



**State of Vermont**  
**Department of Vermont Health Access**  
280 State Drive, NOB 1 South  
Waterbury, VT 05671-1010  
<http://dvha.vermont.gov>

[Phone] 802-879-5900

*Agency of Human Services*

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## **Cost Sharing Reduction (CSR) and Vermont Cost Sharing Reduction (VCSR) Advanced Payment Calculation**

### **Authority and Context:**

The federal regulations pertaining to administration of cost sharing reductions (CSR) are 45 CFR § 155.1030 and § 156.430. The federal methodology for advanced payments of CSR was established by CMS in the 2015 Notice of Benefit and Payment Parameters (“payment notice”).<sup>1</sup> No changes have been made to the CSR calculation factors since 2015. All subsequent payment notices since 2016 have published the CSR induced utilization factors within the context of risk adjustment, but the factors have not changed since 2015. DVHA monitors the CMS payment notices annually for updates to the calculation methodology, as related to risk adjustment, and for any impact specific to CSR.

To calculate advanced payments of Vermont Cost Sharing Reduction (VCSR), the State leveraged the federal formula to establish the Vermont-specific amounts outlined below.

### **Formula:**

The detailed formula to derive the cost sharing reduction amount is provided by CMS as follows. Further detail for each component is included further below.

#### **Monthly Premium X CSR Plan Variation Multiplier**

Where **CSR Plan Variation Multiplier = Factor to Remove Administrative Costs X Factor to Convert to Allowed Claims Cost X Induced Utilization Factor X (Plan Variation AV – Standard Plan AV)**

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<sup>1</sup> CMS-9954-F; 79 Fed. Reg. 13744, 13806 (March 11, 2014).

**Factor to Remove Administrative Costs:** .08 (provided in federal regulation, based on individual market medical loss ratio of 80%)

**Factor to Convert to Allowed Claim Cost:**  $1/70 = 1.4286$  (1.43) (provided in federal regulation, based on actuarial value for the standard plan, not counting de minimis variation)

**Induced Utilization Factor:** varies by plan variation (provided in federal regulation for 73, 87, and 94; Vermont applied federal 73 factor to both 73 and 77)

CSR Variation	Induced Utilization Factor:
IV (73%)	1.0
III (77%)	1.0
II (87%)	1.12
I (94%)	1.12

**Plan Variation AV (CSR AV – 70% AV):**

CSR Variation	Federal Plan Variation AV	VT Plan Variation Av
IV (73%)	N/A	.03
III (77%)	.03	.04
II (87%)	.17	N/A
I (94%)	.24	N/A

**Plan variation multiplier *example*: Silver 77**

$$.8 \times 1.43 \times 1.0 \times .07 = .08$$

**CSR Plan Variation Multiplier by Tier:**

CSR Variation	Federal CSR Plan Multiplier	State (VT) Plan Multiplier
IV (73%)	0.00	.03
III (77%)	0.03	.05
II (87%)	0.22	0.00
I (94%)	0.31	0.00

**Application to Premium:**

Pursuant to the formula, the plan variation multiplier should be applied to the monthly premium of the silver plan in question. The premium varies by issuer and by household configuration: Individual, Couple, Parent & Child(ren), Two Parents & Child(ren). To the extent silver plan premiums are “loaded” to account for CSR funding during a given plan year, the plan variation multiplier should be applied to the base silver premium (reflective premium).