

Actuarial Memorandum and Certification Effective January 1, 2018

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

The actuarial memorandum and certification describe Molina's rating methodology used to develop rates for Individual products offered on the Wisconsin Marketplace effective January 1, 2018. Molina will not market Individual products outside the Wisconsin Marketplace.

The rate methodology and resulting premiums outlined in our actuarial memorandum assume that key provisions of the Affordable Care Act such as Advance Premium Tax Credits continue throughout benefit year 2018.

Molina Healthcare of Wisconsin, Inc. is a managed care organization that provides healthcare services for over 130,000 individuals eligible for Medicaid, Medicare, and Marketplace throughout the state of Wisconsin. Molina Healthcare of Wisconsin, 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 11 states across the nation and in the Commonwealth of Puerto Rico, Molina currently serves approximately 3.5 million members. Dr. C. David Molina founded our company in 1980 as a provider organization serving low-income families in Southern California.

Molina Healthcare's mission is to provide quality health services to financially vulnerable families and individuals covered by government programs.



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SECTION 1 - 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 Wisconsin, Inc.
State:	Wisconsin
HIOS Issuer ID:	52697
Market:	Wisconsin Individual Marketplace
Effective Date:	1/1/2018
SERFF ID(s):	MHWI-131169844

Company Contact Information

Company Contact Information	
Contact Name:	Evan Swalheim
Telephone #:	888.562.5442 x114611
Email:	evan.swalheim@molinahealthcare.com

Description of Benefits

Molina’s benefit plan provides comprehensive indemnity individual health insurance benefit coverage to individuals purchasing health insurance policies outside the federal facilitated insurance marketplace in Wisconsin. Molina is filing one benefit plan, Molina Bronze, which covers all of the Essential Health Benefits (EHBs).

The table below summarizes the major cost-sharing components of Molina’s 2018 benefit plan. Please also refer to attachment “WI Actuarial Values.pdf” for descriptions of benefit coverage summaries Molina plans to offer.

Summary of Molina Marketplace Benefits							
Plan Name	Medical Deductible ¹	Out Of Pocket Max	IP/OP Coins.	PCP Copay	ER Copay	Rx Deductible	Rx Tiers ²
Bronze	\$6,400	\$7,350	40%	\$35	\$400	N/A	\$20/\$60/50%/50%

¹ Applies only to inpatient and outpatient facility services.

² Tier 1 consists of formulary generic drugs. Tier 2 consists of formulary preferred brand drugs. Tier 3 consists of formulary non-preferred brand drugs. Tier 4 consists of specialty drugs.

The benefit plan meets Affordable Care Act (ACA) essential health benefit (EHB) requirements. The actuarial value (AV) was calculated exclusively using the Health and Human Services (HHS) AV Calculator. No outside AV calculator adjustments were made to the plan actuarial value. The benefit plan meets the AV metal requirements under ACA and other regulations under ACA. Below is a summary of the benefit plan AV.

Actuarial Metal Values				
Plan ID	Product Name	Metal	FPL	Actuarial Value
52697WI0040001	Molina Marketplace	Bronze	Base	0.625

Molina also includes wellness programs without additional costs to Molina customers. The wellness program costs are not expected to be significant and are included in the administrative component of the rate development. Molina’s wellness programs include the following benefits:

1. Education and Information about Health and Disease
2. Motherhood Matterssm: a prenatal care program for pregnant women
3. Smoking Cessation Program
4. Weight Control Program
5. Health Education Materials

SECTION 2 – SCOPE AND PURPOSE, PROPOSED RATE CHANGE(S)

Scope and Purpose

This is a rate revision filing for the Molina Marketplace Bronze plan.

The rating factors did not change for age or for tobacco usage. Geographic rating factors did change from 2017. Molina is only offering a product in one region in 2018, so that geographic factor is 1.000.

Geographic Factor Calculation		
Geographic Region	2017 Factor	2018 Factor
Region 16	1.034	1.000

There are not significant changes in member cost-sharing. Small changes were made to the plan design to comply with the actuarial value ranges in the 2018 AV Calculator provided by CMS.

The table below shows the average rate change, minimum rate change, and maximum rate change for The Molina Marketplace Bronze plan based on the 3,286 members enrolled as of July 1, 2017 in the Bronze product in Region 16.

