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BULLETIN NO. 2014-01

TO: Insurers Writing Small Group Health Insurance in Alabama

FROM: Jim L. Ridling
Commissioner of Insurance 

DATE: April 17, 2014

RE: Clarification of Regulation 482-1-116
Alabama Small Employer Allocation Program

EFFECTIVE: Immediate

Regulation 482-1-116 provides requirements for carriers offering small group insurance in Alabama. Beginning in 2014 certain rating rules have been implemented by the United States Department of Health and Human Services. Guidance is being provided to companies on two issues that arise due to this dual regulation.

Age Brackets

Ala. Code Section 27-52-21 (a) states the Commissioner of Insurance shall establish conditions consistent with federal regulation and patterned after NAIC models to implement the Alabama Small Allocation Program. Regulation 482-1-116-.05 (a) (2) adopts language from an earlier NAIC model that says age brackets smaller than five-year increments may not be used. This five-year age bracket limitation is being waived for those carriers that wish to use single age brackets as required by federal rules.

Family Composite Premiums

Regulation 482-1-116 allows for the use of family composite premiums in the small group market. The use of family composite premiums has been well established in the market place. The use of family composite premiums reduces

administrative burdens for both carriers and small group employers and further it reduces premium instability for employers and employees.

Two approved methods are described in and authorized by this bulletin, Method A and Method B. A carrier may use either method, or may file for approval of an alternative method to provide family composite premiums. Alternatively, a carrier may choose to not provide family composite premiums, instead using the filed member level rates, summing the premiums for all members in a small group.

Method A is defined as a two tiered approach whereby each adult is charged one premium and each child under age 21 (up to three per family unit) is charged a second premium. The Adult premium is determined by summing the rates for each adult in the group and dividing the sum by the number of adults in the group. The Child premium is the rate for 0-20 age band. These two premiums shall not change due to any change in enrollment until the next renewal date. This calculation is illustrated in the example at the end of this bulletin.

Method B is defined as a four tiered approach whereby each employee without dependents is charged one premium, each employee with any number of adult dependents is charged a second premium, each employee with any number of child dependents, all under age 21, is charged a third premium, and each employee with both adult and child dependents is charged a fourth premium. The Employee only premium is determined by summing the rates for each employee and dividing by the number of employees in the group. The Employee plus Adult dependent premium is determined by adding to the Employee only premium the result of the sum of all adult dependent rates divided by the number of employees having an adult dependent. The Employee plus Children dependent premium is determined by adding to the Employee only premium the result of the rate for the 0 to 20 age band times the quotient of the number of children under age 21, (counting only three in a family with more than three children under 21), divided by the number of employees with child dependents. The Employee plus Adult dependent and Children dependent premium is determined by summing the two quantities, a) Employee plus Adult dependent premium and b) Employee plus Children dependent premium, and then subtracting the Employee only premium. These calculations are also illustrated in the example at the end of this bulletin.

Limitations and Requirements

If a carrier uses a family composite method for a product in a market, the carrier must offer the method to all employers within the market for that product. The tiered composite premiums shall not change due to any change in enrollment until the

next renewal date. If all tiers are not represented by the initial census of employees, any such tier not represented shall be established at the beginning of the policy year using a process the carrier shall have filed with the Department. If a carrier is using tobacco adjustment factors, they shall not be incorporated into the composite premiums, but rather shall be applied to each individual employee's tier as appropriate.

Questions concerning this bulletin may be directed to:

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Example Composite Premium Calculations

This small group is composed of twenty employees, of whom five have no dependents, five have only adult dependents, five have only children dependents, and five have both adult dependents and children dependents. Columns 7, 8, and 9 of the table provide the premium to be billed to a group with this census under the three methods. Column 7 is derived as the sum of columns 4, 5, and 6 for each employee. Column 8 is derived by summing the adult average premium for each adult in a family plus the children premium (160) for each child up to three in the family. The adult average premium is equal to the totals of columns 4 and 5 divided by the total number of adults in column 1, $((9,184 + 4,460) / 34 = 401)$. Column 9 is derived by summing the average employee premium plus the average adult dependent premium for each adult dependent in a family plus the average children premium if children are present. The average employee premium is the total of column 4 divided by the number of employees, $(9,180 / 20 = 459)$. The average adult dependent premium is the total of column 5 divided by the number of employees that have an adult dependent, $(4,460 / 10 = 446)$. The average children premium is the total of column 6 divided by the number of employees that have children, $(2,560 / 10 = 256)$.

1	2	3	4	5	6	7	8	9
Employee	Number of Adults	Number of Children	Employee Premiums	Adult Dependent Premiums	Children Dependent Premiums	Member Level Premiums	Method A Composite Premiums	Method B Composite Premiums
A	1	0	276			276	401	459
B	1	0	508			508	401	459
C	1	0	765			765	401	459
D	1	0	420			420	401	459
E	1	0	577			577	401	459
F	2	0	315	276		591	802	905
G	2	0	441	252		693	802	905
H	2	0	545	497		1042	802	905
I	3	0	495	705		1200	1,204	905
J	2	0	356	276		632	802	905
K	1	1	302		160	462	561	715
L	1	1	404		160	564	561	715
M	1	1	454		160	614	561	715
N	1	7	553		480	1033	881	715
O	1	2	451		320	771	721	715
P	2	1	398	288	160	846	962	1,161
Q	3	1	649	601	160	1410	1,364	1,161
R	2	6	447	340	480	1267	1,282	1,161
S	4	2	461	941	320	1722	1,925	1,161
T	2	1	363	284	160	807	962	1,161
TOTAL	34	23	9,180	4,460	2,560	16,200	16,200	16,200

Total of column 8 is not equal to the sum of the individual premiums due to rounding.

JLR/JFM/bc