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Bulletin 165

**Class of Business as a Rating Factor to Assist Small Employers**

This Bulletin is directed to all insurers as defined by IC 27-8-15-10. Indiana's Small Employer Group Health Insurance law, IC 27-8-15, provides for a range of acceptable rates for group health insurance provided by small employers, pursuant to applicability conditions set forth in IC 27-8-15-1. The statutory provisions prevent insurers from using claim experience, health status, or duration of coverage as rating factors because these factors have been accounted for in the rating formula. However, the statute does not preclude insurers from using other legitimate rating factors. This Bulletin will allow insurance companies to have more flexibility in rating premiums for small employer groups by using additional criteria. The Department sees this as another mechanism for small employers to be able to offer affordable group health plans to their employees.

Recently, the Department has been asked if classes of business are an acceptable rating factor in Indiana. The Commissioner has determined that class of business is an acceptable rating factor if the following are met:

1. The classes of business reflect substantial differences in expected claim experience or administrative costs;
2. Before creating a new class of business, the insurer submits to the Commissioner the following:
   a. A justification for establishing the new class of business;
   b. A description of the criteria used to determine if a small employer will be placed in the class of business; and
   c. Any additional information requested by the Department at the time of submission;
3. The midpoint rate, as defined by IC 27-8-15-11, for a class of business does not exceed the midpoint rate for any class of business by more than twenty percent (20%);
4. The insurer complies with IC 27-8-15-24 for each class of business written; and
5. The insurer creates no more than four separate classes of business, except with the Commissioner's approval.

Prior claim experience, health status, duration of coverage, and group size cannot be used as differences to justify establishing a new class of business. Acceptable differences include but are not limited to differences in administrative overhead, the presence or absence of discounts from health care providers, the system of marketing, and whether the coverage is through an association which provides substantial savings in administrative costs.

An insurer wishing to create more than four classes of business may do so only with written approval by the Commissioner. An insurer requesting written approval from the Commissioner must make a request, in writing, to the Commissioner, stating why allowing the additional class of business would enhance the efficiency and fairness of the small employer

marketplace in the State of Indiana. No request for approval to create more than four classes of business may be considered approved unless such approval is provided in writing by the Commissioner or his delegate. In the event the Commissioner denies such a request, the insurer may request a hearing on the matter, pursuant to the Administrative Orders and Procedures Act, IC 4-21.5-3.

Questions concerning this bulletin should be addressed to Carol Cutter, Chief Deputy Commissioner for Health and Legislative Affairs, who can be reached at (317) 232-5695 or ccutter@idoi.IN.gov, or to Anita Strauss, Health Policy Program Director, at (317) 234-6293 or anstrauss@idoi.IN.gov.

INDIANA DEPARTMENT OF INSURANCE

James Atterholt, Commissioner