DEPARTMENT OF HEALTH AND HUMAN SERVICES

Centers for Medicare & Medicaid Services

42 CFR Part 600

[CMS-2391-PN]

RIN 0938-ZB18

Basic Health Program; Federal Funding Methodology for Program Year 2016

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

ACTION: Proposed 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: To be assured consideration, comments must be received at one of the addresses provided below, no later than 5 p.m. on [insert date 30 days after date of publication in the **Federal Register**].

ADDRESSES: In commenting, refer to file code CMS-2391-PN. Because of staff and resource limitations, we cannot accept comments by facsimile (FAX) transmission.

You may submit comments in one of four ways (please choose only one of the ways listed):

1. Electronically. You may submit electronic comments on this regulation to **http://www.regulations.gov**. Follow the "Submit a comment" instructions.

2. By regular mail. You may mail written comments to the following address ONLY:

Centers for Medicare & Medicaid Services,

Department of Health and Human Services,

Attention: CMS-2391-PN,

P.O. Box 8016,

Baltimore, MD 21244-8016.

Please allow sufficient time for mailed comments to be received before the close of the

comment period.

3. By express or overnight mail. You may send written comments to the following

address ONLY:

Centers for Medicare & Medicaid Services,

Department of Health and Human Services,

Attention: CMS-2391-PN,

Mail Stop C4-26-05,

7500 Security Boulevard,

Baltimore, MD 21244-1850.

4.   By hand or courier. Alternatively, you may deliver (by hand or courier) your

written ONLY to the following addresses:

a. For delivery in Washington, DC--

Centers for Medicare & Medicaid Services,

Department of Health and Human Services,

Room 445-G, Hubert H. Humphrey Building,

200 Independence Avenue, SW.,

Washington, DC 20201

(Because access to the interior of the Hubert H. Humphrey Building is not readily available to persons without Federal government identification, commenters are encouraged to leave their comments in the CMS drop slots located in the main lobby of the building. A stamp-in clock is available for persons wishing to retain a proof of filing by stamping in and retaining an extra copy of the comments being filed.)

b. For delivery in Baltimore, MD--

Centers for Medicare & Medicaid Services,

Department of Health and Human Services,

7500 Security Boulevard,

Baltimore, MD 21244-1850.

If you intend to deliver your comments to the Baltimore address, call telephone number (410) 786-7195 in advance to schedule your arrival with one of our staff members.

Comments erroneously mailed to the addresses indicated as appropriate for hand or courier delivery may be delayed and received after the comment period.

Submission of comments on paperwork requirements. You may submit comments on this document's paperwork requirements by following the instructions at the end of the "Collection of Information Requirements" section in this document.

For information on viewing public comments, see the beginning of the "SUPPLEMENTARY INFORMATION" section.

FOR FURTHER INFORMATION CONTACT:

Christopher Truffer, (410) 786-1264; Stephanie Kaminsky, (410) 786-4653.

SUPPLEMENTARY INFORMATION:

Inspection of Public Comments: All comments received before the close of the comment period are available for viewing by the public, including any personally identifiable or confidential business information that is included in a comment. We post all comments received before the close of the comment period on the following Web site as soon as possible after they have been received: http://www.regulations.gov. Follow the search instructions on that Web site to view public comments.

Comments received timely will also be available for public inspection as they are received, generally beginning approximately 3 weeks after publication of a document, at the headquarters of the Centers for Medicare & Medicaid Services, 7500 Security Boulevard, Baltimore, Maryland 21244, Monday through Friday of each week from 8:30 a.m. to 4 p.m. To schedule an appointment to view public comments, phone 1-800-743-3951.

Table of Contents

H. Example Application of the BHP Funding Methodology

III.   Collection of Information

IV.   Response to Comments

V.   Regulatory Impact Statement

A. Overall Impact

B. Unfunded Mandates Reform Act

C. Regulatory Flexibility Act

D. Federalism

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) for most individuals who are not eligible for health coverage under other federally supported health benefits programs or through affordable employer-sponsored insurance coverage, and who have incomes above 100 percent but no more than 400 percent of the federal poverty line (FPL), or whose income is below that level but are lawfully present non-citizens ineligible for Medicaid because of immigration status. Individuals enrolled through Exchanges 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 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 Social Security 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 Exchanges.

