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➤ OPM Reconciliation Guidelines - 2001

The guidelines discuss our general policy for the 2001 reconciliation. Note: Attachment I and Attachment II were part of the 2001 rate proposal.

➤ Attachment III

We use the Reconciliation sheet to determine the difference between your estimated 2001 Federal group rates proposed in May 2000 (Line 6) and the actual 2001 Federal group rates (Line 5). **These actual rates should be equivalent to the lowest rates you charged a Similarly Sized Subscriber Group (SSSG).**

➤ Instructions for Attachment III

Line-by-line instructions for completing Attachment III.

➤ Attachment IIIA

Use the Reconciliation Backup Sheet to record backup calculations for the rates and loadings on Attachment III. Use additional sheets if necessary.

➤ Attachment IIIB

Complete the Reconciliation Questionnaire carefully. We designed it to help us review your reconciliation quickly and efficiently. If you re-type this questionnaire, place the questions and answers on only one side of each sheet.

The Reconciliation Questionnaire is divided into five sections:

- Section 1 - General Questions. This section asks general questions. **You must complete this section.**
- Section 2 - SSSG Questions. This section concerns your Similarly Sized Subscriber Groups (SSSGs). **You must complete this section.**
- Section 3 - TCR Questions. This section asks questions about Traditional Community Rating (TCR). **Complete this section only if you use TCR to rate the Federal group.**
- Section 4 - CRC Questions. This section asks questions about Community Rating by Class (CRC). **Complete this section only if you use CRC to rate the Federal group.**

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- Section 5 - ACR Questions. This section asks questions about Adjusted Community Rating (ACR). **Complete this section only if you use ACR to rate the Federal group.**

➤ Attachment IV

This is an instruction sheet for submitting documentation of the community rates for groups renewing on January 1, 2001. **Submit this documentation if you are a large carrier.** We prefer a State insurance department filing. If you do not file rates, you must send other documentation showing that the Federal group pays rates based on your community rates (and/or rates which are equivalent to the rates for the SSSGs). Please **CIRCLE IN RED all numbers in the documentation that you use in the reconciliation.**

➤ Attachment V

This Certificate of Accurate Pricing For Community-Rated Carriers certifies that your reconciliation information is accurate and we can rely on it to determine the 2001 Federal group rates. **A contracting official of your carrier must complete and sign this document.**

➤ Attachment VI

This form gives us the names, telephone numbers, e-mail addresses, and fax numbers of two persons we can contact about your reconciliation.

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Note: Throughout these OPM Reconciliation Guidelines, the bold-faced type indicates that the information is significant.

Note: The word "carrier" means the entity contracting with OPM and the word plan means the policy/contract.

➤ **Policy On 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. The OIG will not conduct subsequent audits of that year's rates for these plans.

Once the rates are finalized, however, 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 you have 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 these rates are affected by a subsequent audit performed on previous contract years.

➤ **Policy On 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 an amended proposal and/or reconciliation (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 audit that have been resolved by OPM's Office of Insurance Programs (OIP). That is, after an audit resolution by OIP, the results are final.

➤ **Similarly-Sized Subscriber Groups (SSSGs)**

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The reconciliation requests information on your carrier's Similarly Sized Subscriber Groups (SSSGs). At the time of your 2001 proposal, our regulation, 48 CFR 1602.170-13, defined SSSGs as follows:

(a) Similarly sized subscriber groups (SSSGs) are a comprehensive medical plan's two employer groups that:

- (1) As of the date specified by OPM in the rate instructions, have a subscriber enrollment closest to the FEHBP subscriber enrollment; and
- (2) Use any rating method other than retrospective experience rating; and
- (3) Meet the criteria specified in the rate instructions issued by OPM.

Note: "subscriber enrollment" refers to contract enrollment. This could be the total self and family contract enrollment, or the total self, couples, and family contract enrollment, or some other sum, depending of the rate structure of the group.

Note: Alliances and Coalitions are considered employee groups for this purpose and may be SSSGs.

(b) Any group, including HIPICS or Purchasing Alliances, with which an FEHB carrier enters into an agreement to provide health care services may be an SSSG (including separate lines of business, government entities, groups that have multi-year contracts, and groups having point of service products).

(c) Exceptions to the general rule stated in paragraph (b) of this section are (and the following groups must be excluded from SSSG consideration):

- (1) Groups the carrier rates by the method of retrospective experience rating;
- (2) Groups consisting of the carriers own employees;
- (3) Medicaid groups, Medicare groups, and groups that have only a stand alone benefit (such as dental only); and
- (4) A purchasing alliance whose rate-setting is mandated by the State or local government.

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(d) OPM shall determine the FEHBP rate by selecting the lower of the two rates derived by using the two rating methods consistent with those used to derive the SSSG rates.

For the 2001 rate year, the specific guidelines for SSSGs are as follows:

(1) All group enrollments (the Federal group and the SSSG enrollments) should be the latest 2001 enrollment available to the carrier up to March 31, 2001.

(2) The contract renewal date for 2001 SSSGs should be between July 2, 2000 and July 1, 2001. **"Renewal date" means the date a rate change (if any) is effective for the SSSG.**

Note: We stated these guidelines in the 2001 rate instructions.

Note: If an SSSG's rate is extended beyond twelve months (i.e. the carrier allows an SSSG to change its renewal date), a premium adjustment must be made for the SSSG in the following year, or the OPM audit staff will interpret the rate extension as a discount.

Note: New groups are eligible to be SSSGs.

We developed the SSSG concept to ensure that OPM receives an equitable and reasonable market-based rate. For the 2001 rate year, OPM will focus on the rating methods used for the two SSSGs to determine if the carrier appropriately derived the Federal group rates.

