

Actuarial Memorandum and Certification Effective January 1, 2019

The purpose of this actuarial memorandum and certification is to provide information related to Molina Healthcare of Texas, Inc.'s (Molina) Part I Unified Rate Review Template submission to the Texas Individual Marketplace (Texas Marketplace).

The actuarial memorandum and certification describe Molina's rating methodology used to develop rates for Individual products offered on Texas Marketplace effective January 1, 2019. Molina will not market Individual products outside Texas Marketplace.

Molina Healthcare of Texas, Inc. is a managed care organization that provides healthcare services for over 482,000 individuals eligible for Medicaid, Medicare, and Marketplace throughout the state of Texas. Molina Healthcare of Texas, Inc. is a licensed state health plan managed by its parent corporation, Molina Healthcare, Inc.

Molina Healthcare, Inc., a FORTUNE 500 company, provides managed health care services under the Medicaid and Medicare programs and through the state insurance marketplaces. Through our locally operated health plans in 12 states across the nation and in the Commonwealth of Puerto Rico, Molina serves more than 4.2 million members. Dr. C. David Molina founded our company in 1980 as a provider organization serving low-income families in Southern California. Today, we continue his mission of providing high quality and cost-effective health care to those who need it most.

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GENERAL INFORMATION

The information below documents the company identifying and contact information entered into the general information section of Worksheet 1 of the Unified Rate Review Template (URRT).

Company Identifying Information

Company Identifying Information	
Legal Name:	Molina Healthcare of Texas, Inc.
State:	Texas
HIOS Issuer ID:	45786
Market:	Texas Individual Marketplace
Effective Date:	January 1, 2019

Company Contact Information

Company Contact Information	
Contact Name:	Evan Swalheim
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PROPOSED RATE INCREASE(S)

Molina's rate filing reflects the following rate changes by metal tier for Molina's 236,564 members enrolled effective April 1, 2018 reported as of May 2018.

The rate changes vary by metal tier due to changes in the Actuarial Value (AV) Pricing Values assigned to each metal plan that are applied to the Plan Adjusted Index Rate.

Rate Change by Plan						
Plan ID	Product Name	Metal Tier	Members	Rate Change		
				Average	Minimum	Maximum
45786TX0010001	Molina Marketplace	Gold	2,546	18.8%	16.2%	28.4%
45786TX0010002		Silver	101,773	9.1%	6.8%	18.1%
45786TX0040001	Molina Marketplace Options	Silver	11,312	N/A	N/A	N/A
45786TX0020001	Molina Marketplace Choice	Gold	1,894	12.5%	9.9%	21.5%
45786TX0020002		Silver	42,533	2.3%	0.0%	10.6%
45786TX0020003		Bronze	76,506	6.9%	4.2%	15.2%
Total			236,564	7.0%	0.0%	28.4%

Reason for Rate Increase(s): Molina identified the following factors contributing to the overall increase in Molina's proposed rates.

- **Trend:** Molina trended the experience period claims at an 8.0% annualized trend rate.
- **Individual Mandate:** The individual mandate penalty will not be enforced for the 2019 plan year, resulting in younger and healthier members dropping coverage.
- **Rate changes by metal tier:** Rate changes vary by metal tier due to changes in Actuarial Value, Cost Share Design (CSD), and Geographic factors.

Molina identified factors that mitigated the overall rate increase:

- **Health Insurer Fee:** The Health Insurer Fee will be subject to a one year moratorium with no collection for the 2019 Fee Year.
- **Federal Income Tax:** The U.S. federal statutory corporate income tax rate was reduced from 35% to 23% effective January 1, 2018.

- **Patient-Centered Outcomes Research (PCORI):** The PCORI fee no longer applies to health insurance policies with policy years ending after Oct.1, 2019.

MARKET EXPERIENCE

Molina's 2017 experience in Part I of the Unified Rate Review Template (URRT) is based on 2,648,257 member months or 220,688 average members.

Experience Period Premium and Claims

Paid Through Date: The market experience reported in Worksheet 1, Section I of the URRT represents 2017 incurred claims paid through March 31, 2018. The IBNR factors applied to the 2017 claims experience were updated with data through April 30, 2018.

Premiums (Net of MLR Rebate) in Experience Period: The premiums reported in Worksheet 1, Section I of the URRT represent the earned premium from 2017, excluding risk adjustment transfer payments for the 2017 benefit year. Molina has not accrued any amount for MLR rebates for the 2017 benefit year. No amounts were subtracted from the earned premium for any reductions prescribed by the federal MLR formula, such as taxes and assessments.

Allowed and Incurred Claims in Experience Period: The following table reports the allowed and incurred claims during the 2017 experience period.

2017 Experience Period Claims (paid through: March 2018)					
Item	Description	Medical	Pharmacy	Capitation	Total
a	Allowed	\$489,247,729	\$102,678,178	\$429,459	\$592,355,366
b	Member Cost Share	(\$55,076,514)	(\$14,839,589)	\$0	(\$69,916,104)
c = a + b	Subtotal	\$434,171,215	\$87,838,589	\$429,459	\$522,439,262
d	IBNR	1.040	1.000	1.000	1.033
e = c x d	Subtotal	\$451,432,967	\$87,838,589	\$429,459	\$539,701,014
f	Cost Share Reduction				(\$79,269,181)
g = e + f	Incurred Claims				\$460,431,833

Allowed claims for the experience period were calculated by adding the plan incurred paid claims and the member cost-sharing for medical and pharmacy claims. The allowed amount reported for capitation is the plan paid amount.

Molina applied completion factors to both the allowed and incurred medical claim amounts. The completion factors were developed separately for inpatient and non-inpatient medical claims based on Molina's Texas Marketplace data. The IBNR factors applied to the 2017 claims experience were updated with data through April 2018. The IBNR factor applied to the allowed and incurred claims is 1.040. Molina does not apply IBNR factors to capitation and pharmacy claims.

