

# FEHB Program Carrier Letter

## Community-rated Carriers

U.S. Office of Personnel Management  
Insurance Services Program

**Letter No. 2009-05**

**Date:** March 18, 2009

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

**SUBJECT:    Reconciliation Instructions for 2009 Rates -- Community-Rated Carriers**

Most community rated carriers must complete some of the attached documents (Attachments III, IV, V and VI) to reconcile their 2009 Federal rates. To determine which documents apply to your plan, please use the following chart:

Step	If...	Then...
1.	Your 2008 income from the Federal group was <u>less</u> than \$650,000.	Stop here. You do not need to complete the enclosed documents. If your 2009 rates were reduced to generate a contingency reserve payment, it will be sent automatically in the summer.
2.	You are a small carrier whose 2008 income from the Federal group was more than \$650,000 and you did not file rates as a large carrier.*	You must complete Attachments III, IIIA, IIIB, and V and keep them on file and available for OPM review. <b>These documents are subject to audit.</b>
3.	<ul style="list-style-type: none"> <li>✓ You had more than 1500 contracts at the time of the 2009 rate proposal, or</li> <li>✓ You are a small carrier that filed as large carrier by submitting detailed documentation with your rate proposal.</li> </ul>	Visit <a href="http://www.opm.gov/FehbTools/Rates/">www.opm.gov/FehbTools/Rates/</a> for instructions on how to submit Attachments III through VI by April 30, <b>2009</b> .  Any documents which cannot be uploaded can be mailed to:  Office of the Actuaries Office of Personnel Management 1900 E Street NW; Room 4307 Washington, DC 20415

\*Different requirements apply if 2009 is your final contract year. See page 3 of these instructions for further details.

All carriers (except those with income less than \$650,000 from the Federal group in 2008) must complete the Reconciliation Questionnaire (Attachment IIIB) as indicated by the following table.

<b>If you use...</b>	<b>Then you must complete...</b>
Traditional Community Rating	Sections IIIB (1),(2),(3)
Community Rating by Class	Sections IIIB (1),(2),(4)
Adjusted Community Rating	Sections IIIB (1),(2),(5)

**For contract years beginning on or after January 1, 2009, a final rate reconciliation must be performed for any carrier terminating its contract with the FEHB.**

**If you are a large carrier or a small carrier which filed as a large carrier, you must submit reconciliation documents (Attachments III – VI) by April 30 of the terminating year.**

**If you are a small carrier with Federal group income over \$650,000 in the year previous to your terminating year, you must complete Attachments III, IIIA, IIIB and V for the final year and keep them on file and available for OPM review. You must notify OPM of any amount owed or due as a result of the final reconciliation by April 30 of the terminating year or within 30 days of your notice to OPM of your termination, whichever is later.**

**Any amount owed to OPM must be paid promptly by the carrier. Any amount owed to the carrier will be paid by OPM, limited to the amount available in the contingency reserve as of December 31 of the terminating year.**

If you have questions about the rate reconciliation process, please contact the Office of Actuaries at (202) 606-0722, or send an e-mail to [actuary@opm.gov](mailto:actuary@opm.gov).

This year's reconciliation instructions and attachments are being e-mailed to you as word documents. **Please visit [www.opm.gov/FehbTools/Rates/](http://www.opm.gov/FehbTools/Rates/) for instructions on how to submit your completed forms.** Please send any documents which cannot be uploaded by overnight delivery.

Sincerely,

Kay T. Ely  
Associate Director  
Human Resources Products and Services

Attachments

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## OPM Rate Reconciliation Guidelines-2009

**For contract years beginning on or after January 1, 2009, a final rate reconciliation must be performed for any carrier terminating its contract with the FEHB.**

**If you are a large carrier or a small carrier which filed as a large carrier, you must submit reconciliation documents (Attachments III – VI) by April 30 of the terminating year.**

**If you are a small carrier with Federal group income over \$650,000 in the year previous to your terminating year, you must complete Attachments III, IIIA, IIIB and V for the final year and keep them on file and available for OPM review. You must notify OPM of any amount owed or due as a result of the final reconciliation by April 30 of the terminating year or within 30 days of your notice to OPM of your termination, whichever is later.**

**Any amount owed to OPM must be paid promptly by the carrier. Any amount owed to the carrier will be paid by OPM, limited to the amount available in the contingency reserve as of December 31 of the terminating year.**

OPM requires an annual reconciliation be performed because most carriers estimated their rates. Rates must be recalculated based on each carrier's **actual** 2009 community rates to determine if money is due the carrier or OPM. In reviewing the reconciliation, one of the most significant processes for the FEHB is to examine the rate development of Similarly-Sized Subscriber Groups.

**Note: Definitions of underlined key terms may be found in Appendix I on page 47.**

### ❖ **Similarly-Sized Subscriber Groups (SSSGs)**

#### **Basis of SSSG Concept**

The SSSG concept was developed to ensure OPM receives equitable and reasonable market-based rates. OPM shall determine the Federal group rates by selecting the lower of each carrier's rates derived by rating methods consistent with those used for the SSSG rates. For the 2009 rates, OPM will focus on the rating methods used for the two SSSGs to determine if the carrier appropriately derived the Federal group rates.

#### **Definition**

Similarly Sized Subscriber Groups (SSSGs) are a comprehensive medical plan's employer groups that:

- (1) As of the date specified by OPM in the rate instructions, have a subscriber enrollment closest to the FEHB subscriber enrollment
- (2) Use any rating method other than retrospective experience rating
- (3) Reside in the Federal group's rating region

## OPM Rate Reconciliation Guidelines-2009

- (4) Have at least 5% of the total subscriber enrollment in the Federal group's rate code area

Any group with which an FEHB carrier enters into an agreement to provide health-care services may be an SSSG including (but not limited to) the following groups:

- (1) Government entities
- (2) Groups with multi-year contracts
- (3) Groups having point of service products and
- (4) Purchasing alliances (see exceptions noted below)

The following groups should be **excluded** from SSSG consideration:

- (1) Groups the carrier rates using retrospective experience rating
- (2) Groups consisting of the carrier's own employees
- (3) Medicaid groups, Medicare groups, and groups that have only a stand-alone benefit (such as dental only)
- (4) A purchasing alliance where the rate-setting is mandated by the State or local government
- (5) A purchasing alliance in which at least 90% of the groups in the alliance have fewer than 100 enrollees and the remaining percentage of groups (10% or less) would not have sufficient aggregate enrollment to qualify as SSSG on their own
- (6) Administrative Service Organizations (ASO)
- (7) A new group (e.g., a group starting its first contract year between July 2, 2008 and July 1, 2009)
- (8) Provider Partners
- (9) Any employee group with at least a 100 percent increase in enrollment within the last 12 months (from most recent available enrollment but no later than March 31 of the current year)
- (10) Groups covered under a separate line-of-business that meet all of the following criteria:
  - It must be a separate organizational unit, such as a division
  - It must have separate financial accounting with "books and records that

## OPM Rate Reconciliation Guidelines-2009

- provide separate revenue and expense information”
- It must have a separate workforce and separate management involved in the design and rating of the healthcare product

### **Rules for SSSG Selection**

Two SSSGs must be selected in each [rate code area](#). See Appendix II for specific cases of SSSG selection based on rating regions and rate code areas.

If a carrier:

- **Submitted a list of 10 potential SSSGs with the proposal** – The two groups closest in size to the Federal group at the time of reconciliation, among the first five potential SSSGs, will become SSSGs. If two groups do not continue to contract with the plan from the first five, then the sixth group on the list will be reviewed. If that group also does not qualify the list will be followed until two SSSGs are chosen.
- **Opted not to submit a list of ten potential SSSGs with the proposal** – The carrier should select two groups which meet the SSSG requirements at the time of reconciliation.

### **High Deductible Health Plans**

The HDHP requires a unique set of SSSGs if:

- (1) The carrier’s HDHP product is rated independently from its other FEHB product(s); or
- (2) The HDHP is the only FEHB product the carrier offers in the [rate code area](#).

It is acceptable if a carrier uses an SSSG with a different rating methodology from the HDHP if the SSSG is closest in size to the Federal group and meets all other SSSG criteria.

### **Enrollment and Contract Renewal Dates**

Group size for the selected SSSGs in the current-year reconciliation and the potential SSSGs in the following-year proposal should be determined on the same day and based on the most recent enrollment available, but not later than March 31 of the current year.