OPM requires the Federal group rates to be equivalent to the rates for the SSSGs. Therefore, we expect the Federal group to receive both the largest rate discount given to either SSSG and any other advantages given to the SSSGs. For example, if the carrier gives an early rate quote (based on a lower community rate than the rates later quoted other groups) to an SSSG and does not revise it at a later date, we will interpret the SSSG rate as a discounted rate, and require a similar rate discount for the Federal group. **As another example, if the carrier rates an SSSG using a rating method not in accord with carrier-established policies, the Federal group is entitled to any rate reduction produced by applying the SSSG rating method to the Federal group.**

The OPM audit staff may examine the rates and benefit loadings of non-SSSG groups. The purpose of such analysis is to make certain the Federal group rates are fair in relation to the SSSG rates. For example, if an SSSG had a

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special benefit not included in the Federal group benefit package, OPM would compare what the carrier charged the SSSG with what it charged other groups for this benefit. The purpose would be to verify that the SSSG received no discount.

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.**

OPM will review the carrier's SSSGs to verify that the carrier complies with OPM rating principles including Federal group rate adjustments based on the carrier's treatment of its SSSGs.

➤ **Special Loading For Enrollment Discrepancies**

Since 1997, as the result of negotiations between OPM and representatives of community-rated carriers, we amended the Standard Contract for Federal Employees Health Benefits. The contract now provides for a special premium loading of 1% to account for enrollment discrepancies. **Note: The carrier must explicitly take this loading, but may eliminate its effect by also giving the Federal group a 1% discount. The carrier should keep in mind that its contract with the FEHBP 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)."**

➤ **Multiple Rating Areas**

We require that both SSSGs be chosen only from groups that have at least 1% of the group's total enrollment is in the Federal group's region.

Normally, a carrier must choose two SSSGs for every unique Federal rate code. It is possible that a carrier could have several different geographical regions of federal enrollees

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under the same rate code. It is even possible that these regions could be in different states.

Our SSSG policy regarding Federal groups in different regions under the same rate code is as follows:

- (a) Those Federal groups in the same state or in the same metropolitan area must be combined and the carrier must choose two SSSGs for the combined Federal group.
- (b) Those Federal groups in different states (but not in the same metropolitan area) must be combined, and the carrier must choose two SSSGs for the combined Federal groups. The following examples illustrate the above policies:

Example 1

A carrier operates only in the state of Texas. It serves federal enrollees in three distinct geographical areas, Dallas, Houston and San Antonio. Each region has it's own rate code.

The carrier must choose two SSSGs for each region. Each region's SSSGs would come from groups the carrier does business with having enrollees in that region.

Example 2

Same situation as in Example 1 except that one rate code applies to all three regions, and the same rate applies for all federal enrollees throughout the three regions.

In this case, the carrier must combine the Federal enrollment for all three regions, and choose two SSSGs for the combined group.

Example 3

A carrier operates in two states, Texas and Arizona. In Texas it serves federal enrollees in Dallas, Houston, and San Antonio. In Arizona, it serves federal enrollees in Phoenix, Tucson, and Tombstone. One rate code applies to all six regions.

In this case, two SSSGs are required for the combined six regions. Groups the carrier does business with in either Texas or Arizona are potential SSSGs.

The same principle applies if the carrier operates in several states.

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Example 4

A carrier operates in two states, and serves a metropolitan area that is in both states. The rate code is the same for all enrollees in the metropolitan area.

In this case, two SSSGs are required for the combined metropolitan region enrollment.

Example 5

The size of the Federal group in a region is 1700. The carrier contracts with the statewide XYZ corporation, which has 1500 enrollees statewide with the carrier and 100 of the enrollees live in the same region where the Federal group is located.

The XYZ corporation would be a candidate for an SSSG since it has over 1% of its enrollees in the Federal group's region. The group's 1500 enrollees statewide would be used for SSSG selection purposes.

Note: Example 5 illustrates that a group having only part of its enrollment in the Federal group's region can be an SSSG. If the rates for XYZ corporation are negotiated collectively, it is considered one group and the weighted average of the rates taken.

Example 6

This is the same as example 5 except the XYZ corporation has only 3 of its enrollees living in the same region where the Federal group is located. In this case the XYZ corporation could be omitted from being a candidate for an SSSG since less than 1% of its enrollment resides in the Federal group's region.

Policy and Information required for carriers who have an SSSG that is a Coalition or Alliance

An alliance may consist of many groups. We will use the two largest groups in the coalition or alliance to reduce the burden on plans.. The discount the alliance receives for rating purposes would be the weighted average of the discount of the largest two groups.

For example: One of a carrier's SSSGs is the XYZ coalition. The XYZ coalition consists of 100 groups. The two largest groups in the XYZ coalition are A corporation and B corporation. A corporation has 600 contracts and received a 3% discount and B corporation had 400 contracts and received a 4%

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discount.

Then the weighted discount for corporation A and corporation B would be $((.03 \times 600) + (.04 \times 400)) / 1000 = .034$ or 3.4%. This would be considered the discount the XYZ coalition received.

For any alliance that is an SSSG we will require a summary of all the groups in the alliance and the enrollment and rates for each of these groups.

For alliances that are nationwide but rated independently and contracted with by site, we will consider for SSSG purposes the enrollment and rates by site.

Special Instruction if a carrier has a national group as an SSSG

If a national contract has more than 1% of its enrollment in the region being rated, use the total national enrollment to determine if the group is an SSSG. Since the group may have many different sites with many different rates, the discount given to the group is calculated by determining the average discount given to the two largest sites.

For example, one of the carrier's SSSGs is the XYZ corporation, which consists of 2000 contracts. The two largest sites are City A and City B. City A has 600 contracts and received a 1% discount. City B has 400 contracts and received a 2% discount. Then the weighted average of the two discounts is $((600 \times .01) + (400 \times .02)) / 1000 = .014$ or 1.4%. This would be considered the discount the XYZ corporation received.

