

## **Arkansas Small Group Major Medical Family Composite Rating**

The use of family composite premiums has been a well-established industry practice and can serve to reduce administrative burdens for both carriers and small group employers and premium instability for employers and employees.

Issuers are not required to provide family composite premiums, but if the issuer does offer this approach, it must be made available for each small employer in the market.

### Aggregate Small Group Premiums

The premium must be determined for each covered employee and his or her covered dependent(s) in the following manner. A tobacco use factor must not be applied at this time.

Adult age 21 or older – Calculate the rate for each person by multiplying the base rate by the applicable age and geographic area factors.

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.

Age and geographic area are determined at the time 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).

### Allocation of Premium to Small Group Members

Aggregate premium must be allocated back to the 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. The Department requires standard tier definitions and factors for all carriers using a composite premium approach. The standard tier definitions and factors are:

Employee only = 1.00

Employee + spouse = 2.00

Employee + children (all children under 26) = 1.85

Employee + family (spouse and all children under 26) = 2.95

### Final Employee Premium

Final employee premium = [group aggregate premium] / [weighted employee count] x [employee's tier factor]

For example, using applicable tier factors and family composition of each employee, the tier-factor weighted employee count is calculated as follows:

Employee A: Employee + spouse + 2 children = Employee + family = 2.85

Employee B: Employee + spouse = 2.00

Employee C: Employee + spouse + 3 children = Employee + family = 2.85  
Employee D: Employee + 4 children = 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 above example and assuming the total monthly premium for the group is \$5,275, each employee's monthly premium is calculated as follows:

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

#### Recalculation of Average Monthly Premiums

Throughout a small group's policy period, employees may be added or dropped and employees may qualify for special enrollment periods due to various life events. The methodology described above determines an employee's monthly premium base 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.

#### Application of Tobacco Use Factors

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 the individual contributed to the aggregate premium (as calculated in the Aggregate Small Group Premiums section). This additional premium is then added to the monthly premium for that individual based upon the tier allocation.

Example:

If Employee C is a tobacco user and had premium of \$600 contributing to the aggregate \$5,275 and the carrier has a tobacco use factor of 50%, then

Employee C and family =  $\$1,425 + \$300$  (50% of \$600) = \$1,725

Application of any tobacco use factor is subject to all federal requirements.