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 Exchanges. 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 II.C of this proposed 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.

In the March 12, 2014 **Federal Register** (79 FR 13887), we published the final payment
methodology entitled "Basic Health Program; Federal Funding Methodology for Program Year
2015" (hereinafter referred to as the 2015 payment methodology) that sets forth the methodology
that will be used to calculate the federal BHP payments for the 2015 program year.

II. Provisions of the Proposed 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 an Exchange. Thus, the proposed BHP funding
methodology is designed to calculate the PTC and CSRs as consistently as possible and in
general alignment with the methodology used by Exchanges to calculate the advance payments
of the PTC and CSRs, and by the Internal Revenue Service (IRS) to calculate final PTCs. In
general, we propose to rely on values for factors in the payment methodology specified in statute
or other regulations as available, and we propose to develop 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 an Exchange. In accordance with section 1331(d)(3)(A)(iii) of the Affordable Care Act, the final funding methodology must be certified by the Chief Actuary of CMS, in consultation with the Office of Tax Analysis 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 an Exchange, and whether any reconciliation of the credit or cost-sharing reductions would have occurred if the enrollee had been so enrolled." The proposed payment methodology takes each of these factors into account. We propose a methodology that is the same as the 2015 payment methodology, with updated values but no changes in methods.

We propose that the total federal BHP payment amount would be based on multiple "rate cells" in each state. Each "rate cell" would represent 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 would be 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 we would develop BHP payment rates that would be consistent with those states' rules on age

rating. Thus, in the case of a state that does not use age as a rating factor on the Exchange, the BHP payment rates would not vary by age.

The proposed rate for each rate cell would be calculated in two parts. The first part (as described in Equation (1) below) would 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 Exchange. The second part (as described in Equation (2) below) would 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 Exchange. These 2 parts would be added together and the total rate for that rate cell would be equal to the sum of the PTC and CSR rates.

We propose that Equation (1) below would be used to calculate the estimated PTC for individuals in each rate cell and Equation (2) below would 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 would effectively take those factors into account in the calculation. In addition, the equations would reflect the estimated experience of individuals in each rate cell if enrolled in coverage through the Exchange, taking into account additional relevant variables. 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 propose to calculate the adjusted reference premium (described later in this section of the payment notice) that is used in Equations (1) and (2). This is defined below in Equation (3a) and Equation (3b).

1. Equation 1: Estimated PTC by rate cell

We propose that the estimated PTC, on a per enrollee basis, would 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 would 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 would 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) would 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) below. Third, the PTC would 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 II.D.5. of this proposed methodology, would 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 would calculate the PTC to be equal to 0 and would not allow the value of the PTC to be negative.

   We propose using Equation (1) to calculate the PTC rate, consistent with the methodology described above:

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

$PTC_{a,g,c,h,i}$ = 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

2. Equation 2: Estimated CSR payment by Rate Cell

We propose that the CSR portion of the rate would 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 would 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 further propose a separate calculation that includes different adjustments for American Indian/Alaska Native BHP enrollees, as described in section II.D.1 of this proposed methodology.) For the first adjustment, the CSR rate, like the PTC rate, would 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 would be based on the adjusted reference premium, as described in section II.A.3. of

this proposed 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, we propose that the equation include 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 would be multiplied by 95 percent, as provided in

section 1331(d)(3)(A)(i) of the Affordable Care Act.

We propose using Equation (2) to calculate the CSR rate, consistent with the

methodology described above:

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

$CSR_{a,g,c,h,i}$ = 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

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

3. 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, we propose to calculate the value of the adjusted reference premium as described below. Consistent with the approach last year, we are proposing to 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 II.F). Therefore, we are proposing how we would calculate the adjusted reference premium under each option.

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

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

$ARP_{a,g,c}$ = 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 elected to use the reference premium based on the 2015 premiums (as described in section II.F of this proposed methodology), we propose to calculate the value of the adjusted reference premium as specified in Equation (3b). The adjusted reference premium would be equal to the reference premium, which would be based on the second lowest cost silver plan premium in 2015, multiplied by the BHP population health factor (described in section II.D of this proposed methodology), which would reflect the projected impact that enrolling BHP-eligible individuals in QHPs on an Exchange would have had on the average QHP premium, and by the premium trend factor, which would 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).