Rate Change by Plan						
Plan ID	Product Name	Metal Tier	Members	Rate Change		
				Average	Minimum	Maximum
52697WI0040001	Molina Marketplace	Bronze	3,286	106.26%	106.26%	106.26%
Total	Total	Total	3,286	106.26%	106.26%	106.26%

Reasons for Rate Change(s)

Molina identified the following factors contributing to the overall increase in Molina’s proposed rates.

- Trend: Molina trended the experience period claims at a 6.1% annualized trend rate.
- Risk and Contingency Margin: A risk and contingency margin of 3.0% is added to our premiums to account for the increased risk and volatility associated with the line of business.
- Individual Mandate Adjustment: An individual mandate adjustment is included in our rates due to less stringent federal requirements in 2018.
- Administrative Expenses: The 2018 rates include higher administrative expenses than what in the 2017 rates.

- Health Insurer Fee: The return of the Health Insurer Fee, after the one year moratorium expiration, increased our proposed rates.
- Unit Cost Adjustment: The proposed rates are for a non-network plan. The unit cost difference reflects the difference between billed and allowed amounts in the experience period.
- Risk Adjustment Transfer: The projected risk transfer payment is higher than the experience period due to having only a Bronze plan.

Molina identified factors that mitigated the overall rate increase:

- Acuity Adjustment: An acuity adjustment was applied to reflect the anticipated impact on utilization of having only a Bronze plan compared to the experience period mix of Gold, Silver, and Bronze.
- Risk Transfer Formula: A modification to the 2018 benefit year risk adjustment transfer formula to account for administrative costs will reduce our expected risk transfer payments and resulting premiums compared to the previous year's risk transfer formula.

Prospective Trend

The Annualized Medical Trend expected for the 12 months following the effective date of the filing is 6.15%. The Annualized Insurance Trend expected for the 12 months following the effective date of the filing is 0.00%. The trend factors were based upon Molina's claims experience in similar populations as the Wisconsin Marketplace, publicly available commercial trends, and unit cost inflation.

SECTION 3 – EXPERIENCE PERIOD PREMIUM AND CLAIMS

Molina's 2016 experience in Part I of the Unified Rate Review Template (URRT) is based on 708,006 member months or 59,000 average members.

Paid Through Date

The market experience reported in Worksheet 1, Section I of the URRT represents 2016 incurred claims paid through June 30, 2017. The IBNR factors applied to the 2016 claims experience were updated with data through July 31, 2017.

Premiums (net of MLR Rebate) in Experience Period

The premiums reported in Worksheet 1, Section I of the URRT represent only the earned premium from 2016. The amount is not adjusted for any risk adjustment transfer, taxes, or fees. Molina has not accrued any amount for MLR rebates based off the 2016 Wisconsin Marketplace experience. The final premium is \$282,531,546.

Allowed and Incurred Claims During the Experience Period

The following table reports the allowed and incurred claims during the 2016 experience period for Molina Marketplace.

2016 Experience Period Claims (paid through: June 2017)					
Item	Description	Medical	Pharmacy	Capitation	Total
a	Allowed	\$310,089,614	\$42,276,806	\$134,293	\$352,500,712
b	Member Cost Share	(\$35,859,319)	(\$11,280,888)	\$0	(\$47,140,207)
c = a + b	Subtotal	\$274,230,295	\$30,995,917	\$134,293	\$305,360,505
d	IBNR	1.007	1.000	1.000	1.006
e = c x d	Subtotal	\$276,140,827	\$30,995,917	\$134,293	\$307,271,037
f	Cost Share Reduction				(\$28,182,034)
g = e + f	Incurred Claims				\$279,089,003

	From Issuer's Claims System	Outside Issuer's Claims System	Incurred But Not Paid (IBNP)
Experience Period Incurred Claims (F15)	\$252,792,363	\$24,386,108	\$1,910,532
Experience Period Allowed Claims (F16)	\$310,089,614	\$42,411,099	\$2,034,941

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 from the Wisconsin Marketplace data. IBNR factors applied to the 2016 experience period were developed based on incurred through July 2017. The IBNR factors applied to the allowed and incurred claims is 1.006. Molina does not apply IBNR factors to capitation and pharmacy claims.

Molina did not consider ACA related 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.

