ACTUARIAL MEMORANDUM

General Information

Company Identifying Information

Company Legal Name	PacificSource Health Plans
State	Idaho
HIOS Issuer ID	60597
Market	Individual
Effective Date	1/1/2019

Company Contact Information

Primary Contact	Clara Comes 208-780-2021 clara.comes@pacificsource.com
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Proposed Rate Increase

This rate change request impacts all ACA compliant benefit plans offered by PacificSource in the Idaho Individual Market. PacificSource does not have any grandfathered business in this market, and this filing does not impact transitional (pre-ACA) benefit plans.

Reason for Rate Increase

Increased market morbidity and medical inflation are the primary sources of PacificSource's 24.54% rate increase. Rate changes will vary by plan due to plan-specific benefit and pricing adjustments and by area due to changes in our proposed geographic factors.

Market Experience

<u>Experience Period Premium and Claims</u>

Experience Period:	1/1/2017 - 12/31/2017
Paid Through Date:	4/30/2018
Earned Premium Prior to MLR, including Risk Adjustment:	$6,601,522
Expected MLR Rebate:	$0
Allowed Claims Processed (PacificSource):	$10,715,253
Allowed Claims Processed (Other):	$0
Estimate of Allowed Claims Incurred but not Paid:	$124,703
Incurred Claims Processed (PacificSource):	$8,156,493

Incurred Claims Processed (Other):	$0
Estimate of Incurred Claims Incurred but not Paid:	$101,968

Earned premiums come directly from PacificSource premium records, and are consistent with our estimate of having no MLR rebates. The MLR estimate utilizes the prescribed methods of calculating true MLR, using the most up to date information available to us at the time of calculation. However, earned premiums are not adjusted for any reductions prescribed when calculating MLR, such as taxes and assessments. Earned Premiums are increased for expected risk adjustment receivables from CMS. Risk adjustment estimates are based on preliminary risk adjustment results provided by the Idaho Department of Insurance.

Allowed claims come directly from PacificSource claim records, and are defined as the total payments made under the policy to healthcare providers on behalf of covered members. Allowed claims have been reduced for expected pharmacy rebates. Incurred claims are defined as allowed claims less member cost-sharing. Our estimates of incurred but not paid claims (IBNR) are developed using completion factors from a standard lag model. The factor used to estimate IBNR above was developed using claims data which corresponds to the experience period and line of business of this filing. The estimate of IBNR is 1.2% of our total estimated incurred claims, which we do not take to be unusually high or low.

Benefit Categories

Our claims are categorized as Inpatient, Outpatient, Professional, Other Medical, Capitation, or Prescription Drug based on the site of service, procedure codes, and provider type associated with each claim.

Projection Factors

Changes in the Morbidity of the Population Insured

The adjustement for changes in population morbidity is derived in two steps. First, PacificSource experience is adjusted to 2017 ACA market average morbidity. This step is based on preliminary risk adjustment results provided by the Idaho Department of Insurance, in combination with an internal assessment of our overall single risk pool morbidity. Our expectation at this time is that the majority of transitional insureds will continue to avoid the individual ACA market, and that any who do enter will do so selectively and so will resemble the risk of the current Individual ACA market. With these considerations in mind we calculate that a factor of [redacted] is required to adjust PacificSource's specific historical single risk pool experience to the ACA market wide average morbidity.

Next, we estimate the change in market morbidity between 2017 and 2019. Some of the lowest morbidity members are expected to exit the Individual ACA market due to the repeal of the individual mandate, and due to the potential availability of alternate forms of coverage such as underwritten state-based plans. A factor of [redacted] is applied to account for the resulting increase in market morbidity between the experience period and the projection period.

The total resulting Adjustment to Market Morbidity factor used in the rate development is the product of these two factors, which equals [redacted].

Changes in Benefits

The Essential Health Benefits (EHB) package includes the following added or expanded benefits not fully reflected in the experience period for transitional plans: pediatric vision, mental health/chemical dependency services, and inpatient rehabilitation services. These changes required an overall adjustment of 1.0028 to the experience period claims. A benefit adjustment of 0.9767 was also applied to account for the difference between the average benefit in the experience period and the projected average benefit under 2019 plan designs. This represents anticipated changes in utilization due to changes in average cost sharing, as well as the impact of network changes.

Changes in Demographics

As of the time of this filing, the average three child capped age factor of our ACA compliant population is higher than was the average for 2017 calendar year single risk pool experience. To account for this as well as for differences in geographic exposure between 2017 and 2019, a factor of 1.0636 was applied for changes in demographics.