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

$ARP_{a,g,c}$ = 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

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

In general, the rate for each rate cell would 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.

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

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 propose 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 would 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 would 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. Subsequent, quarterly deposits to the state's trust fund would 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 propose requiring the use of certain rate cells as part of the proposed methodology.

For each state, we propose using rate cells that separate the BHP population into separate cells

based on the five factors described below.

Factor 1--Age: We propose separating enrollees into rate cells by age, using the

following age ranges that capture the widest variations in premiums under HHS's Default Age

Curve:[1]

- Ages 0-20.

- Ages 21-34.

- Ages 35-44.

- Ages 45-54.

- Ages 55-64.

Factor 2--Geographic area: For each state, we propose separating enrollees into rate cells

by geographic areas within which a single reference premium is charged by QHPs offered

---

[1] 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.

through the state's Exchange. Multiple, non-contiguous geographic areas would be incorporated within a single cell, so long as those areas share a common reference premium.[2]

Factor 3--Coverage status: We propose separating 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, would apply based on whether such coverage involves two adults alone or whether it involves children.

Factor 4--Household size: We propose separating enrollees into rate cells by household size that states use to determine BHP enrollees' income as a percentage of the FPL under proposed 42 CFR 600.320. We are proposing to require separate rate cells for several specific household sizes. For each additional member above the largest specified size, we propose to publish instructions for how we would develop additional rate cells and calculate an appropriate payment rate based on data for the rate cell with the closest specified household size. We propose to 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.

---

[2] 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 5--Income: For households of each applicable size, we propose creating 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, we propose that separate rate cells would be used to

calculate federal BHP payment rates to reflect different bands of income measured as a

percentage of FPL. We propose using 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.[3]

- 139 to 150 percent of the FPL.

- 151 to 175 percent of the FPL.

- 176 to 200 percent of the FPL.

These rate cells would only be used to calculate the federal BHP payment amount. A

state implementing BHP would 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 propose using 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 the proposed approach will increase the administrative

---

[3] The three lowest income ranges would be limited to lawfully present immigrants who are ineligible for Medicaid because of immigration status.

feasibility of making federal BHP payments and reduce the likelihood of inadvertently erroneous payments resulting from highly complex methodologies. We believe that this approach should 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 intend to use data submitted to the federal government by QHP issuers seeking to offer coverage through an Exchange to perform the calculations that determine federal BHP payment cell rates.

States operating a State Based Exchange 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 propose that a State Based Exchange 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, in order 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 State Based Exchange 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 propose that the state, if operating a State Based Exchange, submit its data no later than 30 days after the Blueprint submission for CMS to calculate the applicable federal payment rates. We further propose 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 Exchange, 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 II.C.4 of this proposed 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 Exchange. We propose to 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 II.F of this proposed methodology).

The reference premium would 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 an Exchange, we propose not to 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 propose to use the lowest cost bronze plan as the basis for the reference premium for the purposes of calculating the CSR portion of the federal BHP payment as described further in section II.E of this proposed methodology.

We would note that the choice of the second lowest cost silver plan for calculating BHP

payments would rely on several simplifying assumptions in its selection. For the purposes of

determining the second lowest cost silver plan for calculating PTC for a person enrolled in a

QHP through an Exchange, the applicable plan may differ for various reasons. For example, a

different second lowest cost silver plan may apply to a family consisting of two adults, their

child, and their niece than to a family with 2 adults and their children, because 1 or more QHPs

in the family's geographic area might not offer family coverage that includes the niece. We

believe that it would not be possible to replicate such variations for calculating the BHP payment

and believe that in aggregate they would not result in a significant difference in the payment.

Thus, we propose to use the second lowest cost silver plan available to any enrollee for a given

age, geographic area, and coverage category.

This choice of reference premium relies on 2 assumptions about enrollment in the

Exchanges. First, we assume that all persons enrolled in BHP would have elected to enroll in a

silver level plan if they had instead enrolled in a QHP through the Exchanges. It is possible that

some persons would have chosen not to enroll at all or would have chosen to enroll in a different

metal-level plan (in particular, a bronze level plan with a premium that is less than the PTC for

which the person was eligible). We do not believe it is appropriate to adjust the payment for an

assumption that some BHP enrollees would not have enrolled in QHPs for purposes of

calculating the BHP payment rates, since Affordable Care Act section 1331(d)(3)(A)(ii) requires

the calculation of such rates as "if the enrollee had enrolled in a qualified health plan through an

Exchange."