For the XYZ corporation, we will request a summary of all the different sites, the enrollment for each site and the rates for each site.

➤ **State Taxes**

5 U.S.C 8909(f)(1) prohibits the imposition of taxes, fees, or other monetary payment, directly or indirectly, on FEHBP premiums by any State, the District of Columbia, or 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 the reconciliation in the form of a negative special benefit loading if your 2001 rates include an amount to recover such monies from the FEHBP.

➤ **Small Carrier Contingency Reserve Payments**

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A small carrier whose rates were reduced by the Office of Actuaries to generate a contingency reserve payment need not request this payment. OPM will automatically make this payment during the summer of 2001.

Attachment III
RECONCILIATION

CARRIER NAME: _____ STATE: _____ CODE: _____

BIWEEKLY NET-TO-CARRIER RATES
2001 CONTRACT YEAR

	<u>SELF</u>	<u>FAMILY</u>	
1. Actual FEHBP Rates -2001	_____	_____	
2. Special Benefit Loadings			
(a) _____	_____	_____	
(b) _____	_____	_____	
(c) _____	_____	_____	
3. FEHBP Rates Plus Special Loadings	_____	_____	
4. Standard Loadings			
(a) Extension of Coverage [.004x(3)]	_____	_____	
(b) Children's Loading	_____	_____	
(c) Medicare Loading	_____	_____	
4d. Subtotal	_____	_____	
4e. Enrollment Discrepancies Loading [.01x(4d)]	_____	_____	
5. Total FEHBP Rates - 2001*	_____	_____	
6. Contract Rate - 2001* Small Carriers Use Line C, Attachment I Here	_____	_____	
7. Difference ((5) - (6))	_____	_____	
+ = Underpayment to Carrier			
- = Overpayment to Carrier			<u>TOTAL</u>
8. March 31, 2001 Enrollment	_____	_____	_____
9. Payment Due Carrier/(FEHBP)	_____	_____	_____
10. Brochure Printing Costs			_____
11. Outstanding Amount Due Carrier/(FEHBP)			_____
12. Total Amount Due Carrier/(FEHBP)			_____

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

Instructions For Attachment III

Large carriers must complete lines 1 through 7 and line 10 of the reconciliation sheet. OPM will complete lines 8, 9, 11 and 12 for large carriers. Small carriers must complete lines 1 through 12 and use the results on line 12 to compute a 2001 rate adjustment.

OPM requires a reconciliation for several reasons. For carriers using Traditional Community Rating (TCR) or Community Rating By Class (CRC) to rate the Federal group, the main reason is that the carrier proposed it's 2001 contract rates seven months before the January 1, 2001 effective date. Therefore, the contract rates are probably based on estimated, rather than actual, community rates. To determine if money is due either OPM or the carrier, you must recalculate the rates, basing your calculations on the carrier's actual community rates (usually in the form of a capitation rate) effective for all groups renewing January 1, 2001.

For carriers using Adjusted Community Rating (ACR) to rate the Federal group, the reconciliation will differ very little from the original proposal (see "Special Instructions For Carriers Using ACR" below).

Note that the actual Federal group rates in the reconciliation should be equivalent to the lowest rates the carrier charged either SSSG no matter what rating method the carrier uses for the Federal group.

The enrollment data you used in the proposal should have been current data (at the time of the proposal). **If you used group-specific demographic assumptions (i.e., family size, self/family enrollment mix, etc.) in the proposal, you must use the same figures in the reconciliation.** In particular, you may not revise the self/family enrollment mix to reflect results of the 2001 open season.

If, however, you used carrier-wide enrollment-mix or other demographic assumptions, and you revised these assumptions after you submitted the proposal (and before January 1, 2001) and you used the revisions for your SSSGs, you should base the reconciliation on the revised assumptions.

There are certain other factors you **should** change for the reconciliation. If your rate is a weighted average of rates in several geographic areas, you should base the weight factors in the reconciliation on the March 31, 2001, enrollment in each area (which you provide OPM). Also, if you recalculate the Medicare loading, you should use the latest Medicare enrollment available.

If you used TCR or CRC to rate the Federal group, when doing the reconciliation, keep in mind that the original Federal group rate proposal based the self and family rates on the carrier's best

Instructions For Attachment III

estimate of its 2001 capitation rate (or equivalent). **The reconciliation is simply a re-submission of the proposal, using the carrier's actual 2001 capitation rate (or equivalent) as a basis for the Federal group's rates.**

SPECIAL RECONCILIATION INSTRUCTIONS FOR CARRIERS USING ACR

If a carrier uses ACR, it may use a method based on utilization data or it may use a prospective method based on actual Federal claims data. **In either case, the carrier must keep on file all data necessary to justify the ACR rate (i.e., claims, utilization etc.). You must save backup tapes of your claims database for audit purposes. Note: this information should also be available for the SSSGs.**

A carrier using an ACR method based on utilization should do the reconciliation in a manner similar to a CRC reconciliation. The following special rules that apply for a claims-based ACR method were stated in the 2001 rate instructions and are as follows:

- 1) The experience period (and the claims used within that period) may not change in the reconciliation. It must be the same period (and the same claims) you used in the proposal.
- 2) If you used completion factors to convert paid claims to incurred claims, such factors must be the same for all groups for which you used a claims-based ACR method.
- 3) Any method you used to convert paid claims to incurred claims must be consistent for all groups you rated by a claims-based ACR method.
- 4) If claims include special benefits claims, you should take no special benefits loadings (either in the proposal or reconciliation). Note that claims should reflect extension of coverage, which means that you should not take the extension of coverage loading.
- 5) If claims include those of annuitants age 65 and over, you must reduce claims by an amount equal to Medicare income from HCFA or we must receive a credit for monies received from HCFA. (See ACR Questions QA10 and QA11)
- 6) Loadings for administrative expenses must be either:
 - a) a flat community rated pm/pm amount or
 - b) a standard percentage of claims

Instructions For Attachment III

c) a method consistently applied to the FEHBP and the SSSGs.

