



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-C

To: Carriers Writing Small Group Health Insurance Coverage

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

Date: May 16, 2012

Re: Small Group Health Insurance Rate Filings – Administrative Expenses

This Policy Filing Guidance provides guidance to inform insurers that write or intend to write health insurance plans subject to M.G.L. c. 176J regarding calculations for administrative expenses when submitting small group health insurance rate filing materials to the Division of Insurance on or after July 1, 2012.

Calculation of Projected Administrative Expenses

When submitting small group health insurance filings, carriers are required to include the “projected increases in administrative expenses per member per month costs that the carrier is using to project administrative expenses forward to the period for which the rates will be effective...[and] trend information should include an explanation for all significant changes in the company’s administrative expenses due to one-time costs, including where changes in administrative expenses may be caused by regulatory requirements or efforts to contain health care delivery costs, an explanation of the projected cost and cost per member per month that can be attributed to each regulatory requirement or effort to contain health care delivery costs and the method that the carrier is using to allocate any companywide expenses to the small group line of business” according to 211 CMR 66.09(3)(h).

The calculated number will be examined, as noted in 211 CMR 66.09(4)(c)3., so that “[g]roup base premium rates will be presumptively disapproved if the filing’s projected administrative expense loading component, not including taxes and assessments, increases by more than the most recent calendar year’s increase in the New England medical CPI.”

The Division would like to clarify that the increase in the administrative expense loading - used in the review according to 211 CMR 66.09(4)(c)3. - is to be based on a comparison between projected aggregated administrative expenses loading component per member per month for the entire rating period for all the plans included within the rate filing and the actual aggregated administrative expense per member per month for the most recently reported calendar year annualized.

In order to standardize these calculations, the Health Care Access Bureau requests that carriers use the following calculation steps to derive the calculation of the increase in the administrative expense loading:

- 1) The starting point is to calculate an adjusted actual administrative expense per member per month (PMPM) by taking the actual administrative expense PMPM for all the plans subject to M.G.L. c. 176J for the most recent calendar year and subtract taxes and assessments PMPM, as well as the expenses to improve health quality that are permitted under 211 CMR 147.00. This calculation may be further adjusted by one-time expenses that are not reflected in the calendar year expenses, provided they are properly explained.
- 2) Calculate a weighted administrative expense loading component across all the carrier's plans included in the rate filing by weighting each plan's administrative expense PMPM by the proportion of total projected membermonths enrolled within each benefit plan during the rate year that are renewing during the months that the filed rates become effective subtract taxes and assessments PMPM, as well as the expenses to improve health quality that are permitted under 211 CMR 147.00.

EXAMPLE: A carrier has three plans and is submitting a filing for rates effective July 1
 The plans have the following projected PMPM and projected member months

Plans	Admin Exp PMPM	Proj mbr mths for groups enrolling July 1	Proj mbr mths during rating year for groups enrolling in any month
Plan 1	\$10	1000	20,000
Plan 2	\$15	2000	30,000
Plan 3	\$20	<u>3000</u>	<u>40,000</u>
		6000	90,000

[You will note the different distribution of member months between those enrolling in the plans on July 1 as compared to those who enroll throughout the year.]

$$\text{Weighted administrative expense loading} = \frac{[\$10 \times (20,000/90,000)] + [\$15 \times (30,000/90,000)] + [\$20 \times (40,000/90,000)]}{90,000} = \$16.11$$

- 3) Calculate the increase amount using the following formula:

$$\text{Annualized increase in the projected administrative expense loading component} = \left[\frac{\text{Weighted Administrative Expense Loading}}{\text{Adjusted Actual Administrative Expense PMPM}} \right]^{12/Y} - 1$$

The exponent Y is the period in months between July 1 of the actual calendar year and the

mid-point of the rating period.

Additional Documentation on Changes to Administrative Expenses

When submitting small group health insurance filings, carriers should include all appropriate information that explains significant changes in the company's actual or projected administrative expenses. These changes may be due to one-time costs, including where changes in administrative expenses may be caused by regulatory requirements or efforts to contain health care delivery costs, or changes in plan membership, plan operations or organizational structure. This documentation will supplement the material that is to be used by the Division in reviewing the submitted administrative expense calculations.

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