Second, we assume that, among all available silver plans, all persons enrolled in BHP

would have selected the second-lowest cost plan. Both this and the prior assumption allow an

administratively feasible determination of federal payment levels. They also have some

implications for the CSR portion of the rate. If persons were to enroll in a bronze level plan through the Exchange, they would not be eligible for CSRs, unless they were an eligible American Indian or Alaska Native; thus, assuming that all persons enroll in a silver level plan, rather than a plan with a different metal level, would increase the BHP payment. Assuming that all persons enroll in the second lowest cost silver plan for the purposes of calculating the CSR portion of the rate may result in a different level of CSR payments than would have been paid if the persons were enrolled in different silver level plans on the Exchanges (with either lower or higher premiums). We believe it would not be reasonable at this point to estimate how BHP enrollees would have enrolled in different silver level QHPs, and thus propose to use the second lowest cost silver plan as the basis for the reference premium and calculating the CSR portion of the rate. For American Indian/Alaska Native BHP enrollees, we propose to use the lowest cost bronze plan as the basis for the reference premium as described further in section II.E. of this proposed methodology.

The applicable age bracket will be one dimension of each rate cell. We propose to 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 propose to use geographic areas based on the rating areas used in the Exchanges. We propose to 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 propose defining

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, we propose that 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, we propose that federal payment rates 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.[4] 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 Social Security Act (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. For example, Idaho's Medicaid and CHIP eligibility is limited to families with MAGI at or below 185 percent FPL. If Idaho implemented BHP, Idaho children with incomes between 185 and 200 percent could qualify. In other states, BHP eligibility will generally be restricted to adults, since

---

[4] CMCS. "State Medicaid and CHIP Income Eligibility Standards Effective January 1, 2014."

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 propose that the population health factor be included 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

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 Exchange 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 propose for the 2016 payment

methodology to provide states with the same option, as described further in section II.G of this

proposed methodology, to include a retrospective population health status adjustment in the

certified methodology, which is subject to CMS review and approval. Regardless of whether a

state elects to include a retrospective population health status adjustment, we anticipate that, in

future years, when additional data become available about Exchange coverage and the

characteristics of BHP enrollees, we may estimate this factor differently.

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 are not proposing to 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.[5] 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.

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 Exchange. Accordingly, the proposed

---

[5] 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").

BHP payment methodology incorporates income into the calculations of the payment rates

through the use of income-based rate cells. We propose defining 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 our

proposed methodology, household size and income as a percentage of FPL would be used as

factors in developing the rate cells. We propose using the following income ranges measured as

a percentage of FPL:[6]

- 0–50 percent.

- 51–100 percent.

- 101–138 percent.

- 139–150 percent.

- 151-175 percent.

- 176-200 percent.

We further propose to assume a uniform income distribution for each federal BHP

payment cell. We believe that assuming a uniform income distribution for the income ranges

proposed 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 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

---

[6] These income ranges and this analysis of income apply to the calculation of the PTC. Many fewer income ranges and a much simpler analysis apply in determining the value of CSRs, as specified below.

mean, or average, PTC for a rate cell, we propose to 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 would rely on the PTC formula described below in section II.4 of this proposed methodology.

As the PTC for persons enrolled in QHPs would be calculated based on their income during the open enrollment period, and that income would be measured against the FPL at that time, we propose to 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. We propose that the projected increase in the CPI-U would be based on the intermediate inflation forecasts from the most recent OASDI and Medicare Trustees Reports.[7]

4. Premium Tax Credit Formula (PTCF)

In Equation 1 described in section II.A.1 of this proposed methodology, we propose to use the formula described in 26 USC 36B(b) to calculate the estimated PTC that would be paid on behalf of a person enrolled in a QHP on an Exchange as part of the BHP payment methodology. This formula is used to determine the contribution amount (the amount of premium that an individual or household theoretically would be required to pay for coverage in a QHP on an Exchange), which is based on (A) the household income; (B) the household income as a percentage of FPL for the family size; and (C) 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

---

7 See Table IV A1 from the 2013 reports in http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/ReportsTrustFunds/Downloads/TR2014.pdf.

amount of the PTC that would be provided for the enrollee.

