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## **DEPARTMENT OF HEALTH AND HUMAN SERVICES**

### **Centers for Medicare & Medicaid Services**

#### **42 CFR Part 600**

**[CMS-2391-FN]**

**RIN 0938-ZB18**

### **Basic Health Program; Federal Funding Methodology for Program Year 2016**

**AGENCY:** Centers for Medicare & Medicaid Services (CMS), HHS.

**ACTION:** Final methodology.

**SUMMARY:** This document provides the methodology and data sources necessary to determine federal payment amounts made in program year 2016 to states that elect to establish a Basic Health Program under the Affordable Care Act to offer health benefits coverage to low-income individuals otherwise eligible to purchase coverage through Affordable Insurance Exchanges.

**DATES:** These regulations are effective on January 1, 2016.

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#### **SUPPLEMENTARY INFORMATION:**

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## Acronyms

To assist the reader, the following acronyms are used in this document.

$\Delta$ AV      Change in Actuarial Value

APTC	Advance payment of the premium tax credit
ARP	Adjusted reference premium
AV	Actuarial value
BHP	Basic Health Program
CCIIO	CMS' Center for Consumer Information and Insurance Oversight
CDC	Centers for Disease Control and Prevention
CHIP	Children's Health Insurance Program
CPI-U	Consumer price index for all urban consumers
CSR	Cost-sharing reduction
EHB	Essential Health Benefit
FPL	Federal poverty line
FRAC	Factor for removing administrative costs
IRF	Income reconciliation factor
IRS	Internal Revenue Service
IUF	Induced utilization factor
QHP	Qualified health plan
OTA	Office of Tax Analysis [of the U.S. Department of Treasury]
PHF	Population health factor
PTC	Premium tax credit
PTCF	Premium tax credit formula
PTF	Premium trend factor
RP	Reference premium
SBM	State Based Marketplace
TRAF	Tobacco rating adjustment factor

## I. Background

The Patient Protection and Affordable Care Act (Pub. L. 111-148, enacted on March 23, 2010), together with the Health Care and Education Reconciliation Act of 2010 (Pub. L. 111-152, enacted on March 30, 2010) (collectively referred as the Affordable Care Act) provides for the establishment of Affordable Insurance Exchanges (Exchanges, also called the Health Insurance Marketplace) that provide access to affordable health insurance coverage offered by qualified health plans (QHPs). Individuals who enroll, or whose family member enrolls, in a QHP cannot be eligible for health coverage under other federally supported health benefits programs or through affordable employer-sponsored insurance coverage and have incomes above 100 percent but no more than 400 percent of the federal poverty line (FPL), or have income below that level but be lawfully present non-citizens ineligible for Medicaid because of immigration status. Individuals enrolled through Marketplaces in coverage offered by QHPs may qualify for the federal premium tax credit (PTC) or federally-funded cost-sharing reductions (CSRs) based on their household income, to make coverage affordable.

In the states that elect to operate a Basic Health Program (BHP), BHP will make affordable health benefits coverage available for individuals under age 65 with household incomes between 133 percent and 200 percent of the FPL who are not otherwise eligible for Medicaid, the Children's Health Insurance Program (CHIP), or affordable employer-sponsored coverage. (For those states that have expanded Medicaid coverage under section 1902(a)(10)(A)(i)(VIII) of the Social Security Act (the Act), the lower income threshold for BHP eligibility is effectively 138 percent due to the application of a required 5 percent income disregard in determining the upper limits of Medicaid income eligibility (section 1902(e)(14)(I) of the Act).) Federal funding will be available for BHP based on the amount of PTC and CSRs that BHP enrollees would have received had they been enrolled in QHPs through Marketplaces.

In the March 12, 2014 **Federal Register** (79 FR 14112), we published a final rule entitled the “Basic Health Program; State Administration of Basic Health Programs; Eligibility and Enrollment in Standard Health Plans; Essential Health Benefits in Standard Health Plans; Performance Standards for Basic Health Programs; Premium and Cost Sharing for Basic Health Programs; Federal Funding Process; Trust Fund and Financial Integrity” (hereinafter referred to as the BHP final rule) implementing section 1331 of the Affordable Care Act), which directs the establishment of BHP. The BHP final rule establishes the standards for state and federal administration of BHP, including provisions regarding eligibility and enrollment, benefits, cost-sharing requirements and oversight activities. While the BHP final rule codifies the overall statutory requirements and basic procedural framework for the funding methodology, it does not contain the specific information necessary to determine federal payments. We anticipated that the methodology would be based on data and assumptions that would reflect ongoing operations and experience of BHP programs, as well as the operation of the Marketplaces. For this reason, the BHP final rule indicated that the development and publication of the funding methodology, including any data sources, would be addressed in a separate annual BHP Payment Notice.

In the BHP final rule, we specified that the BHP Payment Notice process would include the annual publication of both a proposed and final BHP Payment Notice. The proposed BHP Payment Notice would be published in the **Federal Register** each October, and would describe the proposed methodology for the upcoming BHP program year, including how the Secretary considered the factors specified in section 1331(d)(3) of the Affordable Care Act, along with the proposed data sources used to determine the federal BHP payment rates. The final BHP Payment Notice would be published in the **Federal Register** in February, and would include the final BHP funding methodology, as well as the federal BHP payment rates for the next BHP program year. For example, payment rates published in February 2015 would apply to BHP

program year 2016, beginning in January 2016. As discussed in section III.C of this methodology, state data needed to calculate the federal BHP payment rates for the final BHP Payment Notice must be submitted to CMS.

As described in the BHP final rule, once the final methodology has been published, we will only make modifications to the BHP funding methodology on a prospective basis with limited exceptions. The BHP final rule provided that retrospective adjustments to the state's BHP payment amount may occur to the extent that the prevailing BHP funding methodology for a given program year permits adjustments to a state's federal BHP payment amount due to insufficient data for prospective determination of the relevant factors specified in the payment notice. Additional adjustments could be made to the payment rates to correct errors in applying the methodology (such as mathematical errors).

Under section 1331(d)(3)(ii) of the Affordable Care Act, the funding methodology and payment rates are expressed as an amount per BHP enrollee for each month of enrollment. These payment rates may vary based on categories or classes of enrollees. Actual payment to a state would depend on the actual enrollment in coverage through the state BHP. A state that is approved to implement BHP must provide data showing quarterly enrollment in the various federal BHP payment rate cells. The data submission requirements associated with this will be published subsequent to the proposed methodology.

## **II. Summary of Proposed Provisions and Analysis of and Responses to Public Comments on the Proposed Methodology**

The following sections, arranged by subject area, include a summary of the public comments that we received, and our responses. For a complete and full description of the BHP proposed funding methodology, see the "Basic Health Program; Federal Funding Methodology

for Program Year 2016” proposed methodology published in the October 23, 2014 **Federal Register** (79 FR 63363).

We received a total of 3 timely comments from individuals and groups advocating on behalf of consumers and health care providers. The public comments received ranged from general support or opposition to the proposed methodology and BHP to specific comments regarding the proposed methodological factors.

#### A. Background

In the October 23, 2014 (79 FR 63363) proposed methodology, we specified the methodology of how the federal BHP payments would be calculated. For specific discussions, please refer to the October 23, 2014 proposed methodology (79 FR 63363).

We received the following comments on the background information included in the proposed methodology:

Comment: Some commenters expressed general opposition to BHP and the payment methodology.

Response: The comments were outside the scope of the BHP program and payment methodology.

Final Decision: After careful consideration of the public comments, we are finalizing our proposed methodology for how the federal BHP payments will be calculated.

#### B. Overview of the Funding Methodology and Calculation of the Payment Amount

We proposed in the overview of the funding methodology to calculate the PTC and CSR as consistently as possible and in general alignment with the methodology used by Marketplaces to calculate the advance payments of the PTC and CSR, and by the Internal Revenue Service (IRS) to calculate the final PTC. We proposed in this section four equations that comprise the

overall BHP funding methodology. For specific discussions, please refer to the October 23, 2014 proposed methodology (79 FR 63363).

We received no comments regarding the overview of the funding methodology and calculation of the payment amount. We are finalizing the BHP overview of the funding methodology and the payment amount for FY 2016.

### C. Required Rate Cells

In this section, we proposed that a state implementing BHP provide us with an estimate of the number of BHP enrollees it will enroll in the upcoming BHP program, by applicable rate cell, to determine the federal BHP payment amounts. For each state, we proposed using rate cells that separate the BHP population into separate cells based on the following five factors: age; geographic rating area; coverage status; household size; and income. For specific discussions, please refer to the October 23, 2014 proposed methodology (79 FR 63363).

