

**Premera Blue Cross Blue Shield of Alaska  
Individual Rate Filing Effective 1/1/2020  
Actuarial Memorandum**

**4.2 General Information Section**

**Company Legal Name** Premera Blue Cross Blue Shield of Alaska

**State** Alaska

**HIOS Issuer ID** 38344

**Market** Individual (In and Out of Exchange)

**Effective Date** January 1, 2020

**NAIC Company Code** 47570

**Company Contact** 

**Plans Offered Effective 1/1/2020**

**In and Out of the Exchange**

Premera Blue Cross Preferred Gold 1500	38344AK1060001
Premera Blue Cross Preferred Bronze 6350	38344AK1060004
Premera Blue Cross Preferred Bronze 5250 HSA	38344AK1070002

**In Exchange Only**

Premera Blue Cross Preferred Silver 4500	38344AK1060002
Premera Blue Cross Preferred Silver 3000 HSA	38344AK1070001

**Out of Exchange Only**

Premera Blue Cross Preferred Silver 3500	38344AK1060003
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**Scope and Purpose**

The purpose of this filing is to present the development of premium rates for Premera Blue Cross Blue Shield of Alaska (PBCBSA) metallic individual plans offered in and out of the Exchange, and to demonstrate that the resulting amounts charged are reasonable in relation to the benefits provided. This filing is not intended to be used for other purposes. This filing includes rates for our metallic products effective January 1, 2020. As of June 2019 Premera has  metallic members in the Alaska individual market.

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**Overview of Rate Development**

Premium rates were developed based on the claim experience of PBCBSA ACA individual plans incurred 1/1/2018 to 12/31/2018 and paid through 6/30/2019.

To correctly account for the Alaska Reinsurance Program and its requirements, we have developed the required premium on Exhibit 3.1. The experience period incurred claims were adjusted [REDACTED] by bringing the benefits and age/area from the experience period to the current levels. The claims were trended to 2020. The Alaska state reinsurance amount is removed. Administrative costs are added as well as the amount of premiums and Rx rebates that will be ceded to the Alaska Reinsurance Program to determine the required premium.

Exhibit 3.2 and 3.3 are developed to fulfill the federal rating requirement. The Experience Period Index Rate is the experience period essential health benefits allowed amount divided by the experience period member months. This was trended to the Projected Index Rate, which is adjusted for changes in demographics and benefits. The net transfer amount for reinsurance and risk adjustment and the exchange fee were then applied to form the Market Adjusted Index Rate.

Plan-specific cost sharing, non-EHB benefits, fixed admin, and variable admin are added to the Market Adjusted Index Rate to calculate the Plan Adjusted Index Rate for each plan. The Calibrated Plan Adjusted Index Rate is the Plan Adjusted Index Rate divided by the calibration factor shown in Exhibit 2.3. The final Consumer Adjusted Premium is the Calibrated Plan Adjusted Index Rate multiplied by the applicable rating factors for age, area, and tobacco use status.

**4.3 Proposed Rate Changes**

The proposed average rate increase is [REDACTED]. The rate increases by plan vary due to plan design changes and CSR loading. Additionally, the consumer adjusted premium charged to an individual may vary due changes in allowable rating factors (e.g. aging, relocation, smoker status), or the number of covered dependents.

**Reason for Rate Increase(s)**

- Medical Inflation
- Increased Utilization
- Deductible Leveraging
- Benefit Change
- Single Risk Pool Experience Adjustment
- ACA Related Taxes and Fees
- Admin Fees
- Alaska State Reinsurance
- Risk and Contingency Fee

[REDACTED]

There are additional items that contribute to the rate increase which are demonstrated in Exhibits 1 through 7 submitted to the state for review. The Medical Inflation and Increased Utilization impacts do not match the Unit Cost and Utilization trends shown in the URRT because the fixed admin portion does not increase with the medical trend; therefore, the impact to the rate increase is diluted.

## 4.4 Market Experience

### Single Risk Pool

Premera will continue to offer transitional non-grandfathered policies in the projection period and does not expect transitional membership to enroll in metallic policies. Metallic products offer a more comprehensive range of covered benefits. If transitional non-grandfathered members move into the metallic pool we expect they will utilize the richer benefits, resulting in higher utilization. Therefore, we have used the metallic experience in our rate development and excluded transitional experience from the Index Rate and experience shown in the worksheet 1 of the URRT.

