



**INFORMATIONAL MEMORANDUM  
OIR-14-05M  
ISSUED**

**August 26, 2014**

Florida Office of Insurance Regulation  
**Kevin M. McCarty, Commissioner**

**FAMILY TIER RATING FOR SMALL GROUP PRODUCTS  
IN FLORIDA**

*The purpose of this memorandum is to notify insurers of the approval of “an alternative rating methodology” by the Department of Health and Human Services (HHS) under 45 CFR 147.102 that allows family tiers in the composite rating for major medical small group products sold in Florida. This alternative methodology is optional for carriers operating in Florida’s small group market.*

This alternative approved by HHS, outlined above, complies with Florida laws and rules. Specifically, Sections 627.6699(6)(b)2, 627.6562, and 641.31(41), Florida Statutes, and Rule 69O-149.037(4)(a)2., Florida Administrative Code, allow companies to determine rating factors based on family composition. However, this methodology is more restrictive than what was previously allowed under Florida law prior to the advent of the Affordable Care Act.

**Family Composite Premiums**

The following paragraphs outline the methodology for developing aggregate small group premiums and allocating these premiums to covered employees and their dependent(s).

**A) Development of Aggregate Small Group Premiums**

For each covered employee and his/her covered dependent(s), the premium must be determined as follows:

For each covered adult age 21 or older: Calculate the rate for each person by multiplying the base rate by the applicable age and geographic area factors. A tobacco use factor must not be applied at this time.

For each covered child age 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. A tobacco use factor must not be applied at this time.

Age and geographic area are determined at the time that coverage is quoted to the group. The small group’s aggregate premium prior to any tobacco use factors is equal to the sum of the premiums determined for each covered employee and his/her covered dependent(s).

## **B) Allocation of Premium to Small Group Members**

Once the small group's aggregate premium has been calculated, it must be allocated to covered employees based on the tier factor applicable to each employee's family composition (e.g., employee only, employee + spouse, employee + children, and employee + family).

Florida will require standard tier definitions and factors for all carriers using a composite premium approach. The standard tier definitions and factors are as follows:

Employee only = 1.00

Employee + spouse = 2.00

Employee + children (including all covered children up to age 30\*) = 1.85

Employee + family (including spouse and all covered children up to age 30\*) = 2.85

\*Under Florida law, some children can be covered in a family policy up to age 30 if certain criteria are met under Section 627.6562, Florida Statutes.

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

The formula to determine the final premium for each employee is as follows:

## **C) Final employee premium**

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

For example, consider the following group of employees:

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 as follows:

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 x 2.85 + 1 x 2.00 + 1 x 1.85 + 1.00 = 10.55

To calculate 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. Continuing with the example above, and assuming the total monthly premium for the group is \$5,275, each employee's monthly premium is calculated as follows:

Employee A: \$5,275 / 10.55 x 2.85	= \$1,425
Employee B: \$5,275 / 10.55 x 2.00	= \$1,000
Employee C: \$5,275 / 10.55 x 2.85	= \$1,425
Employee D: \$5,275 / 10.55 x 1.85	= \$925
Employee E: \$5,275 / 10.55 x 1.00	= \$500
Group total	= \$5,275

#### **D) Recalculation of Average Monthly Premiums**

Throughout a small group's policy period, employees may come and go and employees may qualify for special enrollment periods due to various life events. The methodology described above determines an employee's monthly premium based on a census of employees and their covered dependent(s) at the time the group's policy is issued. The average monthly premium for 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.

#### **E) Application of Tobacco Use Factors**

The family composite premiums do not include a tobacco use factor. If a tobacco use factor is used, it must be applied to the specific individual, and is applied to the premium that individual contributed to the aggregate premium, (as calculated in section A). This additional premium is then added to the monthly premium for that individual based upon the tier allocation.

For example, assume the spouse of employee C had premium of \$600 contributing to the aggregate \$5,275, is a tobacco user, and the carrier has a tobacco use factor of 50%. The total premium for employee C and family would be \$1,425 plus \$300, (\$600 \* 50%), for a total of \$1,725. Application of any tobacco use factor is subject to all requirements of federal regulation.

#### **Alternative to Family Composite Rating**

A carrier may choose not to provide family composite premiums, but instead use the methodology outline in 45 CFR 147.102. If a carrier does offer this family composite approach, it must make it available for all small employers in the market. According to federal rules, the only method available to a carrier that uses a family composite premium approach is the method described above. This is effective for policy years beginning on or after January 1, 2015.

**Questions concerning this memorandum may be directed to:**

Eric Johnson      Deputy Director for Rates L&H Product Review  
850-413-5059      [eric.johnson@flor.com](mailto:eric.johnson@flor.com)

Jack McDermott    Director L&H Product Review  
850-413-5110      [jack.mcdermott@flor.com](mailto:jack.mcdermott@flor.com)

Rich Robleto      Deputy Commissioner for Life & Health  
850-413-5104      [rich.robleto@flor.com](mailto:rich.robleto@flor.com)