We received the following comment on the proposed rate cells:

Comment: One commenter expressed concern that defining geographic rating areas as counties would not capture potential differences in health care costs and qualified health plan premiums in different parts of the county, and recommended defining the rating area by zip code instead.

Response: We believe that this is unlikely to have a significant impact on the federal BHP payment. In addition, we believe that it would make state operation of the program substantially more challenging.

Final Decision: After careful consideration of the comments, we are finalizing the criteria and definitions of the rate cells to determine the federal BHP payment amounts for FY 2016.

### D. Sources and State Data Considerations

We proposed in this section to use, to the extent possible, data submitted to the federal government by QHP issuers seeking to offer coverage through a Marketplace to determine the federal BHP payment cell rates. However, in states operating a State Based Marketplace (SBM), we proposed that such states submit required data for CMS to calculate the federal BHP payment rates in those states. For specific discussions, please refer to the October 23, 2014 proposed methodology (79 FR 63363).

We did not receive any comments on the “Sources and State Data Considerations” section and are finalizing the BHP methodology as proposed.

#### E. Discussion of Specific Variables Used in Payment Equations

In this section, we proposed 11 specific variables to use in the payment equations that comprise the overall BHP funding methodology. (10 variables are described in section III.D of this document, and the premium trend factor is described in section III.F.) For each proposed variable, we included a discussion on the assumptions and data sources used in developing the variables. For specific discussions, please refer to the October 23, 2014 proposed methodology (79 FR 63363).

We did not receive any comments on the “Specific Variables Used in Payment Equations” section and are finalizing the BHP methodology as proposed.

#### F. Adjustments for American Indians and Alaska Natives

We proposed to make several adjustments for American Indians and Alaska Natives when calculating the CSR portion of the federal BHP payment rate to be consistent with the Marketplace rules. For specific discussions, please refer to the October 23, 2014 proposed methodology (79 FR 63363).

We did not receive any comments on the “Adjustments for American Indians and Alaska Natives” section and are finalizing the BHP methodology as proposed.

### G. State Option to Use 2015 QHP Premiums for BHP Payments

In this section, we proposed to provide states implementing BHP with the option to use the 2015 QHP premiums multiplied by a premium trend factor to calculate the federal BHP payment rates instead of using the 2016 QHP premiums. For specific discussions, please refer to the October 23, 2014 proposed methodology (79 FR 63363).

We did not receive any comments on the “State Option to Use 2015 QHP Premiums for BHP Payments” section and are finalizing the BHP methodology as proposed.

### H. State Option to Include Retrospective State-specific Health Risk Adjustment in Certified Methodology

In this section, we proposed to provide states implementing BHP the option to develop a methodology to account for the impact that including the BHP population in the Marketplace would have had on QHP premiums based on any differences in health status between the BHP population and persons enrolled through the Marketplace. For specific discussions, please refer to the October 23, 2014 proposed methodology (79 FR 63363).

We did not receive any comments on the “State Option to Include Retrospective State-specific Health Risk Adjustment in Certified Methodology” section and are finalizing the BHP methodology as proposed.

## **III. Provisions of the Final Methodology**

### A. Overview of the Funding Methodology and Calculation of the Payment Amount

Section 1331(d)(3) of the Affordable Care Act directs the Secretary to consider several factors when determining the federal BHP payment amount, which, as specified in the statute, must equal 95 percent of the value of the PTC and CSRs that BHP enrollees would have been provided had they enrolled in a QHP through a Marketplace. Thus, the BHP funding methodology is designed to calculate the PTC and CSRs as consistently as possible and in

general alignment with the methodology used by Marketplaces to calculate the advance payments of the PTC and CSRs, and by the IRS to calculate final PTCs. In general, we rely on values for factors in the payment methodology specified in statute or other regulations as available, and we have developed values for other factors not otherwise specified in statute, or previously calculated in other regulations, to simulate the values of the PTC and CSRs that BHP enrollees would have received if they had enrolled in QHPs offered through a Marketplace. In accordance with section 1331(d)(3)(A)(iii) of the Affordable Care Act, the final funding methodology must be certified by CMS' Chief Actuary, in consultation with the Office of Tax Analysis (OTA) of the Department of the Treasury, as having met the requirements of section 1331(d)(3)(A)(ii) of the Affordable Care Act.

Section 1331(d)(3)(A)(ii) of the Affordable Care Act specifies that the payment determination “shall take into account all relevant factors necessary to determine the value of the premium tax credits and cost-sharing reductions that would have been provided to eligible individuals ... including the age and income of the enrollee, whether the enrollment is for self-only or family coverage, geographic differences in average spending for health care across rating areas, the health status of the enrollee for purposes of determining risk adjustment payments and reinsurance payments that would have been made if the enrollee had enrolled in a qualified health plan through a Marketplace, and whether any reconciliation of the credit or cost-sharing reductions would have occurred if the enrollee had been so enrolled.” The payment methodology takes each of these factors into account. This methodology is the same as the 2015 payment methodology, with updated values but no changes in methods.

We have developed a methodology that the total federal BHP payment amount would be based on multiple “rate cells” in each state. Each “rate cell” represents a unique combination of age range, geographic area, coverage category (for example, self-only or two-adult coverage

through BHP), household size, and income range as a percentage of FPL. Thus, there are distinct rate cells for individuals in each coverage category within a particular age range who reside in a specific geographic area and are in households of the same size and income range.

We note that the development of the BHP payment rates will be consistent with each state's rules on age rating. Thus, in the case of a state that does not use age as a rating factor on the Marketplace, the BHP payment rates would not vary by age.

The rate for each rate cell will be calculated in two parts. The first part (as described in Equation (1)) will equal 95 percent of the estimated PTC that would have been paid if a BHP enrollee in that rate cell had instead enrolled in a QHP in the Marketplace. The second part (as described in Equation (2)) will equal 95 percent of the estimated CSR payment that would have been made if a BHP enrollee in that rate cell had instead enrolled in a QHP in the Marketplace. These 2 parts will be added together and the total rate for that rate cell will be equal to the sum of the PTC and CSR rates.

To calculate the total federal BHP payment, Equation (1) will be used to calculate the estimated PTC for individuals in each rate cell and Equation (2) will be used to calculate the estimated CSR payments for individuals in each rate cell. By applying the equations separately to rate cells based on age, income and other factors, we effectively take those factors into account in the calculation. In addition, the equations take into account additional relevant variables that are needed to determine the estimated PTC and CSR payments for individuals in each rate cell. Each of the variables in the equations is defined below, and further detail is provided later in this section of the payment notice.

In addition, we describe how we will calculate the adjusted reference premium (described later in this section of the payment methodology) that is used in Equations (1) and (2). This is defined in Equation (3a) and Equation (3b).

Equation 1: Estimated PTC by rate cell

The estimated PTC, on a per enrollee basis, will be calculated for each rate cell for each state based on age range, geographic area, coverage category, household size, and income range. The PTC portion of the rate will be calculated in a manner consistent with the methodology used to calculate the PTC for persons enrolled in a QHP, with 3 adjustments. First, the PTC portion of the rate for each rate cell will represent the mean, or average, expected PTC that all persons in the rate cell would receive, rather than being calculated for each individual enrollee. Second, the reference premium used to calculate the PTC (described in more detail later in the section) will be adjusted for BHP population health status, and in the case of a state that elects to use 2015 premiums for the basis of the BHP federal payment, for the projected change in the premium from the 2015 to 2016, to which the rates announced in the final payment methodology would apply. These adjustments are described in Equation (3a) and Equation (3b). Third, the PTC will be adjusted prospectively to reflect the mean, or average, net expected impact of income reconciliation on the combination of all persons enrolled in BHP; this adjustment, as described in section III.D.5 of this methodology, will account for the impact on the PTC that would have occurred had such reconciliation been performed. Finally, the rate is multiplied by 95 percent, consistent with section 1331(d)(3)(A)(i) of the Affordable Care Act. We note that in the situation where the average income contribution of an enrollee would exceed the adjusted reference premium, we will calculate the PTC to be equal to 0 and would not allow the value of the PTC to be negative.