- 7) Any trend factor used for the Federal group must be the same as the trend factor the carrier used for other groups (that is, you may not base a trend factor for the Federal group on the Federal group's experience).

Note: The reconciliation for a carrier using a claims-based ACR method for the Federal group should differ only slightly from the original rate proposal. The only components that can change are:

- 1) **Trend Factor.** If you used an estimated trend factor in the 2001 proposal and later changed it (before January 1, 2001) for all groups for which you used a claims-based ACR method, you must use the revised factor in the 2001 reconciliation.
- 2) **Administration Cost Factor.** If you used an estimated administration cost factor in the 2001 proposal and later changed it (before January 1, 2001) for all groups for which you used a claims-based ACR method, you must use the revised factor in the 2001 reconciliation.

Note: Both the trend factor and the administration cost factor must be consistent with the lowest such factors used for either SSSG.

Instructions For Attachment III

The following gives a line-by-line explanation of how to fill out the reconciliation sheet. Item numbers correspond to line numbers on Attachment III.

1. Actual FEHBP Rates - 2001

This is the most significant part of the reconciliation process. Please do it carefully. The fundamental idea behind the reconciliation is that it is a revision of the original proposal.

TCR and CRC Carriers

For carriers using TCR or CRC, the reconciliation usually involves substituting the carrier's actual 2001 capitation rate (or equivalent) for the estimates you used in the proposal. The enrollment mix and all other demographic assumptions remain the same as in the proposal (with some exceptions, as indicated earlier). **Note that these "actual" rates should be the basis for the Federal group's rates and for the rates of both SSSGs.**

Community-rated carriers use different methods to develop rates. Those using TCR or CRC usually base their rates on a "per member per month" rate (a.k.a. capitation rate) which the carrier then converts to self and family rates by means of "step-up" factors. These factors are related to family size and market considerations, and the carrier derives them by documented procedures.

There is usually a step-up factor that converts the capitation rate to a self rate and another factor that converts the self rate to a family rate. Some carriers have a step-up factor that converts the capitation rate directly to a family rate. However it is done, the goal is for the projected income generated by the self and family rates to equal the income that would be generated if each individual paid the capitation rate.

If you used a procedure based on a capitation rate to derive the 2001 self and family rates in the rate proposal submitted in May 2000, you must go through this procedure again to derive Line 1 of the reconciliation sheet (Attachment III). You must, however, use the **actual** January 1, 2001, capitation rate in this procedure instead of the estimate used in the proposal (keeping in mind that this "actual" capitation rate must be equivalent to the one used to derive the rates for the SSSGs). Use the **same** step-up factors you used in the proposal (unless the step-up factors have changed as the result of a revision of carrier-wide demographic assumptions before January 1, 2001, and you used the revisions for your SSSGs).

Some carriers using TCR or CRC derive rates in other ways. The principles described above still apply. To compute the Line 1 rates, simply go through the same procedure used in the original proposal, substituting actual rates (note that the "actual" rates

Instructions For Attachment III

used should be equivalent to those used for the SSSGs) for the proposed rates. The procedures you use should also be the same as those used for your SSSGs.

For large carriers, we require documentation of your actual community rates, as explained in Attachment IV. If your State requires that you file your rates with the State Insurance (or other) Department, **enclose a copy of that filing**. Otherwise, follow the instructions in Attachment IV.

So that OPM's actuaries can easily verify the rates on Line 1, we require that:

- 1) your computations be clear
- 2) you circle in red the actual community rates and step-up factors used in your computations.

An example of an acceptable presentation of the line 1 calculation follows.

Example 2:

Actual capitation rate as of 1/1/01:	\$20.00*
First level step-up factor used in proposal:	1.2**
Actual Self Rate: (\$20 x 1.2)	\$24.00
Second level step-up factor used in proposal:	2.9**
Actual Family Rate: (\$24 x 2.9)	\$69.60

*see insurance filing

**see attached sheet from original proposal

Note: We will not accept your reconciliation if your documentation is incomplete or your calculations are unclear.

Instructions For Attachment III

ACR Carriers

Carriers using ACR should refer to the "Special Reconciliation Instructions For Carriers Using ACR" on page 12 of this document. You must go through the same procedure you used to derive the Line 1 rates in the original 2001 rate proposal, changing the trend factor and/or administration cost factor if appropriate. All other parts of the reconciliation should be done the same way you did the original proposal. **Please keep in mind that the reconciliation for a carrier using a claims-based ACR method should differ only slightly from the original rate proposal.**

2. Special Benefit Loadings

OPM sometimes purchases benefits for Federal enrollees that are not in the carrier's community package. A special benefit may be a community-rated rider that the carrier offers to all its groups, or it may be a benefit provided only to the Federal group. If the carrier provides the benefit only to the Federal group (or if the benefit is simply not a community-rated benefit), and the carrier based its cost on assumptions approved by OPM at the time of the rate proposal, the cost must not change.

If the special benefit is a community-rated rider, enter either the self and family rates filed with the State Insurance Department or calculate the actual loading based on the actual capitation rate for the special benefit. The procedure would be similar to that used for the Line 1 rates. If you do not file with the State, submit other appropriate documentation for this rider.

If the special benefit loading is a function of the carrier's community rate (say a percentage of the Line 1 rate), calculate the Line 2 rate by multiplying the actual Line 1 rate by the same percentage used in the 2001 rate proposal.

