

# The Affordable Care Act:

## ■ Rating Factor Limitations ■

**The Centers for Medicare and Medicaid Services (CMS)** issued final regulations under the Affordable Care Act that would address how premium rates are calculated for non-grandfathered plans and policies sold in the small-group and individual markets. (See definitions for “non-grandfathered” and “small group” on page 3.)

Specifically, for plans with effective dates on or after January 1, 2014, the rates for a particular plan or coverage may vary based on the following factors:

1. Whether coverage is for an individual or family
2. Geographic rating area
3. Age
  - a. The rate must not vary by more than 3:1 for like individuals of different age who are 21 years and older

**Example:** *If a 21-year-old woman's premium is \$200 a month for a particular health plan, a 64-year-old woman's premium for that same health plan cannot be more than \$600 a month ( $\$200 \times 3 = \$600$ ).*

- b. The variation in rate must be actuarially justified for individuals under age 21, consistent with a uniform age rating curve. A state may use a narrower ratio with approval from CMS.
  - c. A person's age for rating purposes is their age at the time of the policy's effective or renewal date.
4. Tobacco use (see definition on page 3)
  - a. Rates based on tobacco use may not vary by more than 1.5:1 for similar individuals who vary in tobacco usage. A state may use a narrower ratio with approval from CMS.

**Example:** *The average premium for a health plan in a particular rating area for a 46-year old man who is a nonsmoker is \$400 a month. John Doe has the same plan, lives in the same area and is also 46 years old. However, he smokes. His monthly premium cannot be more than \$600 a month ( $\$400 \times 1.5 = \$600$ ).*

- b. Rates for tobacco users can vary up to the 1.5:1 ratio. In other words, younger smokers may have lower tobacco rating factors (e.g., 1.25) than older smokers (e.g., 1.5).
  - c. The tobacco rate may be applied to individuals who may legally use tobacco under federal and state law.

### Geographic Rating Areas

A state may establish one or more rating areas based on the geographic boundaries listed below:

1. States that established uniform rating areas before January 1, 2013, may use counties, three-digit ZIP codes or metropolitan statistical areas (MSAs) along with one non-MSA. (See definition for MSA on page 3.)
2. States that established uniform rating areas after January 1, 2013 may establish rating areas that are no greater in number than the number of MSAs in that state plus one (MSA + 1 rule).

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3. States may propose to create more than the MSA + 1 rule with CMS approval. In determining whether these additional rating areas are adequate, CMS will consider whether they are actuarially justified, are not unfairly discriminatory, reflect significant differences in health care unit costs, lead to stability in rates over time, apply uniformly to all issuers in the market and are based on the geographic boundaries of counties, three-digit ZIP codes or MSAs and non-MSAs.

If a state's rating areas are not consistent with these requirements or a state does not establish rating areas, the default will be the MSA + 1 rule.

**Example:** If Florida followed the MSA + 1 rule, it would have 22 rating areas. One for each of its 21 MSAs and one more for all non-MSAs.

### Uniform Age Bands

The following uniform age bands apply to the age variation factor:

- **Child age bands:** A single age band for individuals age 0 to 20 years
- **Adult age bands:** One-year age bands starting at 21 years and ending at age 63
- **Older adult age bands:** A single age band for individuals age 64 and older

Additionally, each state must establish a uniform age rating curve and submit information about it to CMS. If a state does not establish a uniform age rating curve, the proposed default established by CMS will apply, which takes into account the rating variation permitted for age under state law.

### Variation Based on Age or Tobacco

In the **individual market**, any rate variation based on age or tobacco use must be applied to the appropriate portion of the premium attributable to each covered family member. Specifically, the total premium for family coverage must be determined by summing the premiums for each individual family member. For example:

**Rate for 50-year-old adult who smokes**

+

**Rate for 48-year-old adult nonsmoker**

+

**Rate for 16-year-old minor**

In determining the total premium for larger families, rates would include all the adults and the three oldest covered children who are less than 21 years old. If a state does not permit any rating variation for age or tobacco use, the state may elect to require that premiums for family coverage be determined by using uniform family tiers and the corresponding multipliers established by the state and as approved by CMS.

### CMS PROPOSED STANDARD AGE CURVE

Age	Premium ratio*	Age	Premium ratio	Age	Premium ratio
0-20	0.635	35	1.222	50	1.786
21	1.000	36	1.230	51	1.865
22	1.000	37	1.238	52	1.952
23	1.000	38	1.246	53	2.040
24	1.000	39	1.262	54	2.135
25	1.004	40	1.278	55	2.230
26	1.024	41	1.302	56	2.333
27	1.048	42	1.325	57	2.437
28	1.087	43	1.357	58	2.548
29	1.119	44	1.397	59	2.603
30	1.135	45	1.444	60	2.714
31	1.159	46	1.500	61	2.810
32	1.183	47	1.563	62	2.873
33	1.198	48	1.635	63	2.952
34	1.214	49	1.706	64 and older	3.000

In the **small-group market**, the total premium charged to a small-employer group shall be determined by summing the premiums of all plan members based on the same calculation used for the individual market. However, with CMS approval, a state can either require or allow health insurance issuers to offer group premiums based on average enrollee amount, if the total group premium is the same amount as would otherwise be calculated under the proposed regulation.

In setting employee contributions, employers have two options:

1. Set the employee contribution as a percentage of the group premium (i.e., older employees and smokers could pay more).
2. Generate a composite rate where each employee's contribution is the same, except for variation due to single coverage and/or family size.

## DEFINITIONS

**Grandfathered and non-grandfathered plans:** Many health plans that existed before the ACA was passed (March 10, 2010) do not have to implement many aspects of health care reform. These plans are considered to be "grandfathered." Plans that do not meet the standards to be considered grandfathered and are, therefore, required to implement all applicable ACA regulations are called "non-grandfathered" health plans.

**Small group:** ACA regulations define small groups as organizations with 1 to 100 employees, including part-time and seasonal employees. However, in 2014 and 2015 states will continue to use their definitions of small groups, which are typically employers with less than 50 employees.

**Tobacco use:** Must be defined in terms of when a tobacco product was last used. Specifically, the use of tobacco on average four or more times per week within no longer than the past 6 months. This does not include the religious or ceremonial use of tobacco.

**Metropolitan statistical area (MSA):** The Office of Management and Budget determines what areas are considered MSAs. An MSA is a geographical region with a relatively dense population and close economic ties throughout the area. An MSA could be a city and its surrounding suburbs (e.g., Chicago) or it can contain more than one city in close proximity and suburbs (e.g., Minneapolis-St. Paul).

**\*Premium ratio:** A premium ratio helps determine what someone will pay for their health insurance. It is multiplied by the average health insurance premium. For example, a 16-year-old has a premium ratio of .635. The average health insurance premium is \$400 per month. The premium for the 16 year old is \$235 ( $\$400 \times .635 = \$235$ ).

Coventry Health Care is dedicated to offering our customers affordable, quality health coverage. In keeping with this, we are implementing strategies to minimize the impact of ACA regulations.

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