

Actuarial Memorandum and Certification

Purpose

This memorandum is being submitted to satisfy federal rate review requirements and support the development of the rates submitted with this filing. It is not intended to be used for any other purpose.

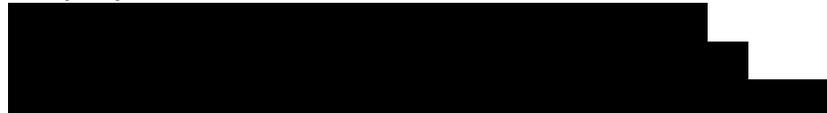
General Information

Company Identifying Information:

- Company Legal Name: Coventry Health Care of Nebraska (CHC-NE)
- State: Nebraska
- HIOS Issuer ID: 15438
- Market: Individual
- Effective Date: January 1, 2016
- Rate Filing Tracking Number: AETN-130016199
- Policy Form(s):

CHCNE-IND-OE-EOC-HMO-MNO-2016
CHCNE-HIX-EOC-HMO-MNO-2016
CHCNE-IND-OE-EOC-POS-MIPPA-2016
CHCNE-HIX-EOC-POS-MIPPA-2016
CHCNE-IND-OE-EOC-POS-2016
CHCNE-HIX-EOC-POS-2016
CHCNE-IND-EOC-POS-2016
CHCNE-IND-EOC-POS-MIPPA-2016
CHCNE-IND-EOC-HMO-MNO-2016

Company Contact Information:



Purpose, Scope, and Effective Date

The purpose of this filing is to:

- 1) Provide support for the development of the Part I Unified Rate Review Template;
- 2) Provide support for the assumptions and rate development applicable to the products supported by the policy forms referenced above;
- 3) Request approval of the resulting monthly premium rates for the products supported by the policy forms referenced above; and
- 4) Provide summaries of the benefit details for the products/plan designs referenced by this filing.

The development of the rates reflects the impact of the market forces and rating requirements associated with the Patient Protection and Affordable Care Act (PPACA) and subsequent regulation.

As stated more fully below, the rates requested in this submission assume that members who purchase through the federal-facilitated marketplace will remain eligible for federal subsidies. We reserve the right to amend or withdraw this rate filing if the Supreme Court holds otherwise in the pending case of King v. Burwell.

These rates are for plans issued in conjunction with our Qualified Health Plan (QHP) application in Nebraska beginning January 1, 2016. The rates comply with all rating guidelines under federal and state regulations. The filing covers plans that will be available on and off the public Marketplace in Nebraska.

Proposed 2016 Rate Increase(s)

Rate increases by product are as follows:

| Product ID | Rate Increase | Current Members | Product Name | Exchange Plan? |
|------------|---------------|-----------------|---|----------------|
| 15438NE015 | 20.2% | 2,013 | Carelink Powered by Methodist Health Partners | Yes |
| 15438NE016 | 19.9% | 3,350 | Carelink Powered by MIPPA | Yes |
| 15438NE017 | 20.1% | 3,161 | Carelink Powered by Alegen Creighton Health | Yes |
| 15438NE018 | 19.3% | 14,143 | Coventry Health Care of Nebraska | Yes |
| 15438NE026 | 20.6% | 4,761 | Coventry Health Care of Nebraska - PD | No |
| 15438NE027 | 21.0% | 2,061 | Carelink Powered by Methodist Health Partners - PD | No |
| 15438NE028 | 19.4% | 3,343 | Accountable Care Alliance/Saint Elizabeth Regional Medical Center - HMO | Yes |

2015 Increases by Product ID

| Product ID | Rate Increase |
|------------|---------------|
| 15438NE015 | -1.37% |
| 15438NE016 | -5.17% |
| 15438NE017 | -6.63% |
| 15438NE018 | -0.81% |
| 15438NE026 | -2.61% |
| 15438NE027 | -3.94% |
| 15438NE028 | 0.00% |

Reason for Rate Increase(s): The increase in medical premium is due to increasing medical costs, changes to taxes and fees, changes to reinsurance recoveries, etc. all of which are discussed below.

Policy Holders

As of February 2015 there are 32,832 policy holders for these products.

Renewability

Rates are guaranteed renewable by option of the policy holder.