Molina did not consider ACA related risk adjustment, reinsurance, and risk corridor payments/receivables in the experience data entered in Worksheet 1, Section I and Section II of the URRT.

All medical claims are paid through Molina's claims system. Pharmacy claims are processed through Molina's pharmacy benefit manager.

Benefit Categories

Molina assigned all experience claims to benefit categories utilizing Milliman's MedInsight Health Cost Guidelines (HCG) grouper. The following table displays the measurement units related to each benefit category.

Benefit Categories	
Benefit Category	Description
Inpatient Hospital	Days
Outpatient Hospital	Visits
Professional	Services
Other Medical	Services
Capitation	Benefit Period
Prescription Drug	Prescription

Projection Factors

Population Morbidity: The population morbidity adjustment is comprised of an acuity factor, which represents anticipated changes in Molina's single risk pool, and the individual mandate impact, which represents anticipated changes in the market-wide risk pool.

Changes in acuity: The morbidity of Molina's covered population is expected to increase between the experience period and the projection period.

Acuity is measured by applying the 2017 HHS model risk score weights for Silver to 2017 experience period membership net of the demographic component to ensure the changes in HHS model, demographics, and metal are not included in this adjustment. Molina estimated the average allowed cost by risk score cohort normalized for age, gender, and metal and calculated the change in average

allowed cost between the experience period and projection period. Molina applied the change in allowed costs as an adjustment to the experience period. The total acuity adjustment made to the 2017 experience period data was 1.045. Acuity Adjustments were not made to capitation costs.

Acuity Adjustment								
Risk Score	Member Mix		Normalized Allowed Costs by Service Category					
	Experience Period	Projection Period	IP	OP	Prof	Other	Rx	Cap
[00]	80.2%	78.6%	20.20	17.00	23.61	1.30	12.39	0.17
[00-1.0]	10.4%	11.1%	66.80	56.23	78.06	4.29	40.96	0.17
[1.0-10.0]	7.5%	8.3%	184.67	155.45	215.80	11.85	113.25	0.17
[10++++]	1.9%	2.0%	1039.85	875.31	1215.15	66.72	637.71	0.17
Total	100%	100%						
	a	2017	56.39	47.47	65.90	3.62	34.58	0.17
	b	2019	58.95	49.62	68.89	3.78	36.15	0.17
	c = b / a	Adjustment	1.045	1.045	1.045	1.045	1.045	1.000

Individual Mandate: An adjustment was applied to the experience period to reflect the anticipated change in morbidity of the market-wide risk pool due to the repeal of the individual mandate. The Texas Marketplace is expected to decrease in size and have a higher average morbidity compared to the experience period. Molina performed an analysis using its own experience data to assess the impact of a subset the population dropping coverage. The impacted membership included a portion of members with low claims in the previous year, members with higher member premiums, and members who are younger. The market-wide risk pool changes together with higher average morbidity are expected to increase the fee-for-service portion of the experience period allowed claims by 6.4%. The results of the study are shown in the table below:

Individual Mandate Impact							
Age Category	Mandate Enforced			Mandate Not Enforced			Mandate Impact
	Member Months	Allowed	PMPM	Member Months	Allowed	PMPM	
	a	b	c = b / a	d	e	f = e / d	g = f / c
< 21	370,580	29,331,837	79.15	340,083	28,661,524	84.28	1.065
21 to 29	384,405	43,895,414	114.19	352,116	43,301,388	122.97	1.077
30 to 39	362,472	61,969,116	170.96	329,040	61,288,757	186.27	1.090
40 to 49	527,259	114,129,048	216.46	493,075	113,352,220	229.89	1.062
50 to 59	664,500	214,644,212	323.02	632,513	213,846,908	338.09	1.047
60+	339,040	147,647,315	435.49	325,831	147,269,928	451.98	1.038
Total	2,648,257	611,616,941	230.95	2,472,659	607,720,725	245.78	1.064

The results of the study were applied only to the fee-for-service portion of allowed claims and were not applied to capitation expenses.

Other Adjustments:

Changes in Demographics: Molina applied a factor to the experience period claims to reflect the anticipated change in the demographic mix from the 2017 experience period to the 2019 projection period. The anticipated demographic mix is based on a review of enrollment as of March 2018 compared to the 2017 experience period. Molina anticipates that its 2019 demographics will be consistent with its 2018 demographics. The demographic adjustments were developed for the major categories of service for fee-for-service claims as shown in the table below. Demographic adjustments were not made to capitation costs. The total demographic adjustment made to the 2017 experience period data was 1.004.

Population Demographic Adjustment								
Age	Gender	Member Mix		Claim Costs PMPM				
		Experience Period	Projection Period	IP	OP	Prof	Rx	Total
0-14	M	3.3%	3.5%	50.79	15.39	56.76	13.31	
0-14	F	3.1%	3.3%	37.32	14.19	52.49	8.21	
15-19	M	2.5%	2.6%	16.61	21.35	34.99	14.96	
15-19	F	2.5%	2.5%	16.02	29.00	47.89	17.36	
20-29	M	8.0%	7.9%	27.89	25.63	31.42	27.09	
20-29	F	9.3%	8.9%	37.94	40.98	67.32	22.13	
30-39	M	6.4%	6.3%	33.31	39.81	42.54	44.04	
30-39	F	7.8%	7.6%	57.81	63.45	90.78	31.82	
40-49	M	8.5%	8.4%	58.87	46.42	57.59	54.11	
40-49	F	11.4%	11.1%	57.93	83.05	97.46	42.16	
50-59	M	11.1%	11.1%	131.80	86.45	89.46	71.94	
50-59	F	13.5%	13.4%	85.14	107.79	117.31	63.10	
60+	M	5.7%	5.9%	200.32	130.63	130.87	86.40	
60+	F	6.9%	7.3%	139.04	138.40	146.53	76.05	
Total		100%	100%					100%
		a	2017	74.76	70.12	83.48	47.11	a
-	-	b	2019	75.33	70.29	83.68	47.21	b
		c = b / a	Adjustment	1.008	1.002	1.002	1.002	c = b / a

The claim costs to determine the estimated impact of demographic mix changes from 2017 to 2019 are calculated based on Molina's 2017 claims experience.