[REDACTED]

[REDACTED]

### Alaska Reinsurance Program

Total incurred claims for members ceded to the Alaska Reinsurance Program in 2018 were [REDACTED] with \$59,983,000 reimbursed by the state reinsurance program. Premera also ceded premium and non-premium revenue (e.g. Rx rebates) for ceded members to the program, reducing the net transfer amount by [REDACTED]. Based on the 1332 waiver we expect \$68,950,229 will be paid by the Alaska State Reinsurance program in 2020. Exhibits 1.5 and 1.6 shows the claims and ceded revenue submitted for 2018.

### CSR Claims Reimbursement

The projected rates in this filing do not assume federal funding of CSR. To account for the lack of CSR funding, the cost share adjustment factors for silver plans have been adjusted. All CSR variations were priced assuming Premera will cover the cost share reductions, and then the variations were weighted by membership to obtain a weighted average cost share adjustment.

### Commercial Reinsurance

As of 2018 Premera's commercial reinsurance contract does not cover members eligible for the Alaska Reinsurance Program (ARP). Just one member in the experience period reached the threshold for commercial reinsurance in the experience period due to an attachment point of three million dollars. This member was ceded to the ARP, and therefore was not eligible for commercial reinsurance recoveries. No commercial reinsurance recoveries are expected to be retained by Premera in the projection period.

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**4.4.1. Experience and Current Period Premium, Claims, and Enrollment**

The rate development is based on calendar year 2018 experience for ACA compliant metallic plans. The experience below shows the experience period metallic experience for Premera Blue Cross Blue Shield of Alaska.

**Experience Period**                      Incurred 1/1/2018 to 12/31/2018 and paid through 6/30/2019  
**Current Date**                              6/30/2019

**Experience Premiums**                      [REDACTED]  
**Current Premium**                              [REDACTED]

**Member Months**                              [REDACTED]  
**Current Enrollment**                              [REDACTED]

**Allowed Claims**                              [REDACTED]

**Paid Claims Incurred**                      [REDACTED]  
    **Processed In System**                      [REDACTED]  
    **Processed Out of System**                      [REDACTED]  
    **Incurred but not Paid**                      [REDACTED]

The experience period represents the most recent data while allowing for six months of claims run-out which minimizes the estimation for incurred but not paid claims. The incurred but not paid claims estimates were developed based on lag triangles for this specific line of business. The resulting estimated incurred claims were then adjusted for any outliers, seasonality and number of working days. The allowed claims come directly from Premera’s claims records.

**4.4.2 Benefit Categories**

Service codes were used to identify whether a claim was related to Inpatient Hospital, Outpatient Hospital, Professional, Other Medical, or Prescription Drug. Service codes are defined based on place of service, type of service, revenue code, procedure code, and diagnosis code. There were no capitation claims.

**4.4.3 Projection Factors**

The rate development calculation is included in filing document Exhibit 3.1 and Exhibit 3.2. To project the Experience Period Index Rate to the projection period Premera used trend factors described below in section 4.4.3.1 Trend Factors. Further adjustments for demographic and benefit changes were applied to the trended claims as described below in section 4.4.3.2. Calibrated Plan Adjusted Index Rates by plan prior to area, age, and tobacco use rating factors are shown in Exhibit 3.3.

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**4.4.3.1 Trend Factors**

A combined historical trend for Non-Grandfathered, Grandfathered, and Metallic members is shown in Exhibit 2.1. In order to develop an appropriate rating trend, a prospective trend projection is calculated based on the unit costs and utilization as illustrated in Exhibit 2.2.

