



Texas Department of Insurance

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January 21, 2015

Doug Pennington
Centers for Medicare and Medicaid Services
7500 Security Blvd, Mail Stop C2-21-15
Baltimore, MD 21244-1850

RE: Texas Request for Alternative Composite Premium Methodology

Dear Mr. Pennington:

The final March 11, 2014, "HHS Notice of Benefit and Payment Parameters for 2015" outlines the requirements for composite premiums for small employers under the Affordable Care Act (ACA). The notice described a 2-tier composite methodology. Alternatively, it also allowed states to propose another composite methodology for use in that state.

Texas is proposing a 4-tier composite methodology effective January 1, 2016. A 4-tier composite methodology would be consistent with practices that are common in the large group market. By allowing a similar approach in the small group market, Texas would have more consistent rating across the entire group market.

This document presents the 4-tier composite methodology proposed for Texas. The methodology will apply to small employer plans offered outside the SHOP exchange. Small employer plans offered through the SHOP exchange are subject to employee choice and must use per-member premium rating.

As required by 45 CFR §147.102(c)(1) and (3), a small group's total composite premium must equal the sum of the per-member premiums for all covered employees and dependents. In addition, once the composite premiums are computed at the beginning of the plan year, they must not vary during the plan year, regardless of any census changes within the group. The insurer can choose to offer composite premiums under the proposed 4-tier methodology as long as it makes the same option available to all small groups.

Proposed 4-Tier Methodology

Once the group's per-member premiums are determined, the sum is then allocated to covered employees based on the tier factor applicable to each employee's family composition. Below are the tiers and associated factors in the proposed Texas methodology:

Tier	Factor
Employee Only	1.0
Employee + Spouse	2.0
Employee + Children	2.0
Employee + Family	3.0

Rating for Tobacco Use

The "HHS Notice of Benefit and Payment Parameters for 2015" says that "any rating for tobacco use cannot be included in the composite premium for all enrollees but instead must be applied on a per-member basis." However, Texas law requires that any load for tobacco use be spread evenly across members within the group. Therefore, current state and federal law will result in tobacco use not being a rating factor in the small employer market in Texas.

Adjusting for Final Enrollment

When group premiums are computed on a composite basis, some employees might have to pay more for group coverage compared to a plan purchased individually through the market. If those employees opt out of group coverage, the composite premiums would no longer be consistent with the group plan enrollment. In order to ensure fairness and consistency in the market, carriers can recalculate composite premiums based on final enrollment figures for the plan.

Please let me know if additional details are needed to approve the use of the proposed 4-tier composite methodology in Texas.

Sincerely,



David C. Mattax
Commissioner of Insurance