SECTION 4 – 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	Prescriptions

SECTION 5 – PROJECTION FACTORS

Changes in the Morbidity of the Population Insured

The morbidity of Molina's covered population relative to the entire Wisconsin Marketplace population is expected to be lower in the projection period than the experience period. The relative

risk score in the projection period was compared to the relative risk score from the experience period to derive a population morbidity adjustment.

Molina used the results from the CMS Final Summary Report on Risk Adjustment for the 2016 Benefit Year released on June 30, 2017 to derive the relative risk of Molina’s members for the 2016 experience period. For the 2017 projection period, Molina estimated the relative risk of its anticipated membership by assuming that the relative risk scores would remain consistent with the 2016 risk scores within each metal tier. The development of Molina’s 2018 relative risk score estimate was normalized to remove expected changes to the statewide risk score. The resulting relative risk score for the 2018 projection period is 0.633, which results in an acuity factor of 0.676 as shown in the table below. The acuity factor was not applied to capitation costs.

The primary driver of a low acuity factor is the metal mix differences between the experience period and the projection period. The experience period had a low relative risk for the Bronze population and that is expected to continue in the projection period.

Population Morbidity Adjustment		Experience Rate	
Policy Year	Cohort	Member Mix	Relative Risk
2016	New Members		
	Renewal Members	-	-
	Total	100%	0.935
2017	New Members	36%	0.827
	Renewal Members	64%	0.912
	Total	100%	0.882
2018	New Members		
	Renewal Members	-	-
	Total	100%	0.633

a	2016 Relative Risk	0.935
b	2018 Relative Risk	0.633
c = b / a	Acuity Factor	0.676

Molina also applied an adjustment factor to the experience period claims to account for the anticipated change in the morbidity of the population due to weaker enforcement of the individual mandate and/or the perception of weaker enforcement. As a result, we anticipate a reduced Wisconsin Marketplace population with a higher morbidity than the experience period. We modeled the impact of a subset of our population dropping coverage, which included a portion of: a) members with low claims in the previous year, b) members with higher member premiums, and c) members

who are younger. We expect the risk pool to contract and the average morbidity to increase by 1.071. 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	61,453	9,722,313	158.21	55,914	9,560,301	170.98	1.081
21 to 29	105,482	24,964,642	236.67	96,213	24,737,945	257.12	1.086
30 to 39	110,171	37,480,300	340.20	99,961	37,244,235	372.59	1.095
40 to 49	113,653	55,195,607	485.65	105,402	54,988,429	521.70	1.074
50 to 59	188,876	125,208,258	662.91	178,665	124,927,221	699.23	1.055
<u>60+</u>	<u>128,372</u>	<u>101,964,534</u>	<u>794.29</u>	<u>122,576</u>	<u>101,762,109</u>	<u>830.19</u>	<u>1.045</u>
Total	708,006	354,535,653	500.75	658,733	353,220,239	536.21	1.071

Changes in Benefits

No factors were applied to adjust the experience period claims for benefit changes.

Changes in Demographics

Molina applied a factor to the experience period claims to reflect the anticipated change in the demographic mix from the 2016 experience data to the 2018 projection period. The anticipated demographic mix is based largely on a review of enrollment through May 2017 compared to the experience period. Molina anticipates that its 2018 demographics will be consistent with its 2017 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 2016 experience period data was 1.013.

Population Demographic Adjustment							
Age	Gender	Member Mix		Claim Costs PMPM			
		Experience Period	Projection Period	IP	OP	Prof	Rx
0-14	M	2.1%	2.6%	52.56	16.59	54.70	8.41
0-14	F	2.0%	2.5%	36.64	13.78	48.89	6.41
15-19	M	1.3%	1.4%	23.03	25.39	32.88	11.49
15-19	F	1.4%	1.5%	18.48	29.56	46.25	12.67
20-29	M	7.8%	7.2%	35.46	28.83	30.74	21.97
20-29	F	8.9%	7.9%	44.27	46.75	68.73	16.82
30-39	M	8.0%	7.6%	43.82	38.57	43.05	34.99
30-39	F	8.1%	7.7%	53.70	68.74	87.02	22.95
40-49	M	7.7%	7.5%	63.31	52.28	54.00	41.64
40-49	F	8.7%	8.4%	61.93	82.57	92.12	31.13
50-59	M	11.5%	11.6%	127.92	84.63	83.22	54.35
50-59	F	14.6%	14.0%	91.93	110.64	112.66	46.53
60+	M	7.5%	8.8%	210.39	127.67	124.47	56.51
60+	F	10.3%	11.3%	146.31	135.33	141.60	59.18
Total		100%	100%				
		a	2016	86.23	77.03	84.33	37.80
		b	<u>2018</u>	<u>89.15</u>	<u>78.31</u>	<u>85.62</u>	<u>38.30</u>
		c = b / a	Adjustment	1.034	1.016	1.015	1.013