3. FEHBP Rates Plus Special Loadings

The sum of Lines 1 and 2.

4a. Extension of Coverage Loading

If you are entitled to this loading, multiply Line 3 by .004 (or the same factor you used in the proposal).

4b. Children's Loading

This loading usually is a function of the community rate plus any special loadings. If the actual rates are different from those in the 2001 rate proposal, the children's loading will differ. Recalculate, using the same method used in the original proposal.

Instructions For Attachment III

You may take this loading only if the carrier's 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.

You may not take this loading if you use a capitation rate and a group-specific family size to calculate group rates and include coverage dependent children (i.e., children over the age limit for all dependents) in your calculation for average family size for the Federal group.

4c. Medicare Loading

If you derived this loading using the estimated community rates, re-do the derivation, using the actual rates and the latest Medicare enrollment distribution available. Also, if you used estimated Health Care Financing Administration (HCFA) rates (i.e., the AAPCC) to derive this loading, and you now have actual HCFA rates, you may use them in the revised derivation. **Include a copy of the original derivation so we can easily see the difference between the estimated and actual loading.**

If the original derivation of this loading used actual community rates, recompute the loading using the latest Medicare enrollment distribution available.

If you use CRC or ACR to derive your rates, you must make sure that you have considered the effect of Coordination-Of-Benefits (COB) income the carrier received from HCFA. You should pay particular attention to questions QC16, QA10, and QA11 of the questionnaire.

Note: 1) A carrier using a claims-based ACR method will normally not have a Medicare loading. The carrier must show the amount of COB claims from HCFA.

2) A carrier claiming a Medicare loading must have appropriate documentation to justify the distribution of its Medicare population submitted in QG9.

Important: Each year, OPM sends each carrier a list of Federal group enrollees identified as Medicare enrollees through the annual OPM/Social Security Administration Matching Study. You should not use this report without further analysis to determine the carrier's distribution of Medicare enrollees (QG9), because the "unknown" category contains many different types of Medicare enrollees, including people under age 65.

Important: As explained in the 2001 rate instructions, the carrier is either underpaid or overpaid for Federal annuitants and their covered spouses age 65 and older (hereafter referred to as "Federal annuitants"), and this underpayment or overpayment depends on the Federal annuitant's Medicare status.

Instructions For Attachment III

The purpose of the Medicare loading is to reflect this underpayment or overpayment. The HMO must compute the cost of benefits for the Federal annuitants, and compare this with the income it receives on behalf of these annuitants from OPM and from HCFA. We suggested a method to derive the loading in the 2001 rate instructions, but want to make clear here that the HMO may derive the loading in any reasonable way that it can document.

We also want to point out the following:

- 1) If the HMO has a risk contract with HCFA, then (because it must file an ACR proposal with HCFA) the HMO should be able to provide OPM with an accurate pm/pm estimate of the benefit cost for Federal annuitants over age 65. This cost should be roughly equal to the capitation rate the HMO receives from HCFA under the risk contract plus the premium (in terms of a capitation rate) the HMO charges the enrollee under the risk contract. The HMO should be able to determine the cost of any differences between the risk contract benefits and the FEHBP benefits.
- 2) If the HMO sells a Medicare supplement policy, once again, (since it has to price the policy) it should be able to provide OPM with an accurate pm/pm estimate of the benefit cost for Federal annuitants over age 65. This cost should be roughly equal to the estimated capitation rate that the HMO receives indirectly from HCFA through coordination of benefits plus the premium (in terms of a capitation rate) the HMO charges for the Medicare supplement policy. The HMO should be able to determine the cost of any differences between the Medicare supplement policy benefits and the FEHBP benefits.
- 3) We ask about risk contracts and Medicare supplement policies in questions QG10 and QG11.

4d. Subtotal

Add lines 3, 4(a), 4(b), and 4(c)

4e. Enrollment Discrepancies Loading

This is a special 1% load to the rates which compensates the carrier for possible enrollment discrepancies.

5. Total FEHBP Rates - 2001

Add lines 4(d) and 4(e).

6. Contract Rate - 2001

For large carriers, the negotiated, biweekly, net-to-carrier contract rates, as agreed to during the summer of 2000. This rate is not the brochure rate (which is the net-to-carrier rate times 1.04).

NOTE: SMALL CARRIERS SHOULD PLACE IN LINE 6 THE RATES FOUND ON

Instructions For Attachment III

LINE C, ATTACHMENT I OF THEIR ORIGINAL 2001 RATE PROPOSAL

7. Difference

Subtract line 6 from line 5.

10. Brochure Printing Costs

This is the amount the carrier spent to produce the OPM-approved quantity of brochures. We will evaluate it for reasonableness. Submit any documentation you think will be helpful to us in evaluating the reasonableness of your requested amount. **Note that the amount claimed may be for OPM brochures or rate sheets only. No costs for provider directories, business cards, or other promotional materials may be included.**

8, 9, 11, and 12

For large carriers, these lines will be filled in by OPM's actuarial staff. Enrollment will be based on the March 31, 2001, semi-annual headcount.

INSTRUCTIONS FOR SMALL CARRIERS ONLY

Small carriers must do some additional work on Attachment III. Since small carriers do not send this document to OPM, the carrier (rather than OPM) must determine the amount due the carrier or OPM. That is, small carriers must complete Line 12, Attachment III, which requires completing Lines 8, 9, and 11.

Detailed instructions are as follows:

8. March 31, 2001 Enrollment

Normally, OPM would put the March 31, 2001 Headcount enrollment numbers on Line 8. Since these numbers will not be available at the time the small carrier does the calculation, the carrier should use its March 31, 2001 Table 1 enrollment numbers. The Table 1 report is the enrollment data the carrier normally submits to OPM in April.

