Kaiser Foundation Health Plan of the Mid-Atlantic States, Inc.

District of Columbia

2019 Direct Payment (Personal Advantage) Rate Filing
HIOS Issuer ID: 94506
HIOS Product ID 94506DC039

Form Numbers: DC-DP-0-0-AI-DENTAL-HMO(01-19)HIX, DC-DP-GOLD-0-20-DENTAL-HMO(01-19)HIX, DC-DP-SILVER-0-5-CSR-DENTAL-HMO(01-19)HIX, DC-DP-SILVER-0-10-CSR-DENTAL-HMO(01-19)HIX, DC-DP-STANDARD-PLATINUM-0-20-DENTAL-HMO(01-19)HIX, DC-DP-STANDARD-SILVER-0-5-CSR-DENTAL-HMO(01-19)HIX, DC-DP-0-0-AI-HSA-DENTAL-HDHP(01-19)HIX, DC-DP-GOLD-1500-25%-HSA-DENTAL-HDHP(01-19)HIX, DC-DP-SILVER-100-5%-CSR-DENTAL-HDHP(01-19)HIX, DC-DP-SILVER-500-10%-CSR-DENTAL-HDHP(01-19)HIX, DC-DP-SILVER-1700-20%-CSR-DENTAL-HDHP(01-19)HIX, DC-DP-SILVER-3200-30%-HSA-DENTAL-HDHP(01-19)HIX, DC-DP-STANDARD-BRONZE-6200-20%-HSA-DENTAL-HDHP(01-19)HIX, DC-DP-BRONZE-6500-60-DENTAL-DHMO(01-19)HIX, DC-DP-CATASTROPHIC-7900-0-DENTAL-DHMO(01-19)HIX, DC-DP-GOLD-1000-20-DENTAL-DHMO(01-19)HIX, DC-DP-SILVER-2200-30-CSR-DENTAL-DHMO(01-19)HIX, DC-DP-SILVER-2500-30-DENTAL-DHMO(01-19)HIX, DC-DP-STANDARD-BRONZE-6650-50-DENTAL-DHMO(01-19)HIX, DC-DP-STANDARD-GOLD-500-25-DENTAL-DHMO(01-19)HIX, DC-DP-STANDARD-SILVER-100-15-CSR-DENTAL-DHMO(01-19)HIX, DC-DP-STANDARD-SILVER-3000-40-CSR-DENTAL-DHMO(01-19)HIX, DC-DP-STANDARD-SILVER-3500-40-DENTAL-DHMO(01-19)HIX, DC-DP-0-0-AI-DENTAL-HMO-RX(01-19)HIX, DC-DP-GOLD-0-20-DENTAL-HMO-RX(01-19)HIX, DC-DP-SILVER-0-5-CSR-DENTAL-HMO-RX(01-19)HIX, DC-DP-SILVER-0-10-CSR-DENTAL-HMO-RX(01-19)HIX, DC-DP-STANDARD-PLATINUM-0-20-DENTAL-HMO-RX(01-19)HIX, DC-DP-STANDARD-SILVER-0-5-CSR-DENTAL-HMO-RX(01-19)HIX, DC-DP-0-0-AI-HSA-DENTAL-HDHP-RX(01-19)HIX, DC-DP-GOLD-1500-25%-HSA-DENTAL-HDHP-RX(01-19)HIX, DC-DP-SILVER-100-5%-CSR-DENTAL-HDHP-RX(01-19)HIX, DC-DP-SILVER-500-10%-CSR-DENTAL-HDHP-RX(01-19)HIX, DC-DP-SILVER-1700-20%-CSR-DENTAL-HDHP-RX(01-19)HIX, DC-DP-SILVER-3200-30%-HSA-DENTAL-HDHP-RX(01-19)HIX, DC-DP-STANDARD-BRONZE-6200-20-HSA-DENTAL-HDHP-RX(01-19)HIX

Actuarial Memorandum

I, John Xu, an Actuary for Kaiser Foundation Health Plan, Inc. (KFHP) am a member of the American Academy of Actuaries. I meet the qualification standards for certifying Regulatory Filings for Rates and Financial Projections for Health Plans. This Actuarial Certification applies to the attached filing for an approval of premium rates for Personal Advantage, the Direct Payment program sold on the individual exchange. This actuarial memorandum documents the assumptions and sources of data pertaining to the development of Kaiser premium rates effective January 1, 2019. It is intended to comply with the requirements outlined in the DC Health Benefit Exchange Authority's *2018 Carrier Reference Manual* (April 2017, Version 1). It is not intended for any other purpose.