The claim costs to determine the estimated impact of demographic mix changes from 2016 to 2018 were calculated based on Molina's nationwide 2016 claims experience from 9 states representing over 543,000 members.

Other Adjustments

- Unit Cost Adjustment: The 2018 plan is a non-network indemnity plan. The experience period was an HMO plan based on allowed costs. The following factors were developed by claim type from the experience period to convert the allowed amount to billed amounts.

	Unit Cost Adjustment -- Allowed to Billed			
	HIP	HOP	PHY	OTH
Allowed	\$ 72,959,768	\$ 122,092,831	\$ 112,677,297	\$ 4,394,659
Billed	\$ 126,485,436	\$ 250,592,985	\$ 258,717,223	\$ 7,845,870
Adjustment	1.73	2.05	2.30	1.79

- Unit Cost Area Adjustment: A second unit cost adjustment was applied since the experience period had claims data in several counties and the projection period was in only one county, Shawano County. The adjustment factors by claim type were developed by comparing the billed amounts in Shawano County to the billed amounts in the total experience period.

Shawano Adjustment	
Claim Type	Adjustment
IP	0.95
OP	0.93
PROF	1.00
OTH	0.87

- Internal Reinsurance: Molina applied a factor for reinsurance coverage purchased exclusive of the federal reinsurance program. The adjustment factor of 1.001 was derived from a PMPM cost of \$0.63.

Trend Factors (cost/utilization)

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 2016, to the midpoint of the projection period, July 2018. Unit cost trends were developed by comparing anticipated changes in provider charges between the 2016 experience period and the 2018 projection period by major service category. Utilization trends were developed reviewing Wisconsin Marketplace experience along with other sources including Molina's Marketplace allowed claims experience from 9 states representing over 543,000 members in 2016 and 212,000 members in 2015. The utilization data was normalized using risk scores to account for differences in demographics and health status between the two comparison periods. Emerging 2017 trends were also considered in the trend development.

Additionally, actuarial judgment was used in choosing the trends when the normalized historical data did not produce reasonable results.

The Express Scripts 2016 Drug Trend Report, the most recent one available, was reviewed as a source for the Health Insurance Exchange market.

The chart below shows each annual trend by category of service.

Annual Claims Trends		Experience Rate	
Benefit	Utilization	Unit Cost	Total
IP	3.0%	2.4%	5.5%
OP	3.0%	2.8%	5.8%
Prof	3.0%	2.1%	5.2%
Other	3.0%	1.0%	4.0%
Rx	7.0%	8.0%	15.6%
Cap	0.0%	0.0%	0.0%
Total	3.3%	2.8%	6.1%

The following table summarizes all of the adjustments made to the data and their application to utilization versus unit cost.

Adjustment	Adjustments			Experience Rate			PMPM	
	Population Risk Adj	Util Adj 1	Util Adj 2	Util Adj 3	Cost Adj 1	Cost Adj 2		Cost Adj 3
Morbidity	0.676							0.676
Individual Mandate		1.071						1.071
Demographics			1.013					1.013
Non-EHB Benefits				1.000				1.000
Unit Cost -- Area Mix					0.964			0.964
Unit Cost -- Allowed to Billed						1.935		1.935
Reinsurance							1.001	1.001

Subtotal	0.676	1.071	1.013	1.000	0.964	1.935	1.001	1.370
Trend Factor				1.066			1.057	1.127

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

SECTION 6 – CREDIBILITY MANUAL RATE DEVELOPMENT

Source and Appropriateness of Experience Data Used

A manual rate was not used in the rate development.

Adjustments Made to the Data

A manual rate was not used in the rate development.

