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BULLETIN NO. 2014-03

TO: Insurers Writing Small Group Health Insurance in Alabama

FROM: Jim L. Ridling
Commissioner of Insurance 

DATE: July 28, 2014

RE: Modification to Alabama Bulletin 2014-01
Alabama Small Employer Allocation Program

EFFECTIVE: Immediate

RELATED: Bulletin 2014-01 (April 17, 2014)

This Bulletin supersedes Department of Insurance Bulletin 2014-01 (April 15, 2014) relating to Regulation 482-1-116 for policy years beginning on or after January 1, 2015. As noted in that Bulletin, beginning in 2014 certain rating rules have been implemented by the United States Department of Health and Human Services. This Bulletin repeats the guidance provided in Bulletin 2014-01 for Age Brackets, and provides additional guidance for Family Composite Premiums for policy years beginning on and after January 1, 2015. **Guidance provided by Bulletin 2014-01 relative to Family Composite Premiums is effective only for policy years beginning in 2014.**

Age Brackets

Ala. Code § 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.

A carrier may choose not to provide family composite premiums, instead using the filed member level rates, summing the premiums for all members in a small group. If a carrier does offer this family composite approach in a market, it must make it available for each small employer in the market. The only method available to a carrier that uses a family composite premium approach is the method described below. The authorization of only one method is a revision to the approach described in Bulletin 2014-1 and is effective for policy years beginning on or after January 1, 2015.

The following paragraphs outline the required 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 issued 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 back 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). Alabama 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 26) = 1.85
- Employee + family (including spouse and all covered children up to age 26) = 2.85

Note that all children under age 26 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 = $2 \times 2.85 + 1 \times 2.00 + 1 \times 1.85 + 1.00 = 10.55$

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 the tier premiums at the time the group's policy is issued. The 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 monthly tier premiums must be recalculated annually, with the tier premiums at the time the policy is renewed remaining constant for that policy year.

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.

Questions concerning this bulletin may be directed to:

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