Trend Factors (cost/utilization)

We are applying two years of combined medical and pharmacy trend. To develop the overall medical trend, we estimate separate utilization trends and allowed cost per service trends for a variety of inpatient, outpatient, and physician categories. These estimates do not include changes in age, benefits, seasonality patterns, or any other one-time events between the experience period and the projection period. We work closely with Health Services and Provider Contracting for these estimates to ensure that they reflect up to date expectations in future medical utilization as well as expectations in future contracting for Idaho Individual members.

A pharmacy trend model is developed separately by our pharmacy benefit manager (PBM). This model takes into account introduction of new drugs, expiration of patents, and our issuer-specific utilization by drug class. Adjustments were made to the trend provided from this model to reflect improved contracting for pharmaceuticals with our PBM.

Below is a breakout of our cost and utilization trends on an allowed basis.

	Medical	Rx
Cost Trend	3.1%	4.2%
Utilization Trend	1.7%	3.9%
Total Allowed Trend	4.9%	8.2%

Other Adjustments

Claims in the experience period were pooled at $1,000,000. In this filing, the factor for this adjustment is 1.010. Additionally, projected claims are adjusted for the High Risk Pool reinsurance recoveries. The funding for the program, in excess of the per-ceded-life premiums, is expected to be $8 million in 2019. The factor for this adjustment is 0.987.

Credibility Manual Rate Development

No credibility manual rate was required.

Credibility of Experience

Based on generally accepted credibility principles and in full accordance with Actuarial Standards of Practice #25, PacificSource considers an experience basis of 24,000 member months or greater to be fully credible for the purposes of prospective rate setting. According to this standard PacificSource's 2017 experience for this line of business is fully credible.

Paid to Allowed Ratio

The expected average paid to allowed factor in the projection period for the Idaho Individual market is consistent with the membership projections by plan shown in the Unified Rate Review Template Worksheet 2.

	Projected Exposure	Average Paid to Allowed
60597ID035	1,740	93%
60597ID036	4,236	87%
Total	5,976	89%

Risk Adjustment and Reinsurance

Experience Period Risk Adjustment and Reinsurance Adjustments PMPM

We are expecting a net [redacted] for Risk Adjustment in 2017. This estimate is based on risk adjustment transfer estimates facilitated by the Idaho Department of Insurance. This value represents the total receivable generated by the ACA members subject to risk adjustment in the experience period, but spread as a PMPM over the entire single risk pool.

Projected Risk Adjustments PMPM

In the rate development, experience is adjusted to the expected market risk, so no additional alterations were made for risk adjustment payments or revenue in 2019 beyond the $0.15 PMPM fee. The adjustments necessary to do so are described in the Projection Factors: Changes in the Morbidity of the Population Insured section of this memorandum.

Non-Benefit Expenses and Profit & Risk

Percentage loads for non-benefit expenses, contribution to surplus, and risk margin do not vary by product or plan.

Administrative Expense Load

	PMPM	% of Premium
Administration	$32.50	4.74%
Health Improvement and Fraud Detection	$3.31	0.48%
Commissions	$5.51	0.80%
Total Administrative Expense Load	$41.32	6.03%

Profit (or Contribution to Surplus) & Risk Margin

	PMPM	% of Premium
Contribution to Surplus & Risk Margin	$25.35	3.70%

The Unified Rate Review Template requires margin to be reported after taxes. PacificSource is requesting a margin equal to 5.0% of premium. 74% of our margin is reported here, and 26% is reported as Income Tax under Taxes and Fees below.

Taxes and Fees

	PMPM	% of Premium
PCORI	$0.00	0.00%
Immunization Assessment	$1.83	0.27%
Exchange User Fee	$13.24	1.93%
Idaho Premium Tax	$10.28	1.50%
Health Insurance Industry Fee	$0.00	0.00%
Income Tax on Health Insurance Industry Fee	$0.00	0.00%
Income Tax on Margin	$8.91	1.30%
Total Taxes and Fees	$34.26	5.00%

Federal reinsurance premiums and risk adjustment fees are not included in this amount despite their treatment in MLR calculations, since Projected Incurred Claims as calculated in the URRT Part I are net of reinsurance premium and risk adjustment fees. Note that for pricing purposes, Taxes & Fees (including Marketplace user fees) are considered part of administrative expenses. It is described separately here to facilitate rate review. The average Marketplace User Fee is based on our expected mix of Marketplace and non-Marketplace enrollees. This adjustment is applied to the Index Rate at the market level.

Projected Loss Ratio

The projected loss ratio using Federally-prescribed Medical Loss Ratio methodology is 90.3%.