- **Unit Cost:** Premera's corporate unit cost projection model was used to calculate unit cost trend. With updated provider contracts and service cost for our fully insured Alaska lines of business our unit cost model projects a combined medical and Rx unit cost trend of [REDACTED] for year 1 and [REDACTED] for year 2 for an annualized unit cost trend of [REDACTED].
- **Utilization:** To measure the utilization trend we examined the rolling 12 month trend from 2017 to 2018 by major service category. The utilization trend for inpatient, outpatient, professional, and prescription drug utilization trends were determined using the number days spent receiving inpatient services, the number of outpatient cases, count of professional services, and prescription pharmacy service counts for renewing Alaska individual members. Premera is proposing a combined medical and Rx utilization trend of [REDACTED].
- **Deductible Leveraging:** As costs rise and deductibles remain fixed, the amount paid by the carrier increases faster than trend. Deductible leveraging for both medical and Rx is [REDACTED].

The required combined Medical and Prescription Drug trend is [REDACTED]. Premera is proposing to use the cost and utilization trend of [REDACTED].

**4.4.3.2 Adjustments to Trended EHB Allowed Claims PMPM**

- **Morbidity Adjustment** – [REDACTED]
- **Demographic shift** – A demographic shift for age and area has been included in the rate development shown in Exhibit 3.1 and 3.2. As shown in Exhibit 3.1 the demographic shift is the product of the age and area calibration factors in the experience period divided by the product of the age and area calibration factors based on current membership. The average age during the experience period is 40 years old, and remains 40 years old as of June 2019.
- **Plan Design Changes** – There are no plan design changes impacting allowed EHB claims. A summary of benefit changes affecting paid claims has been given below in section 4.7 under Changes in Benefits.
- **Other Adjustments** – Recognizing that the federal methodology does not account for all the unique dynamics of the Alaska individual market and that Premera's traditional rating methodology differs from the methodology prescribed in the Unified Rate Review instructions, an "other" adjustment was included in Exhibit 3.2 and the URRT to account for differences in the methodologies.

**4.4.3.3 Manual Rate Adjustments**

No manual rates were used.

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#### **4.4.3.4 Credibility of Experience**

The experience is assumed to be fully credible. Premera utilized the partial credibility factor presented in our large group filing to determine this pool to be fully credible.

#### **4.4.3.5 Establishing the Index Rate**

The Experience Period Index Rate is [REDACTED] as shown in Exhibit 3.2. It represents the allowed claims per member per month for the experience period. The Trended EHB Allowed Claims PMPM is the Experience Period Index Rate trended 24 months to the projection period, using the trend described above under section 4.4.3.1 Trend Factors. Adjustments described under section 4.4.3.2 Adjustments to Trended EHB Allowed Claims PMPM were applied to the Trended EHB Allowed Claims PMPM to form the Projected Index Rate. The Projected Index Rate is [REDACTED] which represents the total allowed claims for the rating period prior to any risk, reinsurance, or retention adjustments.pro

#### **4.4.3.6 Development of the Market-wide Adjusted Index Rate**

The Market-wide Adjusted Index Rate (MAIR) was calculated by applying federal and state reinsurance, risk adjustment, and the exchange user fee to the Projected Index Rate. Since the Index Rates are allowed dollars (i.e. prior to the application of the expected paid to allowed ratio), the net reinsurance and risk adjustment transfers were divided by the projected paid to allowed ratio before being applied to the Projected Index Rate. The development of the MAIR is shown in Exhibit 3.2.

#### **Reinsurance**

Members who are eligible for the Alaska Reinsurance Program (ARP) are ceded to the program. The ARP provides a fixed level of claims funding for eligible members and collects the premium and non-premium revenue associated with those members. The rate development in Exhibit 3.1 includes the impact of the program by removing ARP claims funding from adjusted trended incurred claims and by adding ceded revenue as a percentage of overall revenue. In the rate development shown in Exhibit 3.2 and the URRT, the projected net transfer amount (shown in Exhibit 1.6) is applied. Should another carrier enter the market, the ARP funds received by Premera and the percentage of revenue ceded to the program may vary; however, the filing was prepared to reflect the market average so that rates are adequate with or without another competitor.

#### **Risk Adjustment Payment/Charge**

At the time of rate development, it was not known whether Premera would be the sole carrier in the Alaska individual market in 2020. Therefore, Premera prepared the filing to reflect the market average, and assumed that there would be no projected risk adjustment transfer payments for 2020 other than the High Cost Risk Pool. Should another carrier enter the market, it is assumed that an appropriate mechanism to transfer risk between carriers will be implemented by the ARP that would account for the unique market dynamics of the invisible high-risk pool and create a level playing field for all carriers. A mechanism with these characteristics would result in non-zero risk adjustment transfers for each carrier, but would also balance each carrier back to market average risk.

