DC Exchange Employer Contribution Model:

Who is Responsible for Changes in Composite Premium?

Background

Pre-2014 Market & Composite Premiums

In the current market, the carrier provides *preliminary* composite rates to a small employer prior to the employee enrollments. If there is a significant change in the average age or health of the employees who actually elect to enroll, the carrier adjusts the group's composite rates to account for the change in risk. When the *final* composite rates are higher than the *preliminary* composite rates, employers can choose to absorb this cost increase by either:

- Increasing the employer's per-employee cost,
- Increasing the employees' costs, or
- Sharing the increase with both the employer and employee based on their share of the premium

The carrier's final composite rate remains fixed for the entire plan year. When members of the group enroll or drop coverage throughout the plan year:

- The carrier's composite rate stays the same,
- The employer's per-employee cost remains the same, and
- Each employee's costs remain the same.

The carrier absorbs any increased/decreased costs due to the higher/lower claims costs associated with the enrollment change. For example, if a new enrollee is older or sicker, the carrier may have higher claims costs than initially expected. Alternatively, if a new enrollee is younger or healthier, the carrier may have lower claims costs than initially expected.

2014+ Market & Age-Rated Premiums

The ACA requires carriers to charge premiums in the individual and small group market based upon the age of each enrollee. For families, no more than 3 children under the age of 21 are included in the premiums. Therefore, unlike the pre-2014 market, the average rate of all enrollees will change when there is a mid-plan year enrollment change. If a younger enrollee drops coverage, the composite rate will increase. If an older enrollee drops coverage, the composite rate will decrease.

DC Exchange's Employer Contribution Model

The DC Exchange has selected the "Reallocated Composite with Buy-Up/Down Equal to Difference in List Bill Rates" employer contribution model. In this model, the employer selects a reference plan with a composite rate calculated based upon the ages of all expected enrollees. The employer decides to contribute a certain percentage towards the reference plan's composite rate. All employees, regardless of their age, would be able to enroll in the reference plan for the same employee contribution.

Since contributions are based on a composite rate of all enrollees age-rated premiums, any enrollment changes will impact the average age of the enrollees, resulting in either an increase or decrease in the composite rate.

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Mid-Plan Year Enrollment Changes

Mid-plan year enrollment changes can occur for a variety of reasons, including changes in employment (e.g., new hires, terminations of employment) and life events (e.g., marriage, birth, divorce). In this scenario, the employer would be responsible for the entire amount invoiced from the carriers and the employee costs would remain fixed throughout the plan year. Therefore, while the employer may have budgeted based on per-employee costs, the employer's actual costs will fluctuate based on the enrollment changes throughout the year. However, employers potentially benefit from mid-year cost savings based on the age of their enrollees, new hires, terminations, etc.

Options for Changes during Open Enrollment, Prior to Beginning of Plan Year

Employers must determine their contributions prior to offering coverage to their employees during the annual open enrollment period. While employers may make their best effort to estimate which employees will or will not enroll, actual employee elections during the open enrollment period will likely vary from the employer's initial estimates.

Who should be responsible for the increased/decreased cost due to variations in enrollments from the pre-open enrollment estimates?

Option 1: Employers bear the full cost increase/decrease

- Pros:
  - Employee's cost remains the same as indicated when he/she elected to enroll
  - Carriers receive the entire billed premium (i.e. carriers are made whole)
- Cons:
  - Difficult for employers to budget contributions accurately prior to actual employee enrollment. Actual employer costs may vary significant (above or below) their estimates.

Option 2: Employers & Employees share in the cost increase/decrease

- Pros:
  - Both employers and employees have an equal stake in the accuracy of the employer's contribution estimates.
  - By sharing the financial liability equally among employers and employees, this option balances some of the potential perceptions of "unfairness" in Option 1.
  - Carriers receive the entire billed premium (i.e. carriers made whole).
- Cons:
  - Difficult for employers to budget contributions accurately prior to actual employee enrollment. However, since the cost changes are shared by both employers and employees, the impact to each is somewhat mitigated.
  - Employees will choose plans based at least partially on cost, which will likely change after their plan selection.