Application of Market Reform Rating Rules

Single Risk Pool

The single risk pool used in this filing is established according to the requirements in 45 CFR § 156.80(d). The premium rates for all of PacificSource's plans in this filing use the applicable market-wide adjusted rates, subject only to permitted plan-level adjustments. The single risk pool reflects all covered lives for every non-grandfathered product/plan combination for PacificSource in the market of this filing. Therefore, it includes transitional products and plans for purposes of base rate experience. The projection period reflects the experience of transitional policies to the extent that we anticipate the members in those policies to be enrolled in single risk pool compliant plans during the projection period.

Index Rate

The Index Rate represents the estimated total combined allowed claims PMPM in the single risk pool, and is not adjusted for payments and charges under the risk adjustment and reinsurance programs, or for Marketplace user fees. It is developed following the specifications of 45 CFR § 156.80(d)(1). Non-EHB claims covered during the experience period included adult vision on transitional plans. Taking these claims into consideration, the EHB percentage of total allowed claims in the experience period was 99.88%. This value, multiplied by the experience period allowed claims yields the experience period Index Rate.

Experience period allowed claims PMPM	$442.71	*(a)*
EHB % of total allowed claims	99.88%	*(b)*
Experience Period Index Rate (rounded)	$442.00	*(c) = (a) * (b)*

The derivation of the projection period Index Rate is shown below. Since no non-EHB benefits will be covered in the projection period the overall expected EHB percent of total allowed claims is 100.00%.

Projected Allowed Claims PMPM	$656.74	*(d)*
EHB % of Total Allowed Claims	100.00%	*(e)*
Index Rate	$656.74	*(f) = (d) * (e)*

Market Adjusted Index Rate

The Market Adjusted Index Rate is calculated as the Index Rate adjusted for all allowable market-wide modifiers defined in the market rating rules, CFR § 156.80(d)(1). This includes federal reinsurance, risk adjustment, and Exchange user fees. Similar to the Index Rate, the Market Adjusted Index Rate reflects the average demographic characteristics of our estimate of the single risk pool. Since the Index Rate is on an allowed claims basis, please note that these adjustments are also made on an allowed basis.

Index Rate	$656.74	*IR*
Net Risk Adjustment	$0.15	*(g)*
Exchange User Fee	$13.24	*(h)*
Average Paid:Allowed	0.889	*(i)*
Market Adjusted Index Rate	$671.80	*MAIR = IR + [(g)+(h)]/(i)*

Plan Adjusted Index Rates

The Plan Adjusted Index Rates for the projection period are included in Worksheet 2, Section IV of the Unified Rate Review Template. The Plan Adjusted Index Rate is calculated as the PacificSource Market Adjusted Index Rate adjusted for all allowable plan level modifiers defined in the market rating rules CFR § 156.80(d)(2); which include (i) the actuarial value and cost-sharing design of the plan; (ii) the plan's provider network, delivery system characteristics, and utilization management practices; (iii) the benefits provided under the plan that are in addition to the essential health benefits; (iv) administrative costs, excluding Exchange user fees; and with respect to catastrophic plans, (v) the expected impact of the specific eligibility categories for those plans. The product of each of these factors is collectively known as the Pricing Actuarial Value.

The Pricing Actuarial Value is primarily determined through PacificSource's proprietary pricing model. This model is based on incurred claims data from 08/1/16-07/31/17 for our commercial block. The model uses historical unit cost and utilization data trended appropriately, and adjustments are made based on plan design. Utilization adjustments reflect differences in cost-sharing, and do not reflect differences due to health status. Member cost-sharing is determined based on the deductible, copays, and coinsurance associated with each benefit plan. Please see section Plan Product Info: AV Pricing Values for further details.

Similar to the Index Rate and Market Adjusted Index Rate, the Plan Adjusted Index Rates reflect the average demographic characteristics of the single risk pool. In other words, the Plan Adjusted Index Rate is not calibrated. Only adjustments specified by CFR § 156.80(d)(2) have been included. Plan Adjusted Index Rates for the experience period are included in Worksheet 2 of the Unified Rate Review Template.

Calibration

Only age, geography, and tobacco factors are used in calibration. All calibration adjustments are applied uniformly to all plans; no plan specific calibration has been performed. The full CMS age curve, as well as a listing of all geographic factors applicable to the projection period, can be found below in the Consumer Adjusted Premium Rate Development.

Age Curve Calibration

To calculate the average CMS standard age factor, a snapshot of recent exposure is taken from PacificSource's records and is assigned a CMS age factor from the federal CMS age curve based on age. For families with more than three children under the age of 21, an age factor of 0 is applied to children who will not be rated. The sum of all these age factors is then divided by the total number of members in the snapshot. This is the average age factor.