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The assessment for the High Cost Risk Pool will be paid by Premera for members both inside and outside of the Alaska Reinsurance Program. The development of the net transfer amount is shown in Exhibit 4.4. Per the 2020 Unified Rate Review Instructions the risk adjustment program fee, previously included in the Market-wide Adjusted Index Rate, has been moved to the taxes and fees portion of the administrative expense.

### **Exchange User Fees**

The Exchange user fee is included in the Market-wide Adjusted Index rate.

### **4.4.4 Plan Adjusted Index Rate**

Plan Adjusted Index Rates were calculated by applying plan level adjustments for the actuarial and cost-sharing design of the plan, benefits provided in addition to EHBs, and administrative cost.

- **AV and Cost Sharing** were calculated using the paid to allowed ratio, adjusted for utilization at different cost sharing levels.
- **Network Adjustment** factors were not used. All plans offered have the same provider network.
- **Benefits in Addition to EHB** include coverage for elective termination of pregnancy for all plans, and adult dental services for non-HSA qualified plans. For the plans sold, a charge of \$1.00 PMPM is added to cover elective termination of pregnancy, which we have used in the experience period as the cost. Since the experience claims cost included this benefit, \$1.00 was removed from the index rate when calculating the Plan Adjusted Index Rate. In addition, Premera added adult dental benefits (HSA plans excluded) starting in 2019. The projected allowed cost of adult dental is [REDACTED] PMPM. We added this amount to [REDACTED] to get the total Non-EHB cost PMPM for the rating period.
- **Administrative cost** excluding Exchange user fees and the High Cost Risk Pooling fee, which are already included in the MAIR, were applied. To ensure the administrative cost adjustment is revenue neutral, the fixed retention is included in the Plan Adjusted Index Rate prior to calibrating for the rating factors to avoid overcharging the older individuals. The components of the administrative expense are described below.

### **Administrative Expense**

Non-benefit related expenses or net operating expenses were developed by converting the experience period operating expenses to a PMPM and then adjusting for any projected changes in expense and inflation. The operating expense for the rating period is [REDACTED] PMPM as shown in Exhibit 4.1, which includes [REDACTED] PMPM for quality improvement.

Commissions will continue to be paid at a fixed PMPM of [REDACTED] in 2020. Since we do not pay commissions on members who come to us directly, we have reduced the amount to [REDACTED] PMPM.

An Interest Credit amount of [REDACTED] PMPM was calculated based on the yield rate as of 6/28/2019. This reduces the administrative expenses by the amount earned on incurred but not reported claims.

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The commercial reinsurance fee is [REDACTED] PMPM. This provides reinsurance for any member who incurs more than three million in claims. The reinsurance covers the next \$2.5 million over the \$3 million attachment point. Premera's commercial reinsurer does not cover members eligible for the Alaska Reinsurance Program.

### **Taxes and Fees**

State High Risk Pool (ACHIA) – The 2020 assessment is assumed to be equivalent to the 2018 Alaska State High Risk Pool assessment. The 2020 projected fee is \$2.93 PMPM with a corresponding tax credit of -\$1.47 PMPM.

Premium Tax – Premium Tax of 2.0% is included in the filing.

Risk Adjustment Program Administration Fee – The Risk Adjustment Administration Fee is \$0.18 PMPM for 2020.

Insurer Tax – Insurer Tax of 2.0% will be reinstated in 2020.

Exchange Fees – The 2020 Federal Facilitated Exchange (FFE) Fee is 3.0% for members using the Exchange. Based on the distribution of current members, 92.4% of the membership comes from the Exchange bringing the fee down to 2.8% of premium. The development of the reduced fee is shown in Exhibit 4.3.

Funding of Patient Centered Outcomes Research Fee – The Funding of Patient Centered Outcome Research Fee has been removed as this fee is only effective for policy and plan years ending after Sept. 30, 2012, and before Oct. 1, 2019.

High Cost Risk Pooling Fees – We have included High Cost Risk Pooling Fees of 0.20% based on the 2018 final CMS report.

