

ACTUARIAL MEMORANDUM

TO: Centers for Medicare & Medicaid Services (CMS)

FROM: Mario Guajardo, ASA, MAAA
Director Actuarial Services
Baylor Scott & White Health Plan

DATE: April 28th, 2026

SUBJECT: Baylor Scott & White Insurance Company (BSWIC)
Small Group Health Insurance Risk Pool – Texas

PURPOSE

The Affordable Care Act establishes a process for the annual review of increases in premiums for health insurance coverage. This process is also necessary for the submission of a Qualified Health Plan (QHP) to a Federally Facilitated Exchange (FFE). The purpose of this filing is to provide the rates and a description of the rate development for products BSWIC is proposing to offer in the Texas Small Group market. This document serves as the Part III Actuarial Memorandum, as required in the three-part rate justification. This memorandum is intended to provide information supporting the Unified Rate Review Template (URRT), submitted electronically to satisfy the Part I requirement. A separate Consumer Justification, as required under Part II, will be submitted in the event a requested rate increase exceeds the state threshold for the coverage year.

This filing has been prepared to satisfy the requirements of the Patient Protection and Affordable Care Act (ACA), including but not limited to the following sections of Federal Code:

- 45 CFR Part 146, Section 121
- 45 CFR Part 147, Sections 102, 104, 106
- 45 CFR Part 154, Sections 200, 215 301
- 45 CFR Part 156, Section 80

This filing and memorandum are not intended for any other purposes.

GENERAL INFORMATION**Company Legal Name:** Baylor Scott & White Insurance Company**State:** Texas**HIOS Issuer ID:** 37755**NAIC Number:** 11670**Market:** Small Group**Effective Date:** 1/1/2027**Primary Contact Name:** Mario Guajardo, ASA MAAA, Actuary**Primary Contact Telephone Number:** (254)-298-3235**Primary Contact Email Address:** mario.guajardo@bswhealth.org**MARKET AND BENEFITS**

The products and rates proposed in this filing will be available in the small group market in select counties in the state of Texas, these plans will be offered off-exchange.

PROPOSED RATES

The plans submitted in this filing include new and renewing small group products designed to meet the requirements of the ACA. Proposed rates are developed in consideration of available single risk pool experience, adjusted to account for differences impacting the cost of care in the coverage period for the expected covered population. Rates and rate revisions will vary by plan and rating area, in compliance with ACA rating rules. These variations are based on intrinsic drivers of cost, such as benefit design changes and differences in provider contracts, and do not consider variations in population health status.

Weighted Average Rate Revision: This filing represents a weighted average rate revision of [REDACTED] % to the Premium Rates, based on current enrollment, for members renewing in Q1 2027 in the TX market.

Reason for Rate Revision(s): Several factors impacted the proposed rate revisions, including changes to benefit plans, provider contracts, utilization management practices, applicable taxes and fees, population morbidity, and risk adjustment assumptions for the coverage period. The key driver for this rate action is routine medical and pharmacy expense trends.

EXPERIENCE PERIOD PREMIUM AND CLAIMS

The BSWIC single risk pool for the small group market consists of [REDACTED] life years in the experience period. The pool is comprised of ACA-compliant policies. BSWIC premium and claims information were gathered by BSWIC analytic staff from company database systems and are internally consistent with financial reporting. Premium and claims data as provided was not audited for the purposes of this rate development but was reviewed for reasonableness and consistency. No Medical Loss Ratio (MLR) rebates were paid or modeled in this analysis, nor are any expected to be paid based on dates of services included in this analysis for this block of BSWIC business.

