

May 15, 2026

**Federal Preliminary Justification Part III
Actuarial Memorandum
2027Q1 ACA Single Risk Pool Small Group Rate Filing**

General Information

1a) Company Legal Name	Blue Cross and Blue Shield of North Carolina
1a) HIOS Issuer ID	11512
1a) NAIC Number	54631
1b) Primary Contact Name	██████████
1b) Primary Contact Number	██████████
1b) Primary Contact Address	██████████
1b) Primary Contact Email Address	██████████

Proposed Rate Increase

Effective Date and Implementation of Proposed Rate Adjustment

The rate revision will be implemented effective January 1, 2027, for policies with effective dates between January 2027 and December 2027. Policyholders will be required to pay the revised rate at the next policy due date.

Months of Rate Guarantee

The rates will be guaranteed for a 12-month period.

Proposed Percentage Rate Adjustment

The threshold rate increase as calculated by the Federal Part I Unified Rate Review Template (“URRT”) Worksheet 2 is ██████████. This is based on the current distribution of membership in 2026 per the URRT calculation.

The anticipated average adjustment in rates to our existing Small Group ACA policies with all effective dates is ██████████ based on the distribution of our current ACA business on benefit plans that will be active in 2027. The actual percentage increase/decrease in renewal premium will vary significantly by group as a function of demographics, geographic location, and benefit plan.

The projected maximum total rate adjustment at the plan level is ██████████ and the minimum total rate adjustment is ██████████.

Proposed Percentage Rate Adjustment by Product

The threshold rate increase per product as calculated by the Federal Part I Unified Rate Review Template (“URRT”) Worksheet 2 is outlined below.

Please note that the average product and regional increases are considered tentative at this point as we work to evaluate pricing implications of emerging contractual changes and medical savings initiatives.

Product Name	HIOS Product Codes	Average Increase
Blue Options	11512NC002	
Blue High Performance Network	11512NC037	

The primary drivers of the rate adjustment are:

- Changes in medical and pharmacy costs, including increased unit costs and utilization rates in some areas, as well as new drugs, medical procedures and mandated benefits
- Changes in administrative expenses and regulatory fees
- Anticipated medical expense savings

The rate increase varies by product due to changes in benefit design and provider network across the products. These differences do not reflect actual experience for that product since the risk of the entire single risk pool is considered for developing rate actions. Some of our plans required benefit changes to remain compliant with HHS metal level requirements, due to changes in the HHS Actuarial Value Calculator.

Experience Period Data

Dates of Service

The claims used to develop the index rate for the single risk pool were incurred during the experience period beginning January 1, 2025 and ending December 31, 2025.

Dates of Claim Payments

The claims used to develop the index rate were paid through March 31, 2026.

Dates of Current Data

Current enrollment and premium were pulled for the month of March 2026.

Estimated Allowed Claims

The allowed charges used in the development of the index rate for the single risk pool were incurred during the period beginning January 1, 2025 and ending December 31, 2025.

The total estimated allowed charges incurred in our baseline period for our Small Group ACA block of business are [REDACTED]. Approximately [REDACTED] of these claims were processed through our internal claims system, with the remaining [REDACTED] being processed by our prescription drug vendor.

These figures include an estimated [REDACTED] in allowed claims incurred in the experience period but not paid as of March 31, 2026. These estimates are based on completion factors developed by our Valuation department. The completion factors applied to single risk pool claims are derived using Small Group ACA experience. The same completion factors are used to complete both paid and allowed claims. The allowed charges were pulled directly from our enterprise data warehouse.

Treatment of Experience for Grandfathered Policies

The claims experience submitted in the Uniform Rate Review template reflects the experience of our Small Group (1-50) ACA policies.

Method for Determining Allowed Claims

The allowed charges were pulled directly from company Enterprise Data Warehouse (“EDW”).

Incurred but Not Paid Claims

The Claims Unpaid or Unpaid Claim Liability (“UCL”) is an estimate of the amount remaining to be paid on covered claims which were incurred prior to the valuation date. This estimate includes estimates of the claims which have been incurred but have not yet been submitted to Blue Cross Blue Shield for payment as well as estimates of the claims which are in the course of payment but were not paid as of the valuation date.

The UCL estimates are calculated as the difference between the estimated incurred claims and the actual claims paid to date. Of course, the claims paid to date are known at the time of the valuation and, as such, it is the estimated incurred claims which drive the level of the UCL. The higher the incurred claims estimates, the higher the resulting reserve.

