

**DAKOTACARE Individual Products
Rate Filing Justification
Part III - Actuarial Memorandum and Certification**

INTRODUCTION

This document contains the Part III Actuarial Memorandum for DAKOTACARE's (DCARE) individual comprehensive medical block of business, effective January 1, 2016. These individual rates are guaranteed through December 31, 2016. These products will be offered outside the Exchange. This actuarial memorandum is submitted in conjunction with the Part I Unified Rate Review Template (URRT) and Part II Consumer Justification Narrative.

The purpose of the actuarial memorandum is to provide certain information related to the submission, including support for the values entered in the Part I URRT. This memorandum may not be appropriate for other purposes.

The information in this actuarial memorandum is intended for the use of DAKOTACARE. I understand that this actuarial memorandum will be provided to the South Dakota Division of Insurance and the Center for Consumer Information and Insurance Oversight (CCIIO), and their subcontractors to assist in the review of DAKOTACARE's rate filing process. Also, I understand that the information provided may be considered public, and, as such, may be subject to disclosure to other third parties. Towers Watson makes no representations or warranties regarding the contents of this actuarial memorandum or rate filing to third parties. Likewise, third parties are instructed to place no reliance upon this actuarial memorandum prepared for DAKOTACARE by Towers Watson that would result in the creation of any duty or liability under any theory of law by Towers Watson or its employees to third parties.

The sections and information contained in this memorandum are listed in the order prescribed in the 2016 Unified Rate Review Instructions provided by the Centers for Medicare and Medicaid Services, dated February 21, 2015. These results are actuarial projections. Actual experience will differ for a number of reasons including, but not necessarily limited to, population changes, claims experience, and random deviations from assumptions.

**DAKOTACARE Individual Products
Rate Filing Justification
Part III - Actuarial Memorandum and Certification**

General Information

Company Legal Name: South Dakota State Medical Holding Company, Inc.

Company Marketing Name: DAKOTACARE

State: South Dakota

HIOS Issuer ID: 62210

Market: Individual

Effective Date: January 1, 2016

Company Contact Information:

- Primary Contact Name: Ms. Ann DeWeerd
- Primary Contact Telephone Number: 605-274-3241
- Primary Contact Email Address: ann.deweerd@dakotacare.com

Proposed Rate Increases

Average rate increase estimates by product are shown in Table 1. Note that the increases are relative to the January 2015 ACA rates.

Dakota Universal	60.7%
Dakota Core	63.7%
Dakota Reserve	67.9%
Dakota Signature Plus	62.4%
Dakota Signature	65.6%
Dakota Basic	65.9%
Average of All Plans	63.2%

Reasons for the increases:

- Medical inflation
- Reduction in Transitional Reinsurance anticipated recoveries
- Reassessment of ACA morbidity levels
- Increase in administration/risk loading

Rate increase variance is caused by minor benefit changes, modifications to the loading formulas and enrollment pattern weights.

Attachment 1 shows the calculation details.

**DAKOTACARE Individual Products
Rate Filing Justification
Part III - Actuarial Memorandum and Certification**

Experience Period Premium and Claims

The experience period is January 1-December 31, 2014 with claims paid through February 2015. This includes all non-grandfathered experience, including transitional plans.

- Premium - \$15,060,000; no MLR rebate
- Allowed Claims - \$17,948,000; based on the sum of claim payments and member cost sharing
- Incurred Claims - \$12,811,000

Incurred claims are composed of:

- Medical incurred and paid through February 2015 – \$11,004,000; paid by DAKOTACARE (DCARE)
- IBNR on medical – \$146,000
- Rx incurred and paid through February 2015 - \$1,660,000; paid by CVS Caremark; no IBNR
- Physician Withhold - \$0 (omitted from incurred medical claims for competitive considerations)

Allowed claims are composed of:

- Medical allowed and adjudicated through February 2015 – \$15,569,000; paid by DCARE
- IBNR on medical – \$205,000
- Rx allowed and adjudicated through February 2015 - \$2,174,000; paid by CVS Caremark; no IBNR
- Physician Withhold - \$0 (omitted from incurred medical claims for competitive considerations)

The small medical IBNR is based on completion analyses of incurred medical claims. Note the allowed claims use the same completion factor as incurred claims. The experience period used to develop the completion factors includes 2014 incurred claims.