For the 2009 rate year, the specific guidelines for SSSGs are as follows:

- (1) All group enrollments (the Federal group and the SSSG enrollments) should be based on the latest 2009 enrollment available to the carrier up to March 31, 2009
- (2) The contract [renewal date](#) for the SSSGs should be between July 2, 2008 and July 1, 2009

## OPM Rate Reconciliation Guidelines-2009

### ❖ SSSGs and Discounts

**OPM requires the Federal group rates to be at least equivalent to the rates for the SSSGs.** Therefore, we expect the Federal group to receive at least the largest rate discount and any other advantage given to either SSSG. Discounts should be determined by the rating methodology applied within the [rating region](#).

#### Early Rate Quote

If the carrier gives an early rate quote to an SSSG based on a lower community rate and does not revise it at a later date, we will interpret the SSSG rate as a discounted rate.

#### Multi-Year Rate Agreements

If a group has negotiated a multi-year contract and is determined to be an SSSG, the following rules will apply:

First year of a multi-year agreement - The process of determining discounts as defined above applies.

Second and all subsequent years of a multi-year agreement – The process of determining discounts as defined above applies. Any additional costs incurred in previous years of the multi-year rate agreement will be considered when determining the discount.

#### Purchasing Alliances

If a carrier's SSSG is a [purchasing alliance](#) that consists of more than one rate, a minimum of the weighted average of all discounts (based on enrollment) must be applied to the Federal group.

#### Total Replacement Groups

The first 2 percent discount given to a [total replacement group](#) will not be viewed as a discount if it is the carrier's policy to adjust the rates of all total replacement groups by this amount. If some of the replacement groups are given non-standard or preferential discounts, this policy will not apply.

#### Recovery of Discounts

**The FEHB must receive all discounts given to an SSSG in the rate reconciliation of the same year the discounts were given.** If the carrier can show discounted funds are recovered from an SSSG, the carrier can recoup these funds from the FEHB.

A carrier cannot recover an FEHB discount if the discount is created by a carrier's decision to:

- Voluntarily omit a loading a carrier is entitled to take
- Provide a larger than expected or larger than required discount to FEHB or



## **OPM Rate Reconciliation Guidelines-2009**

- Use an unconventional rating methodology in order to give FEHB lower rates

If a Federal group discount at the time of the carrier's proposal is based upon an estimated SSSG discount, it may be reduced during or after the reconciliation process to be consistent with the actual SSSG discount. Note: The estimate of the expected SSSG discount used in the proposal must have been agreed upon by OPM.

### **Surcharges**

OPM will not accept any surcharge which is not established by a carrier's defined rating methodology regardless if the SSSG receives the surcharge.

### **Special Adjustments to SSSG Rates**

We will consider adjustments to SSSG rates based on estimated new business if:

- 1) The carrier can give a reasonable justification
- 2) The method is not intended to give a discount
- 3) It is the carrier's policy to make such adjustments.

The following are two examples of acceptable justifications:

- 1) Closure of competitive HMOs in the SSSG's area
- 2) Mergers or divestitures

### **Rate Extensions for SSSGs**

If an SSSG's rate is extended beyond 12 months (i.e. the carrier allows an SSSG to change its renewal date), a premium adjustment that reflects the entire value of the extension must be made for the SSSG in the following year, or the rate extension will be considered as a discount. The renewal date for such a group would be the anniversary date after the last rate change.

### **Discounts with HDHPs**

If either of the SSSGs is given a discount, that discount should only be applied to the insurance portion and not the pass-through amount.

### **Rating Period Beyond 24 Months**

If an SSSG is rated ACR and its initial contract period is more than 24 months, the Federal group would be rated like the SSSG to determine any applicable discounts on the portion of the rating period extending beyond 24 months.

## OPM Rate Reconciliation Guidelines-2009

### Consistency of Rating Methods

The carrier is expected to use the same rating method for the Federal group as it uses for the SSSGs, though different rating methods are acceptable in some situations. **If, however, the carrier rates an SSSG using a method inconsistent with the carrier-established policies, the Federal group is entitled to a discount based on the SSSG rating method applied to the Federal group.**

### Examination of Non-SSSG Groups

At times, OPM and the OPM audit staff may examine the rates of non-SSSG groups. The examination is to verify the equivalence of the Federal group and SSSG rates. For example, if an SSSG had a special benefit (e.g., dental benefit) not included in the Federal group benefit package, OPM and the OPM audit staff would compare what the carrier charged the SSSG with what it charged other groups for the benefit to verify the SSSG received no hidden discount. Review of a non-SSSG commercial group does not make it a potential SSSG.

### ❖ **Audits**

All rate agreements between OPM and the carrier are subject to audits by the OPM Office of the Inspector General. The results of such audits may require modifications to previous agreements and subsequent rate adjustments. **Pursuant to contract clause 3.4, Contractor Records Retention (FEHBAR 1652.204-70), OPM requires all carriers to maintain documentation to support all calculations and statements pertaining to this reconciliation. This includes documentation supporting the SSSG rates and the rates for all of the 10 largest groups. And, for carriers using an ACR method, this includes detailed reports (including the database) supporting all data (e.g., claims data) used to derive the rates.**

### Rate Reconciliation Audits (RRAs)

Each year the Office of Inspector General (OIG) audits the rate reconciliations of some carriers. The Office of Actuaries (OA) uses the audit results to set the final rates for the audited year. Once a final agreement is met and rates are set, the OIG will not conduct subsequent audits of that year's rates for these plans.

Once the rates are finalized, OPM will not change the rates, or accept new or additional information from the carrier to change the audit results or final rates. The OIG's auditor will inform the carrier of the audit results before the rates are finalized, and the OA will discuss the results with the carrier. Therefore, **it is the carrier's responsibility to inform the OA of any disagreement it has with the RRA results and/or final rates before they are finalized.**

The only condition under which rates finalized in conjunction with an RRA will be changed is when OPM determines it is justified.

## OPM Rate Reconciliation Guidelines-2009

### ❖ Miscellaneous

#### Error Reporting

If a carrier discovers that a previous rate proposal and/or reconciliation submitted to OPM is incorrect (e.g., through the discovery of an error or omission), the carrier **must**:

- 1) Notify OPM, and
- 2) Prepare and submit to OPM amended proposals or reconciliations (including a newly executed Certificate of Accurate Pricing).

**Note: The above policy does not apply to proposals and/or reconciliations that have already been or are currently in the process of being audited by OPM's audit staff or audits that have been resolved by OPM's Office of Insurance Programs (OIP).**

#### Late Payment Loadings

Late Payment Loadings are not allowed.

#### Special Loading for Enrollment Discrepancies

The 1997 amendment to the FEHB standard contract provides for a special premium loading of 1 percent to account for enrollment discrepancies. **Carriers must explicitly take this loading, but may eliminate all or some of its effect by giving the Federal group a discount.**

**Note that the FEHB contract states in Section 3.6(b) "the Carrier accepts the adjustment to the subscription charges in full resolution of all obligations of the Government in connection with the subscription payments as described in this section 3.6 and waives any rights it may have to claims for subscription payments under Section 3.1(a)."**

#### State Taxes

5 U.S.C 8909(f)(1) prohibits the imposition of taxes, fees or other monetary payment, directly or indirectly, on FEHB premiums by any State, the District of Columbia, the Commonwealth of Puerto Rico, or by any political subdivision or other governmental authority of those entities. You must make an adjustment for this amount in your reconciliation in the form of a negative Special Benefit Loading if your 2009 rates include an amount to recover such monies from the FEHB.

## Rate Reconciliation Instructions

### ❖ Reconciliation Instructions

#### Demographics

**If group-specific demographic assumptions (i.e., family size, self/family enrollment mix, etc.) were used in the proposal, the same figures must be used in the reconciliation.** The self/family enrollment mix may not be revised to reflect the open season for 2009.

If, however, a carrier-wide enrollment-mix (or other demographic assumption) was used and the assumption was revised after the proposal was submitted, but before Jan. 1, 2009 and the revisions were used for your SSSGs, the reconciliation should be based on the revised assumption.

Certain factors **should** change for the reconciliation. If the Federal group rates are based on a weighted average of rates in several geographic areas, the weight factors in the reconciliation should be based on the March 31, 2009, enrollment in each area (which you provide OPM). Also, if the Medicare Loading is recalculated, the latest Medicare enrollment available should be used.