The incurred claims liability is calculated at the greatest level of granularity supported by the data. That is, a separate reserve is calculated for each product and, where possible, a separate reserve is calculated for each type of service within the product. These completion factors were derived from claims experience for both our Grandfathered and Non-Grandfathered policies combined. We would not expect any material differences in completion between Grandfathered and Non-Grandfathered business since both are processed through the same claims systems and cover nearly identical services.

Premium in Experience Period

During the experience period we earned [REDACTED] in premium from our ACA Small Group block of business. In addition, we expect to [REDACTED] [REDACTED] in risk adjustment [REDACTED], for a total of [REDACTED]. The premium total was determined by pulling actual subscriber level premiums by month from our Enterprise Data Warehouse (“EDW”). We calculated premiums based on the sum of subscriber level premiums each month and then totaled the monthly premiums to arrive at our baseline earned premium for our ACA Small Group block of business during the experience period. Our estimated risk adjustment was provided by a third-party consultant based on 2025 claims data from our single risk pool.

At this time, we do not forecast to pay, nor receive, any MLR rebates for the 2025 plan year.

Adjustments to Baseline Data

Due to the size of our Small Group segment, no adjustments were required to our data to account for volatility of experience.

Benefit Categories

The inpatient category contains claims, with units measured in terms of number of admissions, which were submitted under the inpatient facility code.

The outpatient category contains claims, with units measured in terms of number of visits, which were submitted under the outpatient facility code.

The professional claims section contains all physician and professional services, including those rendered in an inpatient or outpatient setting, with units measured in terms of number of visits.

The “other” category contains ambulatory services, home infusions, and durable medical equipment claims, with units measured in terms of number of services.

The drug category contains only drug claims that resulted from utilization of the prescription drug benefit—drugs filed as part of a medical claim are not included—with units measured in terms of number of prescriptions.

Projection Factors

Changes in Benefits

Small Group plans will cover prenatal/postpartum maternity services as preventive care, supplemental breast imaging, and rebates passed through at point of service in accordance with the NC SCRIPT Act not covered in the baseline experience period as part of the standard benefits package. All plans will continue to offer sex-trait modification services in addition to the required Essential Health Benefits.

Other benefit changes relative to the baseline period, as outlined in our filed benefits booklets, have a smaller impact to pricing and have not been explicitly quantified in our rate filing. Any cost changes, resulting from these enhancements, will be captured in experience and may impact rates in the future.

Trend Factors (Cost and Utilization)

The trend factor is calculated using claims incurred by our Small Group ACA members over the thirty-six month period ending December 31, 2025. This population was deemed appropriate for purposes of this rate filing as it is a large, fully credible block of business, with relatively stable experience.

Allowed claims were completed using completion factors prepared by our Valuation department.

To calculate the raw trend projection factor, completed allowed claims were adjusted for the following:

- Pharmacy rebates from manufacturers
- Seasonality (including flu-season adjustments)
- Large claims

- New drugs that resulted in large, sudden changes in claims
- HHS-HCC risk scores

We use this adjusted data along with a number of prospective adjustments to produce a final claims estimate for 2027. Prospective adjustments include:

- New prescription drugs
- The number of clinical workdays in the projection period, relative to the experience period
- Medical expense cost savings due to cost management efforts, such as UM programs
- New products and changes in product/network mix

Adjustments to Trended EHB Allowed Claims

Projected allowed claims were adjusted to reflect changes in population morbidity. Morbidity adjustments were developed based on historical data and anticipated market shifts, particularly the movement of healthier groups to alternative coverage options.

Small Group plans will cover additional new Essential Health Benefits not covered in the baseline experience period as described in the Changes in Benefits section above.

Manual Rate Adjustments

Since our experience is fully credible, creation of a credible manual index rate was not needed for pricing.

Credibility of Experience

The Blue Cross NC Small Group ACA block of business has approximately [REDACTED] covered lives as of March 31, 2026, and is considered fully credible for 2027 pricing.

Projected Index Rate

The Essential Health Benefits projected index rate for January 2027 is [REDACTED]. The trend used to adjust allowed claims for future quarterly effective dates is our paid pricing trend of [REDACTED], including [REDACTED] annual morbidity change.

Effective Dates	Base Rate Trend Factor from January
January 1 through March 31	[REDACTED]
April 1 through June 30	[REDACTED]
July 1 through September 30	[REDACTED]
October 1 through December 31	[REDACTED]

To develop premiums for policies with 2nd - 4th quarter effective dates, we apply the above trend factors to the 1st quarter Consumer Level Calibrated Index.