Consistent with this description, equation (1) is defined as:

$$\text{Equation (1): } PTC_{a,g,c,h,i} = \left[ ARP_{a,g,c} - \frac{\sum_j I_{h,i,j} \times PTCF_{h,i,j}}{n} \right] \times IRF \times 95\%$$

$PTC_{a,g,c,h,i}$  = Premium tax credit portion of BHP payment rate

$a$  = Age range

$g$  = Geographic area

$c$  = Coverage status (self-only or applicable category of family coverage) obtained through BHP

$h$  = Household size

$i$  = Income range (as percentage of FPL)

$ARP_{a,g,c}$  = Adjusted reference premium

$I_{h,i,j}$  = Income (in dollars per month) at each 1 percentage-point increment of FPL

$j = j^{th}$  percentage-point increment FPL

$n$  = Number of income increments used to calculate the mean PTC

$PTCF_{h,i,j}$  = Premium Tax Credit Formula percentage

$IRF$  = Income reconciliation factor

Equation 2: Estimated CSR payment by Rate Cell

The CSR portion of the rate will be calculated for each rate cell for each state based on age range, geographic area, coverage category, household size, and income range defined as a percentage of FPL. The CSR portion of the rate will be calculated in a manner consistent with the methodology used to calculate the CSR advance payments for persons enrolled in a QHP, as described in the final rule we published in the **Federal Register** on March 11, 2014 entitled “HHS Notice of Benefit and Payment Parameters for 2015” final rule (79 FR 13744), with 3 principal adjustments. (We will make a separate calculation that includes different adjustments for American Indian/Alaska Native BHP enrollees, as described in section III.D.1 of this methodology.) For the first adjustment, the CSR rate, like the PTC rate, will represent the mean expected CSR subsidy that would be paid on behalf of all persons in the rate cell, rather than being calculated for each individual enrollee. Second, this calculation will be based on the adjusted reference premium, as described in section III.A.3 of this methodology. Third, this

equation uses an adjusted reference premium that reflects premiums charged to non-tobacco users, rather than the actual premium that is charged to tobacco users to calculate CSR advance payments for tobacco users enrolled in a QHP. Accordingly, the equation includes a tobacco rating adjustment factor that would account for BHP enrollees' estimated tobacco-related health costs that are outside the premium charged to non-tobacco-users. Finally, the rate will be multiplied by 95 percent, as provided in section 1331(d)(3)(A)(i) of the Affordable Care Act.

Consistent with the methodology described above, equation (2) is defined as:

$$\text{Equation (2): } CSR_{a,g,c,h,i} = \frac{ARP_{a,g,c} \times TRAF \times FRAC}{AV} \times IUF_{h,i} \times \Delta AV_{h,i} \times 95\%$$

$CSR_{a,g,c,h,i}$  = Cost-sharing reduction subsidy portion of BHP payment rate

$a$  = Age range

$g$  = Geographic area

$c$  = Coverage status (self-only or applicable category of family coverage) obtained through BHP

$h$  = Household size

$i$  = Income range (as percentage of FPL)

$ARP_{a,g,c}$  = Adjusted reference premium

$TRAF$  = Tobacco rating adjustment factor

$FRAC$  = Factor removing administrative costs

$AV$  = Actuarial value of plan (as percentage of allowed benefits covered by the applicable QHP without a cost-sharing reduction subsidy)

$IUF_{h,i}$  = Induced utilization factor

$\Delta AV_{h,i}$  = Change in actuarial value (as percentage of allowed benefits)

Equation 3a and Equation 3b: Adjusted Reference Premium Variable (used in Equations 1 and

2)

As part of these calculations for both the PTC and CSR components, the value of the adjusted reference premium as described below. Consistent with the approach last year, we will allow states to choose between using the actual 2016 QHP premiums or the 2015 QHP premiums multiplied by the premium trend factor (as described in section III.F of this methodology). Therefore, we describe below how we would calculate the adjusted reference premium under each option.

In the case of a state that elects to use the reference premium based on the 2016 premiums, we will calculate the value of the adjusted reference premium as specified in Equation (3a). The adjusted reference premium will be equal to the reference premium, which will be based on the second lowest cost silver plan premium in 2016, multiplied by the BHP population health factor (described in section III.D of this methodology), which will reflect the projected impact that enrolling BHP-eligible individuals in QHPs on a Marketplace would have had on the average QHP premium.

$$\textit{Equation (3a): } ARP_{a,g,c} = RP_{a,g,c} \times PHF$$

$ARP_{a,g,c}$  = Adjusted reference premium

$a$  = Age range

$g$  = Geographic area

$c$  = Coverage status (self-only or applicable category of family coverage) obtained through BHP

$RP_{a,g,c}$  = Reference premium

$PHF$  = Population health factor

In the case of a state that elects to use the reference premium based on the 2015 premiums (as described in section III.F of this methodology), we will calculate the value of the adjusted reference premium as specified in Equation (3b). The adjusted reference premium will be equal to the reference premium, which will be based on the second lowest cost silver plan

premium in 2015, multiplied by the BHP population health factor (described in section III.D of this methodology), which will reflect the projected impact that enrolling BHP-eligible individuals in QHPs on a Marketplace would have had on the average QHP premium, and by the premium trend factor, which will reflect the projected change in the premium level between 2015 and 2016 (including the estimated impact of changes resulting from the transitional reinsurance program established in section 1341 of the Affordable Care Act).

$$\text{Equation (3b): } ARP_{a,g,c} = RP_{a,g,c} \times PHF \times PTF$$

$ARP_{a,g,c}$  = Adjusted reference premium

$a$  = Age range

$g$  = Geographic area

$c$  = Coverage status (self-only or applicable category of family coverage) obtained through BHP

$RP_{a,g,c}$  = Reference premium

$PHF$  = Population health factor

$PTF$  = Premium trend factor

#### Equation 4: Determination of Total Monthly Payment for BHP Enrollees in Each Rate Cell

In general, the rate for each rate cell will be multiplied by the number of BHP enrollees in that cell (that is, the number of enrollees that meet the criteria for each rate cell) to calculate the total monthly BHP payment. This calculation is shown in Equation 4 below.

$$\text{Equation (4): } PMT = \sum [(PTC_{a,g,c,h,i} + CSR_{a,g,c,h,i}) \times E_{a,g,c,h,i}]$$

$PMT$  = Total monthly BHP payment

$PTC_{a,g,c,h,i}$  = Premium tax credit portion of BHP payment rate

$CSR_{a,g,c,h,i}$  = Cost-sharing reduction subsidy portion of BHP payment rate

$E_{a,g,c,h,i}$  = Number of BHP enrollees

*a* = Age range

*g* = Geographic area

*c* = Coverage status (self-only or applicable category of family coverage) obtained through BHP

*h* = Household size

*i* = Income range (as percentage of FPL)

#### B. Federal BHP Payment Rate Cells

We will require that a state implementing BHP provide us an estimate of the number of BHP enrollees it projects will enroll in the upcoming BHP program year, by applicable rate cell, prior to the first quarter of program operations. Upon our approval of such estimates as reasonable, they will be used to calculate the prospective payment for the first and subsequent quarters of program operation until the state has provided us actual enrollment data. These data will be required to calculate the final BHP payment amount, and make any necessary reconciliation adjustments to the prior quarters' prospective payment amounts due to differences between projected and actual enrollment. In subsequent quarters, quarterly deposits to the state's trust fund will be based on the most recent actual enrollment data submitted to us. Procedures will ensure that federal payments to a state reflect actual BHP enrollment during a year, within each applicable category, and prospectively determined federal payment rates for each category of BHP enrollment, with such categories defined in terms of age range, geographic area, coverage status, household size, and income range, as explained above.

We will require the use of certain rate cells as part of the methodology. For each state, we will use rate cells that separate the BHP population into separate cells based on the five factors described below.

Factor 1--Age: We will separate enrollees into rate cells by age, using the following age

ranges that capture the widest variations in premiums under HHS's Default Age Curve:<sup>1</sup>

- Ages 0-20.
- Ages 21-34.
- Ages 35-44.
- Ages 45-54.
- Ages 55-64.

Factor 2--Geographic area: For each state, we will separate enrollees into rate cells by geographic areas within which a single reference premium is charged by QHPs offered through the state's Marketplace. Multiple, non-contiguous geographic areas will be incorporated within a single cell, so long as those areas share a common reference premium.<sup>2</sup>

Factor 3--Coverage status: We will separate enrollees into rate cells by coverage status, reflecting whether an individual is enrolled in self-only coverage or persons are enrolled in family coverage through BHP, as provided in section 1331(d)(3)(A)(ii) of the Affordable Care Act. Among recipients of family coverage through BHP, separate rate cells, as explained below, will apply based on whether such coverage involves two adults alone or whether it involves children.

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<sup>1</sup> This curve is used to implement the Affordable Care Act's 3:1 limit on age-rating in states that do not create an alternative rate structure to comply with that limit. The curve applies to all individual market plans, both within and outside the Exchange. The age bands capture the principal allowed age-based variations in premiums as permitted by this curve. More information can be found at <http://www.cms.gov/CCIIO/Resources/Files/Downloads/market-reforms-guidance-2-25-2013.pdf>. Both children and adults under age 21 are charged the same premium. For adults age 21-64, the age bands in this methodology divide the total age-based premium variation into the three most equally-sized ranges (defining size by the ratio between the highest and lowest premiums within the band) that are consistent with the age-bands used for risk-adjustment purposes in the HHS-Developed Risk Adjustment Model. For such age bands, see Table 5, "Age-Sex Variables," in HHS-Developed Risk Adjustment Model Algorithm Software, June 2, 2014, <http://www.cms.gov/CCIIO/Resources/Regulations-and-Guidance/Downloads/ra-tables-03-27-2014.xlsx>.

