FEHB Program Carrier Letter
Community-Rated Carriers

U.S. Office of Personnel Management
Insurance Services Program

Letter No. 2005-11 **Date:** May 17, 2005

Fee-for-service [n/a] Experience-rated HMO [n/a] Community-rated HMO [10]

SUBJECT: Rating Process for Community-Rated Plans

We sent a letter to all plans on February 15 with a list of the proposed SSSG and rate changes that resulted from the December 1, 2004 meeting. We asked for comments from the plans. The following are their responses and the U.S. Office of Personnel Management's (OPM's) subsequent decisions after consideration of the responses.

Provider Partners

Our letter stated the following:

> "Provider partners with employees covered by the carrier are excluded from SSSG consideration if they provide medical services to the carrier **<u>or</u>** have a financial interest or risk sharing arrangement with the carrier. To be defined as having a financial interest the provider partner must share in the profitability of the carrier and not simply conduct business with the carrier."

One carrier thought that a network provider with no other financial interest should be a potential Similarly Sized Subscriber Group (SSSG).

A few carriers thought the word **<u>or</u>** in bold above should be changed to **<u>and</u>** since the above implies that either condition (providing medical services or having a financial interest) would trigger SSSG exclusion. They asked for clarification on this policy.

Some carriers agreed with the statement and thought **<u>or</u>** should remain. They thought this exclusion is important to the continuing innovation by health plans to enhance services and save costs.

There was no consensus that our current policy could be improved. We decided to maintain the current policy with some clarification of the definition. The new section on provider partners will read as follow:

> "Provider Partners- Employee groups with which the carrier shares a financial interest or maintains a risk-sharing arrangement. The mere fact that a carrier conducts business with an employee group does not render it a provider partner.

Separate Lines of Business

Our letter said the following:

Groups covered under a separate line of business of a **parent company** that offers an FEHBP product are excluded from consideration as an SSSG. To be considered a separate line of business all of the following criteria must be satisfied:

- It must be a separate organizational unit, such as a division or **subsidiary**,
- It must have separate financial accountability with "books and records that provide separate revenue and expense information that is used for internal planning and control,"
- It must have a separate work force and separate management involved in the design and rating of the healthcare product."

Some of the carriers had problems with the term "parent company" since they thought this implied groups could be SSSGs even though a legal entity other than the FEHBP carrier provides the coverage. They said the use of the words "parent company" and "subsidiary" creates confusion about intent of the proposed policy.

One respondent said the word "subsidiary" presented a problem because it typically refers to a separate and distinct legal entity. They said the wording would create uncertainty about whether groups who are not customers of the carrier could in some instances be considered SSSGs. They propose amending the language by changing "parent company" to "carrier" and striking out the word "subsidiary."

One carrier said that our description appears to encompass a carrier's sister corporations which are separate legal entities and, potentially, not contracted with OPM as approved carriers. They do not believe it is the intent to cross into separate legal entities even between commonly owned corporations to select potential SSSGs.

We agree to change "Parent Company" to "Carrier" and strike out the word "subsidiary."

We also decided to change the following sentence:

- It must have separate financial accountability with "books and records that provide separate revenue and expense information that is used for internal planning and control."

It will now read as follows:

- It must have separate financial accounting with "books and records that provide separate revenue and expense information."

SSSG Selection

We are giving plans the choice of naming potential SSSGs at proposal time or electing not to and using SSSGs based on the established rules of choosing the two closest groups at reconciliation time.

One respondent thought we should have a single standard fearing that this could cause potential audit problems.

OPM has decided to leave these two options available to carriers.

ACR Methodology

Two respondents believe we should exclude second year renewals.

We disagree with this and will continue to exclude only first year renewals. The plan will have about 12 months of data to rate a group ACR by the second renewal. Therefore, we don't see any reason to exclude these groups.

Discounts

Our letter stated the following:

"A carrier is allowed up to a 2% discount to an SSSG if it is the sole carrier for that group in the given area and if it is the plan's policy to provide such a discount for all groups when it is the sole carrier."

One carrier wanted to eliminate the words "if it is the plan's policy."

We have decided to keep this statement in for the present time. We believe that requiring the discount be provided consistently to customers that contract solely with the plan is a reasonable requirement in exchange for the government classifying the discount for a stable risk pool as a rate adjustment.

Sincerely,

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Enclosure