### **Profit and Risk Load (C&R)**

In recognition of unanticipated levels of operating income in prior years, and as part of Premera's commitment to creating a stable individual marketplace in Alaska, the contribution to surplus and risk margin has been lowered from [REDACTED] to [REDACTED] for the 2020 plan year.

Statistical volatility of claims in the Alaska individual market is high due to population size and concentration of high-risk members. Premera will re-evaluate surplus and risk margin in subsequent years to ensure premium rates are adequate to cover future sources of risk and capital requirements.

### **4.4.5 Calibration**

The development of the calibration factor is shown in Exhibit 2.3, and includes the effects of age, area, and smoking status. This is applied uniformly to the Plan Adjusted Index Rates to set the Calibrated Plan Adjusted Index Rates at the 1.0 rating factor level prior to applying allowable rating factors.

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- **Age Curve Calibration** – The Affordable Care Act (ACA) age factors were applied to both the membership distribution of the experience period and current membership as shown in Exhibit 2.6. The demographic factor using current membership distribution was applied in the calibration factor as shown in Exhibit 2.3.
- **Geographic Factor Calibration** – Area factors were based on the first three digits of the subscriber’s zip code. The area factors were applied to both the experience period member months and current membership as shown in Exhibit 2.4. The area factor using current membership distribution was applied in the calibration factor as shown in the Exhibit 2.3.
- **Tobacco Use Rating Factor Calibration** – The development of the smoker calibration factor is shown on Exhibit 2.5. Members with unknown tobacco use status or age 18 and under were assumed to be non-smokers. The smoker factor using current membership distribution was applied in the calibration factor as shown in the Exhibit 2.3.
- **Normalization Adjustment** – This is a mathematical adjustment to ensure the impact of calculating the calibration factors separately rather than as a composite calculation is revenue neutral. It is not in itself a calibration factor.

#### **4.4.6 Consumer Adjusted Premium Rate Development**

The Consumer Adjusted Premium Rate is the Calibrated Plan Adjusted Index Rate adjusted by allowable rating factors for age, area, and tobacco use status. These factors are the same as used in the calibration of the PAIR. For subscribers with more than three dependents under the age of 21, only the three oldest dependents under 21 are charged to the subscriber.

### **4.5 Projected Loss Ratio**

The 2020 projected Medical Loss Ratio is [REDACTED]. This exceeds the Federal Minimum Loss Ratio Requirements. This is demonstrated in exhibit 4.2.

## **4.6 Plan Product Information**

### **4.6.1 AV Metal Values**

The Actuarial Values, shown in Exhibit 3.3, were calculated using the 2020 AV Calculator.

### **4.6.2 Membership Projections**

At the time of rate development, it was not known whether Premera would be the sole carrier in the Alaska individual market in 2020. Therefore, Premera prepared the filing to reflect the market average, which will result in appropriate rates with or without another competitor, provided ARP implements an appropriate risk transfer mechanism for the market.

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Premera is projecting [REDACTED] member months in the 2020 plan year, or an average of [REDACTED] members per month, which is based on current enrollment. Per the URRT instructions this includes members expected to be ceded to the Alaska State Reinsurance Program and dependents for which Premera will not charge premium (e.g. families with more than three dependents under 21). The projected membership distribution by CSR variant is shown in Exhibit 3.5, which is based on the market average enrollment in each metal and CSR variant.

#### **4.6.3 Terminated Plan and Products**

There will be no discontinued plans in 2020.

#### **4.6.4 Plan Type**

All plans offered are defined as the PPO plan type in Worksheet II of the URRT. Plans offered under the product name New Preferred HSA are HSA qualified plans.

### **4.7 Miscellaneous**

#### **4.7.1 Effective Rate Review Information**

##### **Experience Period Federal Minimum Loss Ratio Rebate**

Premera expects to pay a MLR rebate in 2019 for the three year period 2016-2018. The projected Federal MLR based on the filed rates for 2020 is shown on Exhibit 4.2, which is above 80%.

##### **Paid to Allowed Ratio**

The Paid to Allowed ratio for the experience period is the incurred claims divided by the allowed claims. For the projected paid to allowed ratio we adjusted the experience period paid to allowed ratio for changes in benefits. This is different than the average Actuarial Value (AV) since AV does not account for the change in utilization due to member cost share or the value of out-of-network benefits, and there are differences between the experience used in rate development and the experience used by the AV calculator.