Product Mix Adjustment: The Other factor in Worksheet 1, Section II of the URRT also reflects changes related to shifts in product mix. This includes changes in induced demand related to product shifts. It also includes any effects of selection since this cannot be reflected in the relative cost of the various products and plans offered. The factors for Other adjustments by service category entered into the URRT is the product of the demographics adjustment shown above and the product mix developed below.

Product/Metal Adjustment — Experience Rate										
		Experience	Projected	Molina Base Claims by Service Category						
Product	Metal	Member Mix	Member Mix	IP	OP	Prof	Other	Rx	Cap	Total
Molina Marketplace	Gold	0.4%	1.1%	157.04	72.07	136.96	12.21	111.00	0.40	489.68
	Silver	9.4%	21.7%	72.98	65.31	87.31	5.41	52.20	0.19	283.41
Molina Marketplace Options	Silver	6.3%	0.0%	63.88	57.25	82.06	4.65	46.61	0.14	254.59
Molina Marketplace Choice	Gold	1.0%	0.8%	119.28	75.92	113.92	7.87	84.33	0.44	401.75
	Silver	63.0%	41.1%	68.52	60.21	84.56	4.25	44.06	0.15	261.75
	Bronze	19.8%	35.3%	27.59	20.30	27.78	1.43	9.29	0.17	86.55
a	Base Claim PMPM			61.41	52.79	73.92	3.89	38.77	0.16	230.95
b	Projected Claim PMPM			56.39	47.47	65.90	3.62	34.58	0.17	208.14
c = b / a	Product/Metal Adjustment Factor			0.918	0.899	0.892	0.930	0.892	1.056	0.901

Changes in Benefits: No factors were applied to adjust the experience period claims for benefit changes.

Trend Factors: Trend factors were applied separately for unit cost and utilization and by each major benefit category shown in Worksheet 1, Section I of the URRT. Molina trended the experience period claims forward 24 months from the midpoint of the base period, July 2017, to the midpoint of the projection period, July 2019.

Unit cost trends were developed by comparing anticipated changes in provider contracts between the 2017 experience period and the 2019 projection period. The contract changes were calculated for the major service categories in each rating area.

Utilization trends were developed through a review of Molina's allowed claims experience in Texas and Molina's Marketplace experience across 9 states representing over 900,000 members in 2017 and 500,000 members in 2016. The utilization data was normalized to account for differences in demographics and health status between the two comparison periods. The chart below shows the annual trends by category of service included in the rate filing.

Annual Claims Trends			
Benefit	Utilization	Unit Cost	Total
IP	3.5%	4.5%	8.2%
OP	4.0%	1.2%	5.3%
Prof	3.5%	3.9%	7.5%
Other	3.5%	3.9%	7.5%
Rx	7.5%	4.5%	12.3%
Cap	0.0%	0.0%	0.0%
Total	4.3%	3.6%	8.0%

The following tables summarize all of the adjustments made to the data in the URRT, Worksheet 1.

Adjustments -- Experience to Projection Period (Population Risk Morbidity)			
	a	b	c = a*b
Benefit Category	Acuity Factor	Individual Mandate	Total
Inpatient Hospital	1.045	1.064	1.112
Outpatient Hospital	1.045	1.064	1.112
Professional	1.045	1.064	1.112
Other Medical	1.045	1.064	1.112
Capitation	1.000	1.000	1.000
Prescription Drug	1.045	1.064	1.112

Adjustments -- Experience to Projection Period (Other)				
	a	b	c	d = prod(a:c)
Benefit Category	Utilization Adjustment	Demographic Adjustment	Product/Metal Adjustment	Total
Inpatient Hospital	1.000	1.008	0.918	0.925
Outpatient Hospital	1.000	1.002	0.899	0.901
Professional	1.000	1.002	0.892	0.894
Other Medical	1.000	1.002	0.930	0.932
Capitation	1.000	1.000	1.056	1.056
Prescription Drug	1.000	1.002	0.892	0.894

Inclusion of Capitation Payments: All capitated payments are included in the experience data and rate development.

Credibility of Experience

Molina calculated the credibility percentage to apply to the experience data based on experience period member months and the credibility formula below:

Molina Credibility Table			
Member Months		Experience Period	Manual Rate
Low	High	Weight	Weight
0	11,999	0.0%	100.0%
12,000	23,999	50.0%	50.0%
24,000	+	100.0%	0.0%

Molina's 2017 experience in Part I of the Unified Rate Review Template (URRT) is based on 2,648,257 member months, resulting in a credibility percentage of 100.0%. Molina believes this method is consistent with the applicable American Academy of Actuaries' Actuarial Standards of Practice (ASOP) No. 25 Credibility Procedures.

Paid to Allowed Ratio

The Paid to Allowed ratio reflects the estimated cost-sharing in the projection period. The actuarial value (AV) for each product was based on Molina's actual claims experience, and was adjusted based on expected cost-sharing differences between the 2017 and 2019 plans.

This rate methodology assumes the Cost Sharing Reduction subsidies are not funded. The Paid to Allowed ratios for the Silver 100, Silver 150, and Silver 200 plans represent the amounts without the Cost Sharing Reduction subsidies.

The Paid to Allowed ratio is the average of the AVs weighted by projected premium dollars. The table below documents the Paid to Allowed ratio factor entered into the URRT, Worksheet I, Section III.

