Group Rating Practices

As explained below, methodologies and practices will vary based on the group’s plan type and whether the group is grandfathered.

Fully Insured Plans

1. Metal plans that conform to ACA actuarial value requirements (platinum, gold, silver, bronze)

*General Information:* Rates for metal plans are derived from a BCBSAZ single risk pool for small employers (community) rates.

Community rates are developed from the claims experience of all insured groups within that single risk pool. The pool claims experience is used to develop a medical base rate, which is then adjusted to reflect each of the benefit plan designs offered to groups within the pool.

*New groups:* A new group’s medical rates are developed using the eligible enrolling population, on the group’s original effective date. The enrolling population’s age-distribution is applied to BCBSAZ’s medical base rates. The resulting rates are then adjusted based on the information provided by the group, its participants/employees, or other sources. “Participant” means the individual who is eligible for enrollment in the plan due to his or her affiliation with the group, and is most commonly the employee of an employer who is sponsoring the group health plan.

*Renewing groups:* A group’s renewal rates are developed using the group’s enrolled population prior to the group anniversary date. The corresponding age distribution is applied to BCBSAZ medical base rates. The resulting age rates are then adjusted based on the information previously provided by the group, its participants/employees, or other sources.

*General Factors that Impact Rates – New and Renewing Groups*

Rating factors include:

- **Age –**

  For those 21 and older, rates for like individuals of a different age may not vary by more than 3:1. This is based on an individual’s age at policy issuance or renewal.

  The following uniform age bands apply:

  - Child Bands: A single band for individuals age 0 through 14 then one year age bands for individuals age 15 through 20
  - Adult Bands: A single band for individuals age 21 through 24 and then one year age bands for individuals age 25 through 63
  - Older Adult Bands: A single age band for individuals age 64 and older
• Family Composition:

The total premium for family coverage is determined by adding the premiums for each individual family member with premiums for no more than the three oldest covered children under 21.

• Geographic area:

The geographic area is based on the location of the group according to the 7 areas determined by the federal government:

• Employer-defined eligibility criteria
• Broker commissions (see further explanation below)

• 4-Tier Composite Rating Tier Factors
  o Employee 1.0
  o Employee + Spouse 2.0
  o Employee + Children 1.95
  o Employee + Family 3.3

• All Arizona small group insurers must calculate the group’s premium on a per-member basis (up to and including, but no more than, 3 children under age 21 per family) and ensure that the sum of the 4-tiered composite premium equals the group’s per-member aggregate premium.

• Tiered composite premiums must be set at the beginning of the plan year and not changed during the year, even if the distribution of employees among the tier levels changes. That is, the average monthly premium for each tier must remain in effect throughout the policy period, and may not increase or decrease to reflect changes in the small group’s census. The one exception to this is when the initial premium at the beginning of the plan year is calculated for bids. BCBSAZ will not re-rate small employer groups who have a slight variance of +/- 5% between the bid rate and the final rate. When the variance exceeds this +/-5%, BCBSAZ will re-rate according to the final enrolled census. This rate will then be in effect for the policy period. The average monthly premium will be recalculated annually at renewal, based on the census at the time the policy is rated.

Impact of Broker Commissions: BCBSAZ sells its insurance and other health and dental coverage products directly or through licensed insurance brokers, some of whom are BCBSAZ employees. Generally, BCBSAZ pays commissions and/or other incentives to selling brokers, and includes this cost as a factor in calculating premiums. For groups with 1-50 eligible employees, BCBSAZ does not calculate premiums differently based on whether a product is sold by a broker or sold by BCBSAZ directly.

Rate changes: BCBSAZ may change rates when any one of the following occurs: a plan’s anniversary date; if the government imposes a new tax or fee on group health plans or insurers, or requires coverage of additional benefits; and after giving the group a sixty (60) day written notice. Any changes will be in accordance with the rating policies described above.