#### TCR and CRC

For carriers using TCR or CRC, the reconciliation involves updating the estimated capitation rate used in the proposal with the carrier's actual 2009 capitation rate (or equivalent).

The 2009 reconciliation must be based on the same factors and procedures used to derive the 2009 self and family rates in the 2009 proposal. The reconciliation must use the actual January 1, 2009, capitation rate and the same step-up factors used in the proposal (exceptions to this rule are described in the second paragraph of the Demographics section above).

If you are a TCR or CRC carrier and derive your rates differently than described, the principles above still apply. To compute the Line 1 rates, go through the same procedure used in the original proposal, substituting actual rates for proposed rates. The procedures used also should be the same as those used for the SSSGs.

#### ACR

An ACR-rated carrier may use a prospective method based on actual Federal claims data or a method based on utilization data to calculate rates. **In either case, the carrier must keep on file all data necessary to support the ACR rates (i.e., claims, utilization etc.). Backup tapes of the claims database for FEHB as well as SSSGs must be saved for audit purposes.**

#### Utilization Based ACR

If a carrier uses a method based on utilization data, the reconciliation should be performed similar to a TCR or CRC reconciliation.

## Rate Reconciliation Instructions

### Claims Based ACR

If a carrier uses a claims-based method, the following rules apply:

- 1) The experience period and the claims used within that period cannot be changed in the reconciliation. It must be the same period and the same claims used in the proposal.
- 2) If completion factors were used to convert paid claims to incurred claims, such factors must be the same for all claims-based, ACR-rated groups.
- 3) Any method used to convert paid claims to incurred claims must be consistent for all claims-based, ACR-rated groups.
- 4) If special benefits are included in the claims, no Special Benefit Loadings should be taken.
- 5) If claims include those of annuitants age 65 and over, claims must be reduced by an amount equal to Medicare income from CMS (Centers for Medicare and Medicaid Services) or a credit for monies received from CMS must be applied. **The amount of Medicare income from CMS must be clearly stated.**
- 6) In addition to CMS reimbursements, FEHBP claims must be reduced by income attributed to FEHBP group enrollees from all other sources such as prescription drug rebates, coordination of benefits, and settlements.
- 7) Loadings for administrative expenses must be either:
  - a) A flat community rated pm/pm amount
  - b) A standard percentage of claims, or
  - c) A method consistently applied to both the FEHB and the SSSGs
- 8) Any trend factor used for the Federal group must be the same factor the carrier used for other groups. A trend factor for the Federal group cannot be based on the Federal group's experience.

### **The only components that can change from proposal to reconciliation are:**

- 1) Trend Factor - If a carrier used an estimated trend factor in the 2009 proposal and changed the factor before January 1, 2009, for all claims-based ACR groups, the revised factor must be used in the 2009 reconciliation. The factor must be consistent with the lowest such factor used for either SSSG (discounts will be considered when determining the lowest trend factor).
- 2) Administration Cost Factor - If a carrier used an estimated administration cost factor in the

## **Rate Reconciliation Instructions**

2009 proposal and changed the factor before January 1, 2009, for all claims-based ACR groups, the revised factor must be used in the 2009 reconciliation. The factor must be consistent with the lowest such factor used for either SSSG.

## Rate Reconciliation Instructions

### ❖ Attachment III Instructions – Lines 1 – 5 (All Carriers)

#### 1. Actual FEHB Rates - 2009

Complete the Backup Line 1 Form (Attachment III A) on page 22 or attach equivalent document.

Enter the final self and family rates from the Backup Line 1 Form on Line 1 of Attachment III.

#### 2. Special Benefit Loadings

If the Special Benefit is offered only to FEHB enrollees and the cost was approved by OPM in the 2009 proposal, it cannot be changed in the reconciliation. Enter the Special Benefit Loading from the 2009 proposal in Line 2 of Attachment III.

If the Special Benefit is a community-rated benefit, complete the Backup Special Benefits Loading Form (Attachment III A) on page 23 and enter the loading in Line 2 of Attachment III.

#### 3. FEHB Rates Plus Special Loadings

Add Lines 1 and 2 and enter the sum in Line 3 of Attachment III.

#### 4a. Extension of Coverage Loading

If entitled to the Extension of Coverage Loading, multiply Line 3 by .004 (or the same factor used in the proposal) and enter the result in Line 4a of Attachment III.

#### 4b. Children's Loading

A carrier may take a Children's Loading only if the normal practice is to take such a loading for all other groups whose age limit for children's coverage differs from the carrier's community standard.

In general, if over-age dependents are included in the group-specific demographics (especially-average-family size) and these numbers are used to derive self and family rates (through step-up factors, etc.), a Children's Loading is not applicable.

If a Children's Loading is appropriate, provide a detailed explanation of the method used to derive the loading and all backup documentation. Enter the loading in Line 4b of Attachment III.

## Rate Reconciliation Instructions

### 4c. Medicare Loading

The Medicare Loading adjusts a carrier's premium to provide the correct income for FEHB retirees age 65 and older, since most of a carrier's other groups cover retirees through Medicare Advantage Plans or Medicare Supplement Plans.

The carrier must calculate the cost of benefits for the Federal annuitants and compare the cost with the income it receives on behalf of these annuitants from OPM and CMS. If a carrier receives more income than the cost of benefits for FEHB retirees age 65 and over, the Medicare Loading should be negative. If the plan receives less income than the cost of benefits, the loading should be positive.

If Coordination-Of-Benefits (COB) income is received from CMS, it must be considered when calculating the loading. A carrier using a claims-based ACR method will normally not have a Medicare Loading.

If entitled to the Medicare Loading, complete the Backup Medicare Loading Form (Attachment III A) on page 24 or attach equivalent document.

If the loading was derived using estimated community rates, recalculate the loading using the actual community rates and the latest Medicare enrollment distribution available. Also, if estimated revenue from the Centers for Medicare and Medicaid Services (CMS) was used to derive this loading, recalculate using the CMS approved numbers. **Include a copy of the original derivation so we can easily see the difference between the estimated and actual loading.**

The best source of Medicare distribution data is the match tape we send each year. When using the match tape, do not include annuitants with codes X, Z, or N who are under age 65 in your count of "no coverage." A carrier claiming a Medicare Loading must have appropriate documentation to justify the distribution of its Medicare population submitted in QG8 of the questionnaire.

Enter the loading in Line 4c of Attachment III.

### 4d. Subtotal

Add Lines 3, 4(a), 4(b) and 4(c) and enter the sum on Line 4d of Attachment III.

### 4e. Enrollment Discrepancies Loading

Multiply Line 4d by .01 and enter the result on Line 4e of Attachment III. You must explicitly take this loading, but you may eliminate all or some of its effect by giving the Federal group a discount.

### 5. Total FEHB Rates - 2009

Add Lines 4(d) and 4(e) and enter the total on Line 5 of Attachment III.



## Rate Reconciliation Instructions

### **Large Carrier Instructions – Lines 6 - 12**

The following instructions apply only to large carriers. For small carriers, follow instructions beginning on page 16.

**6. Contract Rates - 2009**

Enter the biweekly, net-to-carrier contract rates agreed to during the summer of 2008 on Line 6 of Attachment III. These rates are not the brochure rates (which are the net-to-carrier rates times 1.04).

**7. Difference**

Subtract Line 6 from Line 5 and enter the result on Line 7 of Attachment III.

**8. March 31, 2009, Enrollment**

PLEASE LEAVE THIS LINE BLANK; it will be completed by OPM's actuarial staff based on the March 31, 2009 semi-annual headcount.

**9. Payment Due Carrier/ (FEHB)**

PLEASE LEAVE THIS LINE BLANK; it will be completed by OPM's actuarial staff.

**10. Brochure Printing Costs**

Complete the Backup Brochure Printing Costs Form on page 25 and provide backup documentation.

Enter the Total Allowable Costs from the Backup Form on Line 10 of Attachment III.

**11. Outstanding Amount Due Carrier/ (FEHB)**

PLEASE LEAVE THIS LINE BLANK; it will be completed by OPM's actuarial staff.

**12. Total Amount Due Carrier/ (FEHB)**

PLEASE LEAVE THIS LINE BLANK; it will be completed by OPM's actuarial staff.

## Rate Reconciliation Instructions

### Small Carrier Instructions – Lines 6 - 12

The following instructions apply only to **small carriers**. For large carriers, see instructions on page 15.

**6. Contract Rates - 2009**

Enter the rates on Line C of Attachment I of the original 2009 rate proposal in Line 6.