Allowed claims are computed by combining paid claims with member cost sharing.

Benefit Categories

Information system requirements for the benefit categories are:

- Inpatient hospital – facility type=hospital; type of bill code=inpatient; confinement type=inpatient.
- Outpatient hospital – facility type=hospital; type of bill code=other than inpatient; confinement type=outpatient.
- Other – includes ambulance, home health, durable medical equipment (DME), prosthetics, vision, dental, other services; Benefit Code identifies claims for ambulance, DME, and other services billed by clinic; Facility type = Clinic, Ambulance, Home Health, DME, Vision, Dental
- Prescription Drug – Benefit Code=Rx and Facility type=Pharmacy.
- Professional – This category includes primary care & specialist physician and therapy charges billed by clinic, lab & radiology identified by CPT code. Facility type=clinic, independent lab, physical therapy provider, or x-ray facility.

**DAKOTACARE Individual Products
Rate Filing Justification
Part III - Actuarial Memorandum and Certification**

Projection Factors

Morbidity

A 30% loading assumption is applied as the 2014 experience base is 98% individually underwritten (as measured by member months) whereas the ACA mandates guarantee issue with no pre-existing limitations.

The 2015 age/benefit/trend adjusted morbidity of the non-exchange ACA membership is approximately 30% greater than total 2014 age/benefit/trend adjusted morbidity.

Benefit Changes

Using 2014 experience as the baseline for calculations (98% NGF non-ACA), a number of benefit increases were made to comply with the State of South Dakota Essential Health Benefits requirement. Note that some adjustment factors are applied to all benefit categories and some are not. Small group data is used in a number of these adjustments as it is a larger and more credible data set.

- Habilitative Services – an analysis of small group submitted claim data produced a 29.1% increase to the “Other Medical” category.
- TMJ - an analysis of small group submitted claim data produced a 1.6% increase to the “Other Medical” category.
- Pediatric Vision - an analysis of small group submitted data produced a 1.6% increase to the “Other Medical” category.
- Eliminate Pre-existing Limitations and Exclusionary Riders - an analysis of individual submitted claim data produced a 3.7% increase to all benefit categories.
- Skilled Nursing – benefits will be extended from 30 to 90 days; an analysis of a Towers Watson proprietary data set produced a 0.2% increase to “Inpatient Hospital”.
- Bariatric Surgery - an analysis of small group submitted data produced a 1.1% increase to the “Inpatient Hospital” category and a 0.8% increase to the “Professional” category.
- Chiropractic – included in all plans; an analysis of Individual experience produced a 1.6% increase to the “Professional” category.
- Pediatric Dental – an analysis using the Towers Watson dental manual produced a 6.6% increase to the “Professional” category.
- Out-of-network non-emergency claims will not be covered – an analysis of individual allowed claims produced a 1.0% reduction to all benefit categories.

This detail is shown in Attachment 3.

Other benefit increases occur that have smaller impact and were not included in this rate projection.

Changes in Demographics

The assumed 2016 member distribution by age (based on DCARE’s March 2015 non-exchange ACA enrollment) was 3.6% less costly than the 2014 age distribution. This was estimated using ACA average premium factors by age group.

**DAKOTACARE Individual Products
Rate Filing Justification
Part III - Actuarial Memorandum and Certification**

Other Adjustments

Not applicable this year.

Attachment 3 composites these items so that they may be tracked to worksheet 1 of the URRT.

Trend Factors

Unit cost trend for medical categories is based on the Small Group average of 2013/2012 and 2014/2013 trend rates. Small Group data was used as the data source is larger and more credible.

The prescription drug unit cost trend was based on the average trend projected by 2 large PBMs (CVS/Caremark and Express Scripts).

Unit Cost Annual Trend	
Service Category	Trend Estimate
Inpatient Hospital	9.7%
Outpatient Hospital	8.8%
Professional	1.6%
Other Medical	10.1%
Prescription Drug	14.0%

Utilization trend adjustment is not included as no change from the 2014 level is expected.