In this filing, the specific average age factor is [redacted], which was the age calibration factor used. The rounded weighted average age that corresponds to this factor is [redacted]. Please see the Consumer Adjusted Premium Rate Development below for a demonstration of how this methodology is used in practice to create a schedule of rates.

Geographic Factor Calibration

The weighted average of the geographic factors does not equal 1.0 in the projection period, so calibration is also required for geographic factors. Geographic factors reflect delivery cost differences only and reflect existing and expected developments in provider contracting. Geographic factors do not include any morbidity adjustments. A calibration factor of [redacted] was used.

To calculate the average geographic area factor, a snapshot of recent exposure is taken from PacificSource's records and is assigned an area factor from the proposed table of area factors based on member area. The sum of all these area factors is then divided by the total number of members in the snapshot. This is the average geographic area factor. Please see the Consumer Adjusted Premium Rate Development below for a demonstration of how this methodology is used in practice to create a schedule of rates.

Tobacco Factor Calibration

The average tobacco factor is calculated by multiplying our tobacco load factor by an estimate of the percentage of members who are tobacco users. In this filing the calibration factor used is [redacted]. Please see the Consumer Adjusted Premium Rate Development below for a demonstration of how this methodology is used in practice to create a schedule of rates.

Consumer Adjusted Premium Rate Development

To generate a consumer specific premium rate for each plan, the Plan Adjusted Index Rate of the plan is divided by the calibration factors above. Next the consumer specific smoking status, age factor, and geographic area factors are applied. Rates are rounded to the nearest dollar.

The table below shows the development of the age 40, Rating Area 4 Consumer Adjusted Premium Rate.

	Pricing AV	PAIR	CPAIR	Premium Rate
60597ID0350001	[redacted]			
60597ID0350002				
60597ID0360001				
60597ID0360002				
60597ID0360003				
60597ID0360004				

Age Factors

Age	Factor	Age	Factor	Age	Factor
0	0.765	31	1.159	48	1.635
15	0.833	32	1.183	49	1.706
16	0.859	33	1.198	50	1.786
17	0.885	34	1.214	51	1.865
18	0.913	35	1.222	52	1.952
19	0.941	36	1.230	53	2.040
20	0.970	37	1.238	54	2.135
21	1.000	38	1.246	55	2.230
22	1.000	39	1.262	56	2.333
23	1.000	40	1.278	57	2.437
24	1.000	41	1.302	58	2.548
25	1.004	42	1.325	59	2.603
26	1.024	43	1.357	60	2.714
27	1.048	44	1.397	61	2.810
28	1.087	45	1.444	62	2.873
29	1.119	46	1.500	63	2.952
30	1.135	47	1.563	64+	3.000

Geographic Area Factors

Area	Factor
1	
2	
3	[redacted]
4	
5	
6	

Smoking Factors

Category	Factor
Non-Smoker	1.00
Smoker	1.20
Smoker in Tobacco Cessation Program	1.00

Plan Product Info

AV Metal Values

The AV Metal Values included in Worksheet 2 of the Unified Rate Review Template were entirely based on the federal AV Calculator.

AV Pricing Values

The AV Pricing Values vary from the AV Metal Values for a variety of reasons. AV Pricing Values are intended to be applied to a single Market Adjusted Index Rate, whereas the AV Metal Values assume different average allowed cost PMPMs by metal level based on induced utilization related to the level of member cost-sharing. Pricing is based on

PacificSource data, and so cost and utilization differ from federal calculator data. Furthermore, different provider networks have varying levels of discount and care management practices. Finally, an administrative adjustment is applied to take the AV Pricing Value from a paid basis to a premium basis. Administrative costs were applied uniformly to all plans.

	AV and Cost-Sharing	Provider Network	Benefits in Addition to EHBs	Catastr. Eligibility	Admin. Cost Adj.	Pricing AV
60597ID0350001 60597ID0350002 60597ID0360001 60597ID0360002 60597ID0360003 60597ID0360004	[redacted]					

The “AV and Cost-Sharing” component of the AV Pricing Value is derived from PacificSource’s proprietary benefit plan pricing model. This model includes adjustments to account for differences in induced utilization based upon the plan design. These capture only differences for an average person’s behavior based on cost sharing requirements, and do not include any anti-selection due to differences in morbidity between the populations which might purchase different plan designs. The impact of these adjustments is similar to the federal AV assumptions for induced utilization based on metal level.