Baylor Scott & White Insurance Company

BSWIC Single Risk Pool – Small Group Experience

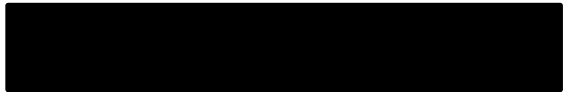
Incurred 1/1/2025 – 12/31/2025

Paid Through 2/28/2026



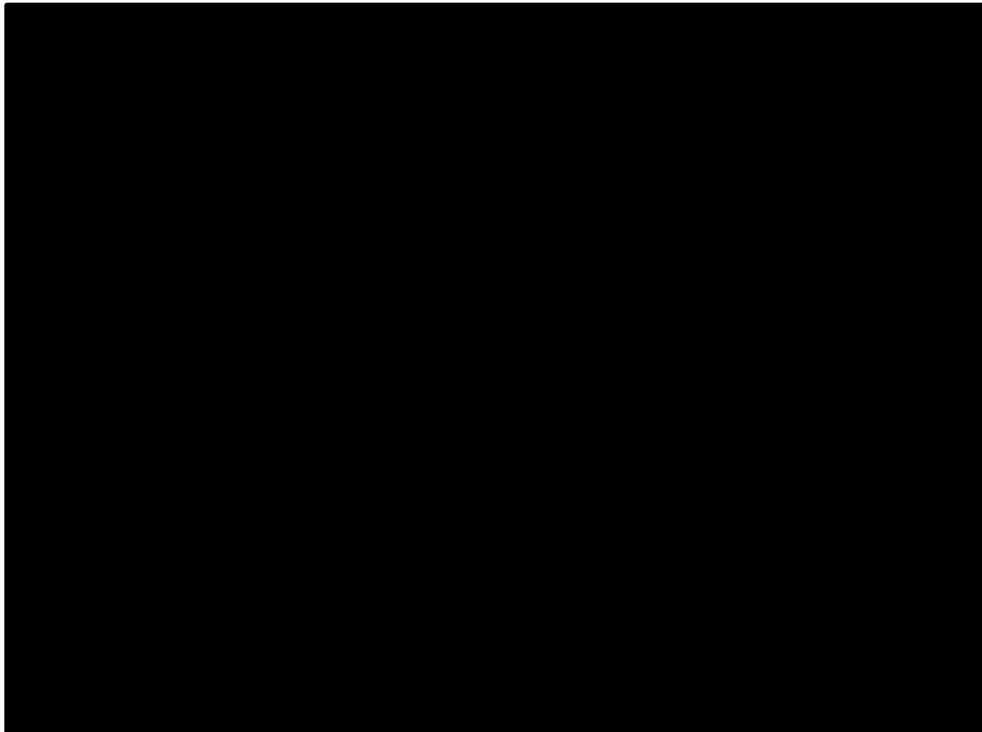
Incurred Claims after adjusting for RX rebates are \$ [REDACTED] and allowed claims are \$ [REDACTED].

These amounts contain the following IBNR values:



CREDIBILITY

The single risk pool experience included in this rate development represents [REDACTED] member months of experience and is deemed [REDACTED] credible for the purposes of this rate development. The credibility assigned to this group is given by Credibility = Square Root of (what we have / what is needed for full credibility) = $(\frac{[REDACTED]}{[REDACTED]})^{0.5} = [REDACTED]\%$, where full credibility is given by:



BENEFIT CATEGORIES

The benefit plans and coverage present in the single risk pool experience is expected to be reflective of the projected experience during the coverage year. BSWIC claims experience was assigned to the five benefit categories in Section 2 of the first tab of the URRT based on internal claims bucketing logic consistent with commonly used industry standards. *Inpatient Hospital* includes all hospital-billed expenses related to a visit that resulted in an admission. *Outpatient Hospital* includes all hospital-billed expenses for visits that did not result in an admission. *Professional* includes medical services performed in an office setting along with physician components of surgeries or other events billed separately by the physician. *Other Medical* includes ancillary services not typically billed through a hospital or physician practice, such as Durable Medical Equipment, Ambulance services, and Home Health. *Prescription Drug* includes retail and mail-order pharmacy services; this does not include medical pharmacy or services administered as part of a hospital or physician office visit.

PROJECTION FACTORS

As part of the rate development BSWIC applied various projection factors in a manner consistent with ACA rating rules and applicable state regulations.

Trend

The overall Allowed PMPM trend assumption for this block of business is an annualized [REDACTED]%. Values are derived from internal modeling and included considerations for changes in utilization and provider contract changes. Detailed utilization and unit cost factors are included in Worksheet 1, Section II of the URRT.

Morbidity

The Morbidity adjustment of [REDACTED] is based on risk differences between the single risk pool experience and the anticipated population covered in the projection period. Risk differences are based on projected changes in risk score for the covered population, with consideration for expected population and plan mix changes in ACA-compliant small group plans between the experience year and the coverage year.

Benefits

Plan-level rate revisions reflect changes in benefits; these include strategic changes, driven by market considerations, and necessary changes, those required to maintain metal level status.

