



COMMONWEALTH OF MASSACHUSETTS
Office of Consumer Affairs and Business Regulation
DIVISION OF INSURANCE

1000 Washington Street, Suite 810 • Boston, MA 02118-6200
(617) 521-7794 • <http://www.mass.gov/doi>

DEVAL L. PATRICK
GOVERNOR

TIMOTHY P. MURRAY
LIEUTENANT GOVERNOR

GREGORY BIALECKI
SECRETARY OF HOUSING AND
ECONOMIC DEVELOPMENT

BARBARA ANTHONY
UNDERSECRETARY OF CONSUMER AFFAIRS
AND BUSINESS REGULATION

JOSEPH G. MURPHY
COMMISSIONER OF INSURANCE

HEALTH COVERAGE
POLICY FILING GUIDANCE 2012-A

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

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

Date: February 17, 2012

Re: Responses to Group Purchasing Cooperative Requests for Proposals and Calculation of Group Purchasing Cooperative Rate Adjustment Factors

The purpose of this Policy Filing Guidance is to inform carriers of the Division of Insurance's (the "Division") expectations regarding responses to Group Purchasing Cooperatives the calculation of group purchasing cooperative rate adjustment factors.

Response to Group Purchasing Cooperative Requests for Proposals

As noted in 211 CMR 151.16, health insurance carriers with 5,000 or more persons covered through the merged small group/nongroup market at the end of the previous calendar year are annually required to "file a Health Benefit Plan and accompanying rates according to the Health Benefit Plan specification developed by a certified Group Purchasing Cooperative for the Group Purchasing Cooperatives's consideration, if said certified Group Purchasing Cooperative requests such Health Benefit Plan proposals for its next plan year."

The Division has notified certified Group Purchasing Cooperatives that they should contact the Division at least 30 days prior to contacting carriers to make formal requests for such Health Benefit Plan proposals. The Division believes that such notice ensures that the Division will be aware of the general requirements and timeframes that carriers are expected to meet, and enables the Division to appropriately monitor the process.

When responding to Group Purchasing Cooperative requests, the Division expects that health insurance carriers meet all reasonable response timeframes and documentation that are part of Group Purchasing Cooperative requests.

The Division will notify Group Purchasing Cooperatives that it considers a sixty-day period for responding to any such requests a reasonable period to produce what may be included in the request. Such notice shall also advise such Group Purchasing Cooperatives that its requests must be consistent with existing Division laws, regulations, bulletins and policies.

Filings of Group Purchasing Cooperative Rate Adjustment Factor

As noted in 211 CMR 66.08, “[p]remiums charged to eligible small groups within a group purchasing cooperative will be based on premiums available outside of all cooperatives, adjusted by that group purchasing cooperative’s specific group purchasing cooperative adjustment factor.” It is further noted in 211 CMR 66.08(2)(f) that

[a] carrier may apply a group purchasing cooperative adjustment factor that is specific to one group purchasing cooperative and based on the actuarially projected different experience of that cooperative’s potential covered members compared to the experience of those eligible individuals and eligible employers who have coverage outside all of the group purchasing cooperatives. Any such group purchasing cooperative adjustment factor must be applied uniformly to the rates of all persons who obtain coverage through that group purchasing cooperative.

In 211 CMR 66.08(2)(f), it is noted that “a carrier shall submit all group purchasing cooperative adjustment factors to the division for review upon request.” This Policy Filing Guidance notifies all carriers that the Division requests that until further notice, carriers forward the group purchasing cooperative adjustment factors that are to be used in a Group Purchasing Cooperative’s first three years of operation to the Division for review *prior* to submission to a Group Purchasing Cooperative. Filings should be submitted to the Division through the SERFF system with each filing noted as “GROUP PURCHASING COOPERATIVE FILING” so that it will be given appropriate review. The Division will respond to all such filings with 10 business days of their submission. If the Division does not respond within the noted 10-day period, the carrier may forward the factor as part of its response to the Group Purchasing Cooperative.