Market Adjusted Index Rate

Reinsurance

We expect no reinsurance recoveries for the Small Group ACA block of business in 2027.

Risk Adjustment Payment/Charge

Risk adjustment estimates were developed using 2025 projections provided by a national consulting company. These estimates were further adjusted for expected changes in market morbidity, the HHS risk adjustment model, and market share through 2027.

Our projected risk adjustment amount is applied at the market level and is based on the anticipated demographic risk and prevalence of certain chronic conditions in our single risk pool population versus the North Carolina Small Group single risk pool market.

Exchange User Fees

Small Group business sold on the Federal Facilitated Exchange – SHOP (FF-SHOP) will be assessed a 2.50% surcharge to fund the exchange. Since we are not offering products on the SHOP in 2027, this fee has not been included in developing our rates.

Plan Level Adjusted Index Rate

The Plan Adjusted Index Rate is calculated in accordance with 45 CFR § 156.80(d)(1), where allowable adjusters to the Market Adjusted Index Rate. Our plan level rates were derived by making the following adjustments:

- Differences in the cost-sharing design of the plan
- Differences in the provider network, both in terms of utilization of different facilities and different negotiated reimbursement rates (Blue HPN plans)
- Differences in specialist provider costs and outcomes due to steerage to more efficient specialists (Blue HPN plans)
- Differences in pharmacy utilization patterns due to higher degree of prior authorization or step therapy treatments to use certain drugs (Blue HPN plans)

AV Pricing Values

AV pricing values were calculated using an internally-developed benefit pricing model which estimates paid claims for a standard population of Individual and Small Group single risk pool non-Transition members. These pricing values include an adjustment for the expected change in benefit-induced utilization based on metal level. These benefit-induced utilization factors were developed using risk-adjusted claims experience and are independent of member health status.

Paid to Allowed Ratio in Projection Period

Our paid-to-allowed (“P/A”) ratio for 2027 is projected to be [REDACTED]. This represents the expected overall portion of allowed claims covered by the plan. The selected P/A ratio is based on historical experience adjusted for anticipated buy-down, changes in benefit design, and trend leveraging.

Non-Benefit Expenses

Projected Non-Benefit Expenses

Non-benefit expenses included in premium are from the following categories:

General Administrative Expenses – these are the base operating expenses to cover company overhead, other than those attributed to sales and marketing or quality improvement. Our financial accounting area completes budget projections and allocates company expenses back to business lines based on activity-based cost accounting (expected cost of staffing and resources attributable to administering the segment).

Sales and Marketing Expenses – these are internal expenses anticipated to be paid to attract and retain members in the Small Group market. Our accounting area works with our Sales and Marketing area to project costs for these activities.

Health Care Quality Improvement – part of our base operating budget for the Small Group segment is to cover expenses that are attributable to improving quality for customers or fraud detection.

Broker and Agent Commissions – effective for 2027 policies, commission costs will no longer be embedded in premium rates and will instead be billed separately via an Agent Fee.

Premium Tax – state premium tax is expected to remain at 1.9% of premium.

State Regulatory Fees – state regulatory fees are expected to remain at 0.1235% of premium for 2027.

ACA Insurer Fee – The Health Insurer Tax has been eliminated for calendar years 2021 and later.

Patient Centered Outcomes Research Fee – this fee is estimated at \$0.32 PMPM for 2027 policy dates.

Risk Adjustment User Fee – this fee is set at \$0.20 PMPM for the 2027 benefit year.

Investment Income – we do not allocate investment income to individual segment lines. Investment decisions are made at the enterprise level as capital allocation decisions often impact various lines of business.

Contribution to Surplus Margin – After Federal Income tax, contribution to surplus is [REDACTED] based on an assumed marginal tax rate of [REDACTED].

Adjusted Community Rating Factors

Age Factors

The standardized age factors prescribed by HHS in 2018 as part of the Market Reform regulation will be used to price business in 2027.

Geographic Factors

In developing our geographic factors, we examined the experience of our Small Group ACA segment. The experience period ran from January 1, 2023, through December 31, 2025, and consists of allowed charges at the member level. This experience was accumulated at the county level and then rolled up to the region level, based on the standard regions assigned for North Carolina.

Tobacco Factors

We do not plan to load for tobacco use for the Small Group market in 2027 and have made no explicit adjustment to our rates to account for this.

Family Composition

In 2027 we will continue to offer the alternate composite premium methodology approved for Small Groups in North Carolina for groups that request it.