KFHP an HMO company and offers traditional HMO copayment plans covering medical and pharmacy claims expenses. KFHP also offers Deductible and High Deductible plans, some of which are HSA qualified. For the purposes of regulation, these are all HMO products.

KFHP will market products to the Individual and Small Group markets through Direct Sales channels and Broker arrangements, as well as on the District of Columbia Marketplace (aka the Exchange). The products are guaranteed issue and guaranteed renewable.

This rate filing applies to forms that are open to new sales and renewals. This filing does not cover grandfathered plans that existed prior to March 23, 2010.

I am the primary contact for this filing. My telephone number is 301-816-6349 and my email address is John.A.Xu@kp.org. Please also include Sheila Schroer on correspondence related to this filing, her email address is Sheila.A.Schroer@kp.org.

Proposed Rate Increases

The percent increase in the Market Adjusted Index Rate from 2018 to 2019 is 27.3%. The drivers of that change are shown in the table below, which contains all the components of the Market Adjusted Index Rate calculation. The numbers shown are the ratio of the 2019 to the 2018 factor, so a 1.000 indicates no impact on the rate change.

Source of Change	**2019/2018**
Based Period Experience	1.336
Base Period Util Copay	1.004
Pricing Trend	1.003
Morbidity Adjustment	1.000
Risk Adjustment Recoveries	0.953
Reinsurance Recoveries	1.000
Reinsurance Premium	1.000
Average Age Impact	0.996
Additional EHB	0.999
Exchange Fee	1.000
Fixed Cost Adjustment	1.000
Total Market Adjusted Index Rate Change	127.3%

Plan level rate changes are shown in row 26 of Worksheet II in the URRT.

Experience Period Claims

Base period data:

The Revenue Requirement for 2019 for the new ACA plans is developed by accumulating District of Columbia-specific medical and administrative expenses for essential health benefits (EHB) for non-grandfathered business in the Dues Subsidy, ACA plans and Small Group lines of business incurred in 2017 including the incurred but not reported estimates for external expense. Allowed cost data from internal costs, fee for service claims, and prescription drug claims are trended to 2019. Allowed claims for internal services are allocated costs for medical services delivered within our integrated delivery system while allowed claims for external expenses are calculated as estimated incurred plus member cost sharing.

The calendar 2017 base data includes 79,185 members months (average monthly of 6,599) and is therefore considered 100% credible. To determine credibility, the following formula was used: √(experience period members / 2,000).

Capitations:

KFHP has contracted with a dental provider to provide dental care to KFHP members. KFHP pays the provider a fixed capitation of $1.22 PMPM to cover adult preventative. The $1.22 PMPM is part of the base period allowed amount, shown in Exhibit 2. It is then removed as a non-Essential Health Benefit in Exhibit 3. Finally, this benefit is added back as part of the non-EHB adjustment in Exhibit 10.

Incurred Estimates on External Expense:

A common reserve tool developed and maintained by KFHP Actuarial Services is used to set KFHP's IBNR reserves. KFHP's common reserve tool uses historical claim lag averages to project anticipated future payments. IBNR levels are set for line of business and service line breakouts. Note that the IBNR applies only to KFHP's external allowed costs. Most of KFHP's expenses are internal costs, which are allocated and immaterial reporting lag.

The completion factors used to complete the base period external claims are taken from the KFHP's overall commercial line of business by type of service. The claims are incurred in 2017 and paid through 1/31/2018.

Premium:

Premium was captured for calendar year 2017 for all members in the base period single (combined Small Group and Individual) pool. There were no MLR rebates for these members in this period. For Dues Subsidy members, the whole premium was captured and not just the portion paid by the member.

Part I Unified Rate Review Template

Base Period Experience:

The base period experience in Worksheet 1 Section I and in Worksheet 2 Section III is the combined experience of the Small Group and Individual markets. The Index Rate of the Experience Period in cell G17 is taken from Exhibit 1 line 3. It is the per member per month allowed claims less non-essential health benefits from the base period. Therefore, it represents the average age of the members in the risk pool. The Index Rate for the Projection period, discussed below, is taken from Exhibit 1 Line 16.