<sup>2</sup> For example, a cell within a particular state might refer to "County Group 1," "County Group 2," etc., and a table for the state would list all the counties included in each such group. These geographic areas are consistent with the geographic areas established under the 2014 Market Reform Rules. They also reflect the service area requirements applicable to qualified health plans, as described in 45 CFR 155.1055, except that service areas smaller than counties are addressed as explained below.

Factor 4--Household size: We will separate enrollees into rate cells by household size that states use to determine BHP enrollees' income as a percentage of the FPL under 42 CFR 600.320. We will require separate rate cells for several specific household sizes. For each additional member above the largest specified size, we will publish instructions for how we will develop additional rate cells and calculate an appropriate payment rate based on data for the rate cell with the closest specified household size. We will publish separate rate cells for household sizes of 1, 2, 3, 4, and 5, as unpublished analyses of American Community Survey data conducted by the Urban Institute, which take into account unaccepted offers of employer-sponsored insurance, as well as income, Medicaid and CHIP eligibility, citizenship and immigration status, and current health coverage status, find that less than 1 percent of all BHP-eligible persons live in households of size 5 or greater.

Factor 5--Income: For households of each applicable size, we will create separate rate cells by income range, as a percentage of FPL. The PTC that a person would receive if enrolled in a QHP varies by income, both in level and as a ratio to the FPL, and the CSR varies by income as a percentage of FPL. Thus, separate rate cells will be used to calculate federal BHP payment rates to reflect different bands of income measured as a percentage of FPL. We will use the following income ranges, measured as a ratio to the FPL:

- 0 to 50 percent of the FPL.
- 51 to 100 percent of the FPL.
- 101 to 138 percent of the FPL.<sup>3</sup>
- 139 to 150 percent of the FPL.
- 151 to 175 percent of the FPL.

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<sup>3</sup> The three lowest income ranges would be limited to lawfully present immigrants who are ineligible for Medicaid

- 176 to 200 percent of the FPL.

These rate cells will only be used to calculate the federal BHP payment amount. A state implementing BHP will not be required to use these rate cells or any of the factors in these rate cells as part of the state payment to the standard health plans participating in BHP or to help define BHP enrollees' covered benefits, premium costs, or out-of-pocket cost-sharing levels.

We will use averages to define federal payment rates, both for income ranges and age ranges, rather than varying such rates to correspond to each individual BHP enrollee's age and income level. We believe that this approach will increase the administrative feasibility of making federal BHP payments and reduce the likelihood of inadvertently erroneous payments resulting from highly complex methodologies. We believe that this approach will not significantly change federal payment amounts, since within applicable ranges; the BHP-eligible population is distributed relatively evenly.

### C. Sources and State Data Considerations

To the extent possible, we will use data submitted to the federal government by QHP issuers seeking to offer coverage through a Marketplace to perform the calculations that determine federal BHP payment cell rates.

States operating a State Based Marketplace in the individual market, however, must provide certain data, including premiums for second lowest cost silver plans, by geographic area, in order for CMS to calculate the federal BHP payment rates in those states. We will require that a state operating a State Based Marketplace and interested in obtaining the applicable federal BHP payment rates for its state must submit such data accurately, completely, and as specified by CMS, by no later than October 15, 2015, for CMS to calculate the applicable rates for 2016.

If additional state data (that is, in addition to the second lowest cost silver plan premium data) are needed to determine the federal BHP payment rate, such data must be submitted in a timely manner, and in a format specified by CMS to support the development and timely release of annual BHP payment notices. The specifications for data collection to support the development of BHP payment rates for 2016 were published in CMS guidance and are available at <http://www.medicaid.gov/Federal-Policy-Guidance/Federal-Policy-Guidance.html>.

If a state operating a SBM provides the necessary data accurately, completely, and as specified by CMS, but after the date specified above, we anticipate publishing federal payment rates for such a state in a subsequent Payment Notice. As noted in the BHP final rule, a state may elect to implement its BHP after a program year has begun. In such an instance, we require that the state, if operating a SBM, submit its data no later than 30 days after the Blueprint submission for CMS to calculate the applicable federal payment rates. We further require that the BHP Blueprint itself must be submitted for Secretarial certification with an effective date of no sooner than 120 days after submission of the BHP Blueprint. In addition, the state must ensure that its Blueprint includes a detailed description of how the state will coordinate with other insurance affordability programs to transition and transfer BHP-eligible individuals out of their existing QHP coverage, consistent with the requirements set forth in 42 CFR 600.330 and 600.425. We believe that this 120-day period is necessary to establish the requisite administrative structures and ensure that all statutory and regulatory requirements are satisfied.

#### D. Discussion of Specific Variables Used in Payment Equations

##### 1. Reference Premium (RP)

To calculate the estimated PTC that would be paid if individuals enrolled in QHPs through the Marketplace, we must calculate a reference premium (RP) because the PTC is based, in part, on the premiums for the applicable second lowest cost silver plan as explained in section

III.C.4 of this methodology, regarding the Premium Tax Credit Formula (PTCF). Accordingly, for the purposes of calculating the BHP payment rates, the reference premium, in accordance with 26 U.S.C. 36B (b)(3)(C), is defined as the adjusted monthly premium for an applicable second lowest cost silver plan. The applicable second lowest cost silver plan is defined in 26 U.S.C. 36B (b)(3)(B) as the second lowest cost silver plan of the individual market in the rating area in which the taxpayer resides, which is offered through the same Marketplace. We will use the adjusted monthly premium for an applicable second lowest cost silver plan in 2016 as the reference premium (except in the case of a state that elects to use the 2015 premium as the basis for the federal BHP payment, as described in section III.F of this methodology).

The reference premium will be the premium applicable to non-tobacco users. This is consistent with the provision in 26 U.S.C. 36B (b)(3)(C) that bases the PTC on premiums that are adjusted for age alone, without regard to tobacco use, even for states that allow insurers to vary premiums based on tobacco use pursuant to 42 U.S.C. 300gg (a)(1)(A)(iv).

Consistent with the policy set forth in 26 CFR 1.36B-3(f)(6) to calculate the PTC for those enrolled in a QHP through a Marketplace, we will not update the payment methodology, and subsequently the federal BHP payment rates, in the event that the second lowest cost silver plan used as the reference premium, or the lowest cost silver plan, changes (that is, terminates or closes enrollment during the year).

The applicable second lowest cost silver plan premium will be included in the BHP payment methodology by age range, geographic area, and self-only or applicable category of family coverage obtained through BHP.

American Indians and Alaska Natives in households with incomes below 300 percent of the FPL are eligible for a full cost sharing subsidy regardless of the plan they select (as described in sections 1402(d) and 2901(a) of the Affordable Care Act). We assume that American Indians

and Alaska Natives would be more likely to enroll in bronze plans as a result; thus, for American Indian/Alaska Native BHP enrollees, we will use the lowest cost bronze plan as the basis for the reference premium for the purposes of calculating the CSR portion (but not the PTC portion) of the federal BHP payment as described further in section III.E of this methodology.

The applicable age bracket will be one dimension of each rate cell. We will assume a uniform distribution of ages and estimate the average premium amount within each rate cell. We believe that assuming a uniform distribution of ages within these ranges is a reasonable approach and would produce a reliable determination of the PTC and CSR components. We also believe this approach would avoid potential inaccuracies that could otherwise occur in relatively small payment cells if age distribution were measured by the number of persons eligible or enrolled.

We will use geographic areas based on the rating areas used in the Marketplaces. We will define each geographic area so that the reference premium is the same throughout the geographic area. When the reference premium varies within a rating area, we will define geographic areas as aggregations of counties with the same reference premium. Although plans are allowed to serve geographic areas smaller than counties after obtaining our approval, no geographic area, for purposes of defining BHP payment rate cells, will be smaller than a county. We do not believe that this assumption will have a significant impact on federal payment levels and it would likely simplify both the calculation of BHP payment rates and the operation of BHP.