2. Fully insured non-metal standard plans developed independently of ACA actuarial value requirements

General Information: Rates for non-metal standard plans (non-customized) are based on BCBSAZ pool (community) rates. “Participant” means the individual who is eligible for enrollment in the plan due to his or her affiliation with the group, and is most commonly the employee of an employer who is sponsoring the group health plan.

Pool rates are developed from the claims experience of all insured groups with standard plans. The pool claims experience is used to develop a medical base rate, which is then adjusted to reflect each of the benefit plan designs offered to groups within the pool.
New groups: A new group’s medical rates are developed using the eligible enrolling population on the group’s selected effective date. The enrolling population’s age/gender distribution is applied to BCBSAZ’s medical base rates. The resulting rates are then adjusted based on the information provided by the group, its participants/employees, or other sources.

Renewing groups: A group’s renewal rates are developed using the group’s enrolled population prior to the group anniversary date. The corresponding age/gender distribution is applied to BCBSAZ medical base rates. The resulting age/gender rates are then adjusted based on the information previously provided by the group, its participants/employees or other sources. The final renewal rates may include further adjustment(s) based on group specific claims experience or newly emerging medical conditions.

General Factors that Impact Rates – New and Renewing Groups: Rating factors may include but are not limited to:

- Industry
- Geographic area - The geographic area is based on the location of the participant for each Arizona county and State (if outside Arizona).
- Group size
- COBRA participation (if applicable)
- Employer-defined eligibility criteria
- Health status of the group and its individual members (see further explanation below)
- Duration of coverage (applicable to renewing groups)
- Broker commissions (see further explanation below)

Impact of claims experience and health status on grandfathered groups with 2-50 eligible employees/participants; compliance with A.R.S. § 20-2311(C):

New Groups: Rates may be adjusted based on the group’s health status (actual or expected variation in claims costs or health conditions). This factor may cause the rate to be above or below the established index rate by no more than 60%. The index rate means the arithmetic average of the lowest premium rate and the corresponding highest premium rate for groups with the same case characteristics, effective date, and benefit plan.

Renewing groups: The maximum annual increase attributable to a group’s health experience or duration of coverage will not exceed 15%. This may not represent the total amount of the renewal rate action because rate renewal can also reflect changes to base rates due, for example, to general claims and medical trends.

Impact of Broker Commissions: BCBSAZ sells its insurance and other health and dental coverage products either directly or through licensed insurance brokers, some of whom are BCBSAZ employees. Generally, BCBSAZ pays commissions and/or other incentives to selling brokers, and includes this cost as a factor in calculating premiums. For groups with 2-50 eligible employees/participants, BCBSAZ does not calculate premiums differently based on whether a product is sold by a broker or sold by BCBSAZ directly. For groups with 51 or more eligible employees/participants, BCBSAZ adjusts premiums to reflect actual commissions paid for the group if the commission payment varies from BCBSAZ’s standard commission schedule.

Rate changes: BCBSAZ may change rates when any one of the following occurs: a plan’s anniversary date; prior to the anniversary date if the enrolled membership changes by more than 10%; during the policy period if the employer changes contribution levels or eligibility requirements; if the government imposes a new tax or fee on group health plans or insurers, or requires coverage of additional benefits; and after giving the group a sixty (60) day written notice. Any changes will be in accordance with the rating policies described above.

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1A new group may purchase a non-grandfathered non-metal plan only if the group is considered large for purposes of the ACA.
3. Fully insured metal plans rated like non-metal plans

In certain circumstances, a metal plan will be rated in the manner described in the non-metal section above. This will occur only when the group:

- Offered its employees a BCBSAZ metal plan during the previous year.
- Is considered, at renewal, a large group for purposes of both the ACA and Arizona law.
- Wishes to renew the same metal plan it offered during the previous year.

Self-Funded Plans

4. Balanced Funding

Groups that are 5+ enrolled have an opportunity to purchase a Balanced Funding product, which is a self-funded arrangement. For Balanced Funding products, BCBSAZ develops a fixed monthly amount that includes the expected cost of administrative services, stop-loss insurance and claims. Groups may earn money back in the subsequent renewal year if claims are lower than expected.