COMMONWEALTH OF MASSACHUSETTS

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HEALTH COVERAGE
POLICY FILING GUIDANCE 2011-C

To: Carriers Offering or Renewing Small Group Health Insurance Coverage in Massachusetts

From: Kevin Patrick Beagan, Deputy Commissioner, Health Care Access Bureau

Date: September 8, 2011

Re: Small Group Health Insurance Rate Filings – Medical Loss Ratio

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The purpose of this Policy Filing Guidance is to inform carriers submitting small group health insurance rate filing materials under 211 CMR 66.00 of the Division of Insurance's (the "Division") expectations regarding calculations to be used for the medical loss ratio.

Calculation of Medical Loss Ratio

Carriers are required to include the "projected medical loss ratios for the one year period during which rates will be in effect" in all small group health insurance rate filings, according to 211 CMR 66.09(3)(j). As noted in 211 CMR 66.09(4)(c)3., "[g]roup base premium rates will be presumptively disapproved as excessive if the rate filing's projected aggregate medical loss ratio for all plans offered in the individual-small employer market is less than the Minimum Medical Loss Ratio".

The Division promulgated 211 CMR 147.00, *Methodology for Calculating and Reporting Medical Loss Ratios (MLRs) of Health Benefit Plans*, in 2010 in order to standardize the calculation and reporting of actual MLRs annually to the Division based on information included in the annual financial reports. 211 CMR 147.00 intentionally draws upon national standards for the calculation of such MLRs in order to allow for the standardization of reported information for carriers.

Upon a review of the small group health insurance rate filings submitted on July 1, 2011 for rates effective October 1, 2011, the Division has identified the need for clarification related to the reporting of MLR in a small group health insurance rate filing submitted pursuant to 211 CMR 66.00. The calculation of projected MLRs as included in the small group health insurance rate filing should initially be based upon the criteria in 211 CMR 147.00, but because that regulation applies to the reporting of actual MLRs, it is necessary for carriers to apply certain rules identified in this guidance for the calculation of projected MLR figures that apply to the "one year period during which rates will be in effect" as instructed in 211 CMR 66.00.

In order to standardize the submission of these calculations in small group health insurance rate filings, the Health Care Access Bureau requests that carriers use the following steps to derive the projected MLR:

1) The starting point for calculating the projected premium for the projected MLR calculation will be the requested premium per member per month (PMPM) charges for each plan being offered by the licensed carrier.
2) The carrier must then calculate aggregate projected premium rate PMPM across all of the carrier's plans included in the small group health insurance rate filing by weighting each plan's premium PMPM by the proportion of total projected membermonths enrolled within each benefit plan during the rate year (regardless of the date that members may be renewing membership).

EXAMPLE: A carrier has three plans and is submitting a filing for rates effective January 1, February 1, and March 1. The plans have the following projected PMPM and projected membermonths:

January 1 Plans	 Premium Rate PMPM	Projected membermonths during Jan 1-Dec 31rating year for all groups/ individuals regardless of renewal month
Plan 1	$100	20,000
Plan 2	$150	30,000
Plan 3	$200	40,000

February 1 Plans	 Premium Rate PMPM	Projected membermonths during Feb 1-Jan 31rating year for all groups/ individuals regardless of renewal month
Plan 1	$101	19,000
Plan 2	$151	28,000
Plan 3	$201	37,000

March 1 Plans	 Premium Rate PMPM	Projected membermonths during Mar 1-Feb 28rating year for all groups/ individuals regardless of renewal month
Plan 1	$102	18,000
Plan 2	$152	27,000
Plan 3	$202	36,000
Total All Months		255,000

This assumes a different distribution of membermonths affecting the January 1, February 1 and March 1 rating years. A carrier may assume within its filing that the distribution of membermonths for each of the rating years is the same.

Weighted aggregate PMPM premium rate = $161.95 =
[$100 x (20,000/255,000)] + [$150 x (30,000/255,000)] + [$200 x (40,000/255,000)]
+ [$101 x (19,000/255,000)] + [$151 x (28,000/255,000)] + [$201 x (37,000/255,000)]
+ [$102 x (18,000/255,000)] + [$152 x (27,000/255,000)] + [$202 x (36,000/255,000)]

3) Calculate an **adjusted weighted aggregate projected PMPM premium rate** by subtracting projected federal/state taxes and projected licensing and regulatory fees from the weighted aggregate PMPM premium revenue, as permitted by 211 CMR 147.00.

4) Calculate **projected PMPM claims cost** for the rate year for each of the plans included in the rate filing for each month that new rates are proposed in the filing.

5) Calculate a **weighted projected PMPM claims cost** across all of the carrier's plans included in the rate filing by using the same methodology described for revenue projection above.

6) Calculate an **adjusted projected PMPM claims cost** for the rate year by adding projected expenses to improve health care quality, as permitted under 211 CMR 147.00.

7) Calculate the **projected aggregate MLR** by dividing the adjusted projected PMPM claims cost for the rate year by the adjusted weighted aggregate projected PMPM premium rate.

8) Modify the **projected aggregate MLR** by the credibility adjustment factor permitted in 211 CMR 147.00.

The **calculated projected aggregate MLR** will be the figure used to test for compliance with the regulatory standard required under 211 CMR 66.09(4)(c)3.

<u>Medical Loss Ratio Standard for Rates Effective January 1, 2012</u>

This guidance also reminds filers that, as identified in 211 CMR 66.09(1)(k), the Minimum Medical Loss Ratio for small group health insurance is 90% for coverage issued or renewed through September 30, 2012.

If you have any questions regarding this Policy Filing Guidance, please contact Chet Lewandowski, Health Care Access Bureau Actuary, at (617) 521-7347.