Demographics

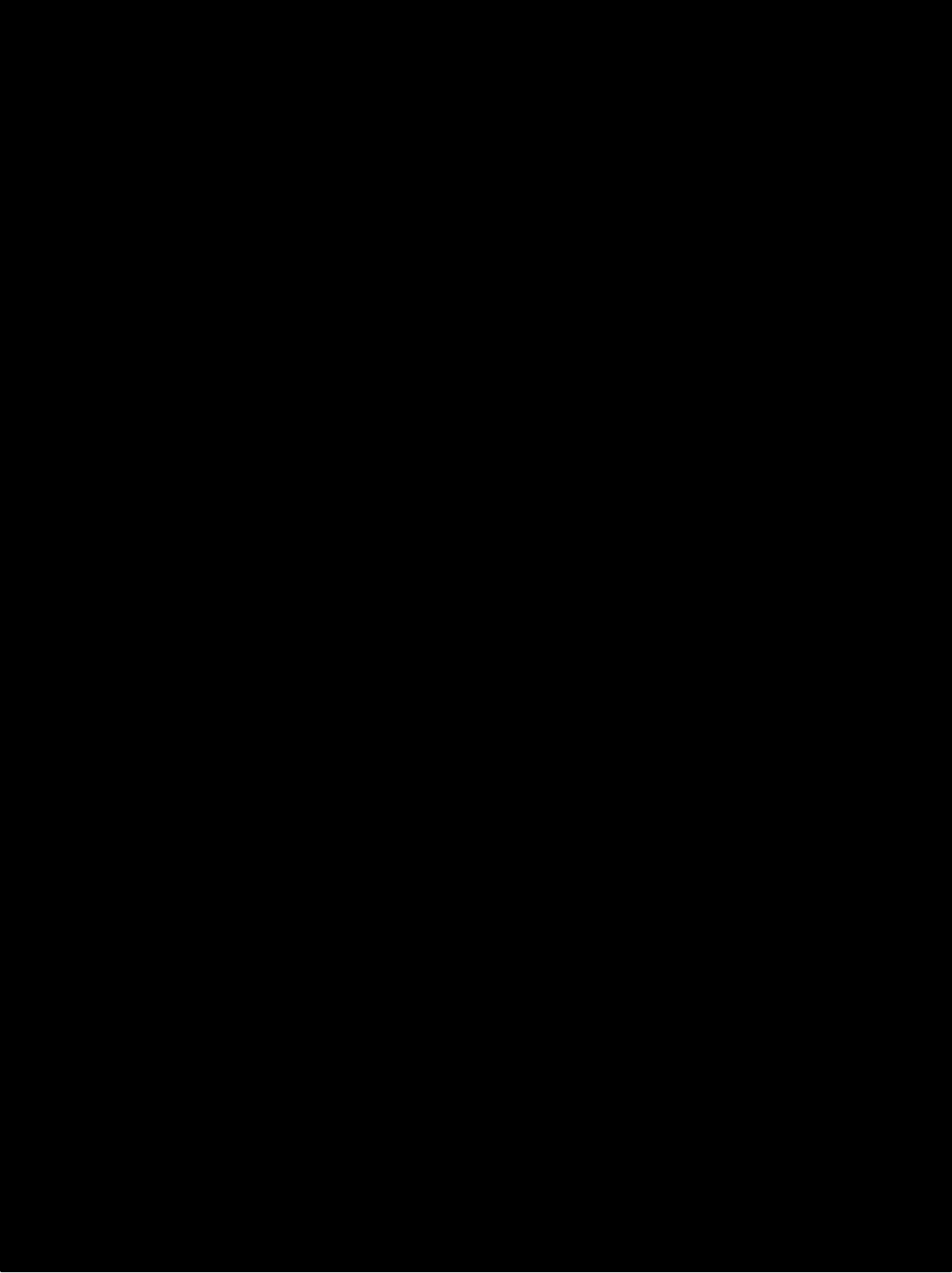
A demographic adjustment of [REDACTED] is applied in Section 2 on the first tab of the URRT to account for differences in age and area mix between the single risk pool experience and the anticipated population covered in the projection period. The shift in age mix is derived by applying the required age rating factors. The shift in area mix is derived by applying the proposed rating variations by the defined ACA rating regions for Texas.

Other Adjustments

An additional adjustment of [REDACTED] is applied to account for changes in network benefit mix within the PPO products.