9. Payment Due Carrier/(FEHBP)

To compute Line 9, multiply the amounts on Line 7 by the March 31, 2001, enrollment numbers on Line 8; then multiply by 26 (since the rates are bi-weekly).

An example of this computation is below:

Example 3:

Suppose line 7 of the reconciliation sheet looks as follows:

Instructions For Attachment III

	<u>Self</u>	<u>Family</u>
7	<u>\$1.00</u>	<u>\$2.00</u>

That is, the actual carrier rates on line 5 turned out to be higher than the contract rates on line 6. This means that OPM owes the carrier money. Assume line 8 (enrollment) is as follows:

8	<u>200</u>	<u>400</u>
---	------------	------------

That is, the Table 1 carrier enrollment is 200 self and 400 family. Therefore, to determine the total amount owed the carrier, we have

$$[200 \times \$1.00 \times 26] + [400 \times \$2.00 \times 26] = \$26,000$$

11. Outstanding Amount Due Carrier/(FEHBP)

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 2001 rates were purposely increased to pay the carrier this debt. In the 2001 rate reconciliation, \$50,000 would be placed in line 11.

12. Total Amount Due Carrier/(FEHBP)

The sum of lines 9 through 11.

The amount on line 12 must be used by a small carrier to determine the 2002 rate adjustments. You will place the 2001 rate adjustments on Line B of your 2002 rate proposal sheet (Attachment I) which we will send you at a later date. An example of how you might compute the rate adjustments follows.

Example 4:

Assume the amount on line 12 is \$76,000 (this would be the case in Example 3, assuming there is also \$50,000 on Line 11, and no brochure printing costs on Line 10). You must determine a self and family loading equivalent to this amount. Suppose the carrier expects the Federal group enrollment in 2002 to increase by 10 percent over the 2001 enrollment (i.e., 2002 enrollment will be 220 self and 440 family). Then, the adjustment could be \$2.66 self and \$5.32 family, since

$$[220 \times \$2.66 \times 26] + [440 \times \$5.32 \times 26] = \$76,000$$

OPM will allow reasonable flexibility in determining the amount of the rate adjustment. As long as you use reasonable enrollment assumptions and the adjustment generates the correct amount of money, many different self and family adjustments are possible.

Instructions For Attachment III

All assumptions will be subject to audit or verification at a later date. Therefore, you must keep on file all supporting calculations for the Federal group's rates and the SSSG rates.

IMPORTANT SPECIAL INSTRUCTION TO SMALL CARRIERS

Line 6, Attachment III is for the 2001 contract rates. Small carriers should put the rates from Line C, Attachment I of the original rate proposal onto Line 6, Attachment III. This avoids the possibility that OPM would pay twice to a small carrier whose 2001 rates were reduced by OPM to generate a contingency reserve payment (which will automatically be sent to the carrier sometime during the summer of 2001).

Attachment III A

RECONCILIATION BACKUP SHEET

Please provide the details of the reconciliation on this sheet. Specifically, show how you derive the numbers on the reconciliation.

1. Actual FEHBP Rates - 2001

IMPORTANT! DO NOT SKIP THIS SECTION. In this section we want a simple and concise explanation of your Line 1 rates. Please remember that all calculations are subject to audit.

Attachment IIIA

2. Special Benefit Loadings

In most cases, the special benefit loadings will be the same as they were in the proposal. If they are not, give the details here.

4b. Children's Loading

We present a "suggested method" format for your convenience. If you have another method please use it and give the details of your method.

- (A) Line 3 (Attachment III) Family Rate = _____
- (B) Line 3 (Attachment III) Single Rate = _____
- (C) (A) - (2 x (B)) = Children's Rate* = _____
- (D) Children are insured up to what age = _____
- (E) Extend Children's Coverage = _____
for (22 - (D)) Years
- (F) Loading if Plan's Community Rate = _____
Covers Full-Time Students:
 $\frac{(E)}{(D)} \times (C) \times .20$
- (G) Loading if Plan's Community Rate = _____
Does Not Cover Full-Time Students:
 $\frac{(E)}{(D)} \times (C) \times .55$

* If the actual biweekly cost per child is known, and the average number of children per family is known, the children's rate may be computed by multiplying the two figures together. In general, if you can compute the overall rate for children in a more accurate way than that suggested in line (C), use that result in line(C).

Attachment IIIA

4c. Medicare Loading

DO NOT SKIP THIS SECTION. WE REALIZE THAT YOU MAY HAVE ENCLOSED DETAILED CALCULATIONS ELSEWHERE, BUT IN THIS SECTION WE WANT AT LEAST A GENERAL EXPLANATION OF WHAT YOU DO TO OBTAIN THE MEDICARE LOADING.

10. Brochure Printing Costs

Attachment IIIB, Section 1

General Questions

QG1. What method of community rating did you use in your 2001 rate proposal?

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

QG2. Is the method you have used for the 2001 reconciliation the same as the method used in the 2001 proposal?

- YES
- NO

If No, explain.

Attachment IIIB, Section 2

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.

Attachment IIIB, Section 2

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

YES

NO

If No, explain.

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 circled 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.

Attachment IIB, Section 2

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

Medicare Part A and Part B _____
Medicare Part A Only _____
Medicare Part B Only _____
Neither Part A nor Part B _____
Cannot Determine _____

Note: 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 age 65 and older. **If you have revised your Medicare loading in this reconciliation, you should be using the above distribution.**

Note: **Important! Before you complete the above table, review the note (at the top of page 18) pertaining to the list of Medicare enrollees OPM sends the carrier each year.**

QG9. Does your HMO have a risk contract with HCFA?

[] YES

[] NO

If Yes, explain the arrangement you have with HCFA, describe all benefit packages you offer enrollees under the risk contract, and the premiums (if any) the enrollees enrolled under the risk contract pay the HMO.