Paid to Allowed Ratio							
Plan ID	Product Name	Metal	FPL	Member %	Projected Allowed PMPM	Paid to Allowed	Calibrated Paid to Allowed
a	b	c	d	e	f	g	k = g*j
45786TX0010001	Molina Marketplace	Gold	Base	1.1%	\$ 641.73	0.857	0.912
45786TX0010002		Silver	CSR 100-150	14.3%	\$ 379.01	0.937	0.997
			CSR 150-200	4.1%	\$ 380.42	0.879	0.935
			CSR 200-250	1.9%	\$ 316.90	0.781	0.832
			Base	1.4%	\$ 375.51	0.773	0.823
45786TX0020001	Molina Marketplace Choice	Gold	Base	0.8%	\$ 524.59	0.841	0.896
45786TX0020002		Silver	CSR 100-150	26.3%	\$ 344.24	0.945	1.006
			CSR 150-200	9.2%	\$ 333.18	0.890	0.948
			CSR 200-250	3.3%	\$ 315.31	0.795	0.846
			Base	2.4%	\$ 342.05	0.748	0.796
45786TX0020003	Bronze	Base	35.3%	\$ 111.79	0.651	0.693	
Total				100%	\$ 271.11	0.815	0.868
h	Member Weighted Average					0.815	
i	Dollar Weighted Average					0.868	
j = i/h	Calibration Factor					1.065	

Risk Adjustment and Reinsurance

Experience Period Risk Adjustment PMPM:

Molina used results from the Wakely National Risk Adjustment Reporting (WNRAR) Project to supplement internal estimates of risk scores, statewide premiums, and the corresponding risk adjustment transfer amounts. For the 2017 experience period the estimated risk transfer payable is \$84.92 per member per month (PMPM) or \$224,422,430.

Projected Risk Adjustments PMPM:

Molina estimated the risk transfer amount for 2019 using the 2017 experience period risk transfer amounts. The 2019 risk transfer estimates were developed by projecting 2018 relative risk scores and transfer payments, then projecting 2019 relative risk scores and transfer payments. The risk transfer payment amounts in the projection period reflect expected changes in the relative risk of the population and changes to the statewide premium. The population was grouped into the following cohorts:

- 2018 Renewal Members – The majority of Molina’s current members previously had coverage in 2017 and renewed with Molina in 2018. Molina relied on the renewal member’s 2017 experience and risk scores to project their 2018 relative risk scores, taking into consideration applicable changes in enrollment across metal tiers.
- 2018 New Members – To estimate the relative risk of the 2018 new members, Molina referred to the estimated risk scores and transfer amounts from new members in the 2017 experience period. Estimated risk scores were adjusted to take into consideration applicable changes in enrollment across metal tiers between new members in 2017 members and new members in 2018.
- 2019 Members – Molina assumed the 2019 members would have lower relative risk scores than the 2018 members, with consideration for the metal tier mix between the two years.

The impact of the national high-risk pool fund was incorporated using 2017 claims experience and a white paper report from Wakely on the estimated high-cost risk pooling charges based on information voluntarily provided by issuers. Molina estimates that the charges would exceed recoveries resulting in an increase to the amount for the risk transfer payable of \$1.01 per member per month (PMPM).

The resulting 2019 risk transfer payable estimate is \$145.23 per member per month (PMPM). Molina added \$1.01 PMPM for projected national high-risk pooling funding and \$0.15 PMPM in risk adjustment user fees from the risk transfer receivable estimate and entered the total of \$146.39 PMPM in the URRT Worksheet I, Section III.

The risk transfer payment amounts in the projection period reflect expected changes in the relative risk of the population and changes to the statewide premium. The 14% administrative cost reduction is factored in for 2018 and 2019 transfer estimates. The following table summarizes the development of the 2019 risk transfer estimate.

Risk Transfer Estimate				
$T_i = \left[\frac{PLRS_i \cdot IDF_i \cdot GCF_i}{\sum_i (s_i \cdot PLRS_i \cdot IDF_i \cdot GCF_i)} - \frac{AV_i \cdot ARF_i \cdot IDF_i \cdot GCF_i}{\sum_i (s_i \cdot AV_i \cdot ARF_i \cdot IDF_i \cdot GCF_i)} \right] \bar{P}_s \times 86\%$				
Item	Term	Description	Molina	Statewide
a	$PLRS_i$	Plan Liability Risk Score	1.291	1.748
b	IDF_i	Induced Demand Factor	1.020	1.060
c	GCF_i	Geographic Cost Factor	0.979	1.004
f = c x d x e		PLRS x IDF x GCF	1.298	1.861
f(Molina) / f(Statewide)		Molina Relativity	0.693	
g	AV_i	Actuarial Value	0.667	0.678
h	ARF_i	Allowable Rating Factor	1.614	1.540
i	IDF_i	Induced Demand Factor	1.020	1.060
j	GCF_i	Geographic Cost Factor	0.979	1.004
k = g x h x i x j		AV x ARF x IDF x GCG	1.074	1.112
k(Molina) / k(Statewide)		Molina Relativity	0.966	
l = f - k			-0.273	
m	\bar{P}_s	Statewide Average Premium		617.51
n = m x 86%		Statewide Average Premium Adjusted		531.06
o = l x n	T_i	Molina Risk Transfer Estimate	-145.23	
p		Risk Adjustment User Fee	-0.15	
q		<u>National High-Risk Pool Fund</u>	<u>-1.01</u>	
r = o + p		Total Risk Transfer	-146.39	

Experience Period Reinsurance PMPM: Not applicable.

Projected ACA Reinsurance Recoveries Net of Reinsurance Premium: Not applicable.

Non-Benefit Expenses and Profit & Risk

Administrative Expense Load: Molina reviewed administrative expenses for the Marketplace product from 2017 and 2018 to develop administrative costs required to manage the Texas Marketplace population. Molina used an internal administrative cost budget on a PMPM basis and converted the costs to an overall percentage of premiums to apply to the Texas Marketplace rates. Amounts for broker commissions were added to the administrative costs. The expected administrative expense load is 11.1%.

