

**Nebraska Department of Insurance**  
**Guidance Document**  
**IGD - - B6**

Title: Composite Rating for Small Group Markets

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Notice: This guidance document is advisory in nature but is binding on an agency until amended by such agency. A guidance document does not include internal procedural documents that only affect the internal operations of the agency and does not impose additional requirements or penalties on regulated parties or include confidential information or rules and regulations made in accordance with the Administrative Procedure Act. If you believe that this guidance document imposes additional requirements or penalties on regulated parties, you may request a review of the document.

The purpose of this guidance document is to notify all health insurers in the major medical non-grandfathered (NGF) small group market of an alternative rating method that will allow for all policy years and rates implemented beginning on or after January 1, 2016. This method only pertains to the ACA-compliant Off-Exchange NGF small group market and does not include On-Exchange plans or Transitional NGF plans. This methodology is optional for issuers in the Nebraska small group market.

**Composite Rating versus Individual per Member Rating**

A carrier may choose not to provide family composite premiums and continue to use the individual per member method for all small groups. If a carrier chooses to allow a composite rating, the carrier must make the method available for all small employers in the market. Each small employer must be allowed to choose whether they will use a composite rating or the standard per member rating. This guidance document provides the only family composite method available to an issuer.

A carrier that chooses to allow composite rating should provide the following statement in their actuarial memorandum for the composite rating period: "Composite rating is allowed for the indicated period; the method being used follows all rules as published by the State of Nebraska Department of Insurance."

**Determination of Small Group Premiums**

For each covered employee and employee's covered dependents, the carrier can determine the premium as follows:

For each adult age 21+, calculate the rate for each person by multiplying the base rate by the applicable age and geographic area factors. Do not apply a tobacco use factor.

For each child aged 0 to 20: calculate the rate for each of the oldest three children by multiplying the base rate by the applicable age and geographic area factors. Do not use tobacco use factor.

The carrier can determine the age and geographic area when quoting the group's coverage. The small group's aggregate premium before any tobacco use factors is equal to the sum of the premiums determined for each covered employee and his or her covered dependents.

### **Approach**

When the carrier calculates the small group's aggregate premium based on the individual per member rating method, it must be allocated to covered employees based on the tier factor applicable to each employee's family composition.

All insurers using a composite premium approach must use the following tier factors which may not vary by an employer:

Employee only = 1.00

Employee + spouse = 2.00

Employee + children = 1.85

Employee + spouse + children = 2.85

**Note:** "Employee + spouse + children" is also referred to as "Employee + Family."

In Nebraska, family policies may cover children up to the age of 30 if the family meets certain criteria.

All children under age 30 that meet state requirements (and age 26 per federal law if these requirements are not met) are considered to meet the definition of "Children" for employee + family and employee + children tiers.

### **The Final Employee Premium**

Final employee premium = [Group aggregate premium] / [Weighted employee count] x [Employee's tier factor.] For example:

Employee A: Employee + spouse + 2 children = Employee + family

Employee B: Employee + spouse

Employee C: Employee + spouse + 3 children = Employee + family

Employee D: Employee + 4 children = Employee + children

Employee E: Employee only

Using the applicable tier factors and family composition of each employee, the tier-factor weighted employee count is calculated:

Employee A: Employee + family = 2.85

Employee B: Employee + spouse = 2.00

Employee C: Employee + family = 2.85

Employee D: Employee + children = 1.85

Employee E: Employee only = 1.00

Weighted employee count =  $2 \times 2.85 + 1 \times 2.00 + 1 \times 1.85 + 1.00 = 10.55$

For the final monthly premium for each employee, the aggregate small group premium is divided by the weighted employee count and multiplied by each employee's applicable tier factor. For example, (assuming the total monthly premium for the group is \$5,275), each employee's monthly premium is calculated as:

Employee A:  $\$5,275 / 10.55 \times 2.85 = \$1,425$

Employee B:  $\$5,275 / 10.55 \times 2.00 = \$1,000$

Employee C:  $\$5,275 / 10.55 \times 2.85 = \$1,425$

Employee D:  $\$5,275 / 10.55 \times 1.85 = \$925$

Employee E:  $\$5,275 / 10.55 \times 1.00 = \$500$

Group total = \$5,275

### **Recalculation of Average Monthly Premiums**

Employees are hired and leave employment and employees may also qualify for special enrollment periods due to various life events. The method above determines an employee's monthly premium based on a census of employees and their covered dependents at the time the group's policy is issued. The average monthly premium of each of the tiers must remain in effect throughout the entire policy period and may not increase or decrease to reflect changes in the small group's census. The average monthly premium must be recalculated annually, based on the census at the time the policy is rated.

### **Tobacco Factors**

Family composite premiums do not include a tobacco use factor. If the premium includes a tobacco use factor, it must be applied to the specific individual and is applied to the premium that person contributes to the aggregate premium. The monthly premium then includes the additional premium.

Questions concerning this guidance document may be directed to the Life & Health Policy Administrator at 402-471-2201.