

# Appendix I. General Small Group Rating Process

Step 1 =

Starting Value

X

Area Factor

*Reflects the general cost level of the area, the differences in medical practices by region, the specialization and intensity of services and the amount of competition in the area.*

X

Age Factor

*Reflects that, on average, health status deteriorates as one ages.*

X

Gender Factor

*Females incur greater medical costs than males at younger ages, particularly during childbearing years. The variance in cost diminish with age until male cost begin to exceed female cost in the late 50's to early 60's.*

X

Industry Factor (limited to 15%)

*People working in some industries exhibit higher medical claims costs than other industries. This is primarily due to the working conditions, the type and lifestyles of people attracted to a particular industry, and the prevalence of accidents in the industry. Article 26.33(c).*

X

Group Size Factor (limited to 20%\*)

*Appropriate for two reasons:*  
*(1) As group size increases, the per-insured expenses required to issue and service the business decreases. This allows for a lower rate, and*  
*(2) Individuals and small groups tend to select against an insurer when purchasing medical coverage. The purchaser generally knows the need for insurance for each employee in very small groups and can select coverage in line with individual needs. As group size increases, this selection becomes more difficult and to the extent it occurs, is spread over a larger base.*

*\*If group size is used, the highest factor associated with a group size classification may not exceed the lowest rate factor associated with group size classification by more than 20%. 28 TAC 26.11(d) and in the draft language at Article 26.33(d).*

X

Plan Design Factor

*Reflects factors such as benefits provided, deductible and coinsurance amounts, and the degree of managed care.*

+

Administrative Costs

=

**Base Premium Rate**

**Step 2 =**

**Base Premium Rate (from Step 1)**

+

**Risk Load**

*Reflects the risk characteristics of the group. Risk characteristics are defined as health status related factors, duration of coverage or similar characteristics related to health status or experience of a small employer group or any member of a small employer group. Article 26.32(c).*

Adapted from: Texas Department of Insurance, "Small Group Rating Process," Austin, Texas, December 2000 (draft).