Administrative Expense Load		
Description	PMPM	% of Premium
Corporate and Plan Expense	\$17.28	3.5%
Bank Service Charges	\$0.77	0.2%
Quality Expenses	\$12.37	2.5%
Broker Commissions	\$8.01	1.6%
Other Expenses	\$15.91	3.2%
Total	\$54.34	11.1%

The administrative expense load varies by metal tier as shown in the table below. Corporate and Plan Expense and Quality Expenses were applied by constant percentage loads. Bank Service Charges and Broker Commissions were applied as fixed PMPM values for all plans.

Administrative Expense Load								
Product Name	Metal	Corporate & Plan Expense	Bank Service Charges	Quality Expenses	Broker Commissions	Other Expenses	Total	% of Premium
a	b	c	d	e	f	g	h = sum (c:g)	
Molina Marketplace	Gold	\$23.31	\$0.77	\$16.70	\$8.01	\$15.91	\$64.70	9.8%
	Silver	\$19.94	\$0.77	\$14.28	\$8.01	\$15.91	\$58.91	10.4%
Molina Marketplace Choice	Gold	\$21.86	\$0.77	\$15.66	\$8.01	\$15.91	\$62.22	10.0%
	Silver	\$19.17	\$0.77	\$13.73	\$8.01	\$15.91	\$57.60	10.6%
	Bronze	\$13.14	\$0.77	\$9.41	\$8.01	\$15.91	\$47.25	12.7%
Total		\$17.28	\$0.77	\$12.37	\$8.01	\$15.91	\$54.34	11.1%

- **Broker Commissions:** Molina expects broker commissions of \$8.01 PMPM in 2019, based on Molina's broker-sold business in 2018 and a projection of new and renewing members sold through the broker channel in 2019.

Commission Estimate				
Policy Year	Cohort	Broker Sold %	Commission \$	Commission PMPM
2019	New Members (Open Enrollment)	56%	\$1,304,914	\$0.63
	New Members (Special Enrollment)	56%	\$0	\$0.00
	Renewal Members (Open Enrollment)	55%	\$15,241,468	\$7.31
	<u>Renewal Members (Special Enrollment)</u>	<u>55%</u>	<u>\$162,710</u>	<u>\$0.08</u>
	Total	55%	\$16,709,092	\$8.01

Profit & Risk Margin: Molina's target after-tax margin is 3.0%. The target margin is unchanged from Molina's previously approved rate filing.

Risk and Contingency Margin: A risk and contingency margin is added to our premiums to account for the increased risk and volatility associated with the line of business. The risk and contingency margin is consistently applied for all metal tiers and considers legislative/political risk, changes in competitor participation, enrollment volatility, profitability volatility, provider contracting structure risk, shifts in metal mix, risk transfer estimate volatility, and not having an opportunity to revise risk adjustment estimates is made available after the initial rate filing. The risk and contingency margin is 2.0%.

Taxes and Fees: Molina's 6.1% estimate of taxes and fees is lower than the previously approved rate filing estimate of 10.0%. The decreased taxes and fees estimate is due to the Health Insurer Fee moratorium in 2019 that was included in the prior year's rate filing. The taxes and fees estimate is comprised of the following:

- **Texas Marketplace Exchange Fee:** Texas Marketplace will charge a fee of 3.5% of premium for Molina's members enrolled in Texas Marketplace. The Exchange user fee is applied at the Market adjusted Index Rate.
- **PCORI Fee:** The PCORI fee no longer applies to health insurance policies with policy years ending after Oct. 1, 2019.
- **Premium Tax:** The Texas state premium tax rate of 1.75% was applied.

- **Federal Income Tax:** The Tax Cuts and Jobs Act (TCJA) was enacted on December 22, 2017. The TCJA, in part, reduced the U.S. federal statutory corporate income tax rate from 35% to 23% effective January 1, 2018. The provision for income taxes is determined using an estimated annual effective tax rate, which generally differs from the U.S. federal statutory rate primarily because of state taxes, nondeductible expenses such as the Health Insurer Fee (HIF), certain compensation, and other general and administrative expenses. An estimated 0.90% of premiums will be paid in Federal income taxes based on an anticipated effective tax rate of 25%.

Taxes and Fees		
Taxes and Fees	PMPM	% of Premium
Health Insurer Fee	\$0.00	0.0%
PCORI Fee	\$0.00	0.0%
Premium Tax & Other Fees	\$8.59	1.8%
Federal Taxes	\$4.40	0.9%
Exchange Fee	\$17.17	3.5%
Total Taxes and Fees	\$30.16	6.1%
Single Risk Pool Premium	\$490.71	

Taxes and Fees vary by metal tier as shown in the table below.

Taxes and Fees								
Product Name	Metal	Health Insurer Fee	PCORI Fee	Premium Tax & Other Fees	Federal Taxes	Exchange Fee	Total	% of Premium
a	b	c	d	e	f	g	h = sum (c:g)	
Molina Marketplace	Gold	\$0.00	\$0.00	\$11.59	\$5.93	\$23.55	\$41.07	6.2%
	Silver	\$0.00	\$0.00	\$9.91	\$5.07	\$19.98	\$34.97	6.2%
Molina Marketplace Choice	Gold	\$0.00	\$0.00	\$10.87	\$5.57	\$22.02	\$38.45	6.2%
	Silver	\$0.00	\$0.00	\$9.53	\$4.88	\$19.18	\$33.59	6.2%
	Bronze	\$0.00	\$0.00	\$6.53	\$3.35	\$12.81	\$22.69	6.1%
Total		\$0.00	\$0.00	\$8.59	\$4.40	\$17.17	\$30.16	6.1%

PROJECTED LOSS RATIO

The projected medical loss ratio (MLR) for 2019 using the federally prescribed MLR methodology is 85.6%.

