

**Letter Number 2023-13****Date: July 19, 2023**

FEHB [ ]    PSHB [X]

Fee-for-service [11]

Experience-rated HMO [11]

Community-rated HMO [12]

---

## **Subject: Methodology for Crediting Postal Service Health Benefits (PSHB) Program Plan Reserves and Earned FEHB Medical Loss Ratio Credits**

The Postal Service Health Benefits (“PSHB”) Program is a new program within the Federal Employees Health Benefits (“FEHB”) Program, established by the Postal Service Reform Act of 2022 (“PSRA”), codified at 5 U.S.C. 8903c. The PSRA requires a “proportionate amount of the funds in the reserves” maintained for a FEHB Plan offered by a Carrier to be credited to separate reserves maintained for a PSHB Plan offered by that Carrier.

As noted in the Spring 2023 Unified Agenda of Regulatory and Deregulatory Actions, OPM is promulgating regulations necessary to implement the guidance described in this Carrier Letter. With that in mind, we believe it is in the best interest of carriers intending to apply to be a PSHB Carrier for OPM to describe how they intend to apply 5 U.S.C. 8903c(j) relating to Reserves.

This Carrier Letter provides guidance on the methodology that OPM will use to determine the proportionate amount to effectuate the crediting of reserves from an FEHB Plan to a PSHB Plan in accordance with 5 U.S.C. 8903c. It also explains that this methodology will apply to determine the allocation of an FEHB Plan’s FEHB Medical Loss Ratio (“MLR”) credits to a PSHB Plan.

For purposes of apportioning the reserves under 8903c(j) described in this Carrier Letter, a "Plan" consists of up to three Options. An "Option," within that Plan, consists of benefits offered to self only, self plus one, and self and family enrollees in a specific geographic region, with a unique set of premiums, under the same Contract.

As soon as practicable on or after January 1, 2025, OPM will credit each PSHB Option's reserves with a proportionate "Reserve Credit." OPM will use the steps below to determine the Reserve Credit for each Option and allocate it to the correct PSHB Option reserves.

## **Postal Service Percentage**

For each 2024 FEHB Option, the "Postal Service Percentage" equals the "2024 Postal Service Premium" (the premium attributable to Postal Service enrollees<sup>1</sup> in 2024) divided by "2024 FEHB Option Premium" (the premium attributable to both Postal Service and non-Postal Service enrollees).

OPM will determine the 2024 Postal Service Premium by multiplying an FEHB Option's self only, self plus one, and self and family 2024 premiums<sup>2</sup> by the number of Postal Service enrollments of that Option in each enrollment type and taking the sum of these three amounts. OPM will use OPM March 2024 enrollment reports to determine the Postal Service enrollments.

OPM will determine the 2024 FEHB Option Premium by multiplying each Option's self only, self plus one, and self and family premiums by the number of total enrollments (inclusive of both Postal Service and non-Postal Service enrollments) in each enrollment type for that Option and taking the

---

<sup>1</sup> Postal Service enrollees include both Postal Service employees and Postal Service annuitants as defined under 5 U.S.C. 8903c(a).

<sup>2</sup> For experience-rated FEHB Options, 2024 premiums are the 2024 net-to-carrier rates as documented in the Option's 2024 Rate Letter. For large community-rated FEHB Options, the 2024 premiums are the reconciled 2024 Final FEHB Rates as documented in the Enclosures (Line 5c of Attachment III) included in the Option's 2025 Rate Letter. For small community-rated FEHB Options, the 2024 premiums are the 2024 net-to-carrier rates before the adjustment to generate a Contingency Reserve payment as documented in the Option's 2024 Rate Letter.

sum of these three amounts. (See Attachment A for an example of this calculation under “Calculating the Reserve Credit” using the “2024 FEHB Option Information for Example Plan.”) OPM will again use its March 2024 enrollment reports to determine the total enrollments.