Applicability

The new rating factors are appropriate for contracts issued with 2016 effective dates. Future rate filings will be made for effective dates beyond 2016.

Persistency

Persistency was not used in any assumptions.

Marketing Method

Coventry Health Care (CHC) products are sold to members through Coventry Health Care of Nebraska; their representatives and independent brokers and agents as well as through navigators or directly on the Healthcare.gov website.

Underwriting

Underwriting is not used for individual business.

Premium Classes

There is one class of business administered by CHC in Nebraska.

Experience Period Premium and Claims

Paid Through Date: The experience shown is for Coventry Health Care of Nebraska's (CHC-NE) premiums earned and claims incurred between January 1, 2014 and December 31, 2014 inclusive. This data reflects claims paid through January 31, 2015. This segment includes all experience for non-grandfathered individual policies.

Premiums (net of MLR Rebate) in Experience Period: The premium shown is date-of-service premium for non-grandfathered individual business in Nebraska of \$12.2M less MLR Rebates of \$0. Internal projections indicate that no MLR rebate is expected to be paid in 2015 (for 2014 experience) for the Individual MLR Pool in Nebraska. Therefore, earned premiums were not adjusted for MLR rebates.

Allowed and Incurred Claims Incurred During the Experience Period:

- Allowed claims come directly from the claim records for hospital and physician services. Capitated benefits, including pharmacy, use the capitation rate for incurred claims and the allowed claims are calculated as the incurred claims plus estimated cost sharing.
- Coventry produces a set of standard internal reports which identify incurred, allowed, utilization, and unit cost metrics by benefit category. These reports summarize claims by the calendar quarter in which claims were incurred. The reports used for this filing include all individual membership in Nebraska and reflect claims paid through January 31, 2015. These reports are used to calculate the relationship between incurred and allowed claims and to allocate claims to benefit categories. The unit cost and utilization detail is considered to be reliable with one month of runoff.
- Allowed claims are completed using the relationship between paid and completed paid claims, with data quality edits to ensure that allowed amounts are not skewed by the factors. Similar to completion of paid claims, this method tends to be less reliable for the most recent months.

Incurred But Not Paid (IBNP) reserves are estimated using actuarial principles and assumptions that consider historical and projected claim submission patterns, historical and projected claim processing time, medical cost trends, utilization of health care services, claim inventory levels, changes in membership and product mix, seasonality, and other relevant factors.

- The IBNP completion factor is based on all claims incurred in 2014 for individual business in Nebraska. This is an appropriate basis for developing the IBNP factors because completion of claims should not depend on a member's grandfathered status. Completion factors are determined for incurred claims and these factors are also applied to allowed claims.
- No Active Life Reserves are held for this block of business.

Benefit Categories

Inpatient Hospital consists of care delivered at an inpatient facility and associated expenses. Outpatient Hospital includes outpatient surgical as well as emergency care and associated expenses. Professional includes both specialty physician and primary care physician expenses. Other includes ambulance services, durable medical equipment, home health care, prosthetics, dental, and vision expenses. Non-capitated ambulance is included in the Outpatient Hospital category when billed by the facility and included in Professional otherwise. Prescription Drug includes drugs dispensed by a pharmacy.

Mental health is reported as "Capitated" services. Utilization is reported as indicated in the Part I template, and no benefit category uses "Other" as a measurement.

[REDACTED]

[REDACTED]

[REDACTED]

Mortality

Mortality was not used in developing the rates.

Changes in Demographics: Experience data was normalized for projected changes in the 2016 age gender mix. The basis of this projection is our 2015 enrollment demographics. Experience data

[REDACTED]

[REDACTED]

| | | |
|------------|------------|------------|
| [REDACTED] | [REDACTED] | [REDACTED] |

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

| | | |
|------------|------------|------------|
| [REDACTED] | [REDACTED] | [REDACTED] |

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

The Risk Adjustment Program User Fee and the Reinsurance Contribution have been reflected in the risk adjustment and reinsurance components of incurred claims. As illustrated in Exhibit E-1, Exchange User Fees are applied as a multiplicative adjustment to the index rate.

[REDACTED]

Single Risk Pool

The plans and rates included in the Part I URRT are those for all plans we intend to offer for sale in the Individual market in Nebraska through the specified legal entity. The experience reported on Worksheet 1 includes all non-grandfathered experience that is part of the Individual Market in Nebraska, and includes transitional policies, and Conversion policies.

