# Rate Increase Justification

Today's Date: 7/9/2026

Issuer: Sharp Health Plan

Rate Change Effective Date: January 1, 2027

Market: Small Group (SG) Non-Grandfathered (NGF)

1. **Scope and range of the rate increase —** *Provide the number of individuals impacted by the rate increase. Explain any variation in the increase among affected individuals (e.g., describe how any changes to the rating structure impact premium).*

   On average across all plans, the proposed rates for 1Q2027 are 12.3% higher than 1Q2026 rates based on current membership and premium. The annual rate changes vary from 7.9% to 15.9% depending on the selected plan. These rate changes will impact 21,523 members if they renew their coverage.

   Rate increases for the Covered California Small Business (CCSB) plans vary by plan due to revisions Covered California has required to be made to the standard benefit plan designs for PY2027 and updates to benefit plan modeling. Similarly, rate increases for Off-Exchange Non-Mirrored plans vary by plan due to revisions needed for all plans to remain compliant with the 2027 federal Actuarial Value Calculator (AVC) and updates to benefit plan modeling. Further, changes in administrative expenses, taxes, and fees that are applied as fixed PMPMs will impact plans slightly differently due to varying premium levels.

2. **Financial experience of the product —** *Describe the overall financial experience of the product, including historical summary-level information on historical premium revenue, claims expenses, and profit. Discuss how the rate increase will affect the projected financial experience of the product.*

   In the experience period (January 2025 to December 2025), $131,213,077 in premium revenues were collected for the Small Group NGF products. Including risk adjustment transfers, total revenue for the experience period is estimated to be $113,345,235. Estimated experience period incurred claims totaled $93,955,394. The resulting loss ratio, calculated as the ratio of incurred claims to total revenue, is 82.9%, which represents the portion of revenue used to pay for claim expenses. The remainder is the portion of revenue used for administrative expenses, taxes and fees, and profit or risk margin. The allowable adjustments in federal MLR reporting are expected to push the MLR even higher above the 80% minimum requirement.

   The proposed rate increase will align revenues with expected costs in the 1Q2027 projection period. The resulting projected loss ratio prior to allowable adjustments in federal MLR reporting is 79.2%, which reflects an underlying target risk margin of 2.0%.

3. **Changes in Medical Service Costs —** *Describe how changes in medical service costs are contributing to the overall rate increase. Discuss cost and utilization changes as well as any other relevant factors that are impacting overall service costs.*

Projected medical service costs have increased 10.6% relative to the projected costs in the 1Q2026 SG NGF rates. There are several factors that contribute to this increase in the medical service costs, which in turn drives an increase to the premium rates. These factors include:

- Increases in utilization of healthcare services. Utilization increases occur when more people use services, or if the same people use more services.
- Increases in the price of healthcare services. Increases in the price of healthcare services, or inflation, occur when reimbursement rates negotiated with providers and pharmaceutical stakeholders increase. SHP expects reimbursement rates to increase for its delegated and contracted providers. Changes in prescription drug costs also contribute to the increase.
- Changes in service and/or drug mix. Changes in service and/or drug mix cause increases to medical and pharmacy service costs due to more intense, and therefore more expensive, services and/or drugs being utilized.
- New state and/or federal legislation and regulation. Recently passed state legislation and regulation are expected to contribute to an overall increase in pharmacy service cost levels.

4. **Changes in benefits —** *Describe any changes in benefits and explain how benefit changes affect the rate increase. Issuers should explain whether the applicable benefit changes are required by law.*

   Covered California sets the CCSB plan designs to be offered through their state-based exchange. Issuers participating in the exchange are required to offer these standard plan designs. While there are no changes in covered benefits, there are changes to the cost sharing amounts in the standard plan designs. The changes vary by plan but generally cost sharing has increased, resulting in an overall decrease to rates all else equal.

   In addition, while there are no benefit changes on the Off-Exchange Non-Mirrored plans, most plans similarly required cost sharing changes to remain compliant with the 2027 AVC. The impact of these cost sharing changes varies by plan, decreasing rates on average across all plans, all else equal.

5. **Administrative costs and anticipated margins —** *Identify the main drivers of changes in administrative costs. Discuss how changes in anticipated administrative costs and underwriting gain/loss are impacting the rate increase.*

   The general administrative costs included in rates have increased from $36.70 PMPM in 1Q2026 to $39.92 PMPM in 1Q2027 to account for inflation and the rising costs associated with administering the SG benefits. The assumed commission loads applied as a percentage of premium have remained constant, increasing on a PMPM basis due to an increase in premiums. The weighted average percent of premium CCSB exchange fee is effectively unchanged due to updates to the assumed proportion of business on the exchange and the PY2027 contractual fee; the equivalent PMPM load has increased slightly from 1Q2026.

The overall target risk margin assumed in 1Q2027 is 2.0%, reflecting an increase from 1Q2026.