## **Reserve Credit**

The “Reserve Credit” equals the Postal Service Percentage for each FEHB Option multiplied by the amounts available as of December 31, 2024, for that Option in the Employees Health Benefits Fund (“EHBF”). Amounts available, for experience-rated Options, refers to the sum of the balances in a Plan’s Option’s Contingency Reserve Account and Letter of Credit Account less the estimated Runout (described below) as of December 31, 2024, and for community-rated Options, refers to the Plan’s Option’s Contingency Reserve Account balance as of December 31, 2024.<sup>3</sup>

## **Crediting the PSHB Reserves**

The Reserve Credit will be reallocated from the amount available in the EHBF for each 2024 FEHB Option into the PSHB Contingency Reserve and PSHB Letter of Credit Account for experience-rated PSHB Options, into the PSHB Contingency Reserve for community-rated PSHB Options, or into the Contingency Reserves for each PSHB Option offered in 2025, consistent with 5 U.S.C. 8903c(j), as applicable.

For purposes of apportioning the reserves under 8903c(j) described in this Carrier Letter, the term Corresponding PSHB Option means a 2025 PSHB Option that is in the same geographic area and has equivalent benefits and cost-sharing as a 2025 FEHB Option and that 2025 FEHB Option was also offered in 2024. Options offered for the first time in 2025 will not receive Reserve Credits. Some common examples of how the Reserve Credit will be allocated are described below:

---

<sup>3</sup> Guidance regarding the funds held by an experience-rated Carrier in a Working Capital Account for 2024 FEHB Plans will be provided separately.

- a. If a Carrier offers an FEHB Plan with one, two, or three Options in 2024 and offers the same number of Corresponding PSHB Options in 2025, the Reserve Credits for those Options will be allocated to the Corresponding PSHB Options' reserves.
- b. If a Carrier offers an FEHB Plan with two or three Options in 2024 and offers only one Corresponding PSHB Option in 2025,<sup>4</sup> the Reserve Credits attributable to all the 2024 FEHB Plan's Options will be allocated to that Corresponding PSHB Option's reserve.
- c. If a Carrier offers an FEHB Plan with three Options in 2024 and offers only two Corresponding PSHB Options in 2025, the Reserve Credits attributable to the two FEHB Options that have Corresponding PSHB Options will be allocated to those two Corresponding PSHB Options' reserves. The Reserve Credit from the third FEHB Option (that does not have a Corresponding PSHB Option) will be allocated to one of the two Corresponding PSHB Plan Options that has the lowest self only premium and is not a High Deductible Health Plan (HDHP).
- d. If a Carrier offers an FEHB Plan in 2024 and offers no Corresponding PSHB Options, the Reserve Credit(s) attributable to that FEHB Plan will be credited to the reserves of the PSHB Options offered in 2025, proportionately, consistent with 5 U.S.C. 8903c(j) using 2024 Postal Service Premium.

See Attachment A - "Crediting the PSHB Reserves Example," for an illustration of each scenario above.

## **Experience-Rated Plans**

### **Runout**

For purposes of apportioning the reserves under 8903c(j) described in this Carrier Letter, "Runout" is the estimated amount, as of December 31, 2024, needed to pay claims and expenses incurred but not paid for periods on or

---

<sup>4</sup> This example is not applicable to health benefits plans described under 8903(1) and (2).

before December 31, 2024, for an FEHB experience-rated Option, considering any income attributable to periods on or before, but not yet received by, December 31, 2024. OPM will estimate the Runout amount.

After the FEHB Contingency Reserve and Letter of Credit Account balances as of December 31, 2024, are reduced by the Runout amount, as discussed above, the Postal Percentage will then be multiplied by the amounts available to determine the Reserve Credit.

### **Claims Incurred but Not Paid Before January 1, 2025**

Each 2024 experience-rated FEHB Option will have a separate LOCA Runout account, credited with the Runout amount, to pay Postal Service and non-Postal Service claims and expenses incurred but not paid prior to January 1, 2025 and to receive any 2024 income not yet received by December 31, 2024.

Any remaining funds in an Option's LOCA Runout account after all pre-2025 claims and expenses are paid will be credited to FEHB and PSHB Options' reserves by applying the Reserve Credit methodology described above.

If an Option's LOCA Runout account becomes depleted before all pre-2025 claims and expenses are paid, a reallocation of funds from the PSHB and FEHB Option's reserves will be necessary. In such circumstance, OPM will estimate the amount of additional funding needed in the LOCA Runout account to pay all remaining pre-2025 claims and expenses. The estimated amount of additional funding will be credited to the Option's LOCA Runout account from the FEHB and PSHB Options' reserves by applying the Reserve Credit methodology described above.