Development of Rate Tables

In calculating base rates to arrive at the targeted required increase, we needed to calibrate/normalize the Plan Adjusted Index Rate for several rating factors. These factors include age, geographic, and unrated dependents. The Plan Adjusted Index Rate is divided by the product of these calibrations to develop the base rate used in calculating member level premiums.

Age Calibration

The age calibration component is the member weighted age factor associated with the projected age distribution of our 2027 ACA Small Group segment. These figures were derived on a member-weighted basis using membership projections from our Sales & Marketing department and our anticipated distribution of membership by age, accounting for new entrants into the single risk pool. Additionally, this distribution was further adjusted to account for unbilled children under the age of 21. Under this methodology the average expected age factor for 2027 is [REDACTED] versus the current [REDACTED].

Geographic Calibration

The geographic calibration component is the expected average geographic factor for 2027 based on projected membership.

Rate Table Development

To develop our rate tables, we apply the following two-step formula:

Step 1. Pre Age-Adjusted Rate = [Monthly Normalized Claims PMPM] / [Allowable Loss Ratio] * [Benefit Factor] * [(Geographic Factor * Network Factor)] (note the product of geographic factor and network factor is rounded to two decimal places to satisfy internal system constraints)

This result is rounded to two decimal places.

Step 2. Age-Adjusted Rate = Pre Age-Adjusted Rate * Age Factor

This result is rounded to two decimal places.

Projected Loss Ratio

State and Federal Loss Ratio Requirements

Small Group business is required to comply with an MLR standard of where claims represent no less than 80% of premium collected, with allowable adjustments applied, or else rebates will be paid to policyholders.

Federal MLR Projection

Our projected MLR calculation results in a loss ratio of [REDACTED], well above the 80% threshold for Small Group business that would require paying rebates.

AV Metal Values

The HHS AV Calculator was used to assign Actuarial Values to all plan designs filed. AV metal values for all plans were based entirely on the HHS AV Calculator.

Membership Projections

We have worked with our Sales and Marketing area to help estimate the size of the Small Group single risk pool in 2027 and estimate the distribution of plan choices for purposes of this rate filing. We made assumptions on how many enrolled members as of this point in time would remain enrolled with us through the duration of 2027 based on historical lapse rates and estimated the number of new entrants into the Marketplace through 2027.

Plan Type

An applicable plan type was selected from the drop-down box in the URRT for each of our plans. All of our plan designs fit exactly with the selection made.

Warning Alerts

Our URRT submission generated warning alerts concerning renewing and terminating plans with no current enrollment. No errors were generated.

Effective Rate Review

Additional information is being provided directly to the North Carolina Department of Insurance through their Actuarial Memorandum and Supporting Exhibits.

Reliance on Others

Reliance on others was required for many parts of the rate development process, including use of external studies, as noted throughout this Actuarial Memorandum.

I have relied on the following sources information in developing rates:

- Completion factors from the Blue Cross NC Valuation team. Each month our incurred claims estimates are developed by our Valuation team and reviewed with our Actuarial department.
- Our Cost Accounting area in Finance has provided the data to support administrative expense assumptions.
- Medical Expense savings projections are provided by our Healthcare department and are reviewed within our Actuarial department.
- Membership projections are provided by our Sales and Marketing department.

Various members of our Actuarial Services area assisted with the development of many of the factors used in the rate development buildup, such as trend, specialty drug costs, and projected risk transfer assessments. Please contact me via email, at [REDACTED], to facilitate discussion should any questions be required.

Actuarial Certifications

This section includes all Actuarial certifications required for Small Group rate filings in the State of North Carolina. Please note that the certification on EHB (“Essential Health Benefit”) Substitutions is not applicable since only the standard Essential Health Benefits will be offered for our products in 2027.

Identification of Certifying Actuary

I, [REDACTED], am an Associate of the Society of Actuaries, a Member of the American Academy of Actuaries, and an employee of Blue Cross and Blue Shield of North Carolina. I meet the Qualification Standards of the American Academy of Actuaries to sign this rate filing.

[REDACTED]
[REDACTED]
[REDACTED]

5/15/2026
Date

I, [REDACTED], am an Associate of the Society of Actuaries, a Member of the American Academy of Actuaries, and an employee of Blue Cross and Blue Shield of North Carolina. I meet the Qualification Standards of the American Academy of Actuaries to sign this rate filing.