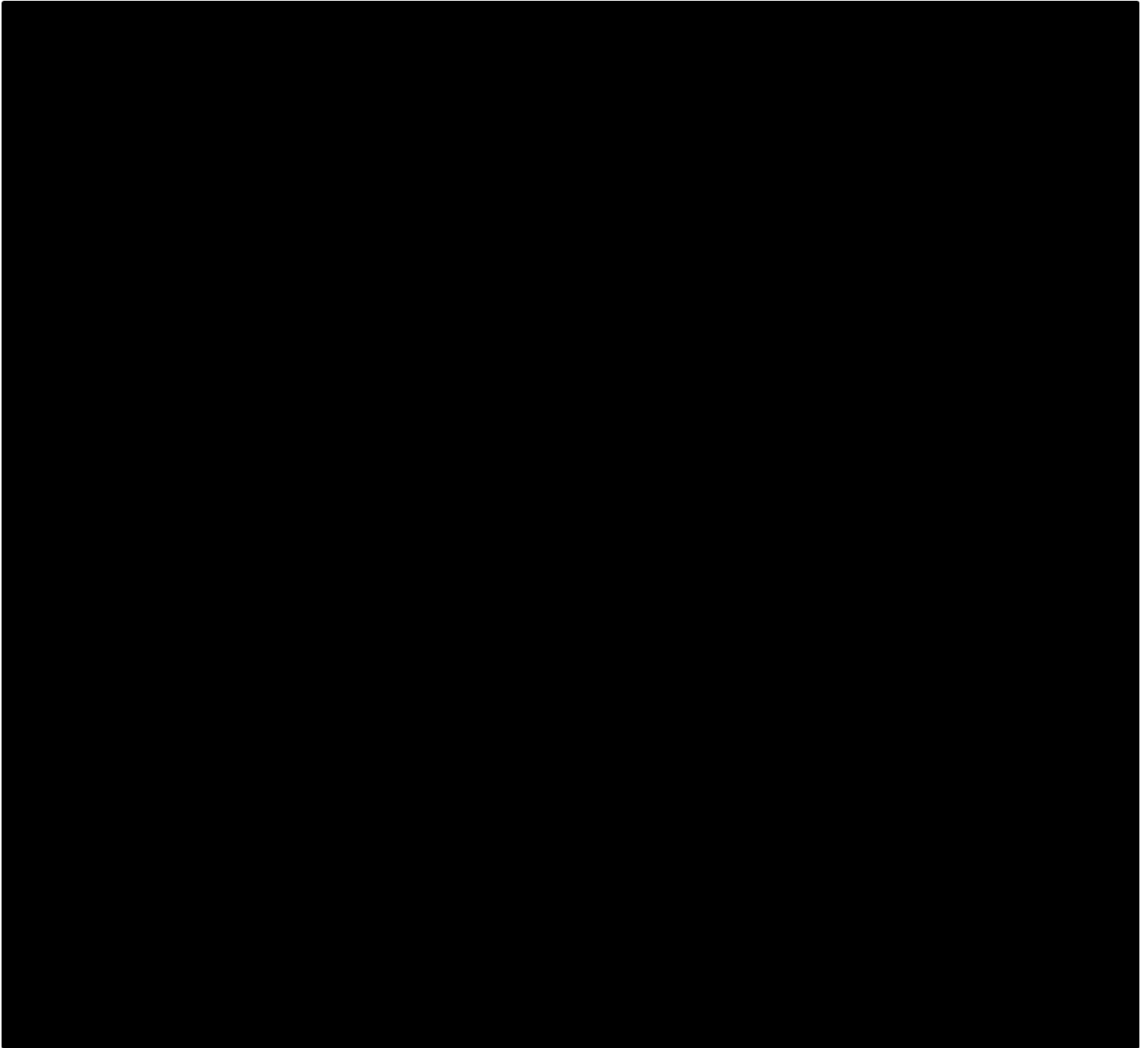
PAID TO ALLOWED RATIO

The average Paid-to-Allowed ratio of [REDACTED] % is calculated as a weighted average of Model AVs with projected membership. Calculator AVs represent output from the Actuarial Value Calculator and are utilized to determine the mapping of plans to metal levels. Model AVs represent output consistent with the Actuarial Value Calculator and are utilized in plan pricing. Model AVs represent the estimated plan cost of benefits, and do not take into consideration the health status of existing or anticipated enrollment.



INDUCED DEMAND

The induced demand for this block of business was calculated using a 1.00 factor applied to bronze plans, a 1.03 factor applied to silver plans, a 1.08 factor applied to gold plans, and a 1.15 factor applied to platinum plans. These were applied to plan AVs based on each plan's expected distribution of members. Further details can be seen below.

