



United States Office of Personnel Management

Washington, D.C. 20415-0001

February 15, 2005

Dear FEHBP Community Rated Health Carrier:

OPM's Actuary Group is revising the Community Rating Instructions for 2006 to clarify the rating process based on discussions with plan representatives. The purpose of the changes is to establish policies that will result in competitive rates for the government and will encourage plan participation by recognizing industry rating practices. We are providing the changes we propose to include in the instructions for 2006. We encourage you to reply with questions and comments regarding these proposed changes.

SSSG Selection

In an effort to mitigate carrier risk involved with potential SSSGs, carriers may elect to submit a list of potential SSSGs at the time of the proposal. The SSSG selections during the reconciliation will be limited to those on the list. If a carrier elects this option, they should include in the proposal ten groups closest in size to the FEHBP group. The ten groups must meet the SSSG requirements. This is different from OIG audit requirement. OIG requires a list of ten groups closest in size to Federal group not necessarily satisfying the SSSG requirements. The carrier may include both lists in the proposal with an indication on the ten groups that meet the SSSG requirements.

During the reconciliation, the carrier should first consider the top five potential SSSGs chosen during the proposal. If at least two of these groups remain, then the two groups closest in size to the federal group at the time of the reconciliation should be chosen as SSSGs. If only one of the top five groups remains, then the sixth group closest in size at the time of proposal should be chosen as the second SSSG, provided the sixth group remains on the list. Otherwise, the seventh group should be chosen and so on until you find the next group that remains on the list. If none of the top five groups remains, the carrier should follow the order of potential SSSG groups listed in the proposal and select two SSSGs from the next five groups in the similar fashion as we mentioned above. Group size for the selected SSSGs in the current year's reconciliation and the potential SSSGs in the following year's proposal should be determined on the same day and based on the most recent enrollment available, but no later than March 31 of the current year.

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

Two SSSGs will be selected for each rating region. If a carrier offers more than one product for a given rating region, two SSSGs will be selected for each product with a unique rate development. That is, if the products are rated independently then two SSSGs are

required for each product, but if they are rated interdependently then two SSSGs will be required in total.

Provider Partners

Provider partners with employees covered by the carrier are excluded from SSSG consideration if they provide medical services to the carrier or have a financial interest or risk sharing arrangement with the carrier. To be defined as having a financial interest the provider partner must share in the profitability of the carrier and not simply conduct business with the carrier.

Separate Lines of Business

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

- It must be a separate organizational unit, such as a division or subsidiary.
- It must have separate financial accountability with “books and records that provide separate revenue and expense information that is used for internal planning and control”.
- It must have a separate work force and separate management involved in the design and rating of the healthcare product.

ACR Methodology

For groups using an ACR methodology, once the experience period and claims are set in the proposal, they can not be changed after the proposal has been submitted. The carrier may offer a discount to the FEHBP rates at any time before the rates are finalized.

We will continue to exclude new groups from SSSG consideration. For ACR groups we will also exclude first year renewals as SSSGs.

Discounts

A carrier is allowed up to a 2% discount to an SSSG if it is the sole carrier for that group in the given area and if it is the plan’s policy to provide such a discount for all groups when it is the sole carrier. This discount continues to be under study to determine its reasonableness and applicability.

Additional changes will be made to clarify the language of the rating rules. We do not anticipate any additional changes regarding rules not specified in this letter. Lastly, our goal is to provide the rate instructions and reconciliation instructions at proposal time. Please submit any comments for consideration to actuary@opm.gov by February 28th.

Sincerely,



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