Inclusion of Capitated Payments

A manual rate was not used in the rate development.

SECTION 7 – CREDIBILITY OF EXPERIENCE

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

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 2016 experience in Part I of the Unified Rate Review Template (URRT) is based on 708,006 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.

SECTION 8 – 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 the AV Calculator. 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	Members	Paid Claims PMPM	Allowed Claims PMPM	Paid to Allowed Ratio
52697WI0040001	Molina Marketplace	Bronze	5	\$ 483.24	\$ 773.06	62.5%
Total			5	\$ 483.24	\$ 773.06	62.5%

SECTION 9 – RISK ADJUSTMENT AND REINSURANCE

Experience Period Risk Adjustment and Reinsurance Adjustments PMPM

Molina used the results from the CMS Final Summary Report on Risk Adjustment for the 2016 Benefit Year which was published by CMS on June 30, 2017. That report had a risk transfer payable of \$24.96 per member per month (PMPM) or \$20,854,746 for the 2016 experience period.

Projected Risk Adjustments (Net of User Fees) PMPM Development

Molina estimated the risk transfer amount for 2018 using the final released 2016 risk transfer amounts and preliminary risk scores and early experience data from 2017. The 2018 risk transfer estimates were developed separately for new and renewal members by first projecting 2017 risk scores and transfer payments, then projecting 2018 risks and transfer payments as follows:

- 2017 Renewal Members – Some of Molina’s current members previously had coverage in 2016 and renewed with Molina in 2017. Molina relied on the renewal member’s 2016 experience and risk scores and assumed their relative risk score would be consistent in 2017.
- 2017 New Members – To estimate the relative risk of the 2017 new members, Molina referred to the estimated risk scores and transfer amounts from the 2016 experience period. Estimated risk scores were adjusted in consideration of the metal tier mix between the 2016 members and the 2017 new members.
- 2018 Members – Molina assumed the 2018 members would have the same relative risk scores as the 2017 members, with consideration for the metal tier mix between the two years.

The risk transfer payment amounts in the projection period reflect expected changes in the relative risk of the population, changes to the statewide premium, and a modification to the 2018 benefit year risk adjustment transfer formula which reduces the total transfer payment by 14% to account for administrative costs. The following table summarizes the development of the 2018 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	0.897	1.666
b	IDF_i	Induced Demand Factor	1.000	1.031
c	GCF_i	Geographic Cost Factor	1.170	1.000
f = c x d x e		PLRS x IDF x GCF	1.049	1.717
f(Molina) / f(Statewide)		Molina Relativity	0.611	
g	AV_i	Actuarial Value	0.600	0.683
h	ARF_i	Allowable Rating Factor	1.735	1.767
i	IDF_i	Induced Demand Factor	1.000	1.031
j	GCF_i	Geographic Cost Factor	1.170	1.000
k = g x h x i x j		AV x ARF x IDF x GCF	1.218	1.243
k(Molina) / k(Statewide)		Molina Relativity	0.980	
l = f - k			-0.369	
m	\bar{P}_s	Statewide Average Premium		669.41
n = m x 86%		Statewide Average Premium Adjusted		575.70
o = l x n		Molina Risk Transfer Estimate	-212.24	
p		Risk Adjustment User Fee	-1.81	
r = o + p		Total Risk Transfer	-214.05	

The resulting 2018 risk transfer payable estimate is \$214.05 per member per month (PMPM). Molina added \$1.81 PMPM in projected risk adjustment user fees to the \$212.24 PMPM risk transfer payable estimate and entered the total of \$214.05 PMPM in the URRR Worksheet I, Section III. The anticipated transfer revenue was applied to the Index Rate in the development of the Market Wide Paid Index.

Projected Risk Adjustment (Net of User Fees) PMPM Allocation

Risk adjustment transfer estimates are applied to the Market-Adjusted Index Rate, in accordance with the market rating rules in 45 CFR 156.80 (d)(1). There is no difference in allocation to the Plan-Adjusted Index Rates.

SECTION 10 – NON-BENEFIT EXPENSES AND PROFIT AND RISK

Administrative Expense Load:

Molina reviewed administrative costs booked to Marketplace products from 2014 to 2016 to develop administrative costs required to manage the Wisconsin 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 Wisconsin Marketplace rates. Amounts for broker commissions were added to the administrative costs. The expected administrative expense load is 11.4%. The administrative expense is higher than the 9.5% administrative expense load included in Molina’s previously approved rate filing.

