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DONALD BRYAN
Acting Commissioner

BULLETIN NO. 06-06

TO: **ALL INSURANCE COMPANIES, HEALTH SERVICE CORPORATIONS, HOSPITAL SERVICE CORPORATIONS, MEDICAL SERVICE CORPORATIONS AND HEALTH MAINTENANCE ORGANIZATIONS**

FROM: **DONALD BRYAN, ACTING COMMISSIONER**

RE: **RATES FOR CONTINUATION COVERAGE FOR ELIGIBLE DEPENDENTS UNTIL 30 YEARS OF AGE PURSUANT TO P.L. 2005, C.375**

P.L. 2005, c. 375[1] (Chapter 375), enacted on January 12, 2006 and effective on May 12, 2006, gives an eligible dependent child ("overage child") of a parent covered under a group health plan the option to maintain dependent coverage after reaching the limiting age specified in the health plan. Chapter 375 allows the group contract-holder to require an overage child or the covered parent to pay up to 102% of the cost of this coverage, as derived from the applicable portion of the charge for dependent coverage. Chapter 375 specifies that the premium associated with the continuation election is to be approved by the Commissioner of the Department of Banking and Insurance (Department) and is to be determined "…based upon the difference between the contract's rating tiers for adult and dependent coverage or family coverage, as appropriate, and single coverage, or based upon any other formula or dependent rating tier deemed appropriate by the commissioner which provides a substantially similar result."[2]

The Department is developing rules implementing Chapter 375, but these rules will not be adopted prior to the effective date of Chapter 375. However, carriers[3] need to develop rates prior to the effective date of Chapter 375 in order to assure that Chapter 375 coverage continuation elections can be completed starting on May 12, 2006. The Department is issuing this bulletin to provide carriers guidance on the method to develop rates based on the applicable portion of the charge for dependent coverage.

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[1] Assembly Bill 3759 (Fourth Reprint), in the 2004-2005 Legislative Session.
[2] P.L. 2005, 375, ss. 1e(2), 2e(2), 3e(2), 4e(2), 5e(2) and 6e(2), as codified N.J.S.A. 17:48-6.19e(2), 17:48A-7.13e(2), 17:48E-30.1e(2), 17B:27-30.5e(2), 17B:27A-19.16e(2), and 26:2J-10.3e(2).
[3] The term carrier includes a health service corporation, hospital service corporation, medical service corporation, health maintenance organization and an insurer authorized to offer group health insurance.

Rate Methodology

A carrier should derive a method for obtaining an overage child rate from the rates actually charged for the group in which the overage child is (or will be) covered. Alternatively, the overage child rate can be derived from the average rates charged for all of a carrier's groups in a particular market. Carriers can use different methods for different markets or products.

An acceptable method uses the difference between the rate for coverage with child dependents and the rate for single adult coverage, in combination with the average number of child dependents covered per family. The rate(s) that result then could be converted to a factor to be applied to the employee rate for a particular group. For example, if the group has a rate for Parent/Children (P/C) coverage (a requirement in the New Jersey Small Employer Health Benefits Program market, and an option in other markets), an acceptable rate method would be to:

1. Determine the difference between the P/C rate and the employee rate;
2. Divide the difference by a factor representing the assumed average number of children in families in the P/C rating tier (for example, 1.2); and
3. Multiply the result by the expense load factor up to 1.02.

Carriers may choose to use the method outlined above or use modifications subject to the Department's approval, including: a) using a family rate and a multiple of the single rate (reflecting costs of a spouse) in place of the P/C and single rate; b) using a factor not less than 1 but other than 1.2; or c) using average rate differentials or costs rather than group specific rate differentials or costs. However, carriers should note the law does not permit a carrier to use the single employee rate without adjustment instead of the implied cost of dependent coverage. Also, the law does not permit a carrier to adjust the implied cost of dependent coverage for any presumed anti-selection by dependents who continue coverage.

Carriers may develop the eligible dependent rate using the rates currently charged to a group for the coverage in which the parent of the overage child is enrolled. In addition, carriers may periodically adjust the rate as well as the plan for the overage child to reflect the rate and plan of the enrolled parent.

Filing

Carriers should have a rate method for eligible dependents in place no later than May 12, 2006. Chapter 375 indicates that a carrier's rate(s) for eligible dependents should be approved by the Department, whether or not the carrier currently is required to submit rates to the Department for the applicable policies pursuant to other statutes.[4] Carriers may use the following filing options until further notice:

[4] It should be noted that whether a carrier is typically required to file rates depends on the markets in which a carrier may participate, and the type of carrier involved.

1. Prior to May 12, 2006, regardless of whether or not a carrier is required to file rates with the Department pursuant to other statutes, a carrier must make a filing of its method for calculating its Chapter 375 dependent rate(s). The filing should include an actuarial memorandum demonstrating that the method used is based on the cost of dependent coverage, if this is not obvious from the method. Please note: the portion of the filing that describes the method will be public information, but the memorandum will be considered confidential to the extent that it contains proprietary information.

2. Subsequent to May 12, 2006:

    a. When a carrier otherwise required to file rates submits a filing, the carrier should include in the filing the description and (if necessary) the actuarial memorandum describing its method.

    b. When a carrier is not otherwise required to file rates, a carrier nevertheless should submit any change in its method used to derive the Chapter 375 dependent rate at least 30 days prior to the date the carrier intends the change in method to become effective.

All filings should be submitted to:

Department of Banking and Insurance
Life and Health Actuarial
P.O. Box 325
Trenton, NJ 08625
Fax: (609) 633-0527
Hand delivery: 20 West State Street, 11th floor

Please note that if a fax is not legible, the Department will require the filing to be re-submitted by mail. Questions regarding this bulletin may be directed to the Office of Life and Health by phone at (609) 292-5427 x 50340, or by fax as indicated above. Please specify that the question concerns the Chapter 375 rate filing.

The Department intends to propose rules in the near future to implement the provisions of Chapter 375. Notice of the proposed rulemaking will appear on the Department's website at www.state.nj.us/dobi/legsregs.htm.

2/27/06
Date

/s/ Donald Bryan
Donald Bryan
Acting Commissioner

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