Finally, in terms of the coverage category, federal payment rates will only recognize self-only and two-adult coverage, with exceptions that account for children who are potentially eligible for BHP. First, in states that set the upper income threshold for children's Medicaid and CHIP eligibility below 200 percent of FPL (based on modified adjusted gross income), children in households with incomes between that threshold and 200 percent of FPL would be potentially

eligible for BHP. Currently, the only states in this category are Arizona, Idaho, and North Dakota<sup>4</sup> Second, BHP would include lawfully present immigrant children with incomes at or below 200 percent of FPL in states that have not exercised the option under the sections 1903(v)(4)(A)(ii) and 2107(e)(1)(E) of the Act to qualify all otherwise eligible, lawfully present immigrant children for Medicaid and CHIP. States that fall within these exceptions would be identified based on their Medicaid and CHIP State Plans, and the rate cells would include appropriate categories of BHP family coverage for children. In other states, BHP eligibility will generally be restricted to adults, since children who are citizens or lawfully present immigrants and who live in households with incomes at or below 200 percent of FPL will qualify for Medicaid or CHIP and thus be ineligible for BHP under section 1331 (e)(1)(C) of the Affordable Care Act, which limits BHP to individuals who are ineligible for minimum essential coverage (as defined in section 5000A(f) of the Internal Revenue Code of 1986).

## 2. Population Health Factor (PHF)

We include the population health factor in the methodology to account for the potential differences in the average health status between BHP enrollees and persons enrolled in the Marketplace. To the extent that BHP enrollees would have been enrolled in the Marketplace in the absence of BHP in a state, the inclusion of those BHP enrollees in the Marketplace may affect the average health status of the overall population and the expected QHP premiums.

We currently do not believe that there is evidence that the BHP population would have better or poorer health status than the Marketplace population. At this time, there is a lack of experience available in the Marketplace that limits the ability to analyze the health differences between these groups of enrollees. In addition, differences in population health may vary across

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<sup>4</sup> CMCS. “State Medicaid and CHIP Income Eligibility Standards Effective January 1, 2014.”

states. Thus, at this time, we believe that it is not feasible to develop a methodology to make a prospective adjustment to the population health factor that is reliably accurate.

Given these analytic challenges and the limited data about Marketplace coverage and the characteristics of BHP-eligible consumers that will be available by the time we establish federal payment rates for 2016, we believe that the most appropriate adjustment for 2016 would be 1.00.

In the 2015 payment methodology, we included an option for states to include a retrospective population health status adjustment. Similarly, we will provide the states with the same option for the 2016 payment methodology, as described further in section III.G of this methodology, to include a retrospective population health status adjustment in the certified methodology, which is subject to CMS review and approval.

While the statute requires consideration of risk adjustment payments and reinsurance payments insofar as they would have affected the PTC and CSRs that would have been provided to BHP-eligible individuals had they enrolled in QHPs, we will not require that a BHP program's standard health plans receive such payments. As explained in the BHP final rule, BHP standard health plans are not included in the risk adjustment program operated by HHS on behalf of states. Further, standard health plans do not qualify for payments from the transitional reinsurance program established under section 1341 of the Affordable Care Act.<sup>5</sup> To the extent that a state operating a BHP determines that, because of the distinctive risk profile of BHP-eligible consumers, BHP standard health plans should be included in mechanisms that share risk with other plans in the state's individual market, the state would need to use other methods for achieving this goal.

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<sup>5</sup> See 45 CFR 153.400(a)(2)(iv) (BHP standard health plans are not required to submit reinsurance contributions), 153.20 (definition of "Reinsurance-eligible plan" as not including "health insurance coverage not required to submit reinsurance contributions"), §153.230(a) (reinsurance payments under the national reinsurance parameters are available only for "Reinsurance-eligible plans").

### 3. Income (I)

Household income is a significant determinant of the amount of the PTC and CSRs that are provided for persons enrolled in a QHP through the Marketplace. Accordingly, the BHP payment methodology incorporates income into the calculations of the payment rates through the use of income-based rate cells. We define income in accordance with the definition of modified adjusted gross income in 26 U.S.C. 36B(d)(2)(B) and consistent with the definition in 45 CFR 155.300. Income would be measured relative to the FPL, which is updated periodically in the **Federal Register** by the Secretary under the authority of 42 U.S.C. 9902(2), based on annual changes in the consumer price index for all urban consumers (CPI-U). In this methodology, household size and income as a percentage of FPL would be used as factors in developing the rate cells. We will use the following income ranges measured as a percentage of FPL:<sup>6</sup>

- 0–50 percent.
- 51–100 percent.
- 101–138 percent.
- 139–150 percent.
- 151-175 percent.
- 176-200 percent.

We will assume a uniform income distribution for each federal BHP payment cell. We believe that assuming a uniform income distribution for the income ranges would be reasonably accurate for the purposes of calculating the PTC and CSR components of the BHP payment and would avoid potential errors that could result if other sources of data were used to estimate the

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<sup>6</sup> These income ranges and this analysis of income apply to the calculation of the PTC. Many fewer income ranges

specific income distribution of persons who are eligible for or enrolled in BHP within rate cells that may be relatively small. Thus, when calculating the mean, or average, PTC for a rate cell, we will calculate the value of the PTC at each one percentage point interval of the income range for each federal BHP payment cell and then calculate the average of the PTC across all intervals. This calculation will rely on the PTC formula described below in section III.4 of this methodology.

As the PTC for persons enrolled in QHPs will be calculated based on their income during the open enrollment period, and that income will be measured against the FPL at that time, we will adjust the FPL by multiplying the FPL by a projected increase in the CPI-U between the time that the BHP payment rates are published and the QHP open enrollment period, if the FPL is expected to be updated during that time. The projected increase in the CPI-U would be based on the intermediate inflation forecasts from the most recent OASDI and Medicare Trustees Reports.<sup>7</sup>

#### 4. Premium Tax Credit Formula (PTCF)

The PTC amount for a person enrolled in a QHP through a Marketplace is calculated in accordance with the methodology described in 26 U.S.C. 36B(b)(2). The amount is equal to the lesser of the premium for the plan in which the person or household enrolls (the enrollment premiums) or adjusted premium for the applicable second lowest cost silver plan minus the contribution amount.

In Equation 1 described in section III.A.1 of this methodology, we will use the formula described in 26 U.S.C. 36B(b) to calculate the contribution amount, which is needed to estimate the PTC for a person enrolled in a QHP on a Marketplace. This formula determines the

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and a much simpler analysis apply in determining the value of CSRs, as specified below.

contribution amount as a percentage of household income. The percentage is based on the FPL for the household income and family size, and is shown in the schedule specified in 26 U.S.C. 36B(b)(3)(A) and shown below. The difference between the contribution amount and the adjusted monthly premium for the applicable second lowest cost silver plan is the estimated amount of the PTC that would be provided for the enrollee (assuming that this amount is less than the enrollment premiums).

The applicable percentage is defined in 26 U.S.C. 36B (b)(3)(A) and 26 CFR 1.36B-3(g) as the percentage that applies to a taxpayer's household income that is within an income tier specified in the table, increasing on a sliding scale in a linear manner from an initial premium percentage to a final premium percentage specified in the table (see Table 1):

**TABLE 1: Household Income (expressed as a percent of poverty line)**

<b>In the case of household income (expressed as a percent of poverty line) within the following income tier:</b>	<b>The initial premium percentage is–</b>	<b>The final premium percentage is–</b>
Up to 133%	2.01%	2.01%
133% but less than 150%	3.02%	4.02%
150% but less than 200%	4.02%	6.34%
200% but less than 250%	6.34%	8.10%
250% but less than 300%	8.10%	9.56%
300% but not more than 400%	9.56%	9.56%

These are the applicable percentages for CY 2015. The applicable percentages will be updated in future years in accordance with 26 U.S.C. 36B (b)(3)(A)(ii).

#### 5. Income Reconciliation Factor (IRF)

For persons enrolled in a QHP through a Marketplace who receive an advance payment of the premium tax credit (APTC), there will be an annual reconciliation following the end of the

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7 See Table IV A1 from the 2014 reports in <http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/ReportsTrustFunds/Downloads/TR2014.pdf>.

year to compare the advance payments to the correct amount of PTC based on household circumstances shown on the federal income tax return. Any difference between the latter amounts and the advance payments made during the year would either be paid to the taxpayer (if too little APTC was paid) or charged to the taxpayer as additional tax (if too much APTC was made, subject to any limitations in statute or regulation), as provided in 26 U.S.C. 36B(f).