The projections in this filing reflect the assumption that CSR payments will not be made in 2019 and that PacificSource will carry the associated costs. The revenue necessary to cover the costs will be collected through an explicit load to the AV and Cost-Sharing component of each silver plan. This load is calculated by weighting Metal AVs for each CSR variant by the projected CSR enrollment assumptions previously provided by the Department of Insurance. This weighted average is compared to the Metal AV of the standard variant.

CSR Variant	Assumed Enrollment Weight	Metal AV
Standard	2%	0.68
73%	5%	0.72
87%	36%	0.86
94%	57%	0.93
Weighted average		0.89
Load versus standard		31%

Membership Projections

The membership projection in Worksheet 2 of the Unified Rate Review Template was developed based on PacificSource's membership levels as of 4/30/2018. It is equal to the size of our current ACA-compliant individual block. For silver plans, the portion of projected enrollment eligible for cost-sharing reduction (CSR) subsidies is estimated to shift towards a higher concentration of the 87% and 94% CSR variants.

	Projected Member Months by CSR Subsidy Level			
	73%	87%	94%	Total
60597ID0360003|BrightIdea Silver HSA 3000	26	186	294	506
60597ID0350001|PSN Silver HSA 3000	49	350	554	953

Terminated Plans and Products

Terminated Plans

No plans will be discontinued with this filing. Four plans were terminated with the prior filing and are included in the URRT for completeness.

Plans Terminated 12/31/2017	
60597ID0150001	SmartAlliance Catastrophic
60597ID0160001	SmartAlliance Bronze HSA 6550
60597ID0160017	SmartAlliance Silver HSA 3000
60597ID0160019	SmartAlliance Gold 1500

Terminated Products

No products are terminated with this filing.

Plan Type

The plan types listed in the drop-down box in Worksheet 2, Section I of the Unified Rate Review Template fully describe their respective PacificSource plans.

Warning Alerts

The URRT Part I, Section III yielded two warnings: Total Incurred claims, payable with issuer funds (Worksheet 2, cell A68), and Incurred Claims PMPM (Worksheet 2, cell A73).

The first warning is caused because the Incurred Claims in Experience Period entered on Worksheet 1, cell F15, have not been adjusted for net risk adjustment, while the value calculated on Worksheet 2, cell F68 includes net risk adjustment. The second warning is due to the same reason as the prior warning, the only difference being that the values are expressed in dollars per member per month.

In addition to these warnings, the URRT Part I, section IV produced a divide by zero error: Net Amt of Rein (Worksheet 2, cell A96). Due to the elimination of the federal reinsurance program in 2017, the projected net amount of reinsurance is $0 for all plans.

Miscellaneous

Reliance

We are relying on preliminary estimated risk adjustment results provided by the Idaho Department of Insurance in order to estimate our relative risk versus market for the experience period.

Actuarial Certification

I, Clara Comes, FSA, am a member of the American Academy of Actuaries and an employee of PacificSource Health Plans. I have reviewed the pricing and analyses related to the PacificSource Idaho Individual block of business for a 1/1/2019 effective date. My review relied upon work prepared by other employees, and considered such review of the assumptions as I considered necessary.

The projected index rate is in compliance with all applicable State and Federal Statutes and Regulations (45 CFR § 156.80), and was developed in accordance with the Actuarial Standards of Practice. In my opinion, the rates included in this filing are reasonable in relation to the benefits provided and the population anticipated to be covered, and are neither excessive nor deficient.

Only the index rate and the allowable modifiers as described in 45 CFR § 156.80(d)(1) and 45 CFR § 156.80(d)(2) were used to generate the plan level rates included in this filing. The Actuarial Value and Cost Sharing components of silver plans reflect the average member cost share after cost-sharing reductions, per Idaho Department of Insurance guidance dated 5/12/2017. The percentages of total premium that represent essential health benefits (EHB) included in Worksheet 2, Sections III and IV were calculated in accordance with applicable Actuarial Standards of Practice.

Geographic rating factors reflect only differences in the costs of delivery, which include unit cost and provider practice pattern differences. Geographic rating factors do not include differences for population morbidity by geographic area.

The federal AV calculator was used to determine all AV Metal Values shown in Worksheet 2 of the Part I Unified Rate Review Template.

The Part I Unified Rate Review Template does not demonstrate the process used by the issuer to develop the rates. 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, used consistently, and adjusted only by the allowable modifiers.

This memorandum was prepared in order to provide the federal and state rate reviewers the information necessary to evaluate the reasonability of this rate request, and it should not be relied upon for any other purpose.

Clara Comes

Clara Comes, FSA, MAAA
May 25, 2018