Index Rate

The index rates for the experience and projection periods are set equal to the actual and projected allowed claims, respectively, less non-essential health benefits (non-EHBs).

The index rate reflects the projected mix of business by plan. The AV pricing values for each plan are set based on the actuarial value and cost-sharing design of the plan, the impact of induced utilization, and the plan's provider network, delivery system characteristics, and utilization management practices. Rates do not differ for any characteristic other than those allowable under the regulations as described in 45 CFR Part 156, §156.80(d)(2).

Market Adjusted Index Rate

Exhibit E-1 illustrates the development of the Market Adjusted Index Rate. The three adjustments (Transitional Reinsurance, Risk Adjustment, and Exchange User Fees) were discussed previously. They are developed as multiplicative adjustments to paid claims for Essential Health Benefits, and are applied as multiplicative adjustments to the index rate, which differs from the basis on which the adjustments were developed by the paid to allowed ratio.

[REDACTED]

Rating Methodology

Rates are determined using the prescribed member build-up approach. In the event that a family includes more than three child dependents under age 21, only the three oldest child dependents will be considered in determining the family's premium. Additional dependents (non-billable members) will not be included in the rate calculation.

The premium for each billable member is calculated as:

Calibrated Plan Adjusted Index Rate * Age Factor * Area Factor * Tobacco Factor

The resulting rate for each member is rounded to the nearest cent.

AV Metal Values

The AV certification accompanying this submission discusses how the plan benefits were modified to fit into the AVC.

[REDACTED]

[REDACTED]

[REDACTED]

Terminated Products

The following product IDs will not be available for new sales:

15438NE005 – Coventry Health Care of Nebraska

A mapping of ACA-compliant plans between 2014 and 2016 is provided in Exhibit I. The exhibit also identifies plans that have been terminated and will not be offered in 2016.

Plan Type

All plans are consistent with the plan type indicated in Worksheet 2.

Warning Alerts

Some plans in this filing were offered on the Marketplace in 2014. We have reported the estimated cost share reduction subsidies on Row 65 of Worksheet 2. The Validation Report incorrectly indicates that these amounts should be zero for 2014.

The Experience Period Plan Adjusted Index Rate on Worksheet 2 differs from the Experience Period Premium PMPM on Worksheet 1 since the Experience Period Premium reflects the actual enrollment mix for all non-grandfathered business in the market in 2014 while the average Plan Adjusted Index Rate reflects the projected (vs. actual) ACA mix for single risk pool experience and a zero rate for non-single risk pool experience.

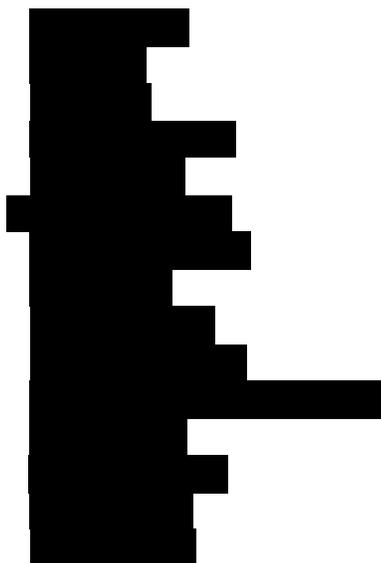
For the same reason, Total Premium (TP) differs between Worksheets 1 and 2.

The Experience Period Incurred claims and Incurred Claims PMPM on Worksheet 2 adjust for the impacts of Reinsurance and Risk Adjustment. The Incurred Claims on Worksheet 1 are not adjusted for the impact of Reinsurance and Risk Adjustment. The warning alerts on rows 67 and 72 of Worksheet 2 result from the different treatment of Reinsurance and Risk Adjustment on the two worksheets.