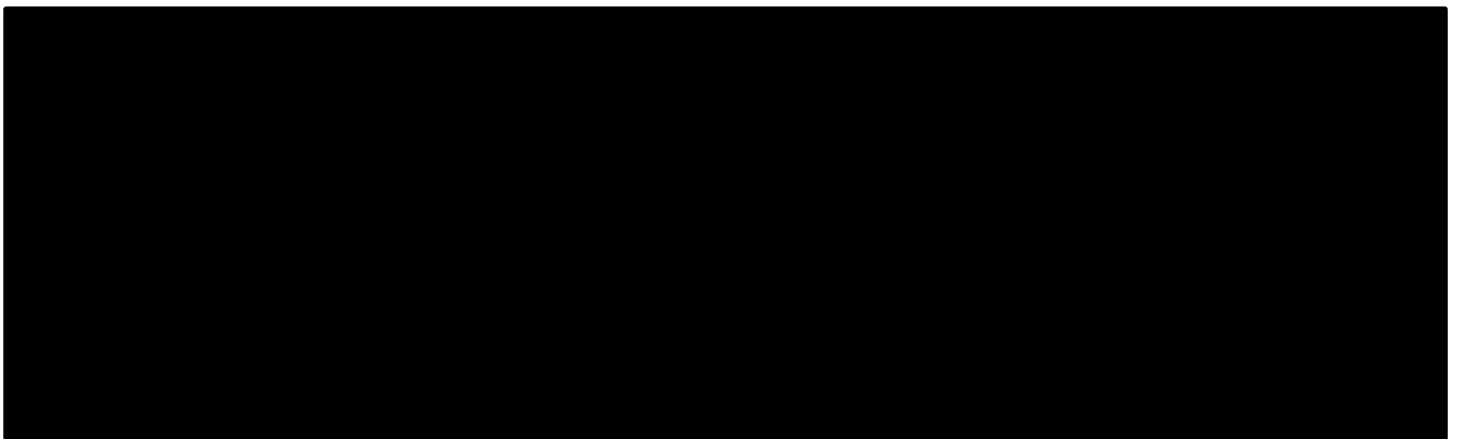


BENEFITS IN ADDITION TO EHBs

Additional adjustments were made for our plan offering benefits in addition to EHBs. This one plan offers benefits related to In Vitro Fertilization (IVF). For the PPO plan with this benefit, an additional factor of [REDACTED] was applied. This factor was calculated by comparing the expected PMPM cost for the IVF benefit with the Market Adjusted Index Rate, after being adjusted for each plan's AV and Cost Sharing Design, and the Provider Network Adjustment.

RISK ADJUSTMENT

BSWIC anticipates that it will be a net [REDACTED] of Risk Transfer dollars assessed from coverage year 2025 experience. This payment is currently estimated as \$[REDACTED] PMPM, which equates to \$[REDACTED] PMPM on an allowed basis. These values are estimated by adjusting prior period results for expected company and statewide changes in population mix and premium levels. Further calculation details can be seen below.



NON-BENEFIT EXPENSES AND PROFIT & RISK

BSWIC rating is intended to target the MLR floor of [REDACTED]%, net of required taxes and fees. No amounts for quality improvements, IT investments, or other non-benefit expenses eligible for inclusion in the MLR calculation were assumed in this filing.

Taxes and Fees

Taxes and fees considered in this filing include the Texas State Premium Tax of [REDACTED]%, and the Risk Adjustment User Fee of \$[REDACTED] PMPM.

Administrative Expense

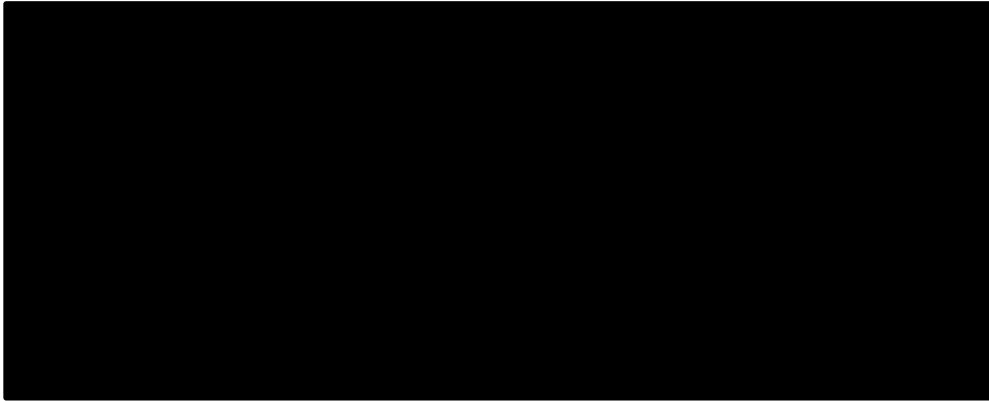
Administrative costs are estimated to be [REDACTED]% and are applied consistently across all plans. This assumption considers historical and projected costs associated with the administration of these plans as well as allocated corporate overhead expense.

