

**Blue Cross and Blue Shield of Alabama
HIOS Issuer ID: 46944**

Part III Actuarial Memorandum and Certification

**Small Group Market
Effective January 1, 2027**

July 14, 2026

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Blue Cross and Blue Shield of Alabama
Part III Actuarial Memorandum and Certification
Small Group Market
Effective January 1, 2027

Section 1: General Information

This actuarial memorandum and corresponding actuarial certifications are submitted in support of the United States Department of Health and Human Services' ("HHS") "Part III: Actuarial Memorandum and Certification Instructions" described in the most recent publication which is the document titled "Unified Rate Review Instructions, Rate Filing Justification: Parts I, II, and III, Effective for Plan Years Starting on or after January 1, 2027." This document provides information related to "Part I: Unified Rate Review Template" ("URRT") for Blue Cross and Blue Shield of Alabama's ("BCBSAL") non-grandfathered, Small Group Market health plans. These submitted rates are effective for new issues and renewals occurring during 2027.

This memorandum contains data, analyses, and explanations supporting the assumptions and methodology used in the premium rate development for products in the Small Group Market. This includes specific support of the inputs and underlying assumptions used to populate the URRT. The contents of the memorandum are intended to demonstrate the reasonableness of the resulting Small Group Market premium rates, as well as document that those rates have been developed in compliance with the market rating rules as established under the Affordable Care Act ("ACA") and in accordance with sound actuarial principles.

This memorandum generally follows the format outlined in the aforementioned HHS instructions.

General Information

Tables 1.1 and 1.2 provide identifying information and primary contact information.

Table 1.1: Company Identifying Information	
Company Legal Name:	Blue Cross and Blue Shield of Alabama
State with Regulatory Authority:	Alabama
HIOS Issuer ID:	46944
Market:	Non-Grandfathered Small Group
Effective Date:	January 1, 2027

Table 1.2: Primary Company Contact Information

Health Benefit Plans

Table 1.3 provides information about the plans to which this Actuarial Memorandum applies. For the remainder of this Memorandum, only Plan Names are referenced.

Table 1.3: Small Group Market			
Market	Product ID	Plan ID	Plan Name
Small Group	46944AL028	46944AL0280001	Blue Choice Platinum for Business
Small Group	46944AL034	46944AL0340001	Blue Access Gold for Business
Small Group	46944AL038	46944AL0380001	Blue Secure Silver for Business
Small Group	46944AL043	46944AL0430001	Blue Saver Bronze for Business
Small Group	46944AL067	46944AL0670001	Blue Secure Gold for Business
Small Group	46944AL068	46944AL0680001	Blue HSA Silver for Business
Small Group	46944AL076	46944AL0760001	Blue Saver Gold for Business

Section 2: Proposed Rate Changes

Exhibits referenced in this section can be found in the Appendix.

In 2027, BCBSAL will continue to offer the seven plans available in 2026.

Exhibit 2.1 shows the proposed average rate change by renewal quarter.

The Quarterly Trend Factor applied for 2027 is discussed in Section 18.

Rate changes will vary according to the updated geographic rating factors shown in Exhibit 7.1 which is a comparison of the Current Area Factors (2026) to the Proposed Area Factors (2027).

The main considerations for the proposed rate changes are:

- Projected medical inflation and utilization as indicated in Section 5, and
- Changed retention loads as indicated in Section 14.

Exhibit 2.2 provides the components of the average rate change from 2026 to 2027.

The 2027 premium rates were not developed using the method shown in Exhibit 2.2, as Exhibit 2.2 is provided (a) for illustrative purposes, and (b) as a reasonableness check of the overall average rate change.

The components of the total required rate increase in Exhibit 2.2 are multiplicative rather than additive; unrounded values were used in the calculation.

The rate change varies by plan due to: (a) member cost sharing changes, and (b) varying impacts of leveraging.

Such rate variation by plan reflects neither potential nor existing differences in morbidity.

The rate changes by plan applicable to each quarter are shown in Exhibit 2.3.

Overall Average Rate Change shown in Exhibit 2.3 is based on the member weighted average using the actual March 2026 enrollment distribution across plans.

Section 3: Experience and Current Period Premium, Claims, and Enrollment

Exhibits referenced in this section can be found in the Appendix.

Experience for the single risk pool during the experience period reported in Worksheet 1, Section I, of URRT, includes all non-grandfathered health plans in the Small Group Market.

Experience Period

12 months of calendar year 2025 based on the claim incurred date

Paid Through Date

March 31, 2026

Current Date

Current enrollment and premium shown in Section 2 of Worksheet 2 are reported as of March 31, 2026.

Experience Period Premium

The reported premium in Section I of Worksheet 1:

1. Reflects premiums earned during the experience period by BCBSAL,
2. Does not reflect any reductions prescribed by HHS when calculating BCBSAL's MLR, such as taxes and assessments,
3. Does not reflect risk adjustment payables or receivables, and
4. Does not reflect MLR rebates.

Allowed and Incurred Claims Incurred During the Experience Period

When estimating Incurred but not Paid ("IBNP") for URRT, BCBSAL varied the methodology across four claim classifications. Each methodology, where appropriate, used historical claim data from BCBSAL's Small Group non-grandfathered block of business.

(1) Initial Claims (overwhelming majority of URRT incurred claims)

IBNP was estimated by applying completion factors to experience period claims where completion factors were based on the Development (or Lag) Method referenced in paragraphs 2.5 and 3.4.1 of Actuarial Standard of Practice No. 5, "Incurred Health and Disability Claims".

A separate set of completion factors was developed for each incurred month during the experience period for each of the following benefit categories.

- (a) Inpatient Hospital,
- (b) Outpatient Hospital,
- (c) Professional,
- (d) Other Medical, and
- (e) Prescription Drugs.

Allowed claims were developed by combining incurred claims with member cost sharing.

Allowed claims and incurred claims used the same set of completion factors.

(2) Drug Rebates

IBNP was estimated by subtracting actual rebates from ultimate rebates. Ultimate rebates were derived by applying completion factors and/or trend to actual rebates.

(3) Capitation Payments

IBNP is \$0 for Capitation Payments.

(4) ACO – Value Based Payments

IBNP is estimated by considering historic payment patterns for ACO – Value Based Payments

For Drug Rebates, Capitation Payments, and ACO – Value Based Payments allowed claims equal incurred claims.

Regardless of classification, all claims are combined within the six benefit categories listed in Section 2, of Worksheet 1, of the URRT.

The resulting IBNP estimates are neither unusually high nor unusually low relative to historical levels as completion factors were developed as a function of historical completion rates applied to the experience period claims.

As expected, the IBNP estimate is stable given the experience period of calendar year 2025 with claims paid through March 31, 2026, the large size of the block of business, and the historical consistency of the claims processing system.

Exhibit 3.1 shows incurred claims during the experience period by Benefit Category, and equals that of “Incurred Claims in Experience Period” from Section I, of Worksheet 1, of URRT.

Exhibit 3.2 shows allowed claims during the experience period by Benefit Category, and equals that of “Allowed Claims” from Section I, of Worksheet 1, of URRT.

Exhibit 3.3 shows the column heading definitions.

While incurred claims and allowed claims used the same completion factors, the year 2025 completion factor for a benefit category may differ between Exhibit 3.1 and Exhibit 3.2 because:

- (1) For the classification of “Initial Claims”, completion factors were derived and applied separately for each incurred month within 2025. To the extent that the incurred claims and allowed claims are distributed differently across months, the overall completion factor will differ between incurred claims and allowed claims, and
- (2) For all other classifications incurred claims and allowed claims are equal. By mixing these claims with claims associated with “Initial Claims” within a benefit category, the overall completion factor will differ for incurred claims and allowed claims.

The benefit category of Prescription Drug has a sizable amount of “Out System” claims. These “Out System” claims are comprised of drug rebates and drug claims adjudicated by the Pharmacy Benefit Manager (PBM).

The Appendix provides the 2025 Supplemental Health Care Exhibits of BCBSAL’s 2025 Annual filing.

The data in the 2025 Supplemental Health Care Exhibits do not equal the experience period data (year 2025) used in the URRT in the development of the 2027 rates due to differences in requirements, instructions, timing, and classification of small groups.

Section 4: Benefit Categories

Claims in the experience period were assigned to one of the following categories based on indicators (e.g. location of service, type service, claim form UB04/CMS 1500, etc.) associated with the claim data. These assignments mostly follow the definitions given below.

Inpatient Hospital (Utilization Unit: Days)

Includes non-capitated facility services for medical, surgical, maternity, mental health and substance abuse, and other services provided in a facility setting on an inpatient basis and billed by the facility.

Outpatient Hospital (Utilization Unit: Services)

Includes non-capitated facility services for surgery, emergency room, lab, radiology, therapy, observation and other services provided in a facility setting on an outpatient basis and billed by the facility.

Professional (Utilization Unit: Services)

Includes non-capitated primary care, specialist, laboratory, radiology, and other professional services that are billed directly by the provider.

Other Medical (Utilization Unit: Services)

Includes non-capitated ambulance, home health care, therapy, DME, chiropractic, prosthetics, supplies, and other services as well as all out-of-network services.

Capitation (Utilization Unit: Benefit Period)

Includes all services provided under capitated arrangements.

Prescription Drug (Utilization Unit: Prescriptions)

Includes drugs dispensed by a pharmacy. This amount is net of rebates received from Pharmacy Benefit Manager.

Section 5: Trend Factors

Exhibits referenced in this section can be found in the Appendix.

Trend Factors (Cost/Utilization)

BCBSAL's cost and utilization projected trends by benefit category were developed by examining:

- (a) Experience Trends,
- (b) Provider Reimbursement Arrangements,
- (c) Utilization Patterns by Benefit Category, and
- (d) Pending/Anticipated Changes in Reimbursement and/or Utilization.

Exhibit 5.1 shows the components of trend broken into Year 1 (2026) and Year 2 (2027).

Because the URRT instructions do not define a methodology for reflecting the change in allowed cost due to a shift in plan mix between the experience period and the projection period, BCBSAL elected to adjust the underlying utilization trends.

Exhibit 8.1 shows the calculation of the Annualized Impact of Plan Mix Change.

This two-year annualized average is assumed to have a constant impact during 2026 and 2027.

The resulting Utilization Trends for Year 1 and Year 2 used in rate development are calculated as the underlying Utilization Trend multiplied by the Annualized Impact of Plan Mix Change (the Annualized Impact of Plan Mix Change is applied to all Benefit Categories except Capitation).

Exhibit 5.2 shows Year 1 and Year 2 plan mix change adjusted trend factors by benefit category.

Section 6: Morbidity and Other Adjustment

Morbidity Adjustment



Other Adjustment

BCBSAL does not expect any other adjustments, in addition to morbidity, demographics, and plan design changes that are not otherwise and elsewhere addressed in this rate development.



Section 7: Demographic Shift

Exhibits referenced in this section can be found in the Appendix.

Demographic changes were estimated using:

- BCBSAL's projected member months,
- BCBSAL's area rating factors, and
- Age curve described in the State of Alabama Department of Insurance Bulletin No. 2020-17 which is included in the Appendix of this Actuarial Memorandum.

Area Factor Adjustment

Rating areas are the geographic rating areas listed in State of Alabama Department of Insurance Bulletin No. 2013-04 which is included in the Appendix of this Actuarial Memorandum.

Small Group rating areas are established using group policyholder's principal business address.

[REDACTED]

[REDACTED]

[REDACTED]

- Reflected only delivery cost differences by normalizing the claim data at the insured level for differences in population morbidity and plan mix,

- [REDACTED]

- Considered:
 - 1) Geographic proximity of rating areas,
 - 2) Data consistency across the two years, and
 - 3) Rate impact for renewing policies from changing the area factors.

Exhibit 7.1 shows BCBSAL's current and proposed area rating factors.

Exhibit 7.2 shows the development of the Average Area Factor for the:

- Experience Period as the dot product of:
 - 1) 2025 Actual Enrollment Distribution, and
 - 2) [REDACTED] Area Factors.
- Projection Period as the dot product of:
 - 1) 2027 Projected Enrollment Distribution which is the actual March 2026 enrollment distribution, and
 - 2) [REDACTED] Area Factors.

Age Factor Adjustment

- BCBSAL used the age curve described in the State of Alabama Department of Insurance Bulletin No. 2020-17 to calculate the Average Age Factor for the:
 - 1) Experience Period, and
 - 2) Projection Period.
- The Average Age Factor for the Experience Period is shown as the “2025 Experience Period Average Age Factor” in Exhibit 7.4 and was calculated as the member weighted “Average Age Factor” for 2025.
- The Average Age Factor for the Projection Period is shown as the “2027 Projection Period Average Age Factor” in Exhibit 7.4 and was calculated by:
 - 1) Developing the “Assumed Monthly Change” as the member weighted monthly change in the “Average Age Factor” for 2025 shown in Exhibit 7.3,
 - 2) Applying the “Assumed Monthly Change” to the Mar-2026 “Average Age Factor” shown in Exhibit 7.3 to project the monthly “Average Age Factor” beginning with Apr-2026 and ending with Dec-2027 as shown in Exhibit 7.4, and
 - 3) Calculating the “2027 Projection Period Average Age Factor” as the member weighted “Average Age Factor” for 2027 as shown in Exhibit 7.4.

Tobacco Factor Adjustment

BCBSAL does not rate for tobacco in the Small Group Market, consequently the tobacco factor adjustment is 1.000.

Demographic Shift

Exhibit 7.5 shows the calculation of the total demographic shift factor.

Section 8: Plan Design Changes

Exhibits referenced in this section can be found in the Appendix.

The experience period, which is calendar year 2025, includes policy years that began in 2024 and 2025 as Small Group policies begin throughout the year.

Consequently, the impact of plan design changes from the experience period to the projection period was quantified by considering the policy years beginning in 2024 and 2025 in proportion to each year's exposure during the experience period.

From the experience period to the projection period, BCBSAL made changes to benefits which may include cost sharing and drug formulary changes.

These changes were implemented to:

- (1) Maintain Actuarial Values within de minimis ranges,
- (2) Reflect changes in regulations, and/or
- (3) Reflect changes in the cost and utilization of medical care.

The impact of plan design changes was estimated using the Milliman Managed Care Rating Model which was calibrated to BCBSAL's Small Group experience.

More specifically, the Milliman Managed Care Rating Model was used to model benefits for policy years that began in 2024 or 2025 (proportionately during the experience period) and policy years beginning in 2027 (projection period).

The differences between the Modeled Allowed Relativities of the (1) Experience Period and (2) Projection Period shown in Exhibit 8.1 as "Impact of Plan Design Changes" are due only to changes in cost sharing and/or changes in drug formularies.

Exhibit 8.1 also shows the "Annualized Impact of Plan Mix Change" which is referenced in Section 5 of this Actuarial Memorandum.

Section 9: Manual Rate Adjustments

No manual rate adjustment was needed as BCBSAL's experience period claims are deemed fully credible as discussed in Section 10: Credibility of Experience.

Section 10: Credibility of Experience

Given the [REDACTED] of experience period member months showing in Section 1 of Worksheet 1 of the URRT, BCBSAL has assigned full credibility to its Base Period Experience for Small Group.

This assignment of full credibility “without using a rigorous mathematical model” is consistent relative to Actuarial Standards of Practice No. 25 Credibility Procedures, specifically section 3.4, “Professional Judgment,” which states, “...in some situations, an acceptable procedure for blending the subject experience with the relevant experience may be based on the actuary assigning full, partial, or zero credibility to the subject experience without using a rigorous mathematical model.”

Section 11: Establishing the Index Rate

Exhibits referenced in this section can be found in the Appendix.

Information contained in this section's associated exhibits may not calculate exactly to the final results indicated due to rounding.

Experience Period Index Rate

Exhibit 11.1 provides details of the development of BCBSAL's 2025 Small Group ACA Index Rate.

The non-EHB claims during the experience period were associated with Adult Vision, Bariatric Surgery, and Medical Nutrition Therapy Services, the details of which are described in Section 15 of this Actuarial Memorandum.

Projection Period Index Rate

BCBSAL applied the trend factors from Exhibit 5.2 to the Experience Period Allowed Claims PMPM for EHBs in Exhibit 11.2 to develop the Trended EHB Allowed Claims PMPM.

BCBSAL applied the Projection Factors described below, to the Trended EHB Allowed Claims PMPM to develop the Projection Period Index Rate shown in Exhibit 11.3.

- Morbidity Adjustment: Section 6: Morbidity and Other Adjustment,
- Demographic Shift: Section 7: Demographic Shift, Exhibit 7.5,
- Impact of Plan Design Changes: Section 8: Plan Design Changes, Exhibit 8.1, and
- Other: Section 6: Morbidity and Other Adjustment.

Section 12: Development of Market Adjusted Index Rate

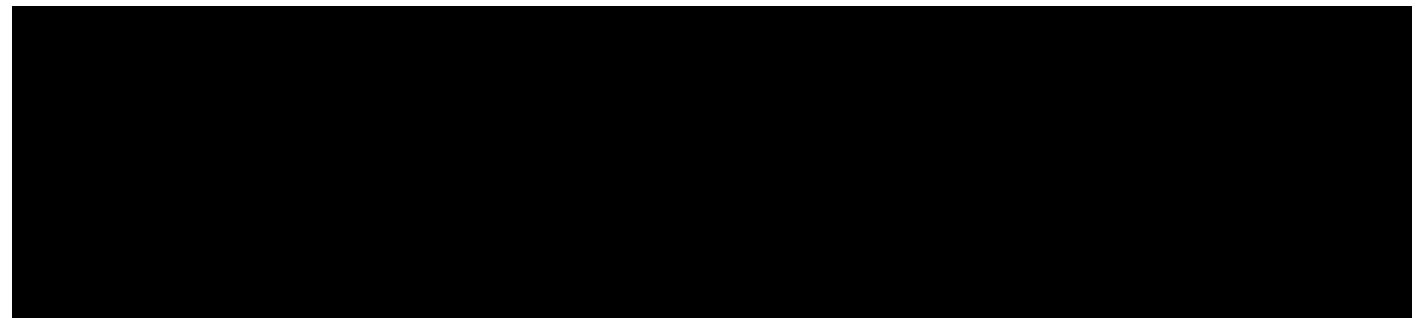
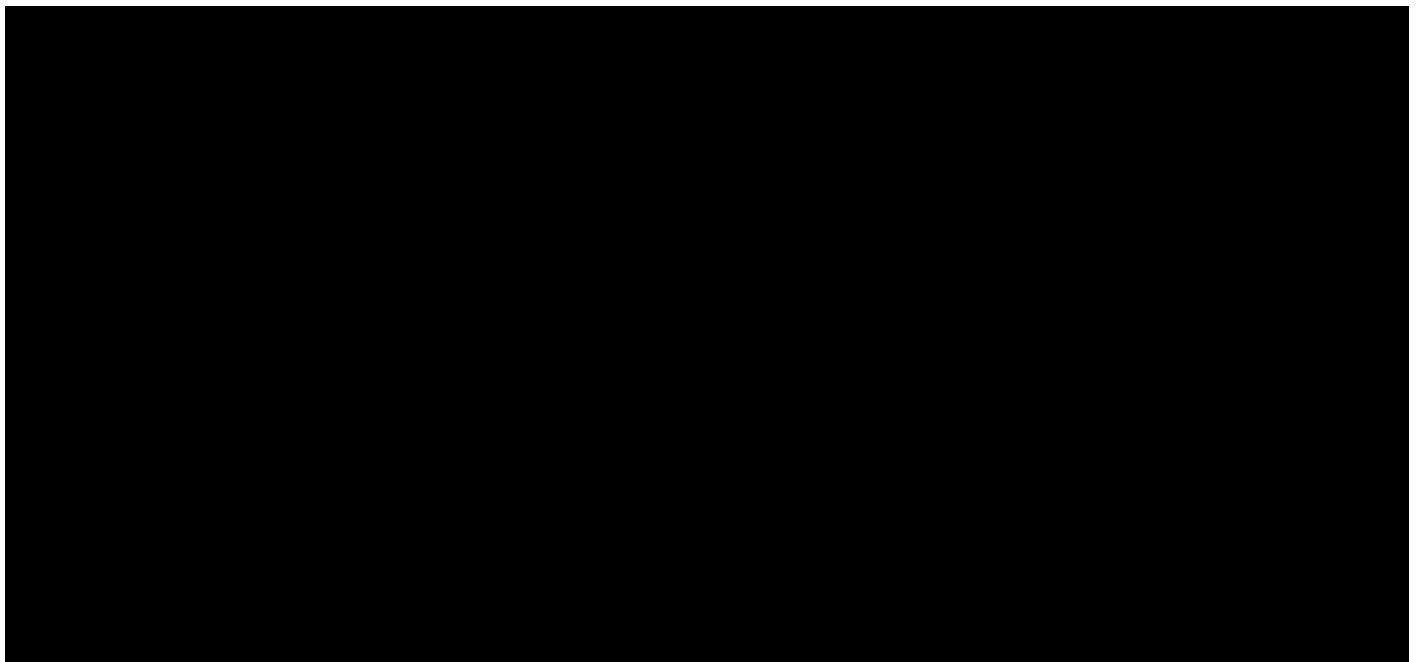
Exhibits referenced in this section can be found in the Appendix.

The Market Adjusted Index Rate is calculated as the index rate adjusted for all allowable market-wide modifiers, including risk adjustment and the exchange user fee adjustment. This calculation is shown in Exhibit 12.1. The Market Adjusted Index Rate in Exhibit 12.1 may not match exactly to the Market Adjusted Index Rate in the URRT due to rounding.

Experience Period Risk Adjustment

The risk adjustment transfer for the 2025 BCBSAL Small Group Market is listed in Exhibit 12.2. This amount, which BCBSAL will receive for 2025 net of High-Cost Risk Pool payments and charges, is a compilation of applicable items provided by CMS.

Projected Risk Adjustments PMPM





Exchange User Fee

Since issuers are not required to pay user fees for SHOP enrollment in 2027, the projected Exchange User Fee PMPM amount is \$0.00.

Section 13: Actuarial Value and Cost Sharing

Exhibits referenced in this section can be found in the Appendix.

Induced Utilization Adjustment Factors

The induced utilization adjustment factors:

- Account for the expected utilization differences due to differences in cost sharing,
- Quantify the induced utilization of the plan relative to the induced utilization of the total Small Group Market,
- Were developed using the Milliman Managed Care Rating Model using a standard population and 2015, 2016, and 2017 claims experience normalized for risk, area, network, and large claims,
- Demonstrate the expected utilization differences due to cost-sharing factors alone, independent of health status.

Given the induced utilization factors were originally based on 2015, 2016, and 2017 claims experience, BCBSAL considered the calendar year loss ratios by metal level:

- (1) Using 2022, 2023, 2024, and 2025 claims and premium, and
- (2) Adjusting premium of these loss ratios by undampened risk transfers assuming BCBSAL was the only insurer in Alabama.

These calendar year metal level loss ratios were relatively homogeneous across 2022, 2023, 2024, and 2025 indicating the induced utilization factors from the 2026 rate filing adjusted for 2027 benefit design changes continue to be reasonable.

The Induced Utilization Adjustment Factors are shown in Exhibit 16.1.

Paid to Allowed Adjustment Factors

The Paid to Allowed Ratio is derived as follows:

$$\frac{\text{Paid}}{\text{Allowed}} = \frac{\sum_{Plan} \text{Member Months} \times \text{Allowed PMPM} \times \text{Paid to Allowed Ratio}}{\sum_{Plan} \text{Member Months} \times \text{Allowed PMPM}}$$

The numerator is incurred claims (Projected Paid Amount in Exhibit 13.1), and the denominator is allowed claims (Projected Allowed Amount in Exhibit 13.1).

The calculation of BCBSAL's Paid to Allowed Ratio is shown in Exhibit 13.1.

Applying the "2027 Paid to Allowed Adjustment Factor" from Exhibit 13.4 (developed from the "Modeled 2027 Paid to Allowed Ratio" also from Exhibit 13.4) to develop the Plan Adjusted Index Rates in Exhibit 16.1 removes any variation in health status across plans that would otherwise be reflected in the Plan Adjusted Index Rates.

Projected 2027 Paid to Allowed Ratios

Exhibit 13.2 shows the Projected 2027 Paid to Allowed Ratios shown in Exhibit 13.1.

In Exhibit 13.2, the Increase Due to Leveraging (column B) and the Impact of Cost Sharing Changes (column C) were derived from the Milliman Managed Care Rating Model, which was calibrated to BCBSAL's Small Group experience.

Projected 2027 Allowed PMPMs by Plan

Exhibit 13.3 shows the Projected 2027 Allowed PMPMs shown in column B of Exhibit 13.1.

The Trend Factor (column B) of Exhibit 13.3 applies two years of the composite trend developed in Section 5 in Exhibit 5.1.

The Impact of Cost Sharing Changes (column C) of Exhibit 13.3 was derived from the Milliman Managed Care Rating Model, which was calibrated to BCBSAL's Small Group experience.

The 2027 Paid to Allowed Adjustment Factors are shown in column C of Exhibit 13.4.

These values were developed by first calculating the Modeled 2027 Paid to Allowed Ratio for each plan in column A of Exhibit 13.4.

A total Modeled 2027 Paid to Allowed Ratio across all plans shown in Exhibit 13.4 was developed as the weighted average using the product of Projected 2027 Member Months (column A of Exhibit 13.1) and 2027 Induced Utilization Adjustment Factors (column C of Exhibit 16.1) as weights.

The 2027 Paid to Allowed Adjustment Factors in column C of Exhibit 13.4 were developed by normalizing the Modeled 2027 Paid to Allowed Ratios in column A of Exhibit 13.4 to the 2027 Projected Paid to Allowed Ratio developed in Exhibit 13.1 by adjusting each value in column A of Exhibit 13.4 such that column C equals the product of column A and the quotient (Total of column B) / (Total of column A).

Section 14: Administrative Costs

Exhibits referenced in this section can be found in the Appendix.

BCBSAL evaluated administrative expenses for all lines of business including Small Group ACA.

Administrative expenses were reviewed on: (i) per capita, and (ii) percent of premium bases for prior time periods.

The administrative expense assumption was developed from this analysis and converted to a percent of premium.

Considerations for the 2027 administrative expense assumption include, but are not limited to:

- Administrative expenses for the corporation, and historical changes,
- Administrative expenses by line of business, and expenses allocated to Small Group ACA, and
- Ongoing maintenance, requirements, and future improvements in health plan administration (for Small Group ACA), and medical management programs applicable to Small Group ACA.

BCBSAL does not vary non-benefit expense components by plan.

Exhibit 14.1 shows the non-benefit expense components for 2027.

Retention Factors for 2026 are listed for reference only in Exhibit 14.1.

Exhibit 14.2 shows Components of Taxes and Fees for 2027.

Components of Taxes and Fees for 2026 are listed for reference only in Exhibit 14.2.

Taxes and Fees:

- State Premium Tax 0.507%

State Taxes – state premium tax established by state law as 0.5% percent of premium for groups with under 50 employees participating in the health plan.

For other groups, the tax is established at 1.6% of premium.

Using these tax rates, the average small group tax rate for all plans is calculated to be [REDACTED].

Governmental groups are exempt from State Premium Tax and account for approximately [REDACTED] of premium; this [REDACTED] was adjusted to [REDACTED] to reflect the impact of this exemption.

ACA Taxes and Fees – applicable to the Small Group Market as defined by ACA:

- Risk Adjustment User Fee [REDACTED]

The HHS Notice of Benefit and Payment Parameters for 2027 established the 2027 risk adjustment user fee at \$0.18 PMPM.

Exhibit 14.2 shows this PMPM as a percent of BCBSAL's projected Small Group ACA premium.

- Patient-Centered Outcomes Research Institute (PCORI) Fee [REDACTED]

The IRS indicated, via Internal Revenue Bulletin 2025-45, a PCORI Fee of \$3.84 PMPY for plan years ending on or after 10/01/2025 and before 10/01/2026.

By applying assumed growth, a projected PCORI Fee of [REDACTED] was developed for plan years ending on or after 10/01/2027 and before 10/01/2028.

Similarly, a projected PCORI Fee of [REDACTED] was developed for plan years ending on or after 10/01/2028 and before 10/01/2029.

With these PMPY assumptions and projected Small Group membership by renewal month in 2027, a projected PMPM of [REDACTED] was developed.

Exhibit 14.2 shows this PMPM as a percent of BCBSAL's projected Small Group ACA premium.

Section 15: Other Plan Level Adjustments

Exhibits referenced in this section can be found in the Appendix.

Provider Network Adjustment Factor



Benefits in Addition to EHBs Adjustment Factors

Non-EHBs Included in 2027:

- Adult Vision – for only Blue Choice Platinum for Business plan,
- Bariatric Surgery – for only Blue Choice Platinum for Business plan,
- Medical Nutrition Therapy Services – for all Small Group plans, and
- Hinge Health – for all Small Group plans (expanded to Blue HSA Silver for Business in 2027)

The impact of Hinge Health was developed using actuarial judgment as this non-EHB was new in 2026; this impact is estimated to be approximately a [REDACTED] to claims.

Blue Choice Platinum for Business:

- Adjustment factors for Adult Vision, Bariatric Surgery, and Medical Nutrition Therapy Services were developed by expressing the 2025 allowed claim PMPM for these non-EHBs as a percent of the 2025 total EHB allowed claim PMPM, and adding the estimated impact of Hinge Health to that result.
- 2027 percent impact is projected to be [REDACTED].

All Other Small Group Plans:

- Adjustment factor for Medical Nutrition Therapy Services was developed by expressing the 2025 allowed claim PMPM for these non-EHBs as a percent of the 2025 total EHB allowed claim PMPM, and adding the estimated impact of Hinge Health to that result.
- 2027 percent impact is projected to be [REDACTED].

Non-EHB Factor by Plan

Exhibit 15.1 shows the non-EHB factor by plan.

Section 16: Plan Adjusted Index Rates

Exhibits referenced in this section can be found in the Appendix.

The Plan Adjusted Index Rates were developed from the Market Adjusted Index Rate using the following adjustment factors:

- Actuarial value and cost-sharing design – includes expected utilization differences due to differences in cost sharing labeled in Exhibit 16.1 as Induced Utilization Adjustment Factor
- Adjustment for paid to allowed adjustment factors (developed in Exhibit 13.4)
- Adjustment for provider network which does not vary across plans
- Adjustment for benefits in addition to EHBs
- Adjustment for distribution and administrative costs

Exhibit 16.1 provides details for the plan-specific Plan Adjusted Index Rate calculations.

Plan Adjusted Index Rates in Exhibit 16.1 may not match exactly to the Plan Adjusted Index Rates in the URRT due to rounding.

Section 17: Calibration

Exhibits referenced in this section can be found in the Appendix.

The Plan Adjusted Index Rates were calibrated for age and area factors.

Age Calibration:

The Plan Adjusted Index Rates were calibrated using the 2027 Projection Period Average Age Factor shown in Exhibit 7.4.

This 2027 Projection Period Average Age Factor was developed using the age curve described in the State of Alabama Department of Insurance Bulletin No. 2020-17 which is included in the Appendix of this Actuarial Memorandum.

In addition, before calibration, this factor of 2027 Projection Period Average Age Factor was adjusted for the following two items:

- 1) Three Dependent Average Adjustment Factor developed in Exhibit 17.1 which adjusts for members for whom no premium was paid during 2025 due to the cap of three oldest child dependents under age 21.

Exhibit 17.1 calculates the monthly ratio of:

- (a) Adjusted Avg. Age Factor which is the average age factor resulting from applying a factor of zero for the members for whom no premium is paid, to
- (b) Avg. Age Factor from Exhibit 7.3 (also shown in Column D of Exhibit 17.1).

The Three Dependent Average Adjustment Factor is calculated as the member weighted average of these 2025 monthly ratios.

- 2) Renewal/Issue Age Average Adjustment Factor is developed in Exhibit 17.2 to account for the 2027 Projection Period Average Age Factor of Exhibit 7.4 reflecting all age changes throughout the experience period of 2025 while premium rates reflect only age changes occurring up to renewal and/or issue.

Exhibit 17.2 calculates the monthly ratio of:

- (a) Adjusted Avg. Age Factor which is the average age factor resulting from aging the insureds only up to renewal and/or issue rather than throughout 2025, to
- (b) Avg. Age Factor from Exhibit 7.3 (also shown in Column D of Exhibit 17.1).

The Renewal/Issue Age Average Adjustment Factor is calculated as the member weighted average of these 2025 monthly ratios.

Exhibit 17.3 shows the development of the Age Curve Calibration Factor which is the product of the following three items:

- 1) 2027 Projection Period Average Age Factor (from Exhibit 7.4),
- 2) Three Dependent Average Adjustment Factor (from Exhibit 17.1), and
- 3) Renewal/Issue Age Average Adjustment Factor (from Exhibit 17.2).

Area Calibration:

The Plan Adjusted Index Rates were also calibrated using the 2027 Projection Period Average Area Factor.

The development of the 2027 Projection Period Average Area Factor is shown in Exhibit 7.2 of Section 7.

Calibrated Plan Adjusted Index Rates

The Calibrated Plan Adjusted Index Rates are the result of dividing the Plan Adjusted Index Rates by the:

- Age Curve Calibration Factor, and
- Area Calibration Factor.

The development of the Calibrated Plan Adjusted Index Rates is shown in Exhibit 17.4.

The product of a given:

- Calibrated Plan Adjusted Index Rate, and
- Quarterly Trend Factor shown in Exhibit 18.1 of Section 18,

Equals the monthly premium rate for a 21-year-old in Rating Area 3 as the Age Premium Factor is 1.0000 (see Exhibit 18.4 of Section 18) and Rating Area Premium Factor is 1.0000 (see Exhibit 18.3 of Section 18).

The Calibrated Plan Adjusted Index Rates in Exhibit 17.4 may not match exactly to the Calibrated Plan Adjusted Index Rates in the URRT due to rounding.

Section 18: Consumer Adjusted Premium Rate Development

Exhibits referenced in this section can be found in the Appendix.

The Consumer Adjusted Premium Rate is calculated by applying the appropriate area factor, age factor, and quarterly trend factor to the Calibrated Plan Adjusted Index Rate for a particular plan.

The Calibrated Plan Adjusted Index Rates are shown in Exhibit 17.4.

The Index Rate, the Market Adjusted Index Rate, and the Plan Adjusted Index Rate reflect member premium for a plan renewing in the first quarter of 2027.

The Calibrated Plan Adjusted Index Rates must be adjusted to reflect the appropriate quarter when the consumer-level modifiers are applied.

Exhibit 18.1 shows the Quarterly Trend Factors that must be applied to the Calibrated Plan Adjusted Index Rates to calculate the Consumer Adjusted Premium Rates for members renewing in each quarter.

The Quarterly Trend Factors are calculated assuming  annualized trend.

Exhibit 18.2 provides an example of the Consumer Adjusted Premium Rate calculation for an insured with the following characteristics:

- Blue Choice Platinum for Business,
- Rating Area 9: Huntsville MSA,
- 40-year-old, and
- 1st Quarter 2027 renewal

Applicable Rating Factors

Area Premium Factors:

The rating areas used are the Alabama geographic rating areas listed in the State of Alabama Department of Insurance Bulletin No. 2013-04, attached in the Appendix of this memorandum.

The rating area is based on the group policyholder's principal business address.

Rating Area Premium Factors are shown in Exhibit 18.3.

Age Premium Factors:

BCBSAL used the age curve of the State of Alabama Department of Insurance Bulletin No. 2020-17, attached in the Appendix of this memorandum.

Exhibit 18.4 shows the Age Premium Factors

Tobacco Premium Factors:

BCBSAL does not rate for tobacco use in the Small Group Market.

Family Premiums

Family premiums will equal the sum of individual Consumer Adjusted Premium Rates calculated using the appropriate Calibrated Plan Adjusted Index Rate and the rating factors above, with the total premium charged to a family for child dependents under age 21 capped at the sum of the individual Consumer Adjusted Premium Rates for the three oldest child dependents under age 21.

COBRA Adjustment

As allowed by the Consolidated Omnibus Budget Reconciliation Act (COBRA), Small Group COBRA rates may be loaded by 2% for administrative costs, and by 50% for disability extension if elected.

Composite Rating in the Small Group Market

In regard to composite rating in the Small Group Market, BCBSAL will offer premiums in compliance with 45 CFR 147.102(c)(3) and related guidance issued by the Alabama Department of Insurance (ALDOI).

Currently ALDOI Bulletin No. 2014-03, attached in the Appendix of this memorandum, allows for the use of Family Composite Premiums as defined by the following four tiers:

- (1) Employee Only,
- (2) Employee + Spouse,
- (3) Employee + Children, and
- (4) Employee + Family.

Section 19: Projected Loss Ratio

Exhibits referenced in this section can be found in the Appendix.

The projected ACA loss ratio for BCBSAL's 2027 Small Group Market is calculated in Exhibit 19.1 consistent with the federally prescribed MLR methodology of 45 CFR Part 158, 158.221.

$$\text{MLR} = \frac{i + q - s + (n - r)}{p - (t + f)} + c$$

Exhibit 19.1 lists the variables, definitions, the values taken from BCBSAL's projections for its Small Group Plans, and the MLR Result.

Section 20: AV Metal Values

Exhibits referenced in this section can be found in the Appendix.

The AV Metal Values for each plan, as well as details around the methodology used to calculate them, are provided in Exhibit 20.1.

Section 21: Membership Projections

Exhibits referenced in this section can be found in the Appendix.

BCBSAL's projected 2027 Small Group member months by plan, which are shown in Exhibit 21.1, reflect a monthly [REDACTED] in membership of [REDACTED] through and including 06/2026 relative to actual 03/2026 membership.

This [REDACTED] reflects the [REDACTED] associated with policy years beginning during [REDACTED] 2026.

Beyond 06/2026, the assumed long-term monthly [REDACTED] in membership is [REDACTED].

BCBSAL has assumed the projected 2027 plan mix based on member months will be approximately the same as that of the actual mix at 03/2026.

Section 22: Terminated Plans and Products

The instructions for the Actuarial Memorandum define terminated plans and products as:

- 1) Having terminated prior to the effective date of the filing, and
- 2) Having:
 - a. Either experience included in the single risk pool during the experience period,
 - b. Or not being in effect during the experience period, but made available thereafter.

Given the aforementioned definition of terminated plans and products, BCBSAL has no such plans or products associated with this filing.

Section 23: Plan Type

All health plans fit the definition of Preferred Provider Organization (“PPO”).

Healthcare.gov defines PPO as, “A type of health plan that contracts with medical providers, such as hospitals and doctors, to create a network of participating providers. You pay less if you use providers that belong to the plan’s network. You can use doctors, hospitals, and providers outside of the network for an additional cost.”

Section 24: Reliance

During premium rate development, the following sources or entities-external to BCBSAL-were referenced or considered in establishing rating assumptions and analysis that support the data in the URRT and resulting final premium rates. All information and analysis considered from the sources or entities were deemed reasonable for their intended purposes.

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- State of Alabama Bulletins Nos. 2013-04, 2014-03, and 2020-17 regarding geographic rating areas, composite premiums, and age curve respectively.
- HHS Notice of Benefit and Payment Parameters for 2027.
- Internal Revenue Bulletin: 2025-45 for PCORI Fee.

Section 25: Actuarial Certification

I, [REDACTED] for Blue Cross and Blue Shield of Alabama. I am a member of the American Academy of Actuaries, and I am qualified to provide this Actuarial Certification which certifies the following:

- (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 applicable Actuarial Standards of Practice,
 - c) Reasonable in relation to the benefits provided and the population anticipated to be covered, and
 - 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 geographic rating factors reflect only differences in the costs of delivery and do not include differences for population morbidity by geographic area, and
- (4) The AV Metal Values shown in Worksheet 2, Section I of the Part I Unified Rate Review Template were developed using an alternate methodology for all plans. The Actuarial Certification submitted to CMS (HIOS) with the corresponding QHP form filing, as required by 45 CFR 156.135, provides the necessary documentation and signature.

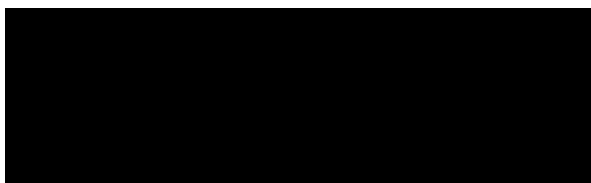
Federal requirements regarding rating for age and family composition differ from requirements set forth in Alabama Regulation No. 482-1-116. However, with exception of such changes prescribed by federal regulation, rates were developed in accordance with rating provisions of Alabama Regulation No. 482-1-116-.05 and guidance provided in State of Alabama Bulletin 2014-03.

BCBSAL used the age rating curve established in the State of Alabama Department of Insurance Bulletin No. 2020-17.

This memorandum and accompanying articles simultaneously satisfy filing requirements of ACA, and filing requirements of the State of Alabama.

All analyses were either completed by me, or were performed under my direction and review.

Signed,

A large black rectangular redaction box covering the signature area.

Blue Cross and Blue Shield of Alabama

Appendix

[Appendix Redacted]