Section 1331(e)(2) of the Affordable Care Act specifies that an individual eligible for BHP may not be treated as a qualified individual under section 1312 eligible for enrollment in a QHP offered through a Marketplace. We are defining “eligible” to mean anyone for whom the state agency or the Exchange assesses or determines, based on the single streamlined application or renewal form, as eligible for enrollment in the BHP. Because enrollment in a QHP is a requirement for PTC for the enrolled individual’s coverage, individuals determined or assessed as eligible for a BHP are not eligible to receive APTC assistance for coverage in the Marketplace. Because they do not receive APTC assistance, BHP enrollees, on whom the 2016 payment methodology is based, are not subject to the same income reconciliation as Marketplace consumers. Nonetheless, there may still be differences between a BHP enrollee’s household income reported at the beginning of the year and the actual income over the year. These may include small changes (reflecting changes in hourly wage rates, hours worked per week, and other fluctuations in income during the year) and large changes (reflecting significant changes in employment status, hourly wage rates, or substantial fluctuations in income). There may also be changes in household composition. Thus, we believe that using unadjusted income as reported prior to the BHP program year may result in calculations of estimated PTC that are inconsistent with the actual incomes of BHP enrollees during the year. Even if the BHP program adjusts household income determinations and corresponding claims of federal payment amounts based on household reports during the year or data from third-party sources, such adjustments may not

fully capture the effects of tax reconciliation that BHP enrollees would have experienced had they been enrolled in a QHP through a Marketplace and received APTC assistance.

Therefore, we are including in Equation 1 an income adjustment factor that would account for the difference between calculating estimated PTC using: (a) income relative to FPL as determined at initial application and potentially revised mid-year, under 600.320, for purposes of determining BHP eligibility and claiming federal BHP payments; and (b) actual income relative to FPL received during the plan year, as it would be reflected on individual federal income tax returns. This adjustment will prospectively estimate the average effect of income reconciliation aggregated across the BHP population had those BHP enrollees been subject to tax reconciliation after receiving APTC assistance for coverage provided through QHPs. For 2016, we will estimate reconciliation effects based on tax data for 2 years, reflecting income and tax unit composition changes over time among BHP-eligible individuals.

The OTA maintains a model that combines detailed tax and other data, including Marketplace enrollment and PTC claimed, to project Marketplace premiums, enrollment, and tax credits. For each enrollee, this model compares the APTC based on household income and family size estimated at the point of enrollment with the PTC based on household income and family size reported at the end of the tax year. The former reflects the determination using enrollee information furnished by the applicant and tax data furnished by the IRS. The latter would reflect the PTC eligibility based on information on the tax return, which would have been determined if the individual had not enrolled in BHP. The ratio of the reconciled PTC to the initial estimation of PTC will be used as the income reconciliation factor in Equation (1) for estimating the PTC portion of the BHP payment rate.

For 2016, OTA has estimated that the income reconciliation factor for states that have implemented the Medicaid eligibility expansion to cover adults up to 133 percent of the FPL will

be 100.25 percent, and for states that have not implemented the Medicaid eligibility expansion and do not cover adults up to 133 percent of the FPL will be 100.24 percent. For 2015, we used the average of the factors for the two groups of states. For 2016, the values of the factors for the two groups of states are within 0.01 percentage point of each other. Because the values are within 0.01 percentage point, we will use the greater of two factors (100.25 percent) rather than the average.

#### 6. Tobacco Rating Adjustment Factor (TRAF)

As previously described, the reference premium is estimated, for purposes of determining both the PTC and related federal BHP payments, based on premiums charged for non-tobacco users, including in states that allow premium variations based on tobacco use, as provided in 42 U.S.C. 300gg (a)(1)(A)(iv). In contrast, as described in 45 CFR 156.430, the CSR advance payments are based on the total premium for a policy, including any adjustment for tobacco use. Accordingly, we will incorporate a tobacco rating adjustment factor into Equation 2 that reflects the average percentage increase in health care costs that results from tobacco use among the BHP-eligible population and that would not be reflected in the premium charged to non-users. This factor will also take into account the estimated proportion of tobacco users among BHP-eligible consumers.

To estimate the average effect of tobacco use on health care costs (not reflected in the premium charged to non-users), we will calculate the ratio between premiums that silver level QHPs charge for tobacco users to the premiums they charge for non-tobacco users at selected ages. To calculate estimated proportions of tobacco users, we will use data from the Centers for Disease Control and Prevention (CDC) to estimate tobacco utilization rates by state and relevant

population characteristic.<sup>8</sup> For each state, we will calculate the tobacco usage rate based on the percentage of persons by age who use cigarettes and the percentage of persons by age that use smokeless tobacco, and calculate the utilization rate by adding the two rates together. The data is available for 3 age intervals: 18-24; 25-44; and 45-64. For the BHP payment rate cell for persons ages 21-34, we will calculate the factor as  $(4/14 * \text{the utilization rate of 18-24 year olds})$  plus  $(10/14 * \text{the utilization rate of 25-44 year olds})$ , which would be the weighted average of tobacco usage for persons 21-34 assuming a uniform distribution of ages; for all other age ranges used for the rate cells, we will use the age range in the CDC data in which the BHP payment rate cell age range is contained.

We will provide tobacco rating factors that may vary by age and by geographic area within each state. To the extent that the second lowest cost silver plans have a different ratio of tobacco user rates to non-tobacco user rates in different geographic areas, the tobacco rating adjustment factor may differ across geographic areas within a state. In addition, to the extent that the second lowest cost silver plan has a different ratio of tobacco user rates to non-tobacco user rates by age, or that there is a different prevalence of tobacco use by age, the tobacco rating adjustment factor may differ by age.

#### 7. Factor for Removing Administrative Costs (FRAC)

The Factor for Removing Administrative Costs represents the average proportion of the total premium that covers allowed health benefits, and we include this factor in our calculation of estimated CSRs in Equation 2. The product of the reference premium and the Factor for Removing Administrative Costs would approximate the estimated amount of Essential Health Benefit (EHB) claims that would be expected to be paid by the plan. This step is needed because

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<sup>8</sup> Centers for Disease Control and Prevention, *Tobacco Control State Highlights 2012*:

the premium also covers such costs as taxes, fees, and QHP administrative expenses. We are setting this factor equal to 0.80, which is the same percentage for the factor to remove administrative costs for calculating CSR advance payments for established in the 2015 HHS Notice of Benefit and Payment Parameters.

#### 8. Actuarial Value (AV)

The actuarial value is defined as the percentage paid by a health plan of the total allowed costs of benefits, as defined under 45 CFR 156.20. (For example, if the average health care costs for enrollees in a health insurance plan were \$1,000 and that plan has an actuarial value of 70 percent, the plan would be expected to pay on average \$700 ( $\$1,000 \times 0.70$ ) for health care costs per enrollee, on average.) By dividing such estimated costs by the actuarial value in the methodology, we will calculate the estimated amount of total EHB-allowed claims, including both the portion of such claims paid by the plan and the portion paid by the consumer for in-network care. (To continue with that same example, we would divide the plan's expected \$700 payment of the person's EHB-allowed claims by the plan's 70 percent actuarial value to ascertain that the total amount of EHB-allowed claims, including amounts paid by the consumer, is \$1,000.)

For the purposes of calculating the CSR rate in Equation 2, we will use the standard actuarial value of the silver level plans in the individual market, which is equal to 70 percent.

#### 9. Induced Utilization Factor (IUF)

The induced utilization factor will be used as a factor in calculating estimated CSRs in Equation 2 to account for the increase in health care service utilization associated with a reduction in the level of cost sharing a QHP enrollee would have to pay, based on the cost-

sharing reduction subsidies provided to enrollees.

The 2015 HHS Notice of Benefit and Payment Parameters provided induced utilization factors for the purposes of calculating cost-sharing reduction advance payments for 2015. In that rule, the induced utilization factors for silver plan variations ranged from 1.00 to 1.12, depending on income. Using those utilization factors, the induced utilization factor for all persons who would qualify for BHP based on their household income as a percentage of FPL is 1.12; this would include persons with household income between 100 percent and 200 percent of FPL, lawfully present non-citizens below 100 percent of FPL who are ineligible for Medicaid because of immigration status, and persons with household income under 300 percent of FPL, not subject to any cost-sharing. Thus, consistent with last year, we will set the induced utilization factor equal to 1.12 for the BHP payment methodology.

#### 10. Change in Actuarial Value ( $\Delta AV$ )

The increase in actuarial value would account for the impact of the cost-sharing reduction subsidies on the relative amount of EHB claims that would be covered for or paid by eligible persons, and we include it as a factor in calculating estimated CSRs in Equation 2.

The actuarial values of QHPs for persons eligible for cost-sharing reduction subsidies are defined in 45 CFR 156.420(a), and eligibility for such subsidies is defined in 45 CFR 155.305(g)(2)(i) through (iii). For QHP enrollees with household incomes between 100 percent and 150 percent of FPL, and those below 100 percent of FPL who are ineligible for Medicaid because of their immigration status, CSRs increase the actuarial value of a QHP silver plan from 70 percent to 94 percent. For QHP enrollees with household incomes between 150 percent and 200 percent of FPL, CSRs increase the actuarial value of a QHP silver plan from 70 percent to 87 percent.