Benefit Categories:

The benefit categories in Section II of Worksheet I are mapped based on type of service and place of treatment codes. For example:

Benefit Category	Services
Inpatient Hospital	Inpatient Facility, Inpatient Visits (Rounding), Inpatient Surgery - Non Maternity, Maternity

Outpatient Hospital	Outpatient Facility, Emergency/Urgent Care, Hospital Outpatient Other Professional, Outpatient Surgery
Professional	Diagnostic Services, Office Visits, Cardiovascular, Chemotherapy/Pharmacy, Dialysis, PT/OT/ST
Other Medical	Other Services
Capitation	Adult Preventive Dental
Prescription Drug	Pharmacy

Morbidity and Other Adjustments:

The morbidity adjustments in Section II Worksheet 1 are developed from rows (14) in the attached Exhibit 1 and reflect the morbidity in the single risk pool (Small Group and Individual combined) of our expected 2019 membership. The development of these factors along with the documentation of these assumptions is included in Exhibit 7.1-7.3.

The "Other" adjustment in Section II Worksheet I is an adjustment to reflect things other than a change in population morbidity, cost trend, and utilization trend.

Included in the "Other" adjustment is the base period utilization copay effect from Exhibit 4. The adjustment is necessary to convert the base period experience from an average plan allowed amount to the allowed amount for the reference plan. "Other" also includes additional EHB benefits in the projection period.

All the factors discussed above in the Morbidity and Other Adjustments are based on Small Group and Individual experience combined.

Paid to Allowed Ratio:

The Paid to Allowed Average Factor in the Projection Period in Section III of Worksheet I is an average plan factor for the plans listed in Worksheet II. It represents the change from the average benefit plan allowed amount to the average paid amount across the 2019 plans based on weightings in Worksheet 2 of the URRT.

The factor in cell v33 in Worksheet I of the URRT is calculated by weighting the plan design factors in Exhibit 10 by the projected members and allowed costs by plans in rows 82 and 101, respectively, of Worksheet II of the URRT.

Estimated Average Annual Premium per Policy:

The estimated average annual premium per policy based on the URRT and SERFF data included in the filing is $6,018.88.

Risk Adjustment

Exhibit 7.1-7.3 documents the development of the Risk Adjustment index rate factor. The index rate is adjusted to reflect the expected change in morbidity of the members covered by these plans relative to the members in the base period (2017) data. It is also adjusted to reflect the risk adjustment receipts anticipated in the rating period (2019) based on the expected risk profile relative to the market of the Individual line only based on DISB guidance.

Exhibits 7.2 and 7.3 include the detailed development of risk adjustment factors and the impact on Individual and Small Group separately. Development is included at the metal level and includes the expected enrollment shift among metal tiers. Then the Risk Adjustment factor for Market Adjusted Index Rate is calculated. This value is used to determine the expected risk adjustment impact to the index rate.

Reinsurance

Reinsurance is a temporary ACA program. The reinsurance program ended with the 2016 benefit year. Reinsurance does not affects the rates in the projected period (2019).

Exhibit 8 was used to show the development of the reinsurance adjustment. This exhibit is not currently in use.

Administrative Expense

Retention includes broker commissions, administrative expenses and capital contribution. Commissions are paid to Brokers of Record. The capital contribution is an amount needed to maintain and expand Kaiser's medical center facilities where members receive the majority of their health care. As a group model HMO, Kaiser owns a significant portion of the health care delivery system. In other health care delivery models, capital contributions are included in fee for service payments, whereas for Kaiser these are funded through premium rates.

Profit and Risk Margin

As mentioned above, the capital contribution of -22.36%, shown in Exhibit 9, is an amount to maintain and expand Kaiser's medical center facilities where members receive the majority of their healthcare. Normally, capital contribution is a positive number, however, in order to make our rates more affordable to our ACA Individual members, we decided to have negative margin and phase in the required rate increase over several years to make the 2019 rates more affordable.

Taxes and Fees

Administrative expenses have been adjusted to reflect the federal PCORI tax and the change in federal health insurance provider tax. The Consolidated Appropriations Act of 2016, Title II, § 201, Moratorium on Annual Fee on Health Insurance Providers, suspends collection of the health insurance provider fee for the 2017 calendar year. Thus, health insurance issuers are not required to pay these fees for 2017. Similarly, enacted on January 22, 2018, H.R. 195, Division D – Suspension of Certain Health-Related Taxes, § 4003, suspends collection of the fee for the 2019 calendar year only.