**7. Difference**

Subtract Line 6 from Line 5 and place the result in Line 7.

**8. March 31, 2009 Enrollment**

Enter the March 31, 2009, Table 1 enrollment numbers in Line 8; the Table 1 report is the enrollment data the carrier submits to OPM in April.

**9. Payment Due Carrier/ (FEHB)**

Multiply the amounts on Line 7 by Line 8 and then multiply the result by 26 to achieve a total payment due carrier/ (FEHB); place the result in Line 9.

**10. Brochure Printing Costs**

Complete the Backup Brochure Printing Costs Form on page 25 and provide backup documentation.

Enter the Total Allowable Costs from the Backup Form on Line 10 of Attachment III.

**11. Outstanding Amount Due Carrier/ (FEHB)**

This is any amount due the carrier or OPM from previous years. As an example, suppose OPM owed the carrier \$50,000 last year, and the 2009 rates were purposely increased to pay the carrier this debt. In the 2009 rate reconciliation, \$50,000 would be placed in Line 11 of Attachment III.

**12. Total Amount Due Carrier/ (FEHB)**

Add Lines 9, 10 and 11 and place the result in Line 12 of Attachment III.

The amount on Line 12 will be used to determine 2009 rate adjustments. You will place the 2009 rate adjustments on Line B of your 2010 rate proposal sheet (Attachment I) which will be sent at a later date. An example of how the rate adjustment may be computed is presented below.

**Example:**

Assume the amount on Line 12 is \$76,000. A self and family loading equivalent to \$76,000 must

## Rate Reconciliation Instructions

be calculated. Suppose the carrier expects the Federal group enrollment in 2010 to increase by 10 percent over the 2009 enrollment of 200 self and 400 family contracts. Then, the adjustment could be \$2.66 self and \$5.31 family, since:

$$[220 \times \$2.66 \times 26] + [440 \times \$5.31 \times 26] \approx \$76,000$$

OPM will allow reasonable flexibility in determining the amount of the rate adjustment based on reasonable enrollment assumptions. All assumptions will be subject to audit or verification at a later date. Therefore, all supporting calculations for the Federal group's rates and the SSSG rates must be kept on file.

## Rate Reconciliation Instructions

### ❖ Backup SSSG Comparison Form Instructions

The SSSG Comparison Form shows the method by which the billed rates for the SSSGs and the Federal group are determined. Indicate in a step-by-step manner how you got from your starting point (in the TCR and CRC cases, this is usually a capitation rate) to the billed rates. If ACR rating was used for the groups, include utilization data. If the method used for the SSSGs differs from that used for the Federal group, explain the difference.

Include calculations, and be sure to maintain backup documentation for all calculations. This documentation will be subject to audit at a future date. Use additional sheets if necessary.

We give simple examples on the following pages to serve as a guide. Do not hesitate to elaborate in your presentation. **Carriers using ACR should keep in mind that the following is only an example, and that more information may be needed to clearly explain the rate process.**

## Rate Reconciliation Instructions

### EXAMPLE of TCR / CRC COMPARISON SHEET

	Federal Group	SSSG #1	SSSG #2
1. Group Renewal Date	1-1-09	1-1-09	2-1-09
2. Rating Method (a)	CRC	CRC	CRC
3. Capitation (b)	\$100.00	\$98.00	\$101.00
4. Age/Sex Factor	.92	.98	1.04
5. Industry Factor (c)	.95	.95	.98
6. Other Discounts	.98	1.00	.95
7. Total Discount (d)	.95 x .98	.95 x 1.00	.95 x .98
8. 1st Level Step-Up Factor (e)	1.30	1.12	1.22
9. <b>Self Rates</b> (f)	\$111.35	\$102.19	\$119.31
10. Family/Self Ratio	2.71	2.80	2.55
11. <b>Family Rates</b>	\$301.76	\$286.13	\$304.24

- (a) If all three methods are not the same, explain why.
- (b) **IMPORTANT: If these capitation rates are not the same, explain why in QS15.**
- (c) The Federal group receives the lowest industry factor < 1.0 given to an SSSG.
- (d) **IMPORTANT:** The Federal group receives at least the lowest total discount given to an SSSG. In this case, one SSSG received a total discount of (.95 x 1.00) and the other received a total discount of (.95 x .98) Therefore the Federal group would get a discount of (.95 x .98) , the lower of the two. Note: The Federal group can receive the largest discount.
- (e) Show How Factors Are Derived
- (f)  $\$100 \times .92 \times (.95 \times .98) \times 1.3 = \$111.35$

## Rate Reconciliation Instructions

### EXAMPLE of an ACR COMPARISON SHEET

This shows one way you might present your ACR rate development. You should modify this example to fit your particular ACR procedure.

		Federal Group	SSSG #1	SSSG #2
a.	Rating Method	ACR	ACR	ACR
b.	Group Renewal Date	1/1/2009	1/1/2009	5/1/2009
c.	Experience Period	1/1/2007- 12/31/2007	1/1/2007- 12/31/2007	1/1/2007- 12/31/2007
	Claims Incurred through	12/31/2007	12/31/2007	12/31/2007
	Claims Paid Through	3/1/2008	3/1/2008	5/1/2008
d.	Claims	\$11,851,200	\$13,826,400	\$16,865,700
	Completion Factor*	0.9876	0.9876	0.9921
	Completed Claims			
	Before CMS Reimbursement	\$12,000,000	\$14,000,000	\$17,000,000
	After CMS Reimbursement	<b>\$10,000,000</b>	<b>\$13,500,000</b>	<b>\$17,000,000</b>
e.	Annual Trend**	12%	11%	12%
f.	Trend From Experience Period to Renewal Period	27%	24.48%	32.13%
	Show how you obtained the percentage.	$(1 + .12/12)^{24}$	$(1 + .11/12)^{24}$	$(1 + .12/12)^{28}$
g.	Expected Claims [(d) x [1 + (f)]]	12,697,346	16,805,185	22,461,946
h.	Administration (if different, explain)***	15%	15%	15%
i.	Claims + Administration [(g)/(1-(h))]	\$14,938,055	\$19,770,806	\$26,425,819
j.	Member Months	100,000	95,000	200,000
k.	Per/Person Rates [(i)/(j)]	\$149.38	\$208.11	\$132.13
l.	First Level Step-Up Factor	1.2	1.15	1.3
m.	Bi-weekly Self Rates [(l) x (k) x 12/26]	\$82.73	\$110.46	\$79.28
n.	Family/Self Ratio	2.6	2.2	2.4
o.	Family Rates [(m) x (n)]	\$215.11	\$243.01	\$190.27
p.	Discount	1.96%	0%	0%
q.	Rates After Discount Self	\$81.11	\$110.46	\$79.28
	Family	\$210.89	\$243.01	\$190.27

\* The same set of completion factors must be used for all groups; backup documentation would be required to show the completion factor for SSSG #2 is acceptable.

\*\* The annual trend factor should be the same for all groups; although SSSG #1 has a lower trend, the Federal group has received a discount equivalent to the difference.

**Federal group rate @ 12 percent trend:** \$149.38 pmpm

**Federal group rate @ 11 percent trend:** \$146.45 pmpm = [ $\$10,000,000 * (1 + .11/12)^{24} / (1 - .15) / 100,000$ ]

**Discount needed:**  $1 - \$146.45 / \$149.38 = 1.96$  percent

\*\*\* The administrative factor should be the same or should be derived via the same methodology for all groups.

**Attachment III**

<b>RECONCILIATION</b>				
<b>CARRIER NAME</b>		<b>STATE</b>		<b>CODE</b>
<b>BIWEEKLY NET-TO-CARRIER RATES (2009 CONTRACT YEAR)</b>				
		<b>SELF</b>	<b>FAMILY</b>	<b>TOTAL</b>
<b>1. Actual FEHB Rates – 2009</b>				
<b>2. Special Benefits Loadings</b>				
(a)				
(b)				
(c)				
(d)				
(e)				
<b>3. FEHB Rates Plus Special Loadings</b>				
<b>4. Standard Loadings</b>				
(a)	Extension of Coverage [.004x(3)]			
(b)	Children's Loading			
(c)	Medicare Loading			
<b>4d. Subtotal</b>				
<b>4e. Enrollment Discrepancies Loading [.01x(4d)]</b>				
<b>5. Total FEHB Rates - 2009*</b>				
<b>6. Contract Rates - 2009*</b> Small Carriers Use Line C, Attachment I Here				
<b>7. Difference ((5) - (6))</b> + = Underpayment to Carrier - = Overpayment to Carrier				
<b>8. March 31, 2009, Enrollment</b>				
<b>9. Payment Due Carrier/(FEHB)</b>				
<b>10. Brochure Printing Costs</b>				
<b>11. Outstanding Amount Due Carrier/(FEHB)</b>				
<b>12. Total Amount Due Carrier/(FEHB)</b>				

\* These rates are subject to audit in accordance with the carrier's contract with OPM.

**Attachment IIIA - Reconciliation Backup Forms**

**Backup Line 1 Form**

Enter the results on line 1 of Attachment III.

If neither of these Forms is appropriate, create/modify a form and place it here.

<b>Backup Line 1 Form – TCR &amp; CRC</b>	
Beginning Capitation Rates	
Age/Sex Factor	
Total Discount Factor	
Percentage of Self Contracts	
Percentage of Family Contracts	
Average Family Size	
Revenue Ratio (Family/Self Ratio)	
1 <sup>st</sup> Level Step-Up Factor (Self/Capitation)	
Self Rates	
Family Rates	

<b>Backup Line 1 Form – ACR</b>	
Experience Period	
Total Paid Claims (before any COB)	
Total COB (including CMS)	
Annual Trend	
Total Trend from Experience Period	
Expected Claims	
Administration (& Profit)	
Total Expected Claims + Admin + Profit	
Members	
Per Member Rates	
Percentage of Self Contracts	
Percentage of Family Contracts	
Average Family Size	
Revenue Ratio (Family/Self Ratio)	
1 <sup>st</sup> Level Step-Up Factor (Self/Capitation)	
Self Rates	
Family Rates	



**Attachment IIIA - Reconciliation Backup Forms**

**Backup Special Benefit Loadings Form**

List your Special Benefit Loadings below and provide backup calculations for all loadings. Enter either the actual rates filed with the State Insurance Department or recalculate the loading based on the actual 2009 capitation rate. If you do not file with the State, submit other appropriate documentation for this benefit.

<b>Backup Special Benefits Loading Form</b>			
<b>Benefit</b>	<b>Derivation</b>	<b>Self Rates</b>	<b>Family Rates</b>
<i>Ex. \$10/\$20/\$45 Rx Benefit</i>	<i>Comm. Rated Benefit See State Filing pg. 34</i>	<i>\$25.44</i>	<i>\$58.51 (Rates are Self Rates times Family Ratio of 2.3)</i>
<i>Ex. \$20 Urgent Care</i>	<i>Capitation Rate(303.75) * .008 see attached backup derivation of .008</i>	<i>\$2.43</i>	<i>\$5.59</i>
(a)			
(b)			
(c)			
(d)			
(e)			
(f)			
(g)			
(h)			

**Attachment IIIA - Reconciliation Backup Forms**

**Backup Medicare Loading Form**

Enter any loading on line 4c of Attachment III.

<b>Backup Medicare Loading Form</b>					
<b>Medicare Coverage</b>	<b>(A) Count</b>	<b>(B) Cost Of Benefits</b>	<b>(C) FEHB Premium</b>	<b>(D) CMS COB</b>	<b>Plan Cost A*(B-C-D)</b>
Part A Only					
Part B Only					
Parts A & B					
No Coverage					
<b>Total</b>		<b>(E)</b>			
<b>Total FEHB Members (F)</b>					
Cost Per Member (E / F)					
Self Loading					
Family Loading					

Or

<b>Alternative Backup Medicare Loading Form</b>	

**Attachment IIIA - Reconciliation Backup Forms**

**Backup Brochure Printing Costs Form**

Enter this amount on line 10 of Attachment III.

OPM will reimburse the amount the carrier actually spent to produce the **OPM approved quantity** of brochures. Submit documentation, such as paid invoices, helpful in evaluating the reasonableness of your requested amount. Note that the amount claimed may be for OPM brochures or rate sheets and corresponding shipping and handling only. No costs for provider directories, business cards, or other promotional materials may be included.

<b>Backup Brochure Printing Costs Form</b>				
<b>OPM Approved Allowable Brochure Quantity (A)</b>				
<b>Variable Printing Costs</b>	<b>Quantity (B)</b>	<b>Total Cost (C)</b>	<b>Price/Item (D = C / B)</b>	<b>Allowable Cost (A * D)</b>
1. Brochures Printed				
2				
3.				
4.				
<b>TOTAL (E)</b>				
<b>Fixed Printing Costs</b>				<b>Total Cost</b>
Shipping & Handling				
<b>TOTAL (F)</b>				
<b>Total Allowable Costs (E + F)</b>				



**Attachment IIB, Section 1 – General Questionnaire**

**General Questions**

(To be completed by all carriers.)

QG1. What method of community rating did you use in your 2009 rate proposal?

- TCR (Traditional Community Rating)
- Standard (Book) Rating
- Variable (Group Specific) Rating
- CRC (Community Rating By Class)
- ACR (Adjusted Community Rating)

QG2. Is the method you have used for the 2009 reconciliation the same as the method used in the 2009 proposal?

- YES
- NO

If No, explain

QG3. Do your Line 1 rates reflect any tax, fee or monetary payment imposed on the carrier by a state or local government?

- YES
- NO

If Yes, have you included a negative loading in the Special Benefits Section of the reconciliation?

- YES
- NO

If No, explain why

QG4. Are the special loadings given in the reconciliation the same as they were in the proposal?

- YES
- NO

If No, explain

QG4A. Do you have any Special Benefit Loadings which are contracted out from an outside source?

- YES
- NO

If Yes, explain which benefits; if Yes and an SSSG was given a rate discount, the loading for this benefit does not have to be discounted for the FEHB as long as an SSSG did not have this benefit.

**Attachment IIIB, Section 1 – General Questionnaire**

QG5. Are you required to file your community rates with any State regulatory agency?

YES                       NO

QG6. If you answered Yes to QG5, have you highlighted the appropriate community rates in red on the copy of the insurance department filing that you have enclosed?

YES                       NO

If No, explain

If Yes, what is the page number of the insurance department filing on which the appropriate rates appear (please number the pages by hand if necessary)? \_\_\_\_\_

QG7. If you use different rating methods (i.e. TCR, CRC, ACR) for different groups, describe your criteria for the use of each method.

QG8. Show the number of Federal annuitants and their covered spouses covered in the plan aged 65 and older using the following categories:

	<b>Counts</b>
<b>Medicare Part A and Part B</b>	
<b>Medicare Part A Only</b>	
<b>Medicare Part B Only</b>	
<b>Neither Part A nor Part B</b>	
<b>Cannot Determine</b>	

Notes: The sum of the numbers in the 5 blanks above should be the total number of Federal annuitants and their covered spouses in the plan aged 65 and older. **If you have revised your Medicare Loading in this reconciliation, you should be using the above distribution.**

**Important! Before you complete the above table, review page 14 regarding the list of Medicare enrollees OPM sends the carrier each year.**

**Attachment IIIB, Section 1 – General Questionnaire**

QG9. Does your HMO have a Medicare Advantage Plan with CMS?

YES

NO

If Yes, explain the arrangement you have with CMS, describe all benefit packages you offer enrollees under the Medicare Advantage Plan, and the premiums (if any) the enrollees enrolled under the Medicare Advantage Plan pay the HMO.

QG10. Does your HMO sell a Medicare supplement policy?

YES

NO

If Yes, describe the benefit packages of any Medicare supplement policies you offer, and the premiums you charge for them.

QG11. If you answered Yes to either question G9 or G10 and do not use a claims based ACR method to compute your rates, did you use the cost data from your Medicare risk or supplement policy to calculate your Medicare Loading?

YES

NO

N/A

If No, explain why

QG12. If you have revised your Medicare Loading in this reconciliation, explain how you obtained the distribution in QG8. Also, what is the source of this distribution? Note that this source material must be on file with the carrier, and available to OPM auditors.

**Attachment IIB, Section 2 – SSSG Questionnaire**

**SSSG Questions**

(To be completed by all carriers.)

QS1. Did you choose to provide a list of 10 potential SSSGs in the 2009 rate proposal?

YES                       NO

If yes, relist them here in the same order as listed in the proposal; if no, skip to question QS4.

Keep in mind that your SSSG selection is subject to audit. Therefore, we expect you to maintain complete rate documentation for at least the 10 groups closest in contract size to the Federal group.