Administrative Expense Load		
Description	PMPM	% of Premium
Corporate and Plan Expense	\$90.42	9.6%
Bank Service Charges	\$1.86	0.2%
Quality Expenses	\$14.39	1.5%
Total	\$106.66	11.4%

The administrative expense load varies does not vary by metal tier as there is only metal in 2018. 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.

Contribution to Surplus and Risk Margin

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, and risk transfer estimate volatility. The risk and contingency margin is 3.0%.

Taxes and Fees

Molina’s 8.4% estimate of taxes and fees is higher than the previously approved rate filing estimate of 3.5%. The increased taxes and fees estimate is due to the return of the Health Insurer Fee that was not included in the prior year’s rate filing. The taxes and fees estimate is comprised of the following:

- Wisconsin Marketplace Exchange Fee: Wisconsin Marketplace will charge a fee of 3.5% of premium for each of Molina’s members enrolled in Wisconsin Marketplace. The Exchange user fee is applied at the Market adjusted Index Rate.
- Health Insurer Fee: A Health Insurer Fee (HIF) of 3.3% is included in the taxes and fees section of the URRT. Molina’s tax department provided estimates for the HIF of 1.97%, grossed up to 3.3% to account for the non-deductible nature of the HIF in determining income tax expenses.
- PCORI Fee: Molina expects to pay \$2.47 per member per year (PMPY) in patient centered outcome (PCORI) fees.
- Federal Income Tax: An estimated 1.6% of premiums will be paid in Federal income taxes based on an anticipated 35% federal tax rate.

Taxes and Fees		
Taxes and Fees	PMPM	% of Premium
Health Insurer Fee	\$30.91	3.3%
PCORI Fee (\$2.47 PMPY)	\$0.21	0.0%
Premium Tax & Other Fees	\$0.00	0.0%
Federal Taxes	\$15.18	1.6%
Exchange Fee	\$32.88	3.5%
Total Taxes and Fees	\$79.17	8.4%
Single Risk Pool Premium	\$939.49	

SECTION 11 – PROJECTED LOSS RATIO

The projected medical loss ratio (MLR) for 2018 using the federally prescribed MLR methodology is 82.7%. The MLR is 82.7% prior to the expected credibility adjustment based on Molina’s experience period and projected membership.

MLR Demonstration	
Federal Prescribed MLR Formula	
$MLR = [(i + q - s + n - r) / \{(p + s - n + r) - t - f - (s - n + r)\}] + c$	
s = transitional reinsurance receipts	\$0.00
n = risk corridors and risk adjustment payments	\$214.05
r = issuer’s risk corridors and risk adjustment receipts	\$0.00
= s - n + r	(\$214.05)
$MLR = [(i + q - 214.05) / \{(p + 214.05) - t - f - (-214.05)\}] + c$	
i = incurred claims	\$483.24
q = expenditures on quality improving activities	\$14.39
= i + q	\$497.62
$MLR = [(497.62 - 214.05) / \{(p + 214.05) - t - f - (-214.05)\}] + c$	
$MLR = [(711.67) / \{(p + 214.05) - t - f - (-214.05)\}] + c$	
p = earned premiums	\$939.49
$MLR = [(711.67) / \{(939.49 + 214.05) - t - f - (-214.05)\}] + c$	
$MLR = [(711.67) / \{(725.44) - t - f - (-214.05)\}] + c$	
t = Federal and State taxes and assessments	\$46.29
f = licensing and regulatory fees, incl. transitional reins	\$32.88
= -t - f	(\$79.17)
$MLR = [(711.67) / \{(725.44) - 79.17 - (-214.05)\}] + c$	
$MLR = [(711.67) / \{860.31\}] + c$	
$MLR = [82.7\%] + c$	
c = credibility adjustment, if any	0.0%
$MLR = [82.7\%] + 0.0\%$	
$MLR = 82.7\%$	

SECTION 12 – SINGLE RISK POOL

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

SECTION 13 – INDEX RATE

The index rate for the experience period is \$500.75, which is equal to the total allowed claims PMPM for the experience period.