The amount is shown as percent in Exhibit 9.

Projected Loss Ratio

Based on a target admin percentage of -6.76%, which includes a -22.36% capital contribution margin, we anticipate an MLR based on federally prescribed methodology to be at least 108.8%. The ultimate MLR would be expected to be slightly higher due to the allowed adjustments to both claims and premium in the federally prescribed methodology.

Market Adjusted Index Rate

The development of the index rate is summarized in Exhibit 1 and is based on combined experience of non-grandfathered Individual and Small Group experience as described above. The following factors along with Risk Adjustment and Reinsurance described above have been considered in the development and are documented below.

Utilization copayment effect adjustment:

Allowed claims are grossed up for anticipated changes in the average utilization of services due to average cost sharing requirements in the base period. Member cost sharing results in lower utilization and, thus, lower allowed costs, than would otherwise occur in a zero cost share environment. An estimate based on industry standard factors has been made at the plan level to adjust our base period data to what would have been expected in a zero cost share environment in order to normalize for the utilization copayment effect. These adjustments are documented in Exhibit 4.

Demographic Adjustment:

The Demographic Adjustment shown in Exhibit 5 represents the expected change in the average member age from the base period to the projection period. We have assumed that the average age in the projection period is unchanged from the base period. However, due to slight difference in the average age between the Individual and Small group, there is a small change in the combined average age because of different growth in the Individual and Small Group members.

Embedded Pediatric Dental Adjustment:

KFHP is embedding pediatric dental benefits into its 2019 plans. KFHP will pay a dental provider a fixed per child per month capitation. Exhibit 14 shows the assumptions and development of the index rate adjustment factor to reflect the capitation on a per member per month basis by adjusting the index rate.

Trend:

The future trend numbers are based on actuarial judgment considering a mixture of expected industry trends, future fixed costs, and expected internalization of services. As an integrated health care provider, a large portion of KFHP's expenses are the fixed costs associated with providing medical care through our centers. Therefore, the projected cost that is included in our total revenue requirement is largely based on budgeting. For traditional carriers, projected claims trends are developed to project expected costs. However, given KFHP's fixed cost structure, KFHP's projected claims trends fall out of the development of projected budgeted costs. For 2017 to 2019, our projected total annualized medical expense trend for Individual is 3.9% and is shown in Exhibit 6 of our filing.

Alternative AV Calculations

Plan designs have been changed to waive primary office visit copays for children younger than five. As the AV calculator does not have an adjustment to account for this benefit, we lowered the copay amount 16% by multiplying the actual copay by a factor of 0.84. For example, a $20 primary office visit copay is entered as $16.80. The 16% adjustment is based on KFHP data (as a proxy for a standard population). Primary care utilization was divided between children under five and all other members. The data showed 16% of primary care visits were attributed to children under five. I certify the calculation to be actuarially sound. This adjustment is consistent with the factor already filed in prior filings.

Before 2018 rate filing, CCIIO AV calculator did not have an option for outpatient facility copay. To calculate the impact on the actuarial value of the plan for this benefit we used the alternate method described in 156.135 (b)(2). Since 2018, outpatient facility copay option is available in the new AV calculator. We don’t need the OP Copay Converter to be used with the AV calculator in 2019 rate filing.

AV Pricing Values

The rates for specific plans are calculated by multiplying plan factors times the index rate. The plan factors use industry standard data in a model from a national actuarial consulting firm, calibrated to KFHP experience to calculate the impact of the various cost share and plan elements for EHBs, including utilization copayment effect.
The reference plan used as the basis for the AV pricing values is a $0 cost share plan valued using the same industry standard factors described above.

Exhibit 10 indicates the portion of the AV Pricing Value that is attributable to each of the allowable modifiers to the Index Rate. The plan factor shown in Exhibit 10 reflects both member cost shares and the resulting dampening of expected utilization due to those cost shares.

The rates for the catastrophic plan were calculated by multiplying the plan factor, non-EHB adjustment, age factors, and the administrative expense factor by a modified index rate. Because the small and individual pools are combined in District of Columbia, we could not use the methodology to estimate the catastrophic index rate we had developed for other jurisdictions where the pools were separate. Therefore, we have used the modeled impact from these other jurisdictions as a guide. We have adjusted the index rate lower by 10% to represent the expected average cost per member.

Age Factors

The age factor table used to develop age specific rates is the standard table provided by DISB.