Name	Enrollment at Proposal		Enrollment at Reconciliation		Group Eligible	
	Enrollment	Date	Enrollment	Date	Yes	No
1.						
2.						
3.						
4.						
5.						
6.						
7.						
8.						
9.						
10.						

Note: If an SSSG has more than two rating tiers, include the enrollment for all tiers.

QS2. What is the source of the enrollment information given in QS1? Note that this source material must be on file with the carrier, and available to OPM auditors.

QS3. Are the two SSSGs closest in enrollment size to the FEHB still eligible to be SSSGs? And if you answered yes to QS1, are they listed above?

YES     NO                      If no, provide an explanation below



**Attachment IIB, Section 2 – SSSG Questionnaire**

QS4. Name the two SSSGs.

- 1.
- 2.

QS5. How do the benefit packages for your SSSGs differ from the benefit package for the Federal group?

QS6. What method of community rating (TCR, CRC, ACR) did you use to rate the following groups?

	<b>Federal Group</b>	<b>SSSG #1</b>	<b>SSSG #2</b>
Method			

QS7. What are the 2009 net-to-carrier rates for the Federal group and your SSSGs?

<b>Federal Group</b>		<b>SSSG #1</b>		<b>SSSG #2</b>	
<b>Self</b>	<b>Family</b>	<b>Self</b>	<b>Family</b>	<b>Self</b>	<b>Family</b>

Note: Federal Rates from Line 5, Attachment III. If an SSSG has more than two rating tiers, include the rates for all tiers. Make sure that at least 5 percent of the SSSGs enrollment is in the Federal rate code area.

QS8. What is the rating region used to determine the SSSGs?

QS9. Did you make sure you compared the enrollment in the rating region for a potential SSSG with the Federal enrollment in the rate code area?

YES                       NO      If No, please do so

**Attachment IIB, Section 2 – SSSG Questionnaire**

QS10. What are the five groups you do business with that are closest in total contract size to the Federal group, and what type of benefit plan do they have? Include information on the Federal group. Also, **include groups that are not eligible to be SSSGs.**

<b>Group</b>	<b>Total # of Contracts</b>	<b>Effective Rate Date</b>	<b>Coverage</b>	<b>Rating Method</b>
<b>Federal Group</b>				
<b>1.</b>				
<b>2.</b>				
<b>3.</b>				
<b>4.</b>				
<b>5.</b>				

**If you did not provide a list of potential SSSGs in your proposal, you must answer QS11. Otherwise skip to question QS12.**

QS11. Are there any groups you do business with that are closer in total contract size to the Federal group than either of your SSSGs?

YES                       NO

If Yes, explain why the groups are not SSSGs

QS12. Did either of the SSSGs receive any type of discount, or any other type of rate advantage over the Federal group? (Note that we interpret an industry factor less than 1.0 as a discount factor)

YES                       NO

If Yes, explain what kind of discount or rate advantage the SSSG received

If Yes, did you apply the discount to the Federal group?

YES                       NO                      If no, explain why

QS13. Did you use **projected** demographics for an SSSG's CRC factors and/or step-up factors?

**Attachment IIB, Section 2 – SSSG Questionnaire**

YES

NO

If Yes, explain why you used these projections, and show what the factors would be if you had used actual enrollment data. Projected demographics may be used only if there is a clear justification for expecting a change in the enrollment characteristics.

QS14. Did you rate the SSSGs using a method other than that used for the Federal group?

YES

NO

If Yes, explain why and provide your underwriting guidelines

QS15. If you use TCR or CRC, are the capitation rates shown on the Backup SSSG Comparison Sheet Form the same for the Federal group and the SSSGs?

YES

NO If No, explain (see Appendix IV)

**Attachment IIIB, Section 3 –TCR Questionnaire**

**TCR Questions**

(Answer only if the carrier uses TCR to develop rates)

QT1. On what type of community rate did you base your 2009 rates for the Federal group and other groups?

Standard set of tiered rates applicable to all groups with a tiered rate structure

Per member/per month capitation rate

You may check both blocks if you use a standard set of tiered rates which are derived from a capitation rate.

Other (Explain)

QT2. If you used a standard set of tiered rates (applicable to all groups) what are they?

Self \_\_\_\_\_ Family \_\_\_\_\_  NA

QT3. If you used a capitation rate, what is the actual (as opposed to what may have been estimated in the proposal) capitation rate on which the 2009 Federal group rates should be based?

\_\_\_\_\_  NA

QT4. If you used a capitation rate for 2009 and converted it to a self rate and a family rate using step-up factors, what are these step-up factors? Specifically, what is the step-up factor used to convert the capitation rate to the self rate? What is the step-up factor used to convert the self rate to the family rate?

$\frac{\text{Self}}{\text{Capitation}} = \underline{\hspace{2cm}}$        $\frac{\text{Family}}{\text{Self}} = \underline{\hspace{2cm}}$

NA (Do not use step-up factors) **Go To Question QT8**

**Attachment IIIB, Section 3 –TCR Questionnaire**

QT5. Are the above step-up factors the same as those used in the 2009 rate proposal which you submitted in May 2008?

YES                       NO

If No, is the reason because the carrier revised its community-wide demographics after the 2009 rate proposal was made (and used the revised step-up factors for its SSSGs)?

YES                       NO

If No, what was the reason for the change in the step-up factors?

QT6. How did you derive the above step-up factors? Explain briefly (a numerical formula for each factor is the preferred form of explanation)

Example:  

$$\text{Self/Capitation} = 1.17 = \frac{.40 + .60(3.5)}{.40 + .60(2.9)}$$

QT7. Do you use step-up factors for all groups?

YES                       NO

If No, explain the criteria that you use to determine when step-up factors are applicable

QT8. If you use enrollment-mix or other demographic assumptions at any point in the development of the 2009 Federal group rates, (including development of step-up factors), what are they?

% Self Contracts	% Family Contracts	Family Size	Other

**Attachment IIIB, Section 3 –TCR Questionnaire**

QT9. Are the demographic assumptions in QT8 the same as they were in the 2009 rate proposal?

YES                       NO                       NA

If No, or NA, is the reason because the carrier revised its community-wide demographics after the 2009 rate proposal (and used the revised demographics for its SSSGs)

YES                       NO                      If No, explain

QT10. What is the source of your demographic information? Is the same source used for all groups? If not, where do you get the demographic information for other groups? Note: You must maintain the source of your demographic data on file for possible examination by the OPM audit staff.

Attachment IIIB, Section 4 – CRC Questionnaire

**CRC Questions**

(Answer only if the carrier uses CRC to develop its rates)

QC1. Did you begin with a capitation rate?

YES                       NO

If Yes, what is the actual capitation rate (as opposed to your estimated capitation used in the proposal) on which the 2009 Federal group rates (Line 1 of Attachment III) should be based?

Capitation Rate = \_\_\_\_\_

If No, explain how you did begin

QC2. What CRC factors do you use?

AGE             SEX             OTHER \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_

QC3. What is your CRC adjustment factor? \_\_\_\_\_

Explain how you derived the CRC adjustment factor. **In particular, on what population data are the CRC utilization factors based? How often do you update the data on which the CRC utilization factors are based?**

QC4. Have you enclosed any worksheets (i.e. sheets showing age/sex distribution and relative utilization factors) you used to derive the CRC adjustment factors? **Please note that you must have documented support for the CRC age/sex factors for both the Federal group and the SSSGs.**

YES                       NO

**If No, please enclose worksheets and change this answer to YES**

QC5. Is the CRC adjustment factor the same as it was in the 2009 rate proposal?

YES                       NO                      If No, why not?

**Attachment IIIB, Section 4 – CRC Questionnaire**

QC6. If you used a CRC-adjusted capitation rate for 2009 and converted it to a self rate and a family rate using step-up factors, what are the step-up factors? Specifically, what is the step-up factor used to convert the capitation rate to the self rate? What is the step-up factor used to convert the self rate to the family rate?

$\frac{\text{Self}}{\text{Capitation}} = \underline{\hspace{2cm}}$                        $\frac{\text{Family}}{\text{Self}} = \underline{\hspace{2cm}}$

NA (Do not use step-up factors) **Go To Question QC10**

QC7. Are the above step-up factors the same as those used in the 2009 rate proposal (which you submitted in May 2008)?

YES                       NO

If No, is the reason because the carrier revised its community-wide demographics after the 2009 rate proposal was made (and used the revised step-up factors for its SSSGs)?

