CareFirst BlueCross BlueShield
Part III Actuarial Memorandum

4.1 Redacted Actuarial Memorandum

CareFirst is making some redactions in the redacted Actuarial Memorandum.

4.2 General Information Section

Company Identifying Information

- **Company Legal Name**: CareFirst BlueChoice, Inc. (NAIC # 96202) (CFBC).
- **State**: Maryland.
- **HIOS Issuer ID**: 28137
- **Market**: Small Groups (On & Off Exchange).
- **Effective Date**: 1/1/2027 and quarterly incremental "trend" increases effective 4/1/2027, 7/1/2027 and 10/1/2027.

Company Contact Information

- **Primary Contact Name**: Mr. Greg Sucher, F.S.A., M.A.A.A.
- **Primary Contact Telephone Number**: [redacted]
- **Primary Contact E-Mail Address**: [redacted]

4.3 Proposed Rate Changes

Base rates are changing 16.2% on average for 1Q27. The range is 14.2% to 19.3%. The estimated average base rate changes for 2Q27, 3Q27, and 4Q27 are 16.7%, 11.4% and 11.4%, respectively. This filing applies to all new and renewing, in-force business in the guaranteed renewable, non-grandfathered, ACA benefit plans both on and off the exchange. The number of policyholders affected by this rate change is [redacted]

Reason for Rate Increase(s)

The main drivers supporting the rate increase are an increase in the base period claims experience, trend, and a decrease in the projected risk adjustment payable.

4.4 Market Experience

4.4.1 Experience and Current Period Premium, Claims, and Enrollment

Paid Through Date: 3/31/2026
Current Date: 3/31/2026

Premiums (prior to MLR rebates) in Experience Period: $1,071,120,779

Experience Period Member Months: 1,710,476
Current Date Members: 144,739

Allowed and Incurred Claims Incurred During the Experience Period

Allowed Claims
• Processed through issuer's claim system: [redacted]
• Processed outside issuer's claim system: [redacted]
• IBNR: [redacted]

Incurred Claims
• Processed through issuer's claim system: [redacted]
• Processed outside issuer's claim system: [redacted]
• IBNR: [redacted]

Method used for determining Allowed Claims

The allowed claims come directly from our claim records and account for capitations by applying contracted PMPM amounts directly to enrollment from the experience period. Estimated drug rebates from the experience period are also included.

Estimates of Incurred but not Paid claims

Our estimates of IBNR paid claims were derived using a "chain and ladder" model based on the most recent 36 months to derive the completion factor and IBNR for each incurred month. Estimates of IBNR allowed claims were derived using the same completion factors as those estimated based on paid claims.

4.4.2 Benefit Categories

Inpatient (hospital), outpatient (hospital), professional, other medical (non-capitated ambulance, home health care, durable medical equipment, prosthetics, supplies, vision exams, pediatric dental services and other), prescription drug & capitations.

4.4.3 Projection Factors

4.4.3.1 Trend Factors

Trend Factors (Cost/Utilization):

Our cost and utilization trends were developed from experience for this single risk pool that was split by the benefit categories described in section 4.4.2.

This filing assumes an annual allowed PMPM trend of 9.7% resulting in an assumed index rate trend (all factors considered) of 10.6%.

Methodology

We have broken trend out into the component categories listed in the URRT to untangle the impacts of underlying utilization and cost trends by service category. Reviewing data at this level tends to provide a smoother function that can be better approximated by a linear or exponential curve. Better predictability at the component level implies better overall estimates since the unit cost and utilization/1000 values at each service category combine to form the total allowed PMPM.

With five service categories each having a unit cost and utilization component, there are 10 variables which we forecast into the rating period. Our forecasted cost and utilization amounts predict a PMPM that represents, on average, an 9.7% annual growth over the experience period.

4.4.3.2 Adjustments to Trended EHB Allowed Claims PMPM

Morbidity Adjustment

Exhibit 4 in our memorandum contains support for this adjustment. To measure the projected morbidity of our population, we split our projected population into cohorts defined by metal tier and membership type. Membership type is defined as new member, existing member, or transfer from other lines of business. Consistent with the rules in the 2027 Unified Rate Review Instructions, we began our morbidity projection

by normalizing allowed claims for each of the cohorts outlined above for projected changes in age, gender, network and induced utilization.
We have not reflected any morbidity adjustments to the base period normalized allowed PMPMS. Exhibit 4 demonstrates how these PMPMs are unchanged from the current year YTD to remainder of current year. For the new membership type we have assumed a claims PMPM by metal equal to that of the existing members.

The resulting morbidity calculation is completed in steps split by year:

- Once the remainder of current year (2026) is completed, the membership and claims by metal are combined to derive a total estimate for the year.
- This result carries over to the rating year (2027) as the metal specific normalized PMPMs for the existing members.
- The assumed claims PMPMs by metal for the new members are again assumed to equal those for the existing members.
- Transfer members PMPMs are treated separately and reflect base period amounts projected forward. Our projection factor for these members is [redacted].
- Once these PMPMs are set, the final morbidity calculation is driven by the projected member months at these levels.

