

**PART III ACTUARIAL MEMORANDUM
(REDACTED)**

**Hawaii Medical Service Association
Rates for Individual Policies in
Hawaii Effective January 1, 2019**

GENERAL INFORMATION

Company Legal Name: Hawaii Medical Service Association (HMSA)
State: Hawaii
HIOS Issuer ID: 18350
Market: Individual
Effective Date: January 1, 2019

CONTACT INFORMATION

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INTRODUCTION

This filing represents a plan and rate revision of the ACA rates to be provided in conjunction with Exchange and off-Exchange offerings in the Hawaii market. Such rates are developed in accordance with applicable ACA provisions, as well as the laws and regulations of the State of Hawaii. Products are compliant with the ACA requirements as to benefits offered under the respective Metallic offerings.

This memorandum and the accompanying exhibits replaces HMSA's original 2019 ACA individual rate filing, which was submitted on June 1st, 2018. The original filing assumed that the Platinum HMO and Gold HMO plans would be discontinued and that members would be crosswalked to the PPO plan within their same respective metal level. This amended filing instead reinstates the two HMO plans that we were originally proposing to close and uses the current member distribution by plan as the basis for the projection period. Our projected membership assumptions have been revised accordingly, while all other pricing assumptions and factors have been held unchanged relative to our original filing.

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PROPOSED RATE INCREASES

The reasons for the rate changes are as follows:

- to reflect HMSA's recent 2017 individual plan experience, both in transitional and ACA compliant plans, adjusted for the change from the average morbidity in these plans in 2017 to the morbidity expected of members in ACA compliant plans only in 2019 that includes an improvement in the morbidity of the ACA risk pool by restricting the entities from which premium payments can be made. Effective February 1st, 2018, HMSA implemented a Third-Party Premium Payment policy (TPPP) to minimize potential conflicts of interest and steerage by third parties of high-risk members to the ACA risk pool that might qualify for other, more appropriate types of health insurance coverage;
- to reflect trend from 2017 to 2019; both unit cost and utilization;
- to reflect the potential deterioration in the morbidity of this population due to the removal of the penalty associated with the individual mandate;
- to account for the continued non-funding of the Cost Share Reduction (CSR) program;
- to reflect plan changes, which were made either to keep plans within the de minimus actuarial value range for the plans' metal designations or to maintain competitive rate or benefit structure;
- to reflect the impact of recalibrating the individual plan pricing actuarial values (AVs) based on the net benefit to allowed cost ratios generated by HMSA's cost models, including induced utilization (IU) assumptions consistent with the CMS AV Calculator IU assumptions;
- to reflect a shift in induced demand due to changes in the member mix by metallic level;
- to reflect updated costs of other Essential Health Benefit (EHB) and non-EHB cost items, including vision, quality improvement, medical management, and other retention; and
- to reflect changes to HMSA's administrative fees or loads, as well as to the Exchange and other ACA fees.

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The table below shows the rate changes by plan to be effective on 1/1/2019. These changes also include the impact of benefit changes, such as changes in the deductibles and out-of-pocket maximums (OOPMs).

ACA Plan Name	Projected 2019 Member Months	Proposed Average Premium	Change from 2018 Premium
Platinum PPO	30,924	\$747.06	1.89%
Gold PPO	21,360	670.40	1.62%
Gold PPO 1000	21,036	630.43	1.82%
Silver PPO 2500 *	20,844	697.33	-0.12%
Silver PPO 2500 Direct *	19,824	545.21	0.37%
Silver PPO 3500	19,032	687.96	0.05%
Bronze PPO	38,136	504.04	8.76%
Bronze HSA	120	502.84	New
Catastrophic	2,700	302.85	-5.60%
Platinum HMO	3,600	755.72	1.83%
Gold HMO	5,760	632.34	0.94%
Silver HMO	13,452	702.51	1.34%
Bronze HMO	19,992	499.60	10.41%
Total - Renewing Plans	216,780	\$622.85	2.72%

** Following the elimination of the meaningful difference requirement for plan year 2019, we have consolidated the Silver PPO 2500 (formerly Silver PPO 2000) and Silver PPO 2500 Direct (formerly Silver PPO 2500) plans by aligning the benefits offered in each plan. The Silver PPO 2500 Direct will be offered off-Exchange only and will not be subject to the Exchange-based CSR load. Although the Silver PPO 2500 plan will be available both on- and off-Exchange, the off-Exchange variant of this plan will not be marketed.*

RELIANCE ON OTHERS

The majority of the data and assumptions supporting this filing have either been extracted from HMSA systems or been developed by staff working under my direction. I have, however, relied upon external actuarial consultants for the following items:

- projected 2017 risk adjustment payments from the actuarial consultant that HMSA engaged for this purpose; and
- derivation of the AV adjustment factor that we applied to reflect mental health and substance abuse (MHSA) office visits that count toward the initial three primary visits that are not subject to the plan deductible.

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ACTUARIAL CERTIFICATION

I, Gavin Swain, am a Fellow of the Society of Actuaries and a Member in good standing of the American Academy of Actuaries and meet the qualification standards of the Academy to provide the actuarial opinion contained herein.

I certify that to the best of my knowledge and judgment:

- a. The projected index rate is:
 - i. In compliance with all applicable State and Federal Statutes and Regulations (45 CFR 156.80(d)(1) and 147.102),
 - ii. Developed in compliance with the applicable Actuarial Standards of Practice ,
 - iii. Reasonable in relation to the benefits provided and the population anticipated to be covered, Neither excessive, inadequate, nor unfairly discriminatory; however noting that there are many uncertainties in the market's that could affect this, and
 - iv. Developed using only the permitted rating classifications
- b. The index rate is developed in accordance with Federal regulations, and the index rates and only the allowable modifiers as described in 45 CFR 156.80(d)(1) and 45CFR 156.80(d)(2) were used to generate plan level rates.
- c. The Actuarial Value (AV) Metal Values included in Worksheet 2 of the Unified Rate Review Template are based on the most recent AV Calculator, with only adjustments to comply with unique benefit characteristics as noted in the accompanying unique plan supporting documentation and justification.
- d. The percentage 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.

I, Gavin Swain, FSA, MAAA, am of the opinion that this filing is in compliance with all applicable Federal and State Laws and Regulations, including the Patient Protection and Affordable Care Act (PPACA) and the Health Care and Education Reconciliation Act of 2010.

I, Gavin Swain, FSA, MAAA, do hereby certify that this filing has been prepared in accordance with 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 Plan Entities"
- iii. Actuarial Standard of Practice No. 12, "Risk Classification (for All Practice Areas)"
- iv. Actuarial Standard of Practice No. 23, "Data Quality"
- v. Actuarial Standard of Practice No. 25, "Credibility Procedures Applicable to Accident

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- and Health, Group Term Life, and Property/Casualty Coverages”
- vi. Actuarial Standard of Practice No. 41, “Actuarial Communications.”
 - vii. Actuarial Standard of Practice No. 50, “Determining Minimum Value and Actuarial Value under the Affordable Care Act”

Gavin Swain, FSA, MAAA
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Market & Product Strategy

June 16, 2018

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