Attachment IIIB, Section 2

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 at the carrier, and available to OPM auditors.

Attachment IIIB, Section 2

SSSG Questions

QS1. Give the names of your two SSSGs. Also, give the number enrolled (and the "as of" date of enrollment) in each SSSG. **IMPORTANT NOTE: The SSSGs are the two groups closest in total contract size to the Federal group. You should use the latest 2001 enrollment available.** Keep in mind that your SSSG selection is subject to audit. Therefore, we expect you to maintain complete rate documentation for at least the ten groups closest in contract size to the Federal group.

Enrollment			
Name	Self	Family	Date
1. _____	_____	_____	_____
2. _____	_____	_____	_____

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

QS2. How do the benefit packages for your SSSGs differ from the benefit package for the Federal group?

QS3. What method of community rating (TCR, CRC, ACR) did you use to rate the following groups?

Method	
1. Federal Group	_____
2. SSSG #1	_____
3. SSSG #2	_____

Attachment IIIB, Section 2

QS4. What are the 2001 net-to-carrier rates for the Federal group and your SSSGs?

- | | Self | Family | |
|------------------|-------|--------|-------------------------------|
| 1. Federal group | _____ | _____ | (From Line 5, Attachment III) |
| 2. SSSG #1 | _____ | _____ | |
| 3. SSSG #2 | _____ | _____ | |

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

QS5. Did you give an SSSG an early rate quote?

YES

NO

If Yes, did you update the quote to reflect the actual community rates?

YES

NO

If No, explain

Attachment IIB, Section 2

QS6. Do either or both of the SSSGs have multi-year contracts?

YES

NO

If Yes, give details about the multi-year contract(s) (such as options to renew and cancel contract). Also, explain how you ensure that you treat the Federal group the same as the SSSGs.

Attachment IIIB, Section 2

QS7. 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 purchasing alliances. Include information on the Federal group. Also, **include groups that are not eligible to be SSSGs.**

Group	Total # Contracts Date	Rate Effective	Coverage	Rating Method
Federal Group				
1.				
2.				
3.				
4.				
5.				

QS9. 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.

Attachment IIIB, Section 2

QS10. 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, please do so.

Attachment IIB, Section 2

QS11. Did you use **projected** demographics for an SSSG's CRC factors and/or step-up factors?

YES

NO

If Yes, explain why you used these projections, and show what the factors would be if you had used actual enrollment data.

Attachment IIB, Section 2

QS12. 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.

QS13. **On one of the following Comparison Sheets** (there is one for carriers using TCR or CRC and another for carriers using ACR), show the method by which you determined the billed rates for your SSSGs and the Federal group. 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 you used ACR for the groups, include utilization data. Explain how the method used for the SSSGs differs from that used for the Federal group.

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.

MAKE SURE THAT BY THE TIME WE FINISH READING YOUR EXPLANATION, 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 HERE IS A SIMPLE EXPLANATION OF HOW THE SSSG RATES DIFFER FROM THE FEDERAL GROUP RATES.

We give simple examples 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 you may need to include more information, depending on how your ACR method works.**

Attachment IIIB, Section 2

QS13. (continued)

EXAMPLE TCR and CRC COMPARISON SHEET

	Federal Group	SSSG #1	SSSG #2
1. Group Renewal Date	1-1-01	1-1-01	2-1-01
2. Rating Method (a) (TCR,CRC,ACR)	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	.95	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. Self Rate (f)	\$111.35	\$102.19	\$119.31
10. Family/Self Ratio	2.71	2.80	2.55
11. Family Rate	\$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 QS14.**
- (c) The Federal group receives the lowest industry factor < 1.0 given to an SSSG.
- (d) **IMPORTANT:** The Federal group receives 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.)
- (e) Show How Factors Are Derived.
- (f) $\$100 \times .92 \times (.95 \times .98) \times 1.3 = \111.35

Attachment IIIB, Section 2

QS13. (continued)

COMPARISON SHEET - TCR AND CRC

Federal Group SSSG #1 SSSG #2

Attachment IIIB, Section 2

QS13(continued)

EXAMPLE - 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. Note that although this example is for the Federal group only, your comparison sheet must include the SSSGs as well as the Federal group.

	Federal Group	SSSG #1	SSSG #2
a. Rating Method	ACR		
b. Group Renewal Date	1/1/01		
c. Experience Period	1/1/99-12/31/99		
d. Paid Claims			
Before HCFA Reimbursement	12,000,000		
After HCFA Reimbursement	10,000,000		
e. Annual Trend (if different, explain)	12%		
f. Trend From Experience Period To Renewal Period $[(1 + .12/12)^{24}]$	27%		
g. Expected Claims [(d) x 1.27]	\$12,700,000		
h. Administration (if different, explain)	15%		
i. Claims + Administration [(g)/(1-.15)]	\$14,941,176		
j. Members	100,000		
k. Per/Person Rate [(i)/(j)]	\$149.41		
l. First Level Step-Up Factor	1.2		
m. Bi-weekly Self Rate [(l) x (k) x 12/26]	\$82.75		
n. Family/Self Ratio	2.6		
o. Family Rate [(m) x (n)]	\$215.15		
p. Discount	10%		
q. Rates After Discount			
	Self \$74.48		
	Family \$193.64		

Attachment IIIB, Section 2

QS13 (continued)

COMPARISON SHEET - ACR

Federal Group SSSG #1 SSSG #2

Attachment IIB, Section 2

QS14. If you use TCR or CRC, are the capitation rates shown on the comparison sheet of QS13 the same for the Federal group and the SSSGs?

[] YES

[] NO

If no, explain on the following page. Below is an example of a proper explanation.