Credibility Manual and Credibility of Experience

100% credibility was given to the projected 2014 claim experience.

Paid to Allowed Ratio

The paid to allowed ratio is estimated to be 72.9% and development is shown in Attachment 2.

Risk Adjustment and Reinsurance

Projected Risk Adjustments

This adjustment was not used.

Projected ACA Reinsurance

The reinsurance arrangement estimate was based on 2014 Individual high claimants. The average cost for allowed claims in the \$90,000 to \$250,000 corridor was 7.2% of total allowed claims. This was adjusted for 50% coinsurance and 2 years of excess cost trend over basic cost trend (+7%). The final estimate as a percent of allowed claims is approximately 5.0%.

The URR worksheet 1 cell V34 shows that projected incurred claims are estimated at \$359.60 PMPM. The projected ACA reinsurance is 5.0% x 359.60 = 17.98 PMPM.

**DAKOTACARE Individual Products
Rate Filing Justification
Part III - Actuarial Memorandum and Certification**

The assessment is \$27.00 per year per member (\$2.25 PMPM).

The net adjustment used in cell V37 of URR worksheet 1 is: $17.98 - 2.25 = 15.73$.

Non-Benefit Expenses and Profit & Risk

Administrative Expense Load

The administrative expense load is set at 16.9% which is equal to the full year 2014 statistic of 20.0% less 1.2% state premium tax less 1.9% for anticipated 2016 expense savings.

The FFE user fee loading is set at 0%.

The total computed expense load is 16.9%.

Profit & Risk Margin

The risk margin is set at 2.6%.

Taxes and Fees

The ACA health insurer fee is estimated to be 1.3% of premium. This is based on DCARE's projection of its 2016 ACA health insurer fee. DCARE's state premium tax is 1.2%. Total taxes and fees are 2.5%.

Projected Loss Ratio

The projected loss ratio is 78.0%. This is slightly less than the 80% MLR. Note that state premium tax of 1.2% and the 1.3% ACA health insurer fee reduce premium and move the adjusted loss ratio to 80.0%.

Single Risk Pool

The 2014 base experience used in this projection includes all of DCARE's individual business. Note that all of DCARE's individual business is non-grandfathered.

Index Rate

The index rate is \$493.28 as calculated in cell V32 on worksheet 1 of the URRT. It is simply allowed claims. There are no covered benefits in excess of EHB.

The index rate of the experience period (\$320.00) is simply allowed claims PMPM in the experience period as there are no benefits in excess of EHB.

Market Adjusted Index Rate

The Market Adjusted Index Rate is \$471.71.

**DAKOTACARE Individual Products
Rate Filing Justification
Part III - Actuarial Memorandum and Certification**

Market Adjusted Index Rate Calculation	
Index Rate	493.28
Federal Reinsurance Program Adjustment	(21.57)
Risk Adjustment	0
Exchange User Fee Adjustment	0
Sum	471.71

The reinsurance program adjustment equals:

- 5.0% of the index rate for anticipated reinsured claim ($.05 \times 493.28 = 24.66$ PMPM); less
- Reinsurance assessment adjusted by the Paid to Allowed ratio ($2.25 \div .729 = 3.09$ PMPM)

Plan Adjusted Index Rates

The Plan Adjusted Index Rates equal the Market Adjusted Index Rate with additional modification for:

- Actuarial value and cost sharing (plan adjustment) – This is based on Towers Watson rate manual calculations and assumed induced utilization. The induced utilization assumptions are +5.0% for Gold, +0% for Silver and -5.0% for Bronze. Silver is set to 0% as the 2014 experience is based on average benefits that are Silver level. The induced utilization assumptions are based on DCARE Individual experience, judgment and competitive considerations.
- Provider network – not used.
- Benefits in addition to EHB – not used.
- Eligibility Categories – not used (note that DCARE is not filing a catastrophic plan).
- Administration and Risk – 22.4%
- Tobacco – a 15% tobacco surcharge will be applied to adult tobacco users as defined for ACA rating purposes. The expected average surcharge is adjusted out. The surcharge adjustment factor is derived in Attachment 4.

Attachment 2 shows the details discussed in this section.

Calibration

The average age in the projected population is 29. The age calibration detail is shown in Attachment 4.