Profit & Risk Margin

A profit and risk margin of [REDACTED]% is used in the pricing of this block resulting in an MLR target of [REDACTED]% as shown in the table below. These amounts include allowances for adverse deviation and contribution to reserves.

PROJECTED LOSS RATIO

The projected loss ratio using the federal methodology is expected to meet the [REDACTED] % target, as demonstrated below. If the MLR falls below the anticipated target, appropriate premium rebates will be issued according to regulation.



INDEX RATE

The index rate represents the estimated total allowed claims cost in the coverage period. Index rate development is comprised of BSWIC single risk pool experience incurred between January 2025 and December 2025, paid through February 2026, which yields enough experience for [REDACTED] % credibility. This experience was trended forward to the coverage period, with further adjustments for differences in morbidity, demographics, and other relevant adjustments. The projected index rate of \$[REDACTED] represents a credibility blend of the base trended allowed PMPM of \$[REDACTED] adjusted for morbidity ([REDACTED]), demographics ([REDACTED]), and other adjustments as described ([REDACTED]) with the manual PMPM of \$[REDACTED].

Market Adjusted Index Rate

The market adjusted index rate represents the index rate adjusted for the expected impact of Risk Transfer payments and Reinsurance. The projected market adjusted index rate of \$[REDACTED] represents the index rate of \$[REDACTED] adjusted for an estimated risk transfer liability of \$[REDACTED] (allowed basis).

Plan Adjusted Index Rate

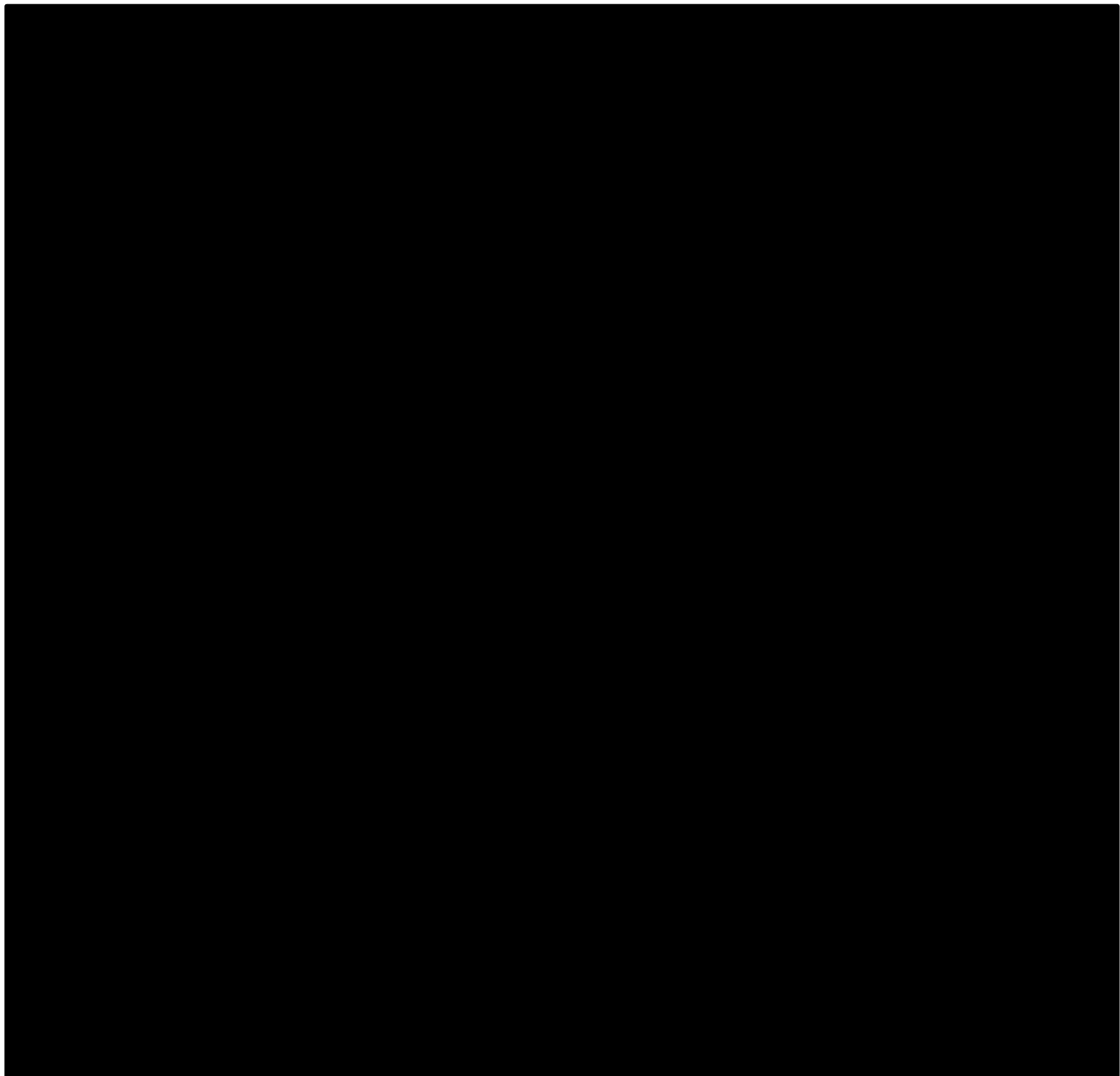
The plan adjusted index rate represents the market adjusted index rate adjusted for plan-specific impacts of network differences, pricing AVs, benefits other than EHB (if applicable), and Administrative Costs.