MLR Demonstration	
Federal Prescribed MLR Formula	
MLR = $\frac{(i + q - s + n - r)}{(p + s - n + r) - t - f - (s - n + r)} + c$	
s = transitional reinsurance receipts	\$0.00
n = risk corridors and risk adjustment payments	\$146.39
r = issuer's risk corridors and risk adjustment receipts	\$0.00
= s - n + r	(\$146.39)
MLR = $\frac{(i + q - -146.39)}{(p + -146.39) - t - f - (-146.39)} + c$	
i = incurred claims	\$235.28
q = expenditures on quality improving activities	\$12.37
= i + q	\$247.66
MLR = $\frac{(247.66 - -146.39)}{(p + -146.39) - t - f - (-146.39)} + c$	
MLR = $\frac{(394.04)}{(p + -146.39) - t - f - (-146.39)} + c$	
p = earned premiums	\$490.71
MLR = $\frac{(394.04)}{(490.71 + -146.39) - t - f - (-146.39)} + c$	
MLR = $\frac{(394.04)}{(344.32) - t - f - (-146.39)} + c$	
t = Federal and State taxes and assessments	\$12.98
f = licensing and regulatory fees, incl. transitional reins	\$17.17
= -t - f	(\$30.16)
MLR = $\frac{(394.04)}{(344.32) - 30.16 - (-146.39)} + c$	
MLR = $\frac{(394.04)}{460.55} + c$	
MLR = [85.6%] + c	
c = credibility adjustment, if any	0.0%
MLR = [85.6%] + 0.0%	
MLR = 85.6%	

APPLICATION OF MARKET REFORM RATING RULES

Single Risk Pool

Molina's single risk pool is in accordance with 45 CFR part 156, §156.80. Molina has no transitional products/plans or grandfathered products that should be included in the development of the single risk pool.

Index Rate

The index rate is developed following the specifications of 45 CFR part 156.80(d)(1). The index rate for the projection period is estimated to be \$271.11. The index rate represents the estimated total allowed claims experience for the essential health benefits within the Covered Texas Marketplace. The index rate does not include adjustments for the risk adjustment and reinsurance programs or an adjustment for the Covered Texas Marketplace user fee.

The projected allowed claims in Worksheet 1, Section III of the URRT is \$271.11, which is consistent with the Projected Allowed Claims PMPM in the exhibit below.

Index Rate		
Item	Description	Allowed Claims
a	2017 Allowed Claims	230.95
b	Product/Metal Adjustment	0.901
c	Demographic Adjustment	1.004
d	Utilization Trend	1.088
e	Unit Cost Trend	1.073
f	Acuity Adjustment	1.045
g	<u>Individual Mandate Adjustment</u>	<u>1.064</u>
h = product(a:g)	Index Rate	\$271.11
i	<u>Non-EHB</u>	<u>0.00</u>
j = h + i	Projected Allowed Claims	\$271.11

Market Adjusted Index Rate

The market adjusted index rate is developed following the specifications of 45 CFR part 156.80(d)(1). Molina modified the index rate provided in URRT Worksheet I to a market adjusted index rate as follows:

Market Adjusted Index Rate					
Item	Description	Paid Basis	Adjustment	Allowed Basis	Comments
a	URRT Index Rate			\$271.11	URRT, Worksheet 1
b	Risk Adjustment	\$146.39	0.868	\$168.68	
c	Exchange Fee	\$17.17	0.868	\$19.79	See Taxes & Fees
d	Market Adjusted Index Rate			\$459.58	d = a + b + c

Plan Adjusted Index Rates

The plan adjusted index rates are developed following the specifications of 45 CFR part 156.80(d)(2). The plan adjusted index rates are entered in Worksheet 2, Section IV, of the URRT Template. Molina calculated the plan adjusted index rates by applying plan specific level adjustments for actuarial value, cost sharing utilization, additional benefits, and administrative costs, excluding exchange user fees, to the market adjusted index rate.

Plan Adjusted Index Rates							
Product Name	Metal	Market Adjusted Index Rate	Actuarial Value	Cost Sharing Adj.	Benefits in Addition to EHBs	Admin Costs	Plan Adjusted Index Rate
a	b	c	d	e	f	g	h = product (c:g)
Molina Marketplace	Gold	459.58	0.912	1.305	1.000	1.211	662.15
	Silver	459.58	0.960	1.052	1.000	1.220	566.30
Molina Marketplace Choice	Gold	459.58	0.896	1.242	1.000	1.215	621.03
	Silver	459.58	0.968	1.001	1.000	1.223	544.65
	Bronze	459.58	0.693	0.934	1.000	1.255	373.36

- **AV and Cost Sharing Design:** The table below shows the details of Molina's AVs and Cost Sharing Design Adjustment factors:

Actuarial Value and Cost Sharing Adjustment					
Plan ID	Product Name	Metal	Member	Actuarial Value	Cost Sharing Adj.
45786TX0010001	Molina Marketplace	Gold	2,266	0.912	1.305
45786TX0010002		Silver	45,425	0.960	1.052
45786TX0020001	Molina Marketplace Choice	Gold	1,684	0.896	1.242
45786TX0020002		Silver	86,203	0.968	1.001
45786TX0020003		Bronze	74,058	0.693	0.934
Total			209,636	0.868	1.000

- **Provider Network, Delivery System Characteristics, and Utilization Management Practices:** Molina did not vary plan rates for variation of provider network, delivery system characteristics, and utilization management.
- **Catastrophic plans:** Not Applicable.
- **Administrative costs, excluding Exchange User Fees:** Molina converted all administrative costs, excluding the Covered Texas Marketplace Fee, to a multiplicative factor, which varies for each plan according to differences in premium. The overall multiplicative factor is shown in the table below.

Administrative Costs Excluding Exchange Fee		
Item	Description	% of Premium
a	Administrative Expense Load	11.1%
b	Profit Margin	3.0%
c	Risk & Contingency	2.0%
d	Taxes & Fees excl Exchange Fee	2.6%
e = a + b + c + d	Total	18.7%
f = 1 / (1 - e)	Administrative Factor	1.230

The administrative factors vary by metal tier as shown in the table below.