DCARE does not use geographic rating. Therefore, no geographic calibration is made.

Consumer Adjusted Premium Rate Development

The Consumer Adjusted Premium Rate equals the Plan Adjusted Index Rate divided by 1.2206 (average age / family adjustment) times the applicable age / family factor and tobacco adjustments. Attachment 4 shows an example.

Note that in computing family rates, DCARE will only include the 3 oldest children under age 21. Note that geographic factors are not used.

**DAKOTACARE Individual Products
Rate Filing Justification
Part III - Actuarial Memorandum and Certification**

The base values for age 21 are shown in Attachment 2.

AV Metal Values

The AV Metal Values were entirely based on the CMS 2016 AV Calculator. Towers Watson reviewed a selection of these calculations and is in agreement with the AV calculations produced by DCARE.

AV Pricing Values

The detail is shown in Attachment 2. The allowable modifiers are shown separately.

Membership Projections

The 2016 membership projection is based on the March 2015 non-exchange Individual ACA enrollment. The details are shown in Attachment 4.

Terminated Plans

Three plans were terminated for 2016.

2016 Terminated Plans	
Plan Name	Component ID
Dakota Reserve 2000	62210SD1450001
Dakota Signature 1000	62210SD1470001
Dakota Basic 3000	62210SD1480001

Plan Types

URRT Worksheet 2 description type of HMO adequately describes DCARE's plans.

Warning Alerts

There are several warning alerts on URRT Worksheet (WS) 2:

1. Cells A54 and A56 – WS2 premium is much lower than WS1 premium since transitional plans premium on WS2 is set to zero.
2. Cells W19, X19 and Y19 – Data was not entered at the plan level due to minimal 2014 ACA experience. Note that **ALL** 2014 individual products and plans were terminated.

Actuarial Certification

This report is considered a statement of actuarial opinion under the guidelines promulgated by the American Academy of Actuaries. This statement of actuarial opinion was developed by Richard Nelson, who is a member of the American Academy of Actuaries (“the Academy”) and meets the Qualification

**DAKOTACARE Individual Products
Rate Filing Justification
Part III - Actuarial Memorandum and Certification**

Standards of the Academy to render the opinion contained herein. His work was conducted in a manner consistent with the Code of Professional Conduct of the Academy.

Federal

I certify that the Projected Index Rate is:

- a) In compliance with all applicable State and Federal Statutes and Regulations (45 CFR 156.80(d)(1)).
- 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.

I certify that the Index Rate and only the allowable modifiers as described in 45 CFR 156.80(d)(1) and 45 CFR 156.80(d)(2) were used to generate plan level rates.

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

I certify that the AV Calculator was used to determine the AV Metal Values shown in Worksheet 2 of the Part I Unified Rate Review Template.

The Unified Rate Review Template does not demonstrate the process used by the issuer to develop rates. Rather it represents information required by Federal regulation to be provided in support of the review of rate increases, for certification of qualified health plans for Federally facilitated exchanges and for certification that the Index Rate is developed in accordance with Federal regulation and used consistently and only adjusted by the allowable modifiers.

South Dakota

To the best of my knowledge and judgment, the entire rate filing is in compliance with the applicable law and rules of South Dakota and the benefits are reasonable in relation to premiums.



Richard J. Nelson, FSA, MAAA
Senior Consultant, Towers Watson
314-719-5810

Date: July 23, 2015

Attachment 2 - 2016 Plan Adjusted Index Rates and Consumer Adjusted Base Rates (age 21 non-tobacco)

