rate includes coverage for all unmarried dependents up <u>to</u> what age? (An answer of age19 would mean that coverage ceases on the 19th birthday) ________

b. Is there a separate limiting age for coverage of full-time students?

[ ] YES What is it? __________ [ ] NO

c. If a group requires dependent coverage to an age different from your normal limiting age, do you adjust that group's rate to allow for this difference?

[ ] YES [ ] NO

Q33. Are the special benefits listed in line 2, Attachment II of the 2003 proposal different from those that you offered in 2002?

[ ] YES [ ] NO If Yes, explain.

Q34. With regard to the special benefits shown in line 2, Attachment II: Are any of them a rider offered to other groups?

[ ] YES [ ] NO If Yes, indicate which special benefits are riders.

Q35. The FEHBP requires coordination of benefits (COB) with HCFA for Federal annuitants and their covered spouses who are entitled to Medicare.

a. Do you have a risk or cost contract with HCFA?

[ ] YES [ ] Risk Contract [ ] Cost Contract [ ] NO

b. Are any Federal group enrollees in the carrier covered under the carrier's risk or cost contract?

[ ] YES [ ] NO [ ] NA

d. If the answer to Q35(a) is Yes, explain the arrangement you have with HCFA, describe all benefit packages you offer enrollees under the risk contract, and the premiums (if any) the individuals enrolled under the risk contract pay the HMO.

Q36 .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.

Q37. Explain how you coordinate benefits for Federal Medicare annuitants and Medicare dependent spouses.

Q38. Show the number of Federal annuitants and their covered spouses age 65 and older enrolled with the carrier using the following categories:

Medicare Part A and Part B ___________

Medicare Part A Only ___________

Medicare Part B Only ___________

Neither Part A nor Part B ___________

Cannot Determine ___________

Note: The sum of the numbers in the 5 blanks above should be the total number of Federal annuitants and their covered spouses age 65 and older enrolled with the carrier.

Note: Important! Before you complete the above table, review the note (on page 27) pertaining to the list of Medicare enrollees OPM sends the carrier each year.

Q39. How do you determine the numbers that you have in the distribution in Q38?

Q40. 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 proposal?

[ ] YES [ ] NO If NO, explain why you included no negative loading.

Q41. If you use different rating methods (i.e. TCR, CRC, ACR) for different groups, describe your criteria for the use of each method.

Q42. BACKUP CALCULATIONS - Attachment II, Line 1 Rates

a) If you use Traditional Community Rating (TCR), show how you derive the rates on Line 1, Attachment II of the proposal. If they are two-tiered rates that you use for all groups, and will be backed by an insurance department filing, state this. If you derived the rates by converting a capitation into self and family rates, show the calculations.

If you use Community Rating By Class (CRC) or Adjusted Community Rating (ACR) show any details of the derivation of the Line 1, Attachment II rates that were not given in the previous parts of this questionnaire. **DO NOT SKIP THIS QUESTION. WHAT WE WANT HERE IS A SIMPLE NARRATIVE EXPLANATION (BACKED UP BY CALCULATIONS) OF HOW YOU DERIVED THE LINE 1 RATES. IF THERE ARE OTHER SHEETS WITH DETAILED CALCULATIONS, TELL US HERE IN SIMPLE LANGUAGE WHAT IS DONE**
ON THOSE SHEETS. MAKE CERTAIN THAT THE EXPLANATION IN THIS SECTION MAKES IT CLEAR TO US WHERE THE RATES ON LINE 1 COME FROM.

Attachment IIB

Carrier Contacts

For information about your rate submission, we should contact:

Name	
Phone Number	
Fax Number	
Email	

OR

Name	
Phone Number	
Fax Number	
Email	

Our counterproposal letter should be addressed to:

Name	
Address	
Phone Number	
Fax Number	
Email	

Attachment IIC

Utilization Data		
Type of Service	**Annual Utilization Per 1000 Members**	
1. Prescription Drugs		
	A. Mental	**B. Other**
2. Office Visits		
3. Inpatient Hospital Days		