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Kaiser Foundation Health Plan, Inc.
(HIOS Issuer ID: 40513)
January 2027 Rate Filing for CA Small Group
Non-Grandfathered Plans

Actuarial Memorandum

General Information

This Memorandum is a part of the Kaiser Foundation Health Plan, Inc. (KFHP) rate filing for small group non-grandfathered HMO and POS plans. The filing materials support the development of one set of rates with a Jan-27 effective date. The Jan-27 rates will be paid by groups renewing or enrolling during calendar year 2027. The rates will be paid for 12 months. The rates are included in this submission.

The rates submitted to DMHC, both on and off exchange, will not include the cost of Pediatric Dental Services. For small groups that purchase KFHP coverage outside the Covered California Small Business Exchange (CCSB), these costs will be added to the rates of members age 18 or younger. For small groups that purchase KFHP coverage on CCSB, per CCSB's request, the rates in the filing submitted to CCSB do cover the cost of Pediatric Dental services as a bundled benefit with the costs added to the rates of members age 18 or younger. Additionally, to account for state-defrayal for gender-affirming care (GAC), CCSB has requested a set of rates that exclude GAC costs. These special sets of on-exchange only rates for CCSB will also be submitted to DMHC for informational purposes.

This rate filing does not cover pre-ACA plans, in which grandfathered members will continue to be enrolled in 2027.

Company Contact Information:

Mischelle Schweickert, FSA, MAAA
Actuarial Director
(510) 301-0892
Mischelle.M.Schweickert@kp.org

Proposed Rate Changes

We estimate the Jan-27 rates proposed in this filing are, on average, 5.5% higher than the Jan-26 rates (a 12-month increase). The plan specific rate increases will vary in ranges from 1.4% to 8.3% (12-month). The increases will not vary by age.

These rate changes are prior to the impact of members moving to the next age band.

The rate changes are affected by the following:
(a) medical and administrative cost trends;
(b) benefit adjustments affecting pricing actuarial values;
(c) projections of risk adjustment amounts;
(d) adjustment of the rating area factors and
(e) changes in the target margin.

These factors are discussed in detail in specific sections of this memorandum.

Experience Period Premium and Claims

This section is related to the information reported in Worksheet 1 and Sections I and II of Worksheet 2 of the Unified Rate Review Template (URRT). As indicated on Worksheet 1, the experience period for this filing is CY 2025.

Paid Through Date: December 31, 2025.

Current Date:

In Worksheet 2, Section II, Enrollment is as of March 31, 2026, while Premium PMPM is a projection for CY 2026.

Allowed and Incurred Claims Incurred During the Experience Period:

KFHP is a part of the Kaiser Permanente (KP) integrated delivery system. Members covered by KFHP benefit plans receive the vast majority of healthcare services within this system. The other major components of the system in CA are Kaiser Foundations

Hospitals (KFH) and two medical groups: The Permanente Medical Group (TPMG) and Southern California Permanente Medical Group (SCPMG), which provide medical services to members in Northern and Southern CA, respectively.

KFH is reimbursed using system generated claims, while outpatient professional services are reimbursed by capitation payments to the two medical groups. KFHP itself also provides services (e.g. pharmacy) and has developed a methodology for allocating capitated and other costs among members using cost accounting algorithms based on utilization (service encounters). Using this methodology, the Plan is able to allocate costs to business lines, such as small group plans.

Allowed Claims reported in Worksheet 1 include all provider costs. The Allowed Claims reduced by amounts collected from members are presented as "Incurred Claims". The data source is the KFHP system of record.

No adjustment was made for incurred but not reported costs as such an adjustment would not be material.

Benefit Categories

The data in Worksheet 1, Section II of the URRT are based on the KFHP system of record.

The Other Medical benefit category includes Child Vision, DME, Home Health, Ambulance and some other services.

Please note that costs of non-EHB services are not reflected in Worksheet 1, Section II of the URRT and neither are Pediatric Dental costs (see General Information section above).

Projection Factors

Trend Factors (cost / utilization):

Trend assumptions for the KP integrated delivery system are based on the projected costs of providing medical care to KFHP membership. Our expense targets reflect items like number of employees, changes in the cost of wages and benefits, etc. We then take these overall targets and adjust them to a specific business line based on historical relationships and judgment. The projections are part of the overall financial planning process for the KP organization.

The 2026 and 2027 annualized medical trends used in this rate development are 7.4% and 6.1%, respectively.

The index rate developed in Worksheet 1 of the URRT is for all groups renewing or enrolling during calendar year 2027. Groups renewing or enrolling in months other than January have 12-month projection periods which extend into 2028.

The Year 1 Trend trends costs for 12 months, while the Year 2 Trend trends costs for more than 18 months. The Year 2 trend includes trending for additional months in 2027 generated by groups with renewal / start dates other than January. The calculation of the total months covered by this trend is based on the weighted average projection period mid-point (KFHP small group renewal dates are skewed towards the end of the year). The total Year 2 trend is 9.3%.

Morbidity Adjustment: None.

Demographic Shift: None.

Plan Design Changes:

We estimate that the combined impact of these changes from 2025 to 2027 on the medical costs will be -0.8%.

Other:
This reflects the additional impact of plan mix for the pool where members change plans purchasing more expensive or cheaper plans.

Manual EHB Allowed Claims PMPM

Not applicable as manual rates were not developed.

Applied Credibility %

The experience period data are based on approximately 7.5 million member months. We believe the data are fully credible for purposes of rate making.

Development of the Market-wide Adjusted Index Rate

Reinsurance:

No reinsurance recoveries anticipated.

Risk Adjustment Payment / Charge:

To project 2027 risk adjustment, we used Wakely Consulting Group's study of the CA small group insurance market. The study was commissioned by major CA carriers to estimate risk adjustment payments for current and future years. We also looked at our non-grandfathered small group membership morbidity trends and collected the available information about trends in the CA market. The results were adjusted for the impact of 2026-2027 coefficient revisions. The results were further adjusted for metallic tier shifts and estimated market rate increases.

The 2027 total transfer amount was developed by combining forecasted HCRP and risk adjustment PMPM amounts for metallic products with the 2027 product-specific member months projections. The resulting risk adjustment payment was converted into a PMPM amount, divided by a projected 2027 Paid to Allowed ratio of 0.9489 and entered in Worksheet 1, Section II of the URRT.

Additionally, this payment was allocated proportionally based on plan premiums for all plans within the pool on Worksheet 2, Section IV of the URRT.

Exchange User Fees:

The 2027 Exchange User Fee of 4.25% was applied to the total projected exchange premium amount, divided by the member months projection for the entire pool and then by the Paid to Allowed ratio and entered in Worksheet 1, Section II as a percentage of the Market Adjusted Index Rate (MAIR).

Market Adjusted Index Rate is calculated on the next to the last line of Section II in Worksheet 1 and is referenced by Line 3.2 in Section III of Worksheet 2.

Plan Adjusted Index Rates

These rates are calculated on Lines 3.2 – 3.10 in Worksheet 2, Section III of the URRT.

AV and Cost Sharing Design of Plan (Line 3.3):

These factors are based on the actuarial values generated by a model from a national actuarial consulting firm. The model is calibrated to the KFHP small group plan experience data in CA. It has a built-in capability to adjust the factors for induced utilization triggered by a specific plan design. The model does not adjust factors for differences due to member health status.

The Market Adjusted Index Rate derived in the previous step reflects the projected average utilization in the non-grandfathered products in the portfolio, which is different from the utilization in a plan with no cost sharing. Thus, actuarial values should not be applied to the index rate without an adjustment. They need to be adjusted further by projected Paid to Allowed ratio to produce realistic paid claims amounts.

The factors displayed on Line 3.3 are after such adjustments. The adjustments are market averages rather than plan specific. They are multipliers that uniformly apply to the plan specific AVs generated by the model and do not impact plan premium relativities.

Benefits in Addition to the EHBs (Line 3.5):

For all plans, this factor adjusts the Market Adjusted Index Rate for the costs of adult vision exams, gender affirming care and supplemental DME benefit. In addition, it adjusts the rates of Platinum HMO 10, Platinum HMO 250/30, Gold HMO 50, Gold 500/35, Gold DHMO 1000/45, Silver DHMO 2000/65, Silver DHMO 2300/65, and Silver DHMO 3400/75 (with and without infertility coverage) for the cost of acupuncture / chiropractic services, and for the vision hardware benefit in Platinum HMO 10. Finally, the factor adds costs of Infertility benefits to the rates of the plans that cover this benefit. Since the KFHP portfolio includes exactly the same plans with and without infertility coverage, it is reasonable to assume that the former plans will be subject to severe adverse selection. We updated the estimated cost of providing the coverage to comply with SB 729. The costs now vary by plan, from just over $16 to just over $25 PMPM.

Administrative Expense (Line 3.6):

The projection of the 2027 Administrative Cost PMPM was developed by trending the 2025 costs at 2.8% annually. The total amount was allocated by plan on PMPM and percentage of premiums basis, which reflects KFHP financial reporting methodology, and converted into percentages of premiums. As a result, the percentages displayed on this line are higher for leaner plans and lower for richer plans. (Please see Plan Adjusted Index Rates subsection below for further details.)

Additionally, admin factors have been adjusted for the POS product to account for negative taxes. (Please see Taxes and Fees subsection below for further details.)

Taxes and Fees (Line 3.7):

The amounts displayed on this line reflect Risk Adjustment User Fees of $0.18 PMPM and PCORI Fees of $0.38 PMPM converted into percent of premium. For the POS product, taxes are estimated to be -$7.71 PMPM, but the factors are not allowed to be less than zero. As a result, the factor for taxes is incorporated with the admin factor.

Profit and Risk Load (Line 3.8):

We estimate that the proposed rates will result in a 2027 margin of (0.4%) for KFHP ACA small group plans.

Plan Adjusted Index Rates are calculated on Line 3.10. Our rate setting model is more detailed than the URRT, and so adjustments need to be made to bring rates in-line with those generated by the model. We chose to make these adjustments on the Administrative Expense line.

As follows from the above, the differences due to health status are not reflected in the rates.

Calibration

Age Calibration Factor:

This factor of 0.760 in Worksheet 2, Section III of the URRT is a reciprocal of 1.315, the average of the standard CMS age curve rate factors weighted by projected 2027 member counts for each age (or age band) on the curve. (This calculation assumes the membership distributions by age and benefit plan are the same for all rating areas, which allows us to separate age calibration from geographic calibration.) The projected membership demographics are based on 2026 emerging experience. The same demographics were assumed in the projection period Index Rate development in Worksheet 1 of the URRT.

Geographic Calibration Factor:

In CA, KFHP operates as two regional entities (Northern CA and Southern CA) with separate budgets, financial goals, and affiliated medical groups (TPMG and SCPMG, respectively). In both regions, health plan and hospital operations are integrated and the medical care is provided in close coordination with the respective medical group. One result of this operating model is that reported costs within a region tend to be relatively flat from one service (or rating) area to the next, although such costs are also affected by care delivered out of network and delivery system capacity. In particular, the reported internal costs for KP do not reflect several of the drivers of cost difference for the market in which we compete and our approach to the challenge of determining appropriate rating area factors for KP involves seeking a balance between actual internal costs and the expected competitive environment. For 2027, we are only adjusting factors for 2027 to reflect (prior to benefit impacts) a 6.6% increase in Northern CA and 7% increase in Southern CA.

The Geographic Calibration Factor of 1.0667 in Worksheet 2, Section III of the URRT is a reciprocal of 0.9375, the average geographic factor weighted by 2027 projected membership distribution by rating area, as calculated in the following table:

Rating Area	Area Factor	% of 2027 Non-GF Membership	Rating Area	Area Factor	% of 2027 Non-GF Membership
1	0.9702	0.3%	11	0.8916	2.2%
2	1.0213	8.5%	12	0.9044	1.8%
3	0.9433	8.1%	13	0.8592	0.0%
4	1.0723	6.4%	14	0.8592	1.3%
5	0.9702	5.1%	15	0.8232	7.8%
6	1.0213	8.7%	16	0.8482	11.7%
7	1.0519	7.7%	17	0.8592	8.4%
8	1.0723	3.0%	18	0.8661	7.4%
9	1.0107	1.2%	19	0.8592	5.7%
10	0.9191	4.7%			
All				**0.9375**	**100.0%**

Although KFHP's geographic factors do not solely reflect delivery cost differences (these costs are mostly flat throughout Northern and Southern California), the factors are not affected by differences in population morbidity.

Tobacco Calibration Factor:

Rating for tobacco usage is not allowed in California.

Calibrated Plan Adjusted Index Rate

This rate is calculated in Worksheet 2, Section III of the URRT as a product of the Plan Adjusted Index Rate and calibration factors.

Consumer Adjusted Premium Rate Development

For each Benefit Plan, Member Age, Geographic Area and Cohort combination, the premium rate is a product of:

- Plan Adjusted Index Rate;
- Age Factor for the member age on the standard federal age curve;
- Age Curve Calibration Factor;
- Geographic Adjustment Factor for the area; AND
- Geographic Calibration Factor.

Projected Loss Ratio

Our best estimate of the 2027 projected loss ratio based on federally prescribed MLR methodology (a 3-year average) is presented in the following table:

	(Projected) 2025	(Projected) 2026	(Projected) 2027	Total
Claims	$3,899.6M	$4,233.4M	$4,586.7M	$12,719.7M
Quality Improvement	$0.1M	$0.1M	$0.1M	$0.3M
Risk Adjustment	$360.3M	$229.1M	$250.3M	$839.7M
Adjusted Claims	$4,260.0M	$4,462.5M	$4,837.1M	$13,559.7M
Premium	$4,547.6M	$4,907.6M	$5,337.7M	$14,792.8M
Taxes and Fees	($18.8M)	($19.4M)	($19.1M)	($57.3M)
Charitable Contributions	($68.4M)	($71.6M)	($73.5M)	($213.5M)
Adjusted Premium	$4,460.4M	$4,816.6M	$5,245.1M	$14,522.1M
MLR	95.5%	92.6%	92.2%	93.4%

This table reflects the non-grandfathered membership pool only. The much smaller grandfathered pool would have a relatively minor impact on the ratios. Based on these data, we believe it is unlikely KFHP's ACA-adjusted small group product MLR will drop below 80%.

AV Metal Values

The AV Metal Values included in Worksheet 2 are entirely based on the HHS AV Calculator with the exception of several plans which are either not compatible with the calculator or for which the calculator produces unreasonable values. For these plans, an additional adjustment was developed and the Covered CA exchange provided calculations by their actuarial consultants, which we reviewed and relied upon, and KFHP developed AV adjustments to address the over-valuing of $0 cost sharing for Mental Health and Substance Use benefits and counterintuitive results for counterintuitive results of combined cost sharing for Outpatient Surgery physician/facility services by the AV Calculator.

Membership Projections

The membership projections found in the URRT and elsewhere in this submission were developed by KFHP's Strategic Market Planning department. The projections reflect the results of 2026 open enrollment. They track monthly membership counts by benefit plan.

Terminated and New Plans and Products

Bronze DHMO 5400/60 was terminated in 2025 on- and off-exchange.

In 2026, 28 HIOS IDs attributed to off-exchange plans that mirror on-exchange plans are being terminated. These plans are not terminated but are being maintained using the respective on-exchange HIOS ID, per guidance from CMS. Additionally, one new plan, Gold 500/35 PCP, was introduced on- and off-exchange, and two new POS plans were introduced for off-exchange only: Platinum 90 POS 0/10 PCP and Gold 90 POS 250/35 PCP.

In 2027, one new POS plan will be introduced for off-exchange only: Silver 70 POS 2000/65 PCP.

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Reliance

In preparing this memorandum I have relied upon information and data provided by others. These include medical and pharmacy trend projections by KFHP financial actuaries, membership projections by KFHP's Strategic Market Planning department, external and internal forecasts of California risk adjustment results and certification of certain standard plan metal levels provided by Covered California actuarial consultants. While I reviewed the information for reasonableness, I did not audit the underlying data for correctness.

Actuarial Certification

I, Mischelle Schweickert, Actuarial Director for Kaiser Foundation Health Plan, Inc. (KFHP), am a member of the American Academy of Actuaries and meet its qualification standards for issuing statements of actuarial opinion in the United States.

This statement of opinion complies with the Actuarial Standards of Practice No. 8 and No. 41 as well as with the other applicable standards.

In my opinion:

1. The projected Index Rate does not cover Pediatric Dental costs but otherwise is:
   - in compliance with all applicable State and Federal Statutes and Regulations (45 CFR 156.80 and 147.102),
   - developed in compliance with the applicable Actuarial Standards of Practice,
   - reasonable in relation to the benefit provided and the population to be covered,
   - neither excessive nor deficient.

2. The Index Rate and only 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 with no pediatric dental benefit. The cost of this benefit will be added to the rates of members age 18 or younger in groups purchasing coverage outside the CCSB exchange.

3. The geographic rating factors do not solely reflect the differences in cost of KFHP's healthcare delivery, but they are not affected by differences in population morbidity by geographic area.

4. The AV calculator was used to determine AV Metal Values shown in Worksheet 2 of the Unified Rate Review Template for all plans as described in the AV Metal Values section above.

It should be noted that the Unified Rate Review Template does not demonstrate the process used by KFHP to develop 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 and for certification that the Index Rate is developed and used in accordance with regulation and only adjusted by allowable modifiers.

Signed by:
E. Mischelle Schweickert
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Mischelle Schweickert, FSA, MAAA
July 14, 2026