Metal Level	Name	AV Metal Value	A	B	C	D=BxC	E=AxD	F	G	H= E/ (1-F) /G	I	H / I	2016 Proj. Enrollment
			Market Adjusted Index Rate	TW Manual Pricing Value	Induced Utilization	AV Pricing Value	Cost before Admin and Profit	Admin and Profit	Tobacco Adjust.	Plan Adj.Index Rate	Average Age / Family Factor	Base Rate (Age 21 non-tobacco)	
Gold	Dakota Universal - Plan 1	0.814	471.71	0.863	1.050	0.90615	427.44	22.00%	1.0179	538.36	1.2206	441.06	231
Gold	Dakota Universal - Plan 2	0.781	471.71	0.829	1.050	0.87045	410.60	22.00%	1.0179	517.15	1.2206	423.69	48
Silver	Dakota Universal - Plan 3	0.717	471.71	0.769	1.000	0.76900	362.74	22.00%	1.0179	456.88	1.2206	374.31	817
Silver	Dakota Universal - Plan 4	0.705	471.71	0.754	1.000	0.75400	355.67	22.00%	1.0179	447.97	1.2206	367.01	439
Gold	Dakota Core - Plan 1	0.795	471.71	0.803	1.050	0.84315	397.72	22.00%	1.0179	500.93	1.2206	410.40	43
Silver	Dakota Core - Plan 2	0.713	471.71	0.719	1.000	0.71900	339.16	22.00%	1.0179	427.17	1.2206	349.97	341
Silver	Dakota Core - Plan 3	0.683	471.71	0.680	1.000	0.68000	320.76	22.00%	1.0179	404.00	1.2206	330.98	387
Silver	Dakota Reserve - Plan 1	0.712	471.71	0.749	1.000	0.74900	353.31	22.00%	1.0179	444.99	1.2206	364.57	134
Bronze	Dakota Reserve - Plan 2	0.599	471.71	0.640	0.950	0.60800	286.80	22.00%	1.0179	361.22	1.2206	295.94	289
Gold	Dakota Signature Plus - Plan 1	0.819	471.71	0.864	1.050	0.90720	427.93	22.00%	1.0179	538.98	1.2206	441.57	16
Silver	Dakota Signature Plus - Plan 2	0.717	471.71	0.763	1.000	0.76300	359.91	22.00%	1.0179	453.31	1.2206	371.38	119
Silver	Dakota Signature - Plan 1	0.714	471.71	0.759	1.000	0.75900	358.03	22.00%	1.0179	450.94	1.2206	369.44	41
Bronze	Dakota Signature - Plan 2	0.618	471.71	0.666	0.950	0.63270	298.45	22.00%	1.0179	375.90	1.2206	307.96	528
Silver	Dakota Basic	0.712	471.71	0.739	1.000	0.73900	348.59	22.00%	1.0179	439.05	1.2206	359.70	22
										0.729			3,455
										Weighted Average	Weighted Average		
										Paid to Allowed	Plan Adj. Index Rate		
Used in memo													

Attachment 3 - Benefit Changes and Other Adjustments

A. Benefits

	% of inp-h	% of op-h	% of prof	% of other	% of rx
Habilitative				0.2910	
TMJ				0.0160	
Ped Vis				0.0160	
Ped Den			0.0661		
Pre-Ex	0.0368	0.0368	0.0368	0.0368	0.0368
SKN	0.0020				
Bariatric	0.0110		0.0080		
Chiro			0.0156		
Elim OON	-0.0096	-0.0096	-0.0096	-0.0096	-0.0096
Habilitative	1.0000	1.0000	1.0000	1.2910	1.0000
TMJ	1.0000	1.0000	1.0000	1.0160	1.0000
Ped Vis	1.0000	1.0000	1.0000	1.0160	1.0000
Ped Den	1.0000	1.0000	1.0661	1.0000	1.0000
Pre-Ex	1.0368	1.0368	1.0368	1.0368	1.0368
SKN	1.0020	1.0000	1.0000	1.0000	1.0000
Bariatric	1.0110	1.0000	1.0080	1.0000	1.0000
Chiro	1.0000	1.0000	1.0156	1.0000	1.0000
Elim OON	0.9904	0.9904	0.9904	0.9904	0.9904
Product	1.0402	1.0268	1.1207	1.3684	1.0268

B. Changes in Demographics

0.964	0.964	0.964	0.964	0.964
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C. Composite Adjustment

1.003	0.990	1.080	1.319	0.990
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Attachment 4 - Enrollment Assumptions, Age/Family Adj., Tobacco Adj. and Sample Rate Calculation