Administrative Costs Excluding Exchange Fee							
Product Name	Metal	Admin. Expense Load	Profit Margin	Risk & Contingency	Taxes & Fees (excl. Exchange Fee)	Total	Admin. Factor
a	b	c	d	e	f	g = sum (c:f)	h = 1 / (1-g)
Molina Marketplace	Gold	9.8%	3.0%	2.0%	2.6%	17.4%	1.211
	Silver	10.4%	3.0%	2.0%	2.6%	18.0%	1.220
Molina Marketplace Choice	Gold	10.0%	3.0%	2.0%	2.6%	17.7%	1.215
	Silver	10.6%	3.0%	2.0%	2.6%	18.2%	1.223
	Bronze	12.7%	3.0%	2.0%	2.6%	20.3%	1.255
Total		11.1%	3.0%	2.0%	2.6%	18.7%	1.230

Calibration

Age Curve Calibration: Molina calibrated the Plan Adjusted Index Rates to an age 21 rate. Molina estimates the average composite age factor by multiplying the expected age distribution by the age factors. The calibration factor of 0.609 equals the age factor at age 21 divided by the average age factor (1.000 / 1.642). Please note an additional adjustment was implemented in the age calibration process to account for the dependent cap where only the 3 eldest children's premiums contribute to the family premium.

Age Curve Calibration								
Age	Member %	Age Factor	Age	Member %	Age Factor	Age	Member %	Age Factor
0 - 14*	0.2%	0.000	31	1.3%	1.159	49	2.4%	1.706
0 - 14	6.6%	0.765	32	1.4%	1.183	50	2.4%	1.786
15	0.7%	0.833	33	1.3%	1.198	51	2.4%	1.865
16	0.7%	0.859	34	1.4%	1.214	52	2.4%	1.952
17	0.8%	0.885	35	1.4%	1.222	53	2.5%	2.040
18	0.9%	0.913	36	1.4%	1.230	54	2.5%	2.135
19	2.0%	0.941	37	1.4%	1.238	55	2.6%	2.230
20	2.1%	0.970	38	1.5%	1.246	56	2.4%	2.333
21	2.1%	1.000	39	1.5%	1.262	57	2.5%	2.437
22	1.9%	1.000	40	1.5%	1.278	58	2.4%	2.548
23	1.7%	1.000	41	1.6%	1.302	59	2.4%	2.603
24	1.5%	1.000	42	1.7%	1.325	60	2.4%	2.714
25	1.4%	1.004	43	1.8%	1.357	61	2.3%	2.810
26	1.7%	1.024	44	1.9%	1.397	62	2.3%	2.873
27	1.6%	1.048	45	2.0%	1.444	63	2.4%	2.952
28	1.5%	1.087	46	2.1%	1.500	64+	3.7%	3.000
29	1.5%	1.119	47	2.2%	1.563	Total	100.0%	1.642
30	1.4%	1.135	48	2.3%	1.635	Adj Fx	1 / Total	0.609

**% of membership impacted by the 3 children under age 21 dependent cap.*

Molina estimated the average age of the single risk pool to be 41 years of age by multiplying the expected age distribution percentages by the age. Molina assumed an average age of 8 for the Age 0-14 cohort in the average age estimate. Premium rates are based on the attained age as of the coverage effective date and will not be re-rated/adjusted when a birthdate occurs during the year after the coverage starts.

Geographic Factor Calibration: Molina applied geographic factors to the index rate in the calculation of region specific rates. The geographic factors are based solely on the provider reimbursement expectations in each region. The calibration factor of 1.016 equals 1.000 divided by the weighted average geographic factor (1.000 / 0.984).

Geographic Factor Calculation			
Geographic Region	Members	Allowed Claims	Geographic Factor
Region 4	3,767	\$265.69	0.980
Region 5	2,003	\$271.11	1.000
Region 8	82,460	\$271.11	1.000
Region 9	15,777	\$271.11	1.000
Region 10	90,255	\$262.98	0.970
Region 12	9,804	\$257.56	0.950
Region 15	2,974	\$271.11	1.000
Region 26	2,596	\$265.69	0.980
Total	209,636	\$271.11	0.984
Calibration		1 / Total	1.016

A table summarizing Molina's 2018 and 2019 geographic factors is provided below.

Geographic Factor Calculation		
Geographic Region	2018 Factor	2019 Factor
Region 4	1.020	0.980
Region 5	0.950	1.000
Region 8	1.030	1.000
Region 9	0.990	1.000
Region 10	1.000	0.970
Region 12	0.970	0.950
Region 15	1.050	1.000
Region 26	0.980	0.980

Consumer Adjusted Premium Rate Development

The Consumer Adjusted Premium Rates are calibrated to an age 21 premium with an area factor of 1.00. Only the allowable rating factors will be applied to the Consumer Adjusted Premium Rates. Molina has included a document identified as "2019 TX Molina Rates" that demonstrates how each allowable consumer level adjustment is applied to the Consumer Adjusted Premium Rates to determine the premiums.

Consumer Adjusted Premium Rates					
Product Name	Metal	Plan Adjusted Index Rate	Age Calibration	Area Calibration	Consumer Adjusted Premium Rate
a	b	c	d	e	f = product (c:e)
Molina Marketplace	Gold	662.15	0.609	1.016	409.77
	Silver	566.30	0.609	1.016	350.45
Molina Marketplace Choice	Gold	621.03	0.609	1.016	384.32
	Silver	544.65	0.609	1.016	337.05
	Bronze	373.36	0.609	1.016	231.05

PLAN PRODUCT INFORMATION

AV Metal Values

All benefit plans Molina proposes to offer in Texas Marketplace meet ACA essential health benefit (EHB) requirements. Their AV values were calculated exclusively by using HHS's AV Calculator.

Silver plan premium rates for benefit year 2019 were developed without federal funding for the cost sharing reduction (CSR) program by using the full actuarial value of the Silver CSR variant plans. No adjustments were necessary for the Gold plan based on the funding status of the CSR program. The following table illustrates the actuarial values included in the rate filing.