The PTC amount provided for a person enrolled in a QHP through an Exchange 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, or the adjusted premium for the applicable second lowest cost silver plan minus the contribution amount.

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)

In the case of household income (expressed as a percent of poverty line) within the following income tier:	The initial premium percentage is–	The final premium percentage is–
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 an Exchange who receive an advance payment of the premium tax credit (APTC), there will be an annual reconciliation following the end of the

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 enrolled in

BHP may not be treated as a qualified individual under section 1312 eligible for enrollment in a

QHP offered through an Exchange. Therefore, BHP enrollees are not eligible to receive APTC

to assist with purchasing coverage in the Exchange. Because they do not receive APTC

assistance, BHP enrollees are not subject to the same income reconciliation as Exchange

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 an Exchange and received APTC assistance.

Therefore, we propose 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 proposed 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 would seek prospectively to capture 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 propose estimating reconciliation effects based on tax data for 2 years, reflecting income and tax unit composition changes over time among BHP-eligible individuals.

The Office of Tax Analysis in the U.S. Department of Treasury (OTA) maintains a model that combines detailed tax and other data, including Exchange enrollment and PTC claimed, to project Exchange 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. We propose that the ratio of the reconciled PTC to the initial estimation of PTC would be used as the income reconciliation factor in Equation (1) for estimating the PTC portion of the BHP payment rate.

For 2015, OTA 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 94.52 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 95.32 percent. In the 2015 payment

methodology, the IRF was set equal to the average of these two factors (94.92 percent). We

propose updating this analysis and the IRF for 2016.

6. Tobacco Rating Adjustment Factor (TRAF)

As described above, 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 propose to 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 propose to 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 propose to use data from

the Centers for Disease Control and Prevention to estimate tobacco utilization rates by state and

relevant population characteristic.[8] For each state, we propose to calculate the tobacco usage rate

based on the percentage of persons by age who use cigarettes and the percentage of persons by

---

[8] Centers for Disease Control and Prevention, *Tobacco Control State Highlights 2012*:
http://www.cdc.gov/tobacco/data_statistics/state_data/state_highlights/2012/index.htm.

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 would calculate the factor as (4/14 * the utilization rate of 18-24 year olds) plus (10/14 * 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 would use the age range in the CDC data in which the BHP payment rate cell age range is contained.

We propose to 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 propose including 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 the premium also covers such costs as taxes, fees, and QHP administrative expenses. We are proposing to set 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 x 0.70) for health care costs per enrollee, on average.) By dividing such estimated costs by the actuarial value in the proposed methodology, we would 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 propose to 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 is proposed 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 propose to set the induced utilization

factor equal to 1.12 for the BHP payment methodology.

We note that for CSRs for QHPs, there will be a final reconciliation at the end of the year

and the actual level of induced utilization could differ from the factor proposed in the rule. Our

proposed methodology for BHP funding would not include any reconciliation for utilization and

thus may understate or overstate the impact of the effect of the subsidies on health care

utilization.

10. Change in Actuarial Value (ΔAV)

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 propose including 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 propose to 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 would 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 would 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 an Exchange to calculate the PTC and CSRs. Thus, we propose adjustments to the payment methodology described above to be consistent with the Exchange rules.

We propose the following adjustments:

1.   We propose that the adjusted reference premium for use in the CSR portion of the rate would use 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 this would not change the PTC, as that is the maximum possible PTC payment, which is always based on the applicable second lowest cost silver plan.)

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

3.   We propose that the induced utilization factor for use in the CSR portion of the rate would 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.   We propose that the change in the actuarial value for use in the CSR portion of the rate would 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 propose providing 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 would elect to use the 2015 premium as the basis for the 2016 BHP federal payment, we propose requiring that the state inform us no later than May 15, 2015.

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

Premium Trend Factor (PTF): In Equation (3b), we propose to calculate an adjusted reference premium (ARP) based on the application of certain relevant variables to the reference premium (RP), including a premium trend factor (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 are proposing to define this as the premium trend factor in the BHP payment methodology. This factor would 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 would provide 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 would 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.