Calculation of Group Purchasing Cooperative Rate Adjustment Factor – Years 1 to 3

In order to standardize the calculation of the group purchasing cooperative adjustment factor, carriers shall use the following formula when making this calculation in the initial three years of the Group Purchasing Cooperative:

- (1) Calculate the projected medical claims cost per member per month for the groups projected to be in the group purchasing cooperative (“prior year cooperative claims cost PMPM”), normalized for applicable, permissible rating factors, for the 12 months prior to the first year of the use of a cooperative rate adjustment factor.
- (2) Calculate the projected medical claims cost per member per month for the groups projected to be in the group purchasing cooperative (“rating year cooperative claims cost PMPM”), normalized for applicable, permissible rating factors, during the 12 months of the rating period, illustrating the projected changes to utilization due to group purchasing cooperative wellness and other programs.

- (3) Derive the ratio of cooperative projected medical claims costs per member per month for the groups projected to be in the group purchasing cooperative by dividing item (2) by item (1).

EXAMPLE:

A carrier projects that the rating year medical claims cost of projected cooperative members in the rating year is 103 as opposed to 100 for the 12 months prior to the first year of the use of a cooperative rate adjustment factor. The ratio of cooperative projected medical claims costs is $103/100=1.0300$.

- (4) Calculate the projected medical claims cost per member per month for the groups projected to be outside all group purchasing cooperatives (“prior year non-cooperative claims cost PMPM”), normalized for applicable, permissible rating factors, for the 12 months prior to the first year of the use of a cooperative rate adjustment factor.
- (5) Calculate the projected medical claims cost per member per month for the groups projected to be outside all group purchasing cooperatives during the 12 months of the rating period (“rating year non-cooperative claims cost PMPM”), normalized for applicable, permissible rating factors, illustrating the projected changes to utilization.
- (6) Determine the ratio of non-cooperative projected medical claims costs per member per month by dividing item (5) by item (4).

EXAMPLE:

A carrier computes that the rating year non-cooperative claims cost PMPM is 120 as opposed to 114 for the 12 months prior to the first year of the use of a cooperative adjustment factor. The ratio of non-cooperative projected medical claims cost PMPM is $120/114=1.0526$.

- (7) Derive the tentative group purchasing cooperative rate adjustment factor by dividing the ratio of the cooperative projected medical claims costs per member per month by the ratio of non-cooperatives projected medical claims costs per member per month, that is by dividing item (3) by item (6).
- (8) If (7) is greater than or equal to 1.00, the group purchasing cooperative rate adjustment is deemed to be 1.00. If (7) is less than 1.00, the group purchasing cooperative rate adjustment factor is equal to (7).

EXAMPLE:

The <u>ratio of cooperative projected medical claims costs</u> is $103/100$	= 1.0300
The <u>ratio of non-cooperative projected medical claims costs</u> is $120/114$	= 1.0526
The group purchasing cooperative rate adjustment factor is $1.0300/1.0526$	= 0.9785.

Calculation of Group Purchasing Cooperative Rate Adjustment Factor – Year 4 and After

In order to standardize the calculation of the group purchasing cooperative adjustment factor, carriers shall use the following formula when making this calculation in the fourth rating year of the group purchasing cooperative:

Calculate: (1) the projected rating year cooperative medical claims cost PMPM, normalized for applicable, permissible rating factors. Calculate (2) the projected rating year non-cooperative medical claims cost PMPM, normalized for applicable, permissible rating factors. Derive the group purchasing cooperative rate adjustment factor by dividing item (1) by item (2).

If the calculation is greater or equal than 1.00, the group purchasing cooperative rate adjustment factor equals 1.00. If the calculation is less than 1.00, the group purchasing cooperative rate adjustment factor is equal to the amount calculation.

EXAMPLE:

A carrier computes the projected medical claims cost per member per month of projected cooperative members in to be is 104. The non-cooperative projected claims costs PMPM is 120. The group purchasing adjustment factor is $104/120=0.8667$.

If you have any questions regarding this Policy Filing Guidance, please contact Chet Lewandowski, Health Care Access Bureau Actuary, at (617) 521-7467..