Actuarial Metal Values				
Plan ID	Product Name	Metal	FPL	Actuarial Value
45786TX0010001	Molina Marketplace	Gold	Base	0.794
45786TX0010002		Silver	CSR 100-150	0.940
			CSR 150-200	0.878
			CSR 200-250	0.736
			Base	0.712
45786TX0020001	Molina Marketplace Choice	Gold	Base	0.789
45786TX0020002		Silver	CSR 100-150	0.948
			CSR 150-200	0.876
			CSR 200-250	0.738
			Base	0.684
45786TX0020003	Bronze	Base	0.630	

AV Pricing Values

AV pricing value of each plan only includes the allowable modifiers to the index rate, as described in 45 CFR Part 156, §156.80(d)(2). Cost-sharing adjustments ensure that differences due to health status were not included in the adjustment.

The modifiers are applied to the index rate as shown in the following table.

Actuarial Value Pricing						
Product Name	Metal	Actuarial Value	Cost Sharing Adj.	Benefits in Addition to EHBs	Administration Costs	AV Pricing Value
a	b	c	d	e	f	g = product (c:f)
Molina Marketplace	Gold	0.912	1.305	1.000	1.211	1.441
	Silver	0.960	1.052	1.000	1.220	1.232
Molina Marketplace Choice	Gold	0.896	1.242	1.000	1.215	1.351
	Silver	0.968	1.001	1.000	1.223	1.185
	Bronze	0.693	0.934	1.000	1.255	0.812

Membership Projections

Molina is filing Texas Marketplace rates in nine counties representing eight rating regions. Molina considered the number of existing members that would renew with Molina as well as estimating the number of new members likely to purchase a product in Texas Marketplace by applying a market share adjustment, an estimate of what percentage of the Texas Marketplace population would likely select a Molina offering. The market share adjustment took into consideration that Molina members were likely to be lower income and more dependent on subsidies. Molina expects most of new 2019 members to come from other carriers.

Molina's enrollment projections by plan, including cost-sharing reduction eligible plans, were based on the proportion of enrollment enrolled in those plans as of April 2018.

Membership Projections by Region		
Region	Current Members	Projected Members
Region 4	3,800	3,767
Region 5	2,158	2,003
Region 8	92,151	82,460
Region 9	17,231	15,777
Region 10	106,322	90,255
Region 12	9,903	9,804
Region 15	2,373	2,974
Region 26	2,730	2,596
Total	236,668	209,636

Membership Projections by Plan				
Plan ID	Product Name	Metal	FPL	Members
45786TX0010001	Molina Marketplace	Gold	Base	2,266
45786TX0010002		Silver	CSR 100-150	29,894
45786TX0010002		Silver	CSR 150-200	8,581
45786TX0010002		Silver	CSR 200-250	4,034
45786TX0010002		Silver	Base	2,916
45786TX0020001	Molina Marketplace Choice	Gold	Base	1,684
45786TX0020002		Silver	CSR 100-150	55,067
45786TX0020002		Silver	CSR 150-200	19,252
45786TX0020002		Silver	CSR 200-250	6,934
45786TX0020002		Silver	Base	4,950
45786TX0020003		Bronze	Base	74,058
Total				209,636

Molina plans to offer its products in the counties listed by region below.

County List		
Geographic Region	County	County
Region 4	Jefferson	
Region 5	Cameron	
Region 8	Collin	Dallas
Region 9	El Paso	
Region 10	Harris	
Region 12	Webb	
Region 15	Hidalgo	
Region 26	Starr	

Terminated Products

A summary of Molina's terminated, renewing, and new products is provided in the following table:

Terminated Plans and Mapping					
Plan ID	Plan Effective Period	Plan Name	Metal Tier	Mapping ----->	New Plan ID
45786TX0040001	Jan 2017 -- Dec 2018	Molina Marketplace Options Silver	Silver	----->	NA

Renewing Plans					
Plan ID	Plan Effective Period	Plan Name	Metal Tier	Actuarial Value (AV)	AV (% Chg)
45786TX0020001	Jan 2015 --	Molina Marketplace Choice Gold	Gold	0.789	2.5%
45786TX0020002	Jan 2015 --	Molina Marketplace Choice Silver	Silver	0.684	0.8%
45786TX0020003	Jan 2015 --	Molina Marketplace Choice Bronze	Bronze	0.630	0.8%
45786TX0010001	Jan 2014 --	Molina Marketplace Gold	Gold	0.794	1.3%
45786TX0010002	Jan 2014 --	Molina Marketplace Silver	Silver	0.712	0.4%

New Plans					
Plan ID	Plan Effective Period	Plan Name	Metal Tier	Actuarial Value (AV)	AV (% Chg)
NA	NA	NA	NA	NA	NA

Plan Type

All benefit plans are comprehensive HMO individual products.

MISCELLANEOUS INSTRUCTIONS

Effective Rate Review Information

Not applicable.

Reliance

Not applicable.

Actuarial Certification

I, Evan Swalheim, as a member in good standing with the American Academy of Actuaries, hereby certify, to the best of my knowledge and judgment, the following:

The projected index rate is:

- a. In compliance with all applicable State and Federal Statutes and Regulations (45 CFR 156.80 and 147.102),
- b. Developed in compliance with the applicable Actuarial Standards of Practice,
- c. Reasonable in relation to the benefits provided and the population anticipated to be covered,
- d. Neither excessive nor deficient.

The index rate and only the allowable modifiers as described in 45 CFR 156.80(d)(1) and 45 CFR 156.80(d)(2) were used to generate plan level rates.

The percent of total premium that represents essential health benefits included in Worksheet 2, Sections III and IV was calculated in accordance with actuarial standards of practice.

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

The 2019 AV Calculator was used to determine the AV Metal Values shown in Worksheet 2 of the Part I Unified Rate Review Template. Adjustments were made for non-standard plan design elements according to the letter described in the reliance section above.



July 23, 2018

Evan Swalheim, ASA, MAAA
Director, Actuarial Services
Molina Healthcare Inc.

Date