## Composite Premium Example

The example below illustrates the methodology that could be used when computing composite premiums in the small employer market in Texas for plans issued or renewed on or after November 1, 2015.

Suppose a small employer has 4 employees, whose ages and dependents’ ages are given below:

|  |  |  |  |
| --- | --- | --- | --- |
| **Table 1: Ages of Employees and Dependents** | | | |
| Employee # | Employee | Spouse | Children |
| 1 | 30 |  |  |
| 2 | 28 | 27 |  |
| 3 | 34 |  | 8 |
| 4 | 50 | 45 | 21, 18, 14, 12, 10 |

**Per-Member Premiums**

Suppose that the group’s per-member premiums for a particular insurance plan are as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Table 2: Per-Member Premiums** | | | | |
| Employee # | Employee | Spouse | Children | Total Family Premium |
| 1 | 227 |  |  | 227 |
| 2 | 217 | 210 |  | 427 |
| 3 | 243 |  | 127 | 370 |
| 4 | 357 | 289 | 200, 127, 127, 127, 0\* | 1,227 |

\* Under ACA rating rules, a family is charged for no more than 3 children under 21.

Assuming this group purchases its policy outside the SHOP exchange, the insurer can choose to offer composite premiums as long as it makes this option available to all small groups.

Under the composite methodology approved by CMS, we begin with the sum of all per-member premiums, which is 2,251. Employee 1 (EE only) has a tier factor of 1, Employees 2 (EE+spouse) and 3 (EE+child) each have a tier factor of 2, and Employee 4 (EE+family) has a tier factor of 3. The sum of the factors is 1 + 2 + 2 + 3 = 8. The resulting EE only rate is 2,251 / 8 = 281.38. The EE+spouse and EE+child rates are 2 times that amount, and the EE+family rate is 3 times the EE only amount.

The table below shows a comparison of premiums for each employee under the per-member and composite methods. As shown in the bottom row, each method results in the same total premium for the group.

|  |  |  |
| --- | --- | --- |
| **Table 3: Comparison of Per-Member and Composite Premiums by Family** | | |
| Employee # | Per-Member Premiums | Composite Premiums |
| 1 | 227 | 281 |
| 2 | 427 | 563 |
| 3 | 370 | 563 |
| 4 | 1,227 | 844 |
| Total | 2,251 | 2,251 |