In the example in QS13, the capitation for the Federal group is \$100, but only \$98 for SSSG #1. 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: This explanation 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.

Attachment IIB, Section 2

QS14 (continued)

EXPLANATION SHEET

Attachment IIIB, Section 3

TCR Questions

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

QT1. On what type of community rate did you base your 2001 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 2001 Federal group rates should be based? _____

NA

Attachment IIIB, Section 3

QT4. If you used a capitation rate for 2001 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?

$$\frac{\text{Self}}{\text{Capitation}} = \frac{\text{Family}}{\text{Self}} =$$

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

QT5. Are the above step-up factors the same as those used in the 2001 rate proposal which you submitted in May 2000?

YES

NO

If No, is the reason because the carrier revised its community-wide demographics after the 2001 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?

Attachment IIB, Section 3

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: 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 2001 Federal group rates, (including development of step-up factors), what are they?

% Self Contracts _____

% Family Contracts _____

Family Size _____

Other:

Attachment IIIB, Section 3

QT9. Are the demographic assumptions in QT8 the same as they were in the 2001 rate proposal?

YES

NO

NA

If No, or NA, is the reason because the carrier revised its community-wide demographics after the 2001 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 IIB, Section 3

QT11. Show the calculations behind the rates that you have on line 1 on the reconciliation sheet. **DO NOT REFER US TO ANOTHER SHEET FOR THIS CALCULATION. WHAT WE WANT HERE IS A SIMPLE EXPLANATION OF WHERE THE LINE 1 RATES COME FROM**

Example: Capitation = \$27.00 1st Level Step Up Factor = 1.1 Line 1 Self Rate = \$27 x 1.1 = \$29.70 2nd Level Step Up Factor = 2.9 Line 1 Family Rate = \$29.70 x 2.9 = \$86.13

Attachment IIIB, Section 4

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

QC1. Give a simple narrative explanation of how you developed your rates.

QC2. Did you begin with a capitation rate?

YES

NO

If Yes, what is the actual capitation rate (as opposed to your estimated proposal) on which the 2001 Federal group rates (Line 1 of Attachment III) should be based?

Capitation Rate = _____

If No, explain how you did begin.

Attachment IIB, Section 4

QC3. What CRC factors do you use?

AGE

SEX

OTHER _____, _____, _____

QC4. 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?

Attachment IIIB, Section 4

QC5. 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.

QC6. Is the CRC adjustment factor the same as it was in the 2001 rate proposal?

YES

NO

If No, explain.

QC7. If you used a CRC-adjusted capitation rate for 2001 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 QC11**

Attachment IIB, Section 4

QC8. Are the above step-up factors the same as those used in the 2001 rate proposal (which you submitted in May 2000)?

YES

NO

If No, is the reason because the carrier revised its community-wide demographics after the 2001 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?

QC9. How did you derive the above step-up factors? Explain briefly (we prefer a numerical formula for each factor as the explanation).

Example:

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

Attachment IIIB, Section 4

QC10. 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.

QC11. If you use enrollment-mix or other demographic assumptions at any point in the development of the 2001 Federal group rates, (including development of step-up factors), what are they?

% Self Contracts _____

% Family Contracts _____

Family Size _____

Other:

Attachment IIIB, Section 4

QC12. Are the demographic assumptions in QC11 the same as they were in the 2001 rate proposal?

YES

NO

NA

If No, or NA, did the carrier revise its community-wide demographics after the 2001 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.

Attachment IIB, Section 4

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.

IMPORTANT! DO NOT SKIP THIS QUESTION

Attachment IIB, Section 4

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 4

QC17. Show the calculations behind the rates that you have on line 1 on the reconciliation sheet. **DO NOT REFER US TO ANOTHER SHEET FOR THIS CALCULATION. WHAT WE WANT HERE IS A SIMPLE EXPLANATION OF THE LINE 1 RATES.**

Example:

Capitation = \$25.00
CRC Adjustment Factor = 1.08
Adjusted Capitation = $\$25 \times 1.08 = \27
1st Level Step-Up Factor = 1.1
2nd Level Step-Up Factor = 2.9
Line 1 Self Rate = $\$27 \times 1.1 = \29.70
Line 1 Family Rate = $\$29.70 \times 2.9 = \86.13

Attachment IIB, Section 5

ACR Questions

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

QA1. What method of ACR did you use for your 2001 rate proposal?

A Method Using Utilization Factors (**Go to QA12.**)

A Method Using Actual Claims Data

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

Note: If your method used actual claims data, the claims data used to develop the FEHBP 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 a time period stated in the financial records section of your contract with OPM. (five full years plus the current year). Actual claims records should also be maintained according to the contract (three full years plus the current year).

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.

Attachment IIIB, Section 5

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.

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

Attachment IIIB, Section 5

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.

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

Attachment IIIB, Section 5

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 HCFA)?

YES

NO

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

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 HCFA reimbursements included in the group's experience?

YES

NO

If No, the Medicare loading should be a credit for all monies received from HCFA.

If Yes, there should be no Medicare loading.

Attachment IIIB, Section 5

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 IV

Documentation of 2001 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 FEHBP.**

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. You should 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 2001 FEHBP rates were developed in accordance with the requirements of 48 CFR Chapter 16 and the FEHBP contract and are accurate, complete, and current as of the date this certificate is executed; and
- 2) The methodology used to determine the FEHBP rates is consistent with the methodology used to determine the rates for the carrier's Similarly Sized Subscriber Groups.

Firm _____

Name _____

Title _____

Signature _____

Date _____

Attachment VI

Carrier Contacts

For information about your reconciliation, we should contact:

Name _____

Phone Number _____

Fax Number _____

E-Mail _____

OR

Name _____

Phone Number _____

Fax Number _____

E-Mail _____