For the trend factor we propose to use the annual growth rate in private health insurance expenditures per enrollee from the National Health Expenditure projections, developed by the Office of the Actuary in CMS (citation, http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/Downloads/Proj2012.pdf).

We propose to also include an adjustment for changes in the transitional reinsurance program. We propose that this adjustment would be developed from analysis by CMS' Center for Consumer Information and Insurance Oversight (CCIIO).

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 Exchange 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 Exchange, we propose to 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 Exchange and other payments related to the Exchange, which is why,

absent a state election, we propose to 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 Exchange. 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

propose to 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 propose requiring the state to submit a proposed protocol to CMS, which would

be subject to approval by CMS and would be required to be certified by the Chief Actuary of

CMS, in consultation with the Office of Tax Analysis, as part of the BHP payment methodology.

CMS 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 propose requiring a state to submit its proposed protocol by August 1, 2015 for

CMS approval. This submission would also 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 would provide technical

assistance to states as they develop their protocols. In order to implement the population health

status, we propose that CMS must approve the state's protocol no later than December 31, 2015.

Finally, we propose that the state 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 propose that CMS would 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.

H. Example Application of the BHP Funding Methodology

In the 2015 proposed payment methodology, we included an example of how the BHP

funding methodology would be applied (Proposed Basic Health Program 2015 Funding Methodology, (78 FR 77399), published in the **Federal Register** on December 23, 2013). For those interested in this example, we would refer to the 2015 proposed payment methodology and note the following changes since that time.

In the final BHP payment methodology, we provided the option for states to elect to use the 2015 premiums to calculate the BHP payment rates instead of the 2014 premiums multiplied by the premium trend factor. The example in the previous proposed payment methodology used the 2014 premiums multiplied by the premium trend factor only.

In addition, we provided the option for the state to develop a risk adjustment protocol to revise the population health factor in the final payment methodology. The example in the previous proposed payment methodology did not assume any adjustment to the population health factor.

Furthermore, we modified the age ranges used to develop the rate cells after the proposed payment methodology was published. The age range for persons ages 21-44 was divided into age ranges of 21-34 and 35-44.

Lastly, as we noted in the responses to comments in the final payment methodology, there was an error in the example in the previous proposed payment methodology. The maximum percentage of income that a household would be required to pay for QHP premiums for households with incomes between 133 percent and 150 percent of the federal poverty level (FPL) was incorrect in the example; the correct percentages range from 3.00 to 4.00 percent, not from 2.00 to 3.00 percent as shown in Table 2.

III.   **Collection of Information Requirements [if applicable]**

This proposed methodology is unchanged from the 2015 final methodology that published on March 12, 2014 (79 FR 13887). The 2016 proposed methodology would 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 (78 FR 59122 and 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 would not impose any additional reporting, recordkeeping, or third-party disclosure requirements on qualified health plans or on states operating State Based Exchanges.

IV. Response to Comments

Because of the large number of public comments we normally receive on **Federal Register** documents, we are not able to acknowledge or respond to them individually. We will consider all comments we receive by the date and time specified in the "DATES" section of this preamble, and, when we proceed with a subsequent document, we will respond to the comments in the preamble to that document.

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 Exchange. 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 Exchange, 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 USC 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 proposed 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 proposed 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 proposed methodology. Except for state-specific reference premiums and enrollment data, we propose 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 proposed 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 propose 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 Exchange. 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 proposed

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 proposed 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 proposed payment notice 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 <u>et seq.</u>) (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 proposed methodology.

Because this proposed methodology is focused on the proposed 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 proposed methodology would have a significant economic impact on a substantial number of small entities, and we request public comment on this issue.

Section 1102(b) of the Act requires us to prepare a regulatory impact analysis if a proposed methodology 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 proposed 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.

Dated: <u>September 19, 2014.</u>

_____

Marilyn Tavenner,

<u>Administrator,</u>

<u>Centers for Medicare & Medicaid Services.</u>

Approved: <u>October 19, 2014.</u>

_____

Sylvia Burwell,

<u>Secretary,</u>

<u>Department of Health and Human Services.</u>

BILLING CODE 4120-01-P

[FR Doc. 2014-25257 Filed 10/21/2014 at 4:15 pm; Publication Date: 10/23/2014]