Exhibit 12 shows the development of the age calibration factor. The development starts with the average age in the projection period from Exhibit 5. That age is rounded to the nearest age and the age factor is pulled from the DISB age curve. As described in the Actuarial Memorandum instructions, the ratio of the age factor for the nearest rounded age to the age factor for the average age in the projection period is the age calibration factor used in the rate development.

Non-EHB

An adjustment has been made to the base period allowed amount to remove the Non-EHB benefits from the Index Rate. This multiplier was calculated by summing the allowed amount for Non-EHB benefits in the base period and adding the adult preventive dental capitation and then dividing by total allowed.

In the rating period (2019), we added the new adult preventative capitation rate ($1.28 PMPM) to the Non-EHB line to calculate the new Non-EHB adjustment factor in the rating period.

Contract limit of 3 Children factor

This adjustment from Exhibit 15 represents the revenue amount lost because we will not bill families with more than 3 children under the age of 21, i.e., these families will not be charged for more than three child dependents.

Additional URRT Items

*Membership Projections***:**

The total membership projection included across new plans in Section II of Worksheet 2 is consistent with KFHP's expected market share of that growth. Detailed assumptions are presented and documented in Exhibit 7.1-7.3. Projected Membership distribution among metal tiers is based on January 2018 membership distribution.

An assumption is made in Worksheet 2 as to the distribution of members by product based on KFHP's expected distribution of membership by metal level.

Terminated Plans:

Plans were included in the experience period that will be terminated prior to the effective date:
None

Plans were available after the experience period that will be terminated prior to the effective date:
KP DC Silver 6000/35/Dental

Warning Alert:

There are no warning alerts in the URRT.

Summary Rate Calculation

Exhibit 1 shows the development of the Market Adjusted Index Rate from the base period Medical Cost Data. The Plan Adjusted Index Rates are calculated using the Market Adjusted Index Rate and the allowable plan adjustment factors in Exhibit 10. The final 2019 Consumer Adjusted Premium Rates are developed by applying the age slope and age calibration to the Plan Adjusted Index Rates to generate age specific rates.

Exhibit Table of Contents:

The following exhibits are included in this filing:

- Exhibit 1 – Market Adjusted Index Rate Calculation
- Exhibit 2 – Allowed Claims Development
- Exhibit 3 –Non-EHB Adjustments
- Exhibit 4 – Utilization Copayment Effect Adjustment
- Exhibit 5 – Demographic Adjustment
- Exhibits 6 – Trend Calculation
- Exhibits 7.1 - Risk Adjustment and Morbidity Development – Combined Small and Individual

- Exhibits 7.2 - Risk Adjustment and Morbidity Development – Individual Line of Business
- Exhibits 7.3 - Risk Adjustment and Morbidity Development – Small Group Line of Business
- Exhibit 8 – was Reinsurance Adjustment Factor, this exhibit not currently in use
- Exhibit 9 – Administrative Expense Adjustment
- Exhibit 10 – Plan Adjusted Index Rates Development
- Exhibit 11 - AV Calculator Values by Plan
- Exhibit 12 – Age Calibration
- Exhibit 13 – Age Factors
- Exhibit 14 – Embedded Pediatric Dental Adjustment Factor
- Exhibit 15 – Contract Limit of 3 Children Factor
- Appendix I - Rate Sheet

Certification

I, John Xu, an Actuary for Kaiser Foundation Health Plan, Inc. (KFHP) am a member of the American Academy of Actuaries. I meet the qualification standards for certifying Regulatory Filings for Rates and Financial Projections for Health Plans.

This filing is in conformity with all applicable Actuarial Standards of Practice, including ASOP No. 8. I further certify:

1. 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

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

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

4. No geographic rating factors were used in the rate development.

5. The AV Calculator was used to determine the AV Metal Values shown in Worksheet 2 of the Part I URRT for all plans.

This actuarial opinion is qualified such that the information contained within this filing reflects the District of Columbia and Federal statutes, rules, regulations and guidance as of April 27, 2018. Changes to the applicable regulations, including but not limited to Advanced Premium Tax Credits, Risk Stabilization programs or the Individual Mandate could have a significant impact on rate development. Subsequent changes to these statutes, rules and regulations may make these rates deficient and would necessitate revisions to this filing.

John Xu, FSA, MAAA
Actuarial Manager
Kaiser Foundation Health Plan, Inc.
4/27/2018