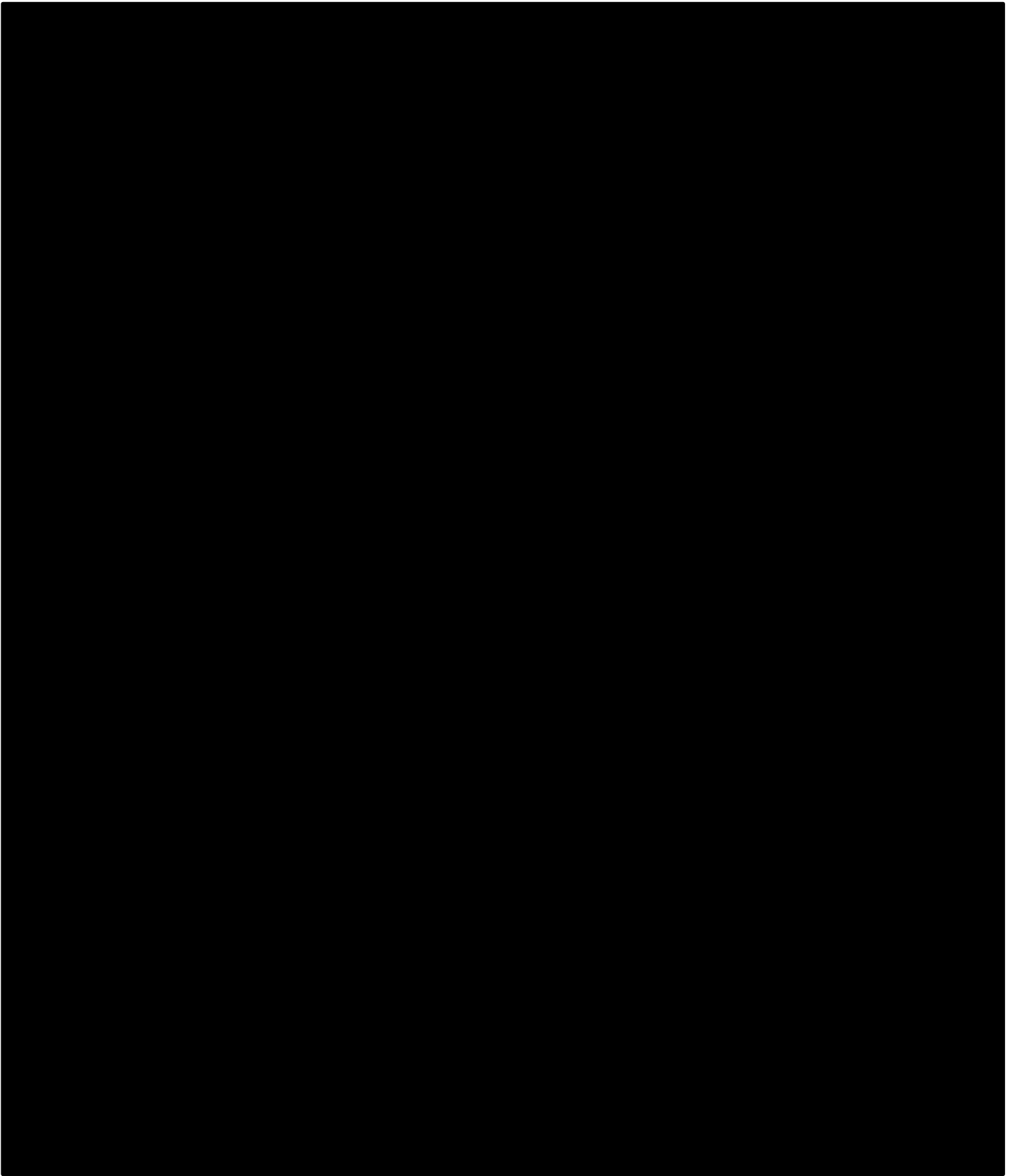
Calibration

Consumer adjusted index rates for each plan represent the plan adjusted index rate calibrated for the projected age and rating area mix for the full covered population. The age calibration ([REDACTED]) represents the inverse of the weighted average age factor ([REDACTED]) for the current covered population, based on the required federal age factors. This corresponds to the age factor for age [REDACTED] (nearest match); the anticipated average age of enrollee is [REDACTED] based on current enrollment. The geographic calibration ([REDACTED]) represents the inverse of the weighted average area factor ([REDACTED]) for the projected covered population, based on the proposed area factors. More detail on these calculations can be seen below.

Smoker Rates

The proposed rates do not vary by smoker status and no additional tobacco usage load has been used to adjust the index rate above observed claims experience.





FAMILY PREMIUM CALCULATION

Family structure considers family composition and the maximum of three child dependents under age 21. The premium for family coverage is determined as the sum of the individual premiums for each family member, including no more than three child dependents under age 21; this adjustment does not result in a separate rating factor in this filing. Family tiering only occurs in states that use pure community rating and uniformly applied to all plans in the risk pool.

PLAN TYPE

Plan types listed in Worksheet 2 correctly describe all product offerings covered under this filing.

WARNING ALERTS

None.

RELIANCE

I relied on historical claims experience and membership as provided by BSWIC analysts via their data warehouse. This data was not formally audited but was provided in a manner consistent with BSWIC internal validation practices. Output was reviewed for reasonableness and compared to past submissions.

I relied upon Risk Transfer data and projections provided by other internal and external actuaries. This data was not audited but was reviewed for reasonableness and consistency.

Model Actuarial Values, as used in pricing, are consistent with results from the Actuarial Value Calculator. Model formulas and underlying data distributions were not audited; output was reviewed for reasonableness.