4.1 - 2016 Enrollment Assumption

4.1.1 - March 2015 Individual Non-Exchange ACA Enrollment - Age Distribution

	Projected (1) <u>Enrollment</u>
00 - 19	1309
20 - 24	205
25 - 29	284
30 - 34	286
35 - 39	243
40 - 44	207
45 - 49	209
50 - 54	248
55 - 59	220
60 - 64	244
65 & Over	0
all	3455
0-19	1309
20+	2146

4.1.2 - Projected 2016 Individual Non-Exchange ACA Enrollment - Plan Distribution

<u>Metal Level</u>	<u>Name</u>	<u>Total Members</u>
Gold	Dakota Universal - Plan 1	231
Gold	Dakota Universal - Plan 2	48
Silver	Dakota Universal - Plan 3	817
Silver	Dakota Universal - Plan 4	439
Gold	Dakota Core - Plan 1	43
Silver	Dakota Core - Plan 2	341
Silver	Dakota Core - Plan 3	387
Silver	Dakota Reserve - Plan 1	134
Bronze	Dakota Reserve - Plan 2	289
Gold	Dakota Signature Plus - Plan 1	16
Silver	Dakota Signature Plus - Plan 2	119
Silver	Dakota Signature - Plan 1	41
Bronze	Dakota Signature - Plan 2	528
Silver	Dakota Basic	22
		3,455

Attachment 4 - Enrollment Assumptions, Age/Family Adj., Tobacco Adj. and Sample Rate Calculation

4.2 - Age Factor

4.2.1 - Age Factors (pursuant to SD 20:06:22:31)

Age band	Factor	Age band	Factor
0-20	0.635	45	1.444
21	1.000	46	1.500
22	1.000	47	1.563
23	1.000	48	1.635
24	1.000	49	1.706
25	1.004	50	1.786
26	1.024	51	1.865
27	1.048	52	1.952
28	1.087	53	2.040
29	1.119	54	2.135
30	1.135	55	2.230
31	1.159	56	2.333
32	1.183	57	2.437
33	1.198	58	2.548
34	1.214	59	2.603
35	1.222	60	2.714
36	1.230	61	2.810
37	1.238	62	2.873
38	1.246	63	2.952
39	1.262	64+	3.000
40	1.278		
41	1.302		
42	1.325		
43	1.357		
44	1.397		

4.2.2 - Age Factor Calculation

Age Band	2016 Proj. Enrollment	Age Factor
00 - 19	1309	0.635
20 - 24	205	0.927
25 - 29	284	1.0564
30 - 34	286	1.1778
35 - 39	243	1.2396
40 - 44	207	1.3318
45 - 49	209	1.5696
50 - 54	248	1.9556
55 - 59	220	2.4302
60 - 64	244	2.8698
65 & Over	0	3
all	3455	1.240
0-19	1309	0.635
20+	2146	1.608

Attachment 4 - Enrollment Assumptions, Age/Family Adj., Tobacco Adj. and Sample Rate Calculation

4.3 - Composite Age / Family Factor for Attachment 2

Premium Free Children is based on 2012 Small Group Data

	Members	Age Factor	Prem Free Factor	Prem Free %	Combined
0-19	1,309	0.635	0	7.9%	0.585
	Members	Age Factor	Tobacco Factor	Tobacco %	Combined
20+	2,146	1.608	1.00	14.5%	1.608
all	3,455				1.2206 A

Used in Attachment 2

4.4 Composite Age / Family Tobacco Factor and Tobacco Factor for Attachment 2

1. Tobacco factor is based on review of DCARE experience.
2. 14.5% tobacco assumption is based on March 2015 Individual ACA enrollment statistics

	Members	Age Factor	Prem Free Factor	Prem Free %	Combined
0-19	1,309	0.635	0	7.9%	0.585
	Members	Age Factor	Tobacco Factor	Tobacco %	Combined
20+	2,146	1.608	1.15	14.5%	1.643
all	3,455				1.2424 B

1.0179 B / A Used in Attachment 2

4.5 Sample Rate Calculation

Plan	Dakota Universal - Plan 1	
Age	42	
A. Plan Adjusted Base Rate (age 21 non-tobacco) - Attachment 2		441.06
B. Age 42 Factor		1.325
C. Non-tobacco Rate - AxB		584.40
D. Tobacco Factor		1.15
E. Tobacco Rate - CxD		672.06