Reliance

While I have reviewed the reasonableness of the assumptions in support of both the preparation of the Part I Unified Rate Review Template and the assumptions in support of the rate development applicable to the products discussed in this filing, I relied on the expertise of the following noted individuals, along with work products produced at their direction, for the following items:

- URRT Methodology and Data Definitions
- Experience Period MLR Rebates
- Actuarial Value, Modifications, and Benefit Relativities
- Supplemental EHB Pricing
- Medical Cost and Utilization Trend
- Reinsurance Recovery – CY 2014
- Reinsurance Estimate – CY 2016
- Risk Adjustment Payment/Receivable – CY 2014
- CSR Recoveries/Accruals
- Rx Cost and Utilization Trend
- Components of Retention/Administrative Fees
- MH Net Trend and Outpatient Pre-Cert Adjustment
- 2014 ACA Relative Risk to the Market Average
- Experience Period Data – Individual
- Experience Period Data – Small Group



Company Financial Condition

As of December 31, 2014, the capital and surplus held by Coventry Health Care of Nebraska was approximately \$60 million. This amount is disclosed in the Company's statutory financial statement dated December 31, 2014. The Company issues commercial and Medicare Advantage coverage in Nebraska for multiple business segments, including to large employer, small employer, and individual purchasers.

Certification

While this memorandum discusses both our development of rates for these products and the completion of the Part I Unified Rate Review Template (URRT), the Part I URRT does not demonstrate the process used by Aetna to develop the 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 marketplaces, and for certification that the index rate is developed in accordance with Federal regulation, is used consistently, and is only adjusted by the allowable modifiers. The information provided above is intended to comply with these requirements.

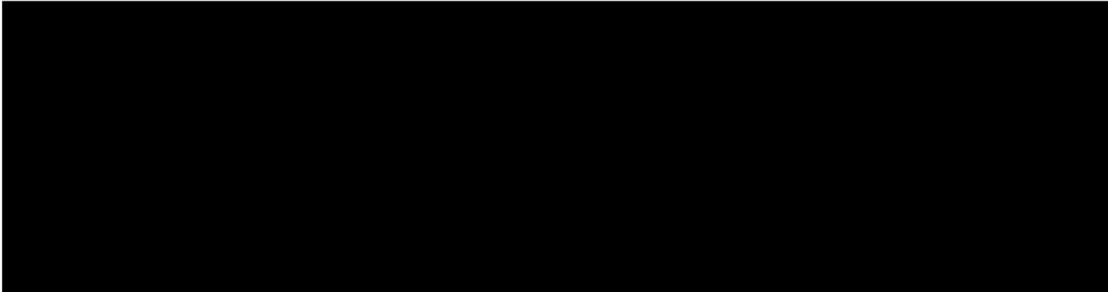
I, [REDACTED], am an Associate of the Society of Actuaries, a member of the American Academy of Actuaries, and am qualified in the area of health insurance. I hereby certify that to the best of my knowledge and judgment:

1. This rate filing is in compliance with the applicable laws and regulations of Nebraska, the requirements under federal law and regulation, and all applicable Actuarial Standards of Practice, including but not limited to:
 - a. ASOP No. 5, Incurred Health and Disability Claims
 - b. ASOP No. 8, Regulatory Filings for Health Benefits, Accident and Health Insurance, and Entities Providing Health
 - c. ASOP No. 12, Risk Classification
 - d. ASOP No. 23, Data Quality
 - e. ASOP No. 25, Credibility Procedures Applicable to Accident and Health, Group Term Life, and Property/Casualty Coverages
 - f. ASOP No. 26, Compliance with Statutory and Regulatory Requirements for the Actuarial Certification of Small Employer Health Benefit Plans
 - g. ASOP No. 41, Actuarial Communications.

2. 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, deficient, nor unfairly discriminatory.

3. 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.
4. 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.
5. The geographic rating factors reflect only differences in the costs of delivery (which include unit costs and provider practice pattern differences) and do not include differences for population morbidity by geographic area.
6. The AV Calculator was used to determine the AV Metal Values shown in Worksheet 2 of the Part I Unified Rate Review Template for all plans. Adjustments made to reflect benefit features not handled by the AV Calculator are discussed in the attached certification required by 45 CFR Part 156, §156.135.

The projected index rate assumes that members are eligible to receive federal subsidies. As of the date below, the Supreme Court of the United States is considering whether those subsidies are lawful (*King v. Burwell*). I would not be able to certify that the proposed rates are adequate if the Supreme Court rules that the subsidies are not lawful. Accordingly, Aetna reserves the right to withdraw and/or amend this rate submission in the event of such a Supreme Court ruling.



[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]