Our filing reflects a slight decrease in the projection morbidity compared to our experience.

Demographic Shift

Exhibit 6 in the Memorandum contains support for our adjustment due to the anticipated change in the average age of this population between the experience and projection periods. Our methodology measures the change in average demographic factor between the base and rating periods. The demographic factors used are from an internal age/gender curve with an approximate 4.5:1 ratio (age 64+ to age 21 factors). Factors for both time periods are weighted using member months and the ratio of the two is applied as our market level adjustment.

Plan Design Changes

Exhibit 5 in the Memorandum details our support for this adjustment to account for anticipated changes in the average utilization of services due to differences in average cost- sharing requirements between the experience and projection periods. Our methodology measures the change in the average induced utilization factor between the base and rating periods. The factors used are the metal level factors from the federal risk adjustment program. Once the average internal pricing AV, weighted by member months, is determined for both the experience and rating periods the linearly interpolated factor is determined. The ratio of these two factors is applied as our market level adjustment.

Other Adjustments

Exhibit 7 in the Memorandum details our support for these adjustments. We are proposing additional other adjustments for changes to our capitation fees and drug rebates. Also included is a factor to capture the value based care payments made to our providers.

4.4.3.3 Manual Rate Adjustments

Not applicable, as experience was determined to be fully credible. The Unified Rate Review Template (URRT) forces the use of a projection period ending twelve months after the effective date. This presumes all rates change on the effective date. This is inconsistent with our understanding of the Maryland small group market post-1/1/14. In this filing we are using a projection period ending with 3/31/2027 for our first quarter 2027 Index Rate Projection since business may be sold with this rate through 3/31/2027 and a one-year rate guarantee applies. The trends used in the URRT therefore will not produce the correct projected allowed amount PMPM. As such, we have assigned this projected amount a credibility factor of [redacted] and have entered the projected amounts corresponding to those in our rate filing using the Manual Rate section.

4.4.3.4 Credibility of Experience

Exhibit 2 of the memorandum contains a summary of our base period experience, including member months. We have assigned full credibility to this experience.

4.4.3.5 Establishing the Index Rate

The experience period index rate for this filing is $595.75 and the projection period index rate is $734.36. Both rates and the adjustments made to develop the projected amount from the experience period amount can be found on Exhibit 1 of the actuarial memorandum. Specifically, these adjustments correspond to those outlined in sections 4.4.3.1 and 4.4.3.2.

Small Group Quarterly Rate Filings

This filing is an annual submission and includes scheduled quarterly trend increases.

4.4.3.6 Development of the Market-wide Adjusted Index Rate

The Market-wide Adjusted Index Rate is $748.69 and is derived by multiplying the projection period index rate with the market level adjustment for the risk adjustment program. Details for the risk adjustment program can be found below.

Reinsurance

There are no reinsurance recoveries applicable to this market.

Risk Adjustment Payment/Charge

The Experience Period Risk Adjustment transfers are based on Wakely's estimated results.

Details behind our risk adjustment modelling can be found on exhibit 9 in the memorandum. This filing assumes a risk transfer PMPM of $5.70 in the rating period. The risk adjustment user fee is also assumed to be $0.18 PMPM per federal guidance. Combined with this is a projected HCRP net PMPM payment of [redacted]. Consistent with the rules in the 2027 URRT instructions, the transfer PMPM is converted to be on an allowed basis resulting in a PMPM of [redacted] and a final market level adjustment for the risk adjustment program of [redacted].

The projected risk transfer amount in this filing depends on assumptions we have made for the change in PLRS, ARF, state average premium and other items. To model the PLRS in the rating period for this single risk pool we have split out the HCC PLRS, demographic PLRS and EDF components to determine the total change in PLRS. The demographic and EDF components are predicted assuming average factors by membership type consistent with our morbidity modelling (i.e. new, existing, transfer) and forecasted enrollment for these types are used to weight the average factors together. The modelling of the HCC PLRS component applies the projected percentage change in the normalized allowed PMPM by metal level to the base year HCC PLRS. For our state average premium estimate we have broken down the average premium change into two components, the 2025 to 2026 and 2026 to 2027 average changes. For the first time period we are using an amount of [redacted] which uses 2026 ACA rate filing data. For the 2026 to 2027 aggregate premium change, we are assuming a [redacted] increase.

In order to estimate the statewide average factors for PLRS and ARF we have assumed that the base period ratio between CareFirst and the state remains the same through 2027. Given that we have a market share (BlueChoice, GHMSI, and CFMI combined) of roughly [redacted] and using the fact that this factor has been stable over the years, we feel this assumption of a constant ratio is reasonable.