We will apply this factor by subtracting the standard AV from the higher AV allowed by

the applicable cost-sharing reduction. For BHP enrollees with household incomes at or below 150 percent of FPL, this factor will be 0.24 (94 percent minus 70 percent); for BHP enrollees with household incomes more than 150 percent but not more than 200 percent of FPL, this factor will be 0.17 (87 percent minus 70 percent).

#### E. Adjustments for American Indians and Alaska Natives

There are several exceptions made for American Indians and Alaska Natives enrolled in QHPs through a Marketplace to calculate the PTC and CSRs. Thus, we will make adjustments to the payment methodology described above to be consistent with the Marketplace rules.

We will make the following adjustments:

1. The adjusted reference premium for use in the CSR portion of the rate will be the lowest cost bronze plan instead of the second lowest cost silver plan, with the same adjustment for the population health factor (and in the case of a state that elects to use the 2015 premiums as the basis of the federal BHP payment, the same adjustment for the premium trend factor). American Indians and Alaska Natives are eligible for CSRs with any metal level plan, and thus we believe that eligible persons would be more likely to select a bronze level plan instead of a silver level plan. (It is important to note that the assumption that American Indians and Alaska Natives would enroll in a bronze plan would not necessarily change the PTC, as the PTC amount calculated as part of the BHP payment methodology is the maximum possible PTC payment, which is always based on the applicable second lowest cost silver plan. In actuality, the PTC payment that would be made in for an individual enrolled in a QHP cannot exceed the total premium. It is possible that some bronze plan premiums would be less than the maximum PTC payment, but we have not made any adjustment in the methodology for this. We believe that this assumption would have a negligible impact on the BHP payment.)

2. The actuarial value for use in the CSR portion of the rate will be 0.60 instead of 0.70, which is consistent with the actuarial value of a bronze level plan.

3. The induced utilization factor for use in the CSR portion of the rate will be 1.15, which is consistent with the 2015 HHS Notice of Benefit and Payment Parameters induced utilization factor for calculating advance CSR payments for persons enrolled in bronze level plans and eligible for CSRs up to 100 percent of actuarial value.

4. The change in the actuarial value for use in the CSR portion of the rate will be 0.40. This reflects the increase from 60 percent actuarial value of the bronze plan to 100 percent actuarial value, as American Indians and Alaska Natives are eligible to receive CSRs up to 100 percent of actuarial value.

#### F. State Option to Use 2015 QHP Premiums for BHP Payments

In the interest of allowing states greater certainty in the total BHP federal payments for 2016, we will provide states the option to have their final 2016 federal BHP payment rates calculated using the projected 2016 adjusted reference premium (that is, using 2015 premium data multiplied by the premium trend factor defined below), as described in Equation (3b).

For a state that elects to use the 2015 premium as the basis for the 2016 BHP federal payment, the state must inform CMS no later than May 15, 2015.

For Equation (3b), we define the premium trend factor as follows:

Premium Trend Factor (PTF): In Equation (3b), we calculate an adjusted reference premium (ARP) based on the application of certain relevant variables to the RP, including a PTF. In the case of a state that would elect to use the 2015 premiums as the basis for determining the BHP payment, it would be appropriate to apply a factor that would account for the change in health care costs between the year of the premium data and the BHP plan year.

We define this as the premium trend factor in the BHP payment methodology. This factor will

approximate the change in health care costs per enrollee, which would include, but not be limited to, changes in the price of health care services and changes in the utilization of health care services. This provides an estimate of the adjusted monthly premium for the applicable second lowest cost silver plan that would be more accurate and reflective of health care costs in the BHP program year, which will be the year following issuance of the final federal payment notice. In addition, we believe that it would be appropriate to adjust the trend factor for the estimated impact of changes to the transitional reinsurance program on the average QHP premium.

We will use the annual growth rate in private health insurance expenditures per enrollee from the National Health Expenditure projections, developed by CMS' Office of the Actuary (<http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/NationalHealthAccountsProjected.html>, Table 17—Health Insurance Enrollment and Enrollment Growth Rates). For 2016, the projected increase in private health insurance premiums per enrollee is 3.9 percent.

The adjustment for changes in the transitional reinsurance program is developed from analysis by CMS' Center for Consumer Information and Insurance Oversight (CCIIO). In unpublished analysis, CCIIO estimated that the transitional reinsurance program would reduce QHP premiums in 2015 on average by 7.9 percent and in 2016 by 4.4 percent, as the amount of funding in the reinsurance program decreases. Based on these analyses, we estimate that the changes in the transitional reinsurance program would lead to an increase of 3.8 percent in average QHP premiums between 2015 and 2016:  $(1 - 0.044)/(1 - 0.079) - 1 = 3.8$  percent.

Combining these two factors together, we calculate that the premium trend factor for 2016 would be 7.8 percent  $(1 + 0.039) \times (1 + 0.038) - 1 = 7.8$  percent.

States may want to consider that the increase in premiums for QHPs from 2015 to 2016 may differ from the premium trend factor developed for the BHP funding methodology for

several reasons. In particular, states may want to consider that the second lowest cost silver plan for 2015 may not be the same as the second lowest cost silver plan in 2016. This may lead to the premium trend factor being greater than or less than the actual change in the premium of the second lowest cost silver plan in 2015 compared to the premium of the second lowest cost silver plan in 2016.

#### G. State Option to Include Retrospective State-specific Health Risk Adjustment in Certified Methodology

To determine whether the potential difference in health status between BHP enrollees and consumers in the Marketplace would affect the PTC, CSRs, risk adjustment and reinsurance payments that would have otherwise been made had BHP enrollees been enrolled in coverage on the Marketplace, we will provide states implementing the BHP the option to propose and to implement, as part of the certified methodology, a retrospective adjustment to the federal BHP payments to reflect the actual value that would be assigned to the population health factor (or risk adjustment) based on data accumulated during program year 2016 for each rate cell.

We acknowledge that there is uncertainty with respect to this factor due to the lack of experience of QHPs on the Marketplace and other payments related to the Marketplace, which is why, absent a state election, we will use a value for the population health factor to determine a prospective payment rate which assumes no difference in the health status of BHP enrollees and QHP enrollees. There is considerable uncertainty regarding whether the BHP enrollees will pose a greater risk or a lesser risk compared to the QHP enrollees, how to best measure such risk, and the potential effect such risk would have had on PTC, CSRs, risk adjustment and reinsurance payments that would have otherwise been made had BHP enrollees been enrolled in coverage on the Marketplace. To the extent, however, that a state would develop an approved protocol to collect data and effectively measure the relative risk and the effect on federal payments, we will

permit a retrospective adjustment that would measure the actual difference in risk between the two populations to be incorporated into the certified BHP payment methodology and used to adjust payments in the previous year.

For a state electing the option to implement a retrospective population health status adjustment, we require that the state submit a proposed protocol to CMS, which will be subject to approval by CMS and would be required to be certified by CMS' Chief Actuary, in consultation with the OTA, as part of the BHP payment methodology. We described the protocol for the population health status adjustment in guidance in Considerations for Health Risk Adjustment in the Basic Health Program in Program Year 2015 (<http://www.medicaid.gov/Basic-Health-Program/Downloads/Risk-Adjustment-and-BHP-White-Paper.pdf>). We require a state to submit its proposed protocol by August 1, 2015 for CMS approval. This submission must include descriptions of how the state would collect the necessary data to determine the adjustment, including any contracting contingences that may be in place with participating standard health plan issuers. We will provide technical assistance to states as they develop their protocols. In order to implement the population health status, we must approve the state's protocol no later than December 31, 2015. Finally, the state will be required to complete the population health status adjustment at the end of 2016 based on the approved protocol. After the end of the 2016 program year, and once data is made available, we will review the state's findings, consistent with the approved protocol, and make any necessary adjustments to the state's federal BHP payment amount. If we determine that the federal BHP payments were less than they would have been using the final adjustment factor, we would apply the difference to the state's quarterly BHP trust fund deposit. If we determine that the federal BHP payments were more than they would have been using the final reconciled factor, we would subtract the difference from the next quarterly BHP payment to the state.

#### **IV. Collection of Information Requirements**

The 2016 funding methodology is unchanged from the 2015 final methodology that published on March 12, 2014 (79 FR 13887). The 2016 methodology does not impose any new or revised reporting, recordkeeping, or third-party disclosure requirements, and therefore, does not require additional OMB review under the authority of the Paperwork Reduction Act of 1995 (44 U.S.C. 3501 et seq.). The methodology's information collection requirements and burden estimates are approved by OMB under control number 0938–1218 (CMS–10510).