##### **Changes in Benefits**

Premera has enhanced benefits of the Preferred Bronze 6350 plan by adding two office visits covered in full. No benefit changes were made to the Preferred Gold 1500 and Preferred Silver 4500 (which already cover two office visits in full) or to HSA qualified plans. To meet AV calculator requirements, the Preferred Silver 3500 was altered by raising the out of pocket max from \$7,500 to \$7,800 and the Tier 1 Rx copay from \$15 to \$20. The impact of this change is included in the projected paid to allowed ratio used in the rate development shown in Exhibit 3.1 and 3.2. In addition to benefit changes there has been a benefit shift as members buy down to leaner benefits. The benefit shift shown in Exhibit 3.1 is the ratio of the experience period to projection period paid to allowed ratio.

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**Historical Rate Increases**

Exhibit 6 shows the historical rate increases for the past 5 years.

**Company's Financial Results**

Exhibit 7 shows the company's revenues, liabilities and surplus for the past 5 years. These are combined for Premera Blue Cross Blue Shield of Alaska and Premera Blue Cross of Washington as reported in the annual statement.

**4.7.2 Reliance**

In developing rates, the actuary has relied on the following from other individuals:

- Premera relied on [REDACTED] the Centers of Medicare and Medicaid Services to support our analysis of risk transfer payments and High Cost Risk Pool assessment.
- Premera used our PBM's unit cost projections to support our analysis of the prescription drug trend.
- Claims and membership data were supplied from our claims processing and membership eligibility system.
- Net operating expense was supplied by our Finance department.

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**Actuarial Certification**

I, Hiu-Wan Ko, am Director, Actuarial Services at Premera Blue Cross Blue Shield of Alaska. I am a member of the American Academy of Actuaries and meet its qualification standards for rendering actuarial certification.

I am familiar with applicable laws and regulations of the State and federal government for rate filing requirements applicable to health care service contractors.

I, certify that the projected index rate is in compliance with all applicable State and Federal Statutes and Regulations (45 CFR 156.80(d)(1) and 147.102), is in compliance with the Actuarial Standards of Practice, is reasonable in relation to the benefits provided and the population anticipated to be covered, and is neither excessive nor deficient.

I, certify that the index rate and only the allowable modifiers as described in 45 CFR 156.80(d)(1) and 45 CFR 156.80(d)(2) are used to generate plan level rates.

I, certify that the percent of total premium that represents EHB included in Worksheet 2, Sections III and IV, is calculated in accordance with actuarial standards of practice.

I, certify that the geographic rating factors reflect only differences in the costs of delivery and do not include differences for population morbidity by geographic area.

I, certify that the AV Calculator was used to determine the AV Metal Values and that no other methodologies were used. The percent of total premium that represents essential health benefits were calculated in accordance with Actuarial Standards of Practice.

The URRT does not demonstrate the process used to develop rates for Alaska individual plans in this filing. Rather it represents information required by federal regulation to be provided in support of the review of rate increases, for certification of Qualified Health Plans for Federally-facilitated Exchanges, and for certification that the Index Rate is developed in accordance with federal regulation and used consistently and only adjusted by the allowable modifiers.

I, (Hiu-Wan Ko, FSA, MAAA), do hereby certify that this filing has been developed in accordance with the profession's Code of Professional Conduct and the following Actuarial Standards of Practice (ASOPs):

- ASOP No. 5, *Incurred Health and Disability Claims*
- ASOP No. 8, *Regulatory Filings for Health Plan Entities*
- ASOP No. 12, *Risk Classification*
- ASOP No. 23, *Data Quality*
- ASOP No. 25, *Credibility Procedures Applicable to Accident and Health, Group Term Life, and Property/Casualty Coverages*
- ASOP No. 41, *Actuarial Communications*
- ASOP No. 50, *Determining Minimum Value and Actuarial Value under the Affordable Care Act*



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Hiu-Wan Ko, FSA, MAAA  
Director, Actuarial Services  
Premera Blue Cross Blue Shield of Alaska

Date