### **FEHB Claims Incurred on or After January 1, 2025**

Each 2025 experience-rated FEHB Option will continue to maintain its separate FEHB LOCA account to pay non-Postal Service claims and expenses incurred on or after January 1, 2025 and to receive any income attributable to periods on or after January 1, 2025.

## **PSHB Claims Incurred on or After January 1, 2025**

Each 2025 experience-rated PSHB Option will have a separate PSHB LOCA account to pay Postal Service claims and expenses incurred on or after January 1, 2025 and to receive any income attributable to periods on or after January 1, 2025.

## **Community-Rated Plans**

### **Allocation of 2024 Contingency Reserve deposits received in 2025**

Any funds received by OPM under 5 U.S.C. 8909(b) for premiums attributable to periods on or before, but not yet received by, December 31, 2024, will be credited to PSHB and FEHB Contingency Reserves using the Reserve Credit methodology discussed above.

### **Allocation of Medical Loss Ratio (MLR) Credits for Community Rated Carriers**

OPM will distribute community-rated Carrier MLR Credits using the Reserve Credit methodology discussed above.

Because the MLR requirement is calculated on a Plan basis, as opposed to an Option basis, an MLR Postal Service Percentage will be determined for each community-rated FEHB Plan by dividing the sum of the 2024 Postal Service Premium for all Options in the Plan by the sum of the Total 2024 Premium for all Options in the Plan.

## **All Plans**

### **Allocation of End of Year Contingency Reserve Adjustments**

OPM annually distributes end-of-year Contingency Reserve adjustments, including earned interest and distribution of FEHB discontinued Plan funds, to Contingency Reserves in the Spring of the following year. For the initial PSHB year, these end-of-year 2024 adjustments will be allocated between PSHB and FEHB using the Reserves Credit methodology discussed above.

## Timing of Information

Although Reserve Credits will not be determined until the end of 2024 or early in 2025, to assist Carriers in formulating 2025 rate proposals, in 2024 OPM will provide an estimate of the proportion of FEHB enrollment attributable to Postal Service enrollees, by Option, based on the OPM's FEHB March 2023 enrollment reports. A timeline of activity is outlined below.

Timeline	Activity
<b>March 2024</b>	<p>Estimate of the Proportion of Postal Service Enrollees for Experience-Rated Carriers:</p> <p>OPM will calculate an estimate of the Postal Service Percentage based on 2024 FEHB premiums and the OPM March 2023 enrollment reports. Experience-rated Carriers may apply these estimates to their 12/31/2023 Contingency Reserve balances and LOCA balances to inform their 2025 Rate Proposals.</p>
<b>May 31, 2024</b>	<p>2025 Rate Proposals:</p> <p>2025 Rate Proposals are due to OPM by May 31, 2024.</p>
<b>June 2024</b>	<p>Updated Estimate of the Postal Service Percentage:</p> <p>The OPM 2024 Postal Service Annuitant enrollment report is not available in June. OPM will estimate the number of 2024 Postal Service Annuitants for the June update of the estimated Postal Service Percentage.</p> <p>Experience-rated Carriers will have the opportunity to update their 2025 Rate Proposals to reflect the updated estimate of the Postal Service Percentage.</p> <p>For community-rated Carriers, OPM will estimate the Contingency Reserve amounts available for 2025 buy-downs using the updated estimate of the Postal Service Percentage. OPM will also estimate the reconciled 2024 Final FEHB Rates for large community-rated Options.</p>
<b>December 2024</b>	<p>Final Calculation of the Postal Service Percentage and Reserve Credit:</p> <p>OPM will calculate the Postal Service Percentage and Reserve Credit for each FEHB Option using the methodology set forth above.</p>

Timeline	Activity
<b>December 2024 (cont.)</b>	Notice to Carriers of Experience-Rated Plans: OPM will estimate the Runout amounts for each experience-rated Option and notify experience-rated Carriers of the balance in each of their LOCA and Contingency Reserve Accounts.

Please send questions to [Actuary@opm.gov](mailto:Actuary@opm.gov) and copy Sylvia Pulley at [Sylvia.Pulley@opm.gov](mailto:Sylvia.Pulley@opm.gov) and your FEHB Contracting Officer.

Sincerely,

Laurie E. Bodenheimer  
Associate Director  
Healthcare and Insurance