YES                       NO

If No, what was the reason for the change in the step-up factors?

QC8. How did you derive the above step-up factors? Explain briefly (we prefer a numerical formula for each factor here)

Example: $\text{Self/Capitation} = 1.17 = \frac{.40 + .60(3.5)}{.40 + .60(2.9)}$
---

QC9. Do you use step-up factors for all groups?

YES                       NO

If No, explain the criteria you use to determine when step-up factors are applicable



**Attachment IIIB, Section 4 – CRC Questionnaire**

QC10. If you use enrollment-mix or other demographic assumptions at any point in the development of the 2009 Federal group rates, (including development of step-up factors), what are they?

% Self Contracts	% Family Contracts	Family Size	Other

QC11. Are the demographic assumptions in QC10, the same as they were in the 2009 rate proposal?

YES                       NO                       NA

If No, or NA, did the carrier revise its community-wide demographics after the 2009 rate proposal was made (and used the revised demographics for its SSSGs?)

YES                       NO      If No, explain

QC13. If either of your SSSGs has an industry factor less than 1.00, did you apply the lowest factor less than 1.00 to the Federal group rates?

YES                       NO      If No, explain

QC14. If both SSSGs have industry factors greater than 1.00, did you apply an industry factor of 1.00 to the Federal group rates?

YES                       NO              If No, explain

QC15. Explain how you derive the "relative utilization factors" associated with your age/sex distribution sheet.

Note that we would expect the factors to be based on the utilization experience of the different age groups of the total employee population the carrier services. In some cases, a carrier might use factors based on some other large population. Please make it clear to us exactly where your relative utilization factors come from, and on what population they are based.

**Attachment IIB, Section 4 – CRC Questionnaire**

QC16. When you derive the CRC adjustment factor, do you include the number of Federal annuitants over age 65 anywhere in the calculation? In general, explain how you use the group of Federal retirees (if at all) in your calculation of the CRC factor. **IMPORTANT! DO NOT SKIP THIS QUESTION**

YES

NO

If yes, have you given us a credit for Medicare Reimbursement?

**Attachment IIIB, Section 5 – ACR Questionnaire**

**ACR Questions**

(Answer only if the carrier uses ACR to develop its rates)

QA1. What method of ACR did you use for your 2009 rate proposal?

A Method Using Actual Claims Data

Any Other Method (Go to QA12)

Note: You should have on file any claims/utilization data supporting the rates for the Federal group and SSSGs.

If your method used actual claims data, the claims data used to develop the FEHB rates and the SSSGs' rates should be saved on an accessible computer medium (cartridge tape, CD-ROM, etc). This data used in the rate reconciliation should be maintained for the time period stated in the financial records section of your contract with OPM.

QA2. Did you use the same experience period (and the same claims within that period) in the reconciliation that you used in the proposal?

YES

NO

If No, explain; as a general rule, neither the experience period nor the claims should change between the proposal and the reconciliation.

QA3. Did you use the same trend that you used in the proposal?

YES

NO

If No, explain

What trend do you use in the reconciliation? \_\_\_\_\_

What trend did you use in the original proposal? \_\_\_\_\_

QA4. Did you use the same trend for the SSSGs that you used for the Federal group?

YES

NO

If No, explain

**Attachment IIIB, Section 5 – ACR Questionnaire**

QA5. If you use completion factors to derive incurred claims, do you use the same set of factors for all groups?

YES       NO       NA      If No, explain

QA6. If you use a completion factor to derive incurred claims, did the factor remain the same between the proposal and the reconciliation?

YES       NO       NA      If No, explain

QA7. What kind of administrative loading did you use?

A flat community rated pm/pm administrative charge

A percentage of claims

Other

Explain how you computed the administrative charge.

QA8. Did the claims used in the rate development reflect special benefits? **Note: If special benefits were not included in the claims, please have on file claims/utilization reports to support this assertion.**

YES       NO

QA9. Did you reduce claims used in the rate development by Coordination-Of-Benefits (COB) income that the carrier received from other insurance carriers (excluding CMS)?

YES       NO

If No, you should give us a credit for any monies received from other insurance carriers

**Attachment IIIB, Section 5 – ACR Questionnaire**

QA10. Do you include age 65-or-above retirees in the claims or utilization data used to determine the ACR factor or rates?

YES

NO

If No, you should include a standard Medicare Loading

QA11. If you answered Yes to QA10, are CMS reimbursements included in the group's experience?

YES

NO

If No, the Medicare Loading should be a credit for all monies received from CMS; if Yes, there should be no Medicare Loading

**All Medicare funds collected on behalf of Federal retirees must be applied to the Federal rates.=**

QA12. Explain in narrative form how you derived your line 1 rates. **INCLUDE CALCULATIONS.** If you derived a capitation rate from claims data, and used step-up factors to adjust it, show this. If you used a method based on utilization factors, show how you broke the capitation rate into components, what you used for utilization factors, what the adjusted capitation rate is, etc. Use extra sheets if necessary. **DO NOT SKIP THIS SECTION OR REFER US TO ANOTHER SHEET. WHAT WE WANT HERE IS A SIMPLE EXPLANATION OF YOUR LINE 1 RATES.**

Attachment IIB, Section 5 – ACR Questionnaire

**Documentation of 2009 Community Rates and Riders**  
**(Large Carriers Only)**

If the State requires the carrier to file its official community rates with the State insurance department, OPM requires a copy of this filing. If the insurance department must approve such a filing, also send us a copy of the approval. **BE SURE TO CIRCLE IN RED ALL RATES AND RIDERS ON THE INSURANCE FILING THAT APPLY TO THE FEHB.**

If the State does not require the carrier to file its community rates, we require some other form of documentation.

Acceptable documentation includes:

- 1) Rate development sheets for the carrier's SSSGs
- 2) Rating guidelines used by the carrier's rating personnel

The Reconciliation Questionnaire contains some questions pertaining to the rate development of the SSSGs. Provide any backup documents that will enable us to better understand the answers to these questions.

**Attachment V**

**Certificate of Accurate Pricing**  
**For Community Rated Carriers**

This is to certify that, to the best of my knowledge and belief:

- 1) The cost or pricing data submitted (or, if not submitted, maintained and identified by the carrier as supporting documentation) to the Contracting Officer or the Contracting Officer's representative or designee in support of the 2009 FEHB rates were developed in accordance with the requirements of 48 CFR Chapter 16 and the FEHB contract and are accurate, complete, and current as of the date this certificate is executed; and
- 2) The methodology used to determine the FEHB rates is consistent with the methodology used to determine the rates for the carrier's Similarly Sized Subscriber Groups.

<b>Firm</b>	
<b>Name</b>	
<b>Title</b>	
<b>Signature</b>	
<b>Date</b>	

**Attachment VI**

**Carrier Contacts**

For information about your reconciliation, we should contact:

<b>Name</b>	
<b>Phone Number</b>	
<b>Fax Number</b>	
<b>E-mail</b>	

OR

<b>Name</b>	
<b>Phone Number</b>	
<b>Fax Number</b>	
<b>E-mail</b>	



## Appendix I

### Definitions

ACR – The acronym for Adjusted Community Rating

Capitation Rate – A per-member per-month revenue requirement

Carrier – The entity contracting with OPM

Employer Groups – Any group with which an FEHB carrier enters into an agreement to provide health care services

Plan – A carrier's contract within a rate code area

Provider Partners – Employee groups in which the carrier shares a financial interest, provides medical services to the carrier, or maintains a risk sharing agreement; the fact a carrier conducts business with an employee group does not render it a provider partner

Purchasing Alliances – Any groups bonding together to purchase health insurance

Rate Code Area – The area under which the rate code covers; in the case where an additional product other than the traditional HMO is offered in the same area, such as a consumer driven plan or HDHP and a different rate code is assigned to that product, the rate code area will be the area covered by the traditional HMO

Rating Methodology – A series of well-defined procedures a carrier follows to determine the rates it will charge to its subscriber groups. An independent professional must be able to follow these procedures and reach the same conclusion. Some examples that are not considered as a valid rating methodology are:

- Arbitrarily setting rates by a rating committee that meets to determine final rates
- Setting a fixed-rate increase over the prior year rates

Rating Region – The total area over which the carrier controls its rates; this is usually the state. (See Appendix III for examples)