ACTUARIAL CERTIFICATION

This being a Statement of Actuarial Opinion requires acknowledgement that I, Mario Guajardo, am an Actuary for Baylor Scott & White Health Plan am a member of the American Academy of Actuaries in good standing, and that I meet the Qualification Standards of the Academy to render the Actuarial Opinion contained herein.

To the best of my knowledge and ability I certify that:

- The projected index rate is:
 - Compliant with all State and Federal Statutes and Regulations
 - Developed in compliance with the applicable Actuarial Standards of Practice
 - Reasonable in relation to the benefits provided and the anticipated covered population
 - Neither excessive nor deficient
- The index rate and only the allowable modifiers as described in 45 CFR 156.80(d)(1)-(2) were used to generate the plan level rates
- The percent of total premium that represents EHBs were calculated in accordance with actuarial standards of practice
- The geographic rating factors reflect only differences in the costs of delivery (which can include unit cost and provider practice pattern differences) and do not include differences in population morbidity by geographic area
- The Actuarial Value Calculator was used to determine the AV Metal Values shown on Worksheet 2 of the Part 1 Unified Rate Review Template

The Part 1 Unified Rate Review Template does not demonstrate the process used to develop the rates within; rather, it represents information required by Federal regulation to be provided in support of the review of rate increases, for certification of qualified health plans for Federally Facilitated Exchanges.

This opinion, and the information contained within this memorandum, is intended solely for the use of BSWIC management and insurance regulators during rate review. It is not intended for any other purpose, nor should it be relied upon by others or applied to any other use. This opinion is the product of professional expertise and should only be reviewed with the advice of a qualified actuary. The impact of unanticipated events after the date of this opinion, is beyond the scope of this opinion.



Mario Guajardo, ASA MAAA
 Director Actuarial Services
 Baylor Scott & White Health Plan

04/28/2026

Date



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