[REDACTED]
[REDACTED]
[REDACTED]

5/15/2026
Date

Certification of the Index Rate

I, [REDACTED], certify that the index rate has been developed and calculated appropriately and is

- i. In compliance with all applicable State and Federal Statutes and Regulations (45 CFR 156.80(d)(1))
- ii. Developed in compliance with the applicable Actuarial Standards of Practice
- iii. Reasonable in relation to the benefits provided
- iv. Neither excessive, inadequate nor unfairly discriminatory
- v. Developed using only the permitted rating classifications

[REDACTED]
[REDACTED]
[REDACTED]

5/15/2026
Date

Certification of Plan Adjusted Index Rates

I, [REDACTED], certify that all plan level rates were developed using the index rate and have only been adjusted for allowable modifiers as described in 45 CFR 156.80(d)(1) and 45 CFR 156.80(d)(2).

[REDACTED]
[REDACTED]
[REDACTED]

5/15/2026
Date

Certification of Calibration of Plan Adjusted Index Rates

I, [REDACTED], certify that the Plan Adjusted Index Rate for all plans within the single-risk pool were calibrated to correspond to an age rating factor of 1.0, a geographic rating factor of 1.0, and a tobacco use rating factor of 1.0 in a manner consistent with that specified by the Secretary through the URRT instructions.

[REDACTED]
[REDACTED]
[REDACTED]

5/15/2026
Date

Certification of Metal AV (“Actuarial Value”)

I, [REDACTED], certify that the standard Federal AV Calculator was used to determine the Metal Actuarial Value for each plan, as shown in Worksheet 2 of the Part I URRT for all plans, and all modifications to inputs as documented in this memorandum are appropriate.

[REDACTED]
[REDACTED]
[REDACTED]

5/15/2026
Date

Certification of Geographic Factors

I, [REDACTED], certify that geographic factors only reflect differences in the costs of delivery (unit cost and provider practice pattern differences) and we do not include population morbidity as a factor in setting geographic factors.

[REDACTED]
[REDACTED]
[REDACTED]

5/15/2026
Date

Certification of Threshold Rate Increase

I, [REDACTED], certify that the threshold rate increase for each plan has been calculated as the average increase for all enrollees over the 12-month period preceding January 1, 2027, weighted by premium volume, as required by 45 CFR 154.200.

[REDACTED]
[REDACTED]
[REDACTED]

5/15/2026
Date

Certification of Uniform Modification

I, [REDACTED], certify that all products and plans that qualify as a uniform modification of coverage under 45 CFR 144.103 and/or 45 CFR 147.106 have maintained the same HIOS product and plan IDs as currently attached to each plan.

[REDACTED]
[REDACTED]
[REDACTED]

5/15/2026
Date

Certification of Compliance with North Carolina General Statutes and Applicable Federal Regulations

I, [REDACTED], am an Associate of the Society of Actuaries and a Member of the American Academy of Actuaries, and am of the opinions that

- i. upon my next annual retrospective analysis of all small employer groups, that the proposed rates will be compliant with NCGS 58-50-130(b1) and 58-50-131,
- ii. this filing is compliant with the applicable Federal and State Laws and Regulations concerning the Patient Protection and Affordable Care Act (PPACA) and the Health Care and Education Reconciliation Act of 2010, and
- iii. the proposed rates were developed in compliance with all applicable Federal regulations.

[REDACTED]
[REDACTED]
[REDACTED]

5/15/2026
Date

Actuarial Standards of Practice

I, [REDACTED], do hereby certify this rate filing has been prepared in compliance with the applicable Actuarial Standards of Practice, including the following:

- i. Actuarial Standard of Practice No. 5, “Incurred Health and Disability Claims”,
- ii. Actuarial Standard of Practice No. 8, “Regulatory Filings for Health Benefits, Accident and Health Insurance, and Entities Providing Health Benefits”,
- iii. Actuarial Standard of Practice No. 12, “Risk Classification”,
- iv. Actuarial Standard of Practice No. 23, “Data Quality”,
- v. Actuarial Standard of Practice No. 25, “Credibility Procedures”,
- vi. Actuarial Standard of Practice No. 26, “Compliance with Statutory and Regulatory Requirements for the Actuarial Certification of Small Employer Health Benefit Plans”,
- vii. Actuarial Standard of Practice No. 31, “Documentation in Health Benefit Plan Ratemaking,”
- viii. Actuarial Standard of Practice No. 41, “Actuarial Communications”,
- ix. Actuarial Standard of Practice No. 50, “Determining Minimum Value and Actuarial Value under the Affordable Care Act”.

Sincerely,

[REDACTED]
[REDACTED]
[REDACTED]

5/15/2026
Date