Renewal Date – The date a rate change (if any) is effective for the SSSG

Retrospective Experience Rating – Retrospective Experience Rating is experience rating where either gains or losses are carried forward or there is a settlement between the insurer and the employer group; settlements do not have to incorporate total gains or losses

"Step-up" Factors - One that converts the capitation rate to a self rate; these factors are related to family size and market considerations, and are in accordance with the standard documented procedures; some carriers have a step-up factor that converts the capitation rate directly to a family rate

Subscriber Enrollment – Subscriber enrollment refers to contract enrollment; for example, this could be the total self and family contract enrollment, or the total self, couples, and family contract enrollment

Surcharge – A loading that is not definable based on any established rating method

## Appendix I

Total Replacement Group – An employee group where the carrier is the only health insurance provider for that employer in the rate code area

## Appendix II

### Selection of SSSGs - Examples

The following examples illustrate the above policies:

**Case 1 One state, one Federal rate code area, one rating region and all groups are in one state:**

The FEHB has one rate code area in Texas. Two SSSGs are required. The carrier operates in the state of Texas with one Federal rating region. All the groups the carrier contracts with are in Texas. The carrier controls rates for all of Texas; therefore, Texas is the rating region. The total enrollment in Texas for each group, that has at least 5 percent of its total enrollment in the Federal rate code area, should be compared with the FEHB enrollment to decide if the group is an SSSG.

**Case 2 One state, two Federal rate code areas, one rating region and all groups are in one state:**

The FEHB has two rate code areas in Texas: one in Dallas and one in Houston. Two SSSGs are required for each Federal rate code area. The carrier operates in the state of Texas with one rating region. All the groups the carrier contracts with are in Texas. The carrier controls rates for all of Texas; therefore, Texas is the rating region. If at least 5 percent of the total enrollment of a group is in the Federal rate code area in **Dallas**, the carrier should use the total enrollment of that group in **Texas**. The carrier should compare the group's total enrollment with the FEHB's enrollment in **Dallas** to determine if the group is an SSSG for the **Dallas** rate code area. The carrier follows the same procedure to select SSSGs in Houston.

**Case 3 One state, two Federal rate code areas, two rating regions, and all groups are in one state:**

The FEHB has two rate code areas in Texas: one in Dallas and one in Houston. Two SSSGs are required for each Federal rate code area. The carrier operates in the state of Texas with two rating regions. The Dallas rating region controls the rates in Dallas and the Houston rating region controls the rates in Houston. The carrier contracts with the XYZ Corporation in Texas. If at least 5% of the total XYZ Corporation enrollment in the Dallas rating region is in the Federal rate code area in Dallas, then the carrier should use the total XYZ Corporation enrollment in Dallas. The carrier should compare the group's total enrollment in Dallas with the FEHB's enrollment in Dallas to determine if the group is an SSSG for the Dallas rate code area. The XYZ Corporation's rates in Dallas will be used to determine any discounts. The carrier follows the same procedure to select SSSGs in Houston. The XYZ Corporation may be an SSSG in Houston based on its enrollment there.

**Case 4 One state, one Federal rate code area, one rating region and some groups are in more than one state:**

The FEHB has one rate code area in Texas. Two SSSGs are required. The carrier operates in the state of Texas. The carrier controls rates for all of Texas; therefore, Texas is the rating region. The carrier contracts with XYZ Corporation, which has enrollees in Texas and nine other states. If at least 5 percent of the total XYZ Corporation enrollment in Texas is in the Federal rate code area, then the carrier should use the total XYZ Corporation enrollment in Texas to compare with the FEHB enrollment in Texas to determine if the group is an SSSG. The XYZ Corporation's rates in Texas will be used to determine any

## Appendix II

discounts.

### **Case 5 One state, two Federal rate code areas, one rating region and some groups are in more than one state:**

The FEHB has two rate code areas in Texas: one in Dallas and one in Houston. Two SSSGs are required for each Federal rate code area. The carrier operates in the state of Texas with one rating region. The carrier controls rates for all of Texas; therefore, Texas is the rating region. The carrier contracts with XYZ Corporation, which has enrollees in Texas and nine other states. If at least 5 percent of the total XYZ Corporation enrollment in Texas is in Dallas, then the carrier should use the total XYZ Corporation enrollment in Texas. The carrier should compare the group's total enrollment in Texas with the FEHB's enrollment in Dallas to determine if the group is an SSSG for the Dallas rate code area. The XYZ Corporation's rates in Texas will be used to determine any Dallas discount. The carrier follows the same procedure to select SSSGs in Houston.

### **Case 6 One state, two Federal rate code areas, two rating regions and some groups are in more than one state:**

The FEHB has two rate code areas in Texas: one in Dallas and one in Houston. Two SSSGs are required for each Federal rate code area. The carrier operates in the state of Texas with two rating regions. The Dallas rating region controls the rates in Dallas and the Houston rating region controls the rates in Houston. The carrier contracts with the XYZ Corporation, which has enrollees in Texas and nine other states. If at least 5 percent of the total XYZ Corporation enrollment in the Dallas rating region is in the Federal rate code area in Dallas, then the carrier should compare the total XYZ Corporation enrollment in the Dallas rating region with the FEHB enrollment in Dallas to determine if the group is an SSSG for the Dallas rate code area. The XYZ Corporation's rates in Dallas will be used to determine any discounts. The carrier follows the same procedure to select SSSGs in Houston.

### **Case 7 Two states, one Federal rate code area, one rating region and groups are in two states:**

The FEHB has one rate code for all enrollees. Two SSSGs are required. The carrier operates in two states: Texas and Arizona. The carrier controls rates for all of Texas and Arizona; therefore, Texas and Arizona is the rating region. The total enrollment for each group the carrier contracts with in Texas and Arizona, that has at least 5 percent of its total enrollment in the Federal rate code area, should be compared with the FEHB enrollment to decide if the group is an SSSG. The group's rates in the two states will be used to determine any discounts.

### **Case 8 Two states, one Federal rate code area, one rating region and some groups are in more than two states:**

The FEHB has one rate code for all enrollees. Two SSSGs are required. The carrier operates in two states: Texas and Arizona. The carrier controls rates for all of Texas and Arizona; therefore, Texas and Arizona is the rating region. The carrier contracts with XYZ Corporation, which has enrollees in Texas and Arizona and eight other states. If at least 5 percent of the total XYZ Corporation enrollment in Texas and Arizona is in the Federal rate code area, then the carrier should compare the total XYZ Corporation enrollment in Texas and Arizona with the FEHB enrollment in Texas and Arizona to determine if the group is an SSSG. The XYZ Corporation's rates in Texas and Arizona will be used to determine any discounts.

## Appendix III

### Examples of Rating Regions

#### Example 1

HMO ABC operates in Pennsylvania and has two separate rating entities HMO ABC Pittsburgh and HMO ABC Philadelphia. Pittsburgh and Philadelphia determine rates for groups within their area only. Therefore, Pittsburgh is HMO ABC Pittsburgh's **rating region** and Philadelphia is HMO ABC Philadelphia's **rating region**.

#### Example 2

HMO DEF operates in Florida. It has five separate rating codes throughout the State of Florida. HMO DEF controls the rates for each rate code. Therefore, the State of Florida is the **rating region**.

## Appendix IV

### Further Details for Question S15

#### Question S15

Make sure that by the time we finish reading your explanation in QS15, it will be clear to us why the Federal rates differ from the SSSG rates. If you have included rate development sheets for these groups, do not refer us to these sheets at this point. What we want in this answer is a simple explanation of how the SSSG rates differ from the Federal group rates.

The SSSG Comparison Form will be referred to in SSSG Questionnaire (#15). In the example shown on page 19, the capitation for the Federal group is \$100, but only \$98 for SSSG #1. In SSSG Question 15, the explanation could be as follows:

SSSG #1 Capitation	\$ 98.00
Adjustment for "Gold Plan"*	<u>\$ 2.00</u>
Federal Group Capitation	\$100.00

\* The Federal group has the "Gold Plan," which includes extra psychiatric benefits and a durable medical equipment benefit. SSSG #1 has the "Silver Plan," which is the "Gold Plan" without the aforementioned extra benefits. The capitation for these benefits is as follows:

Psychiatric Benefit	\$1.50
DME Benefit	<u>\$ .50</u>
Gold Plan Extra Benefits	\$2.00

**Note:** The above example enables us to see precisely why the capitation for SSSG #1 is different from the Federal group's capitation. The goal of your explanation is to make any such differences in capitation rates clear to us.