Consistent with the Basic Health Program's proposed and final rules (September 25, 2013 at 78 FR 59122 and March 12, 2014 at 79 FR 14112, respectively) we continue to estimate less than 10 annual respondents for completing the Blueprint. Consequently, the Blueprint is exempt from formal OMB review and approval under 5 CFR 1320.3(c).

Finally, this action does not impose any additional reporting, recordkeeping, or third-party disclosure requirements on qualified health plans or on states operating State Based Marketplaces.

#### **V. Regulatory Impact Statement**

##### A. Overall Impact

We have examined the impacts of this rule as required by Executive Order 12866 on Regulatory Planning and Review (September 30, 1993), Executive Order 13563 on Improving Regulation and Regulatory Review (January 18, 2011), the Regulatory Flexibility Act (RFA) (September 19, 1980, Pub. L. 96-354), section 1102(b) of the Act, section 202 of the Unfunded Mandates Reform Act of 1995 (Pub. L. 104-4, March 22, 1995) (UMRA), Executive Order 13132 on Federalism (August 4, 1999) and the Congressional Review Act (5 U.S.C. 804(2)).

Executive Orders 12866 and 13563 direct agencies to assess all costs and benefits of available regulatory alternatives and, if regulation is necessary, to select regulatory approaches

that maximize net benefits (including potential economic, environmental, public health and safety effects, distributive impacts, and equity). Section 3(f) of Executive Order 12866 defines a “significant regulatory action” as an action that is likely to result in a rule: (1) having an annual effect on the economy of \$100 million or more in any 1 year, or adversely and materially affecting a sector of the economy, productivity, competition, jobs, the environment, public health or safety, or state, local or tribal governments or communities (also referred to as “economically significant”); (2) creating a serious inconsistency or otherwise interfering with an action taken or planned by another agency; (3) materially altering the budgetary impacts of entitlement grants, user fees, or loan programs or the rights and obligations of recipients thereof; or (4) raising novel legal or policy issues arising out of legal mandates, the President’s priorities, or the principles set forth in the Executive Order.

A regulatory impact analysis (RIA) must be prepared for major rules with economically significant effects (\$100 million or more in any 1 year). As noted in the BHP final rule, BHP provides states the flexibility to establish an alternative coverage program for low-income individuals who would otherwise be eligible to purchase coverage through the Marketplace. We are uncertain as to whether the effects of the final rulemaking, and subsequently, this methodology, will be “economically significant” as measured by the \$100 million threshold, and hence not a major rule under the Congressional Review Act. The impact may depend on several factors, including the number of and which particular states choose to implement or continue BHP in 2016, the level of QHP premiums in 2015 and 2016, the number of enrollees in BHP, and the other coverage options for persons who would be eligible for BHP. In particular, while we generally expect that many enrollees would have otherwise been enrolled in a QHP through the Marketplace, some persons may have been eligible for Medicaid under a waiver or a state health coverage program. For those who would have enrolled in a QHP and thus would have

received PTCs or CSRs, the federal expenditures for BHP would be expected to be more than offset by a reduction in federal expenditures for PTCs and CSRs. For those who would have been enrolled in Medicaid, there would likely be a smaller offset in federal expenditures (to account for the federal share of Medicaid expenditures), and for those who would have been covered in non-federal programs or would have been uninsured, there likely would be an increase in federal expenditures. In accordance with the provisions of Executive Order 12866, this methodology was reviewed by the Office of Management and Budget.

#### 1. Need for the Methodology

Section 1331 of the Affordable Care Act (codified at 42 U.S.C. 18051) requires the Secretary to establish a BHP, and section (d)(1) specifically provides that if the Secretary finds that a state “meets the requirements of the program established under section (a) [of section 1331 of the Affordable Care Act], the Secretary shall transfer to the State” federal BHP payments described in section (d)(3). This methodology provides for the funding methodology to determine the federal BHP payment amounts required to implement these provisions in program year 2016.

#### 2. Alternative Approaches

Many of the factors in this methodology are specified in statute; therefore, we are limited in the alternative approaches we could consider. One area in which we had a choice was in selecting the data sources used to determine the factors included in the methodology. Except for state-specific reference premiums and enrollment data, we are using national rather than state-specific data. This is due to the lack of currently available state-specific data needed to develop the majority of the factors included in the methodology. We believe the national data will produce sufficiently accurate determinations of payment rates. In addition, we believe that this approach will be less burdensome on states. To reference premiums and enrollment data, we are

using state-specific data rather than national data as we believe state-specific data will produce more accurate determinations than national averages.

In addition, we considered whether or not to provide states the option to develop a protocol for a retrospective adjustment to the population health factor in 2016 as we did in the 2015 payment methodology. We believe that providing this option again in 2016 is appropriate and likely to improve the accuracy of the final payments.

We also considered whether or not to require the use of 2015 or 2016 QHP premiums to develop the 2016 federal BHP payment rates. We believe that the payment rates can still be developed accurately using either the 2015 or 2016 QHP premiums and that it is appropriate to provide the states the option, given the interests and specific considerations each state may have in operating the BHP.

### 3. Transfers

The provisions of this methodology are designed to determine the amount of funds that will be transferred to states offering coverage through a BHP rather than to individuals eligible for premium and cost-sharing reductions for coverage purchased on the Marketplace. We are uncertain what the total federal BHP payment amounts to states will be as these amounts will vary from state to state due to the varying nature of state composition. For example, total federal BHP payment amounts may be greater in more populous states simply by virtue of the fact that they have a larger BHP-eligible population and total payment amounts are based on actual enrollment. Alternatively, total federal BHP payment amounts may be lower in states with a younger BHP-eligible population as the reference premium used to calculate the federal BHP payment will be lower relative to older BHP enrollees. While state composition will cause total federal BHP payment amounts to vary from state to state, we believe that the methodology accounts for these variations to ensure accurate BHP payment transfers are made to each state.

### B. Unfunded Mandates Reform Act

Section 202 of the UMRA requires that agencies assess anticipated costs and benefits before issuing any rule whose mandates require spending in any 1 year of \$100 million in 1995 dollars, updated annually for inflation, by state, local, or tribal governments, in the aggregate, or by the private sector. In 2014, that threshold is approximately \$141 million. States have the option, but are not required, to establish a BHP. Further, the methodology would establish federal payment rates without requiring states to provide the Secretary with any data not already required by other provisions of the Affordable Care Act or its implementing regulations. Thus, this payment methodology does not mandate expenditures by state governments, local governments, or tribal governments.

### C. Regulatory Flexibility Act

The Regulatory Flexibility Act (5 U.S.C. 601 *et seq.*) (RFA) requires agencies to prepare an initial regulatory flexibility analysis to describe the impact of the proposed rule on small entities, unless the head of the agency can certify that the rule will not have a significant economic impact on a substantial number of small entities. The Act generally defines a “small entity” as (1) a proprietary firm meeting the size standards of the Small Business Administration (SBA); (2) a not-for-profit organization that is not dominant in its field; or (3) a small government jurisdiction with a population of less than 50,000. Individuals and states are not included in the definition of a small entity. Few of the entities that meet the definition of a small entity as that term is used in the RFA would be impacted directly by this methodology.

Because this methodology is focused on the funding methodology that will be used to determine federal BHP payment rates, it does not contain provisions that would have a significant direct impact on hospitals, and other health care providers that are designated as small entities under the RFA. We cannot determine whether this methodology would have a

significant economic impact on a substantial number of small entities.

Section 1102(b) of the Act requires us to prepare a regulatory impact analysis if a may have a significant economic impact on the operations of a substantial number of small rural hospitals. For purposes of section 1102(b) of the Act, we define a small rural hospital as a hospital that is located outside of a metropolitan statistical area and has fewer than 100 beds. As indicated in the preceding discussion, there may be indirect positive effects from reductions in uncompensated care. Again, we cannot determine whether this methodology would have a significant economic impact on a substantial number of small rural hospitals, and we request public comment on this issue.

#### D. Federalism

Executive Order 13132 establishes certain requirements that an agency must meet when it promulgates a proposed rule (and subsequent final rule) that imposes substantial direct effects on states, preempts state law, or otherwise has federalism implications. The BHP is entirely optional for states, and if implemented in a state, provides access to a pool of funding that would not otherwise be available to the state.

**CMS-2391-FN**

Dated: February 4, 2015

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**Marilyn Tavenner,**  
Administrator,  
Centers for Medicare & Medicaid Services.

Dated: February 13, 2015

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**Sylvia M. Burwell,**  
Secretary,  
Department of Health and Human Services.

**BILLING CODE 4120-01-P**