Remaining factors for AV, IDF and GCF follow from membership assumptions by metal.

Exchange User Fees

There are no applicable exchange user fees since the rates in this filing are not offered on the Federal Marketplace.

4.4.4 Plan Adjusted Index Rate

Exhibit 11 in the memorandum displays the adjustments made for each plan. Every plan adjusted index rate is developed from the market adjusted index rate using only the allowable plan level modifiers as follows:

- **Actuarial value and cost-sharing design of the plan:** The actuarial value for each plan was determined using our own internal model and estimates the ratio of paid to allowed dollars given that plan's benefit design and the assumed allowed amount consistent with the projection period index rate. The assumed actuarial values also include a multiplicative factor applied uniformly across plans. The application of the AV to an index rate that is the same across all plans results in a member month weighted average AV (and resulting average paid PMPM assumed in rates) that may be materially deficient depending on the distribution of projected membership and actual cost. This factor accounts for the deficiency specific to this block of business. The URRT instructions state that this adjustment may "…take into account the benefit differences and *utilization differences due to differences in cost-sharing*." As a result, our plan adjusted index rates also include an adjustment to account for the impact the metal level has on utilization.
- **Provider network:** There are 4 types of network factors: Lock In / Referral, Open Access, Open Access Plus, and Open Access Advantage.
- **Benefits in addition to EHBs:** There is an adjustment to account for abortion coverage and gender affirming care (which are offered in addition to EHBs).
- **Administrative costs:** See Exhibit 10A in the Memorandum for the assumed values of the following additional items.

  1. Administrative Expense (G&A)
  2. Broker Commissions & Fees
  3. Contribution to Reserve (Post-Tax)
  4. State Premium Tax
  5. Reinsurance Program Fee
  6. Federal Income Tax (FIT)
  7. Risk Adjustment User Fee
  8. Patient-Centered Outcomes Research Institute Fee (PCORI)
  9. Risk Charge

  Please note that the reinsurance program fee is [redacted] of premium. This amount is assumed to be in effect for both calendar years 2026 and 2027. PCORI is set to [redacted] per member per year for Jan-Oct renewals and [redacted] for Nov-Dec renewals. Note that this filing includes a [redacted] risk charge reflecting continued levels of increased uncertainty into the rating period.

  For each plan, we have taken the applicable adjustment factor from each category above and multiplied them by the market adjusted index rate to derive each plan adjusted index rate.

4.4.5 Calibration

Age Curve Calibration

We have calibrated to the rounded weighted average age which was determined as the age for the factor nearest our projected average factor. We have used the standard CMS age curve factors and weighted them using member months in our calculation.

A demonstration of how the plan adjusted index rates and the age curve are used to generate the schedule of premium rates for each plan can be found on exhibit 13.

Geographic Factor Calibration

We have elected not to rate for geographic region.

Tobacco Use Rating Factor Calibration

We have elected not to rate for tobacco usage.

4.4.6 Consumer Adjusted Premium Rate Development

The premium rate that a given consumer will be charged is calculated by first taking the plan adjusted index rate for that member's chosen plan and dividing by the projected average age rating factor. The resulting value is the base rate for that plan. The final step in determining a consumer adjusted premium rate is to take the rate from the first step and multiply it by the corresponding factor for that member's age from the standard CMS age curve.

4.5 Projected Loss Ratio

The projected loss ratio for the rates provided in this file, using the Federally-prescribed MLR methodology, is 81.2% and the details behind this calculation can be found in exhibit 10B.

4.6 Plan Product Information

4.6.1 AV Metal Values
The majority of our 2027 plans include varying cost-share levels for some services that depend on the setting in which care is delivered. The HHS AV calculator was used to compute two separate AVs for each impacted plan – one which applied the higher level of cost-share, and one which applied the lower. The results were blended assuming [redacted] of the designated services are rendered in a higher cost-share setting and the remaining [redacted] at the lower, consistent with experience for our small group and Individual markets. Plans without these features used the AV calculator without modification.

Because an alternative methodology was employed to develop the AV Metal Values, a certification required by 45 CFR 156.135 has been submitted as part of the QHP binder submission under separate cover. The alternative method used is 156.135(b)(3).

4.6.2 Membership Projections
The membership projections found in Worksheet 2 of the URRT were developed from enrollment on 4/30/2026 using assumptions for termination rates, new sales and transfers. The projections also incorporate any plan mappings anticipated between that month and the rating period.

4.6.3 Terminated Plans and Products
Plan mappings from the experience period to the rating period can be found in Appendix – Mapping.

4.6.4 Plan Type
Each plan in Worksheet 2, Section I of the URRT contains a plan type that describes the plan exactly.

4.7 Miscellaneous Instructions

4.7.1 Effective Rate Review Information (Optional)
We have no additional exhibits.

4.7.2 Reliance
We do not have any reliance to state.

4.7.3 Actuarial Certification
Included in the memorandum.