



ACTUARIAL MEMORANDUM

TO: Centers for Medicare & Medicaid Services (CMS)

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

DATE: September 24th, 2018

SUBJECT: Insurance Company of Scott & White (ICSW)
Individual 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 above-mentioned rate review process is initiated using the Unified Rate Review System administered by CMS, and requires the submission of three documents:

- I. A Unified Rate Review Template (URR) – Part 1
- II. Justification of a Rate Increase Deemed “Unreasonable” – Part 2 (if applicable)
- III. An Actuarial Memorandum – Part 3

Insurance Company of Scott & White

The purpose of the Actuarial Memorandum is to provide certain information related to the submission, including support for the values entered into the Part 1 Unified Rate Review Template, which supports compliance with the market rating rules and reasonableness of rate increases.

GENERAL INFORMATION

Company Legal Name: Insurance Company of Scott & White

State: Texas

HIOS Issuer ID: 37755

Market: Individual

Effective Date: 1/1/2019

Primary Contact Name: Mario Guajardo, ASA MAAA, Director of Actuarial Services

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PROPOSED RATE INCREASE

General Description: This filing represents an average annual rate increase of X% on renewing members in the TX market. This rate action is intended to be effective on 1/1/2019; these products are not sold through the Exchange.

Reason for Rate Increase(s): The rate increase is necessary due to worse than expected experience, medical inflation, changes in risk adjustment estimates, and morbidity.

EXPERIENCE PERIOD PREMIUM AND CLAIMS

Paid Through Date: The base period specified in Worksheet 1, Section I of the URR corresponds to the most recent 12 month period available: January 2017 – December 2017. Claims are paid through March 2018.

Premiums (net of MLR Rebate) in Experience Period: \$X

Allowed and Incurred Claims during the Experience Period: \$X Allowed and \$X paid. These amounts include an estimate of IBNR claims using completion factors as follows:

	<u>Experience Period</u>	<u>IBNR</u>	<u>Total</u>
Allowed:	X	X	X
Paid:	X	X	X

SINGLE RISK POOL

This filing corresponds to the single risk pool for this particular state and market, which is established according to the requirements in 45 CFR § 156.80(d). The single risk pool reflects all covered lives for every non-grandfathered product/plan combination for an issuer in this state and market. The single risk pool is specific to the legal entity for the state and market for which it is submitted. The single risk pool includes transitional products/plans (if applicable) for purposes of base rate experience used to demonstrate the single risk pool. The projection period reflects the experience of transitional policies to the extent that the company anticipates the members in those policies will be enrolled in single risk pool compliant plans during the projection period.

BENEFIT CATEGORIES

Utilization and unit costs reflect historical ICSW experience; similar unit costs are assumed in the projection period and no large network changes are expected. Utilization description is designated as “other” for all categories other than Inpatient Hospital and reflects the claim count.

PROJECTION FACTORS

Trend assumptions are derived from observed experience in the Small Group market, with adjustments (detailed below) when appropriate.

Changes in Morbidity of the Population Insured: An average difference of X% in population morbidity is expected between the experience period and the future population of the projection period; X% of the morbidity is based on the observed differences between the experience of the ACA-Compliant products and experience of both ACA and transitional relief plans. The remaining X% is based on comparing base experience Wakely morbidity to 2018 Wakely morbidity. 2019 morbidity was assumed to be similar to 2018.

Changes in Benefits: The 2019 AV Calculator provides updates over the 2018 version; therefore, benefits for certain products have been adjusted to reflect the valuation of the 2019 AV Calculator.

Changes in Demographics: Demographic changes were accounted for in the morbidity adjustment. Wakely morbidity factor contains both diagnosis and demographic risk profile.

Other Adjustments: The X factor in the “Other” section of URRT1 adