



# INSURANCE DIVISION

## MEMORANDUM

Date: December 22, 2015

To: All Interested Stakeholders

From: Oregon Insurance Division

Subject: Recommendation for Oregon's Small Group Rating Methodology for Health Benefit Plans Issued on or after January 1, 2017

### **Introduction**

For the last several years, Oregon has used a unique composite rating methodology approved by the Centers for Medicaid and Medicare Services. However, as part of current health reform rulemaking, as well as changes being contemplated by the Oregon Health Insurance Marketplace (OHIM) for the small employer health plans, the Insurance Division is revisiting the methodology for rating small groups. Furthermore, Oregon relies on the Federally-facilitated Marketplace IT platform, which may present limitations in supporting a composite rating methodology. Ultimately, small employer health plans have the option to maintain composite rating for outside the Small Business Health Options Program (SHOP) Marketplace, move the entire small group market to list bill, or permit list bill rating in the SHOP and maintain composite rating outside the SHOP.

At the Healthcare Reform Rulemaking Advisory Committee (HRRAC) meeting on October 26, 2015, the committee discussed Oregon's methodology for small group rating. The HRRAC referred this issue for review, comment and recommendation to the health insurance industry's actuarial technical advisory group (TAG). On November 13, the TAG discussed the options for small group rating in Oregon.

### **Purpose**

This memorandum synthesizes recommendations made by the TAG in November, to the HRRAC regarding the rating methodology for small employer health plans beginning in 2017. Also incorporated into the TAG's recommendations were comments received by carriers both before and after the TAG meeting as of Friday, November 20. Lastly, comments provided by OHIM were also considered.

### **Recommendation**

The Insurance Division recommends that for the time being, [tiered composite rating](#) continue to be used as the rating methodology for the small group market.

## Rationale

There are several factors influencing this recommendation, they are outlined as follows:

- **Uniform rating in the small group market.** ORS 743.737(8)(b)(C) requires premium rates established by carriers for a small employer health benefit plans to apply uniformly to all employees of the small employer enrolled in that plan.
- **Consistent rating across markets.** Because tiered-composite rating is widely used in the large group market, the use of tiered-composite rating in the small group market ensures consistent practices across the entire group market.
- **Oregon carriers' preferences are near evenly split.** While members at the November TAG meeting could not reach consensus on an official recommendation, there was broad understanding of the following key points:
  - Groups like what they know, and they are all on composite rating today. When given the choice to go to list bill, they don't.
  - Exchanges across the country failed to implement composite rating. There is significant concern that the "Composite Rating" option is a "non-starter."
  - Small employer exchanges have not proven to be that popular. It is more important to get the off-exchange decision right.
- **The federally facilitated SHOP (FF SHOP) does not support tiered-composite rating or premium redistribution.** Based on comments received from Oregon's Health Insurance Marketplace, "...the FF SHOP will not be a viable alternative for the Marketplace's SHOP [if composite rating is retained]. Although private SHOP vendors are capable of supporting tiered-composite rating, they charge a premium for doing so, making the SHOP platform more expensive than it otherwise would be. We believe the additional cost could be substantial. Ultimately, this cost would be borne by the consumer. Finally, retaining tiered-composite rating may limit Oregon's exchange platform options."
- **Broader stakeholder engagement is needed.** While the issue of determining a small group rating methodology applicable both on and off the exchange (Marketplace SHOP) has been open for discussion for several months in a number of public forums, limited feedback by stakeholders such as businesses, producers (agents), and consumers has been provided. This may be due to the technical nature of the issue or stakeholders' contentment with the current practice.