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 \$773.06. The index rate represents the estimated total allowed claims experience for the essential health benefits within the Wisconsin Marketplace. The index rate does not include adjustments for the risk adjustment and reinsurance programs or an adjustment for the Wisconsin Marketplace user fee.

The projected allowed claims in Worksheet 1, Section III of the URRT is \$773.06, which is consistent with the Projected Allowed Claims PMPM in the exhibit below.

Index Rate		
Item	Description	Allowed Claims
a	2016 Allowed Claims	\$500.75
b	Allowed to Billed Adjustment	1.935
c	Demographic Adjustment	1.013
d	Unit Cost Adjustment	0.964
e	Utilization Trend	1.066
f	Unit Cost Trend	1.057
g	Acuity Adjustment	0.676
h	Reinsurance	1.001
i	<u>Individual Mandate Adjustment</u>	<u>1.071</u>
j = product(a:i)	Index Rate	\$773.06
k	<u>Non-EHB</u>	<u>0.00</u>
l = j + k	Projected Allowed Claims	\$773.06

SECTION 14 – 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			\$773.06	URRT, Worksheet 1

b	Risk Adjustment	\$214.05	0.625	\$342.42	
c	Exchange Fee	\$32.88	0.625	\$52.60	See Taxes & Fees
d	Market Adjusted Index Rate			\$1,168.08	d = a + b + c

SECTION 15 – PLAN-ADJUSTED INDEX RATE

The plan adjusted index rate is developed following the specifications of 45 CFR part 156.80(d)(2). The plan adjusted index rate is entered in Worksheet 2, Section IV, of the URRT Template. Molina calculated the plan adjusted index rate by applying plan specific level adjustments for actuarial value, 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	Benefits in Addition to EHBs	Admin Costs	Plan Adjusted Index Rate
a	b	c	d	e	f	g = product (c:f)
Molina Marketplace	Bronze	1,168.08	0.625	1.000	1.287	939.49

- 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	Members	Actuarial Value	Cost Sharing Adj.
52697WI0040001	Molina Marketplace	Bronze	5	0.625	1.000
Total			5	0.625	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. Molina will not offer a catastrophic plan.
- Administrative costs, excluding Exchange User Fees: Molina converted all administrative costs, excluding the Wisconsin 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	11.4%
b	Profit Margin	3.0%
c	Risk & Contingency	3.0%
d	Taxes & Fees excl Exchange Fee	4.9%
e = a + b + c + d	Total	22.3%
f = 1 / (1 - e)	Administrative Factor	1.287

SECTION 16 – 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 0.572 equals the age factor at age 21 divided by the average age factor (1.000 / 1.747). 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*	0.1%	0.000	31	1.4%	1.159	49	3.4%	1.706
0 - 14	4.6%	0.765	32	4.3%	1.183	50	2.5%	1.786
15	1.1%	0.833	33	1.4%	1.198	51	3.0%	1.865
16	0.4%	0.859	34	2.8%	1.214	52	4.9%	1.952
17	0.7%	0.885	35	1.3%	1.222	53	1.5%	2.040
18	0.0%	0.913	36	2.0%	1.230	54	2.5%	2.135
19	0.7%	0.941	37	0.7%	1.238	55	3.0%	2.230
20	0.0%	0.970	38	1.3%	1.246	56	1.0%	2.333
21	0.0%	1.000	39	1.3%	1.262	57	3.0%	2.437
22	1.4%	1.000	40	0.7%	1.278	58	1.0%	2.548
23	2.8%	1.000	41	2.0%	1.302	59	3.5%	2.603
24	1.4%	1.000	42	1.3%	1.325	60	2.5%	2.714
25	1.4%	1.004	43	0.7%	1.357	61	2.5%	2.810
26	2.8%	1.024	44	0.7%	1.397	62	4.9%	2.873
27	0.0%	1.048	45	4.7%	1.444	63	6.4%	2.952
28	1.4%	1.087	46	1.3%	1.500	64+	1.5%	3.000
29	2.8%	1.119	47	0.7%	1.563	Total	100.0%	1.747
30	0.0%	1.135	48	2.7%	1.635	Adj Fx	1 / Total	0.572

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.

Tobacco Use Factor Calibration

Molina does not rate using tobacco factors, so no calibration was applied.

Geographic Factor Calibration

Molina is only rating for one region, Region 16, so the geographic factor is 1.000.

A table summarizing Molina's 2017 and 2018 geographic factors is provided below.

Geographic Factor Calculation		
Geographic Region	2017 Factor	2018 Factor
Region 16	1.034	1.000

SECTION 17 – 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 spreadsheet identified as “2018 WI 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	Bronze	939.49	0.572	1.000	537.68

SECTION 18 – AV METAL VALUES

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

Actuarial Metal Values				
Plan ID	Product Name	Metal	FPL	Actuarial Value
52697WI0040001	Molina Marketplace	Bronze	Base	0.625

SECTION 19 – 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	Bronze	0.625	1.000	1.000	1.287	0.804

SECTION 20 – MEMBERSHIP PROJECTIONS

Marketing Method

Molina only offers individual products. This product will only be available off-exchange and will not be actively marketed by Molina. The product will not be marketed by brokers.

Development of Membership Projections

Molina is expecting fewer members in 2018 than it currently has in 2017. Molina anticipates a smaller enrollment pool due to weaker enforcement of the individual mandate. Additionally, Molina expects a much smaller market share due to having only one product offered at a much higher price than Molina’s current products.

Membership Projections by Region		
Region	Current Members	Projected Members
Region 16	163	5
Total	163	5

Membership Projections by Plan				
Plan ID	Product Name	Metal	FPL	Members
52697WI0040001	Molina Marketplace	Bronze	Base	5
Total				5

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

County List	
Geographic Region	County
Region 16	Shawano

SECTION 21 – TERMINATED PRODUCTS

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

Terminated Plans and Mapping					
Plan ID	Plan Effective Period	Plan Name	Metal Tier	Mapping ----->	New Plan ID
52697WI0010001	Jan 2014 - Dec 2017	Molina Marketplace Gold	Gold	----->	52697WI0040001
52697WI0010002	Jan 2014 - Dec 2017	Molina Marketplace Silver	Silver	----->	52697WI0040001
52697WI0030001	Jan 2017 - Dec 2017	Molina Marketplace Options Silver	Silver	----->	52697WI0040001
52697WI0030002	Jan 2017 - Dec 2017	Molina Marketplace Options Bronze	Bronze	----->	52697WI0040001

Renewing Plans					
Plan ID	Plan Effective Period	Plan Name	Metal Tier	Actuarial Value (AV)	AV (% Chg)
52697WI0040001	Jan 2014 --	Molina Marketplace Bronze	Bronze	0.625	1.0%

SECTION 22 – PLAN TYPE

All benefit plans are comprehensive HMO individual products.

SECTION 23 – WARNING ALERTS

There are no Warning Alerts in Worksheet 2.

SECTION 24 – RELIANCE

Not applicable.

SECTION 25 – ACTUARIAL CERTIFICATION

This certification includes:

- Prescribed Wording Only
 Prescribed Wording with Additional Wording
 Revised Wording

PRESCRIBED WORDING:

I, Evan Swalheim, am a member of the American Academy of Actuaries (Academy) and I meet the Academy qualification standards for rendering this opinion.

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

- The entire rate filing is in compliance with the applicable laws of the state of Wisconsin and with the rules of the Office of the Commissioner of Insurance,
- The development of the projected index rate and all rating factors is in compliance with all applicable federal statutes and regulations,
- The index rate and allowable modifiers as described in 45 CFR § 156.80 (d)(1) and (d)(2) are used in the development of plan-specific premium rates,
- The essential health benefit portion of premium, upon which advanced payment of premium tax credits (APTCs) are based, is appropriate and was developed in accordance with Actuarial Standards of Practice,
- The methodology used to calculate the AV Metal Value for each plan complies with federal regulations,
- The geographic rating factors reflect only differences in the costs of delivery and do not include differences for population morbidity by geographic area,
- The entire rate filing, including development of the projected index rate and all rating factors, complies with all applicable Actuarial Standards of Practice,
- The projected index rate and rating factors are reasonable in relation to the benefits provided and the population anticipated to be covered, and
- The premium schedule, including the projected index rate and rating factors, is not excessive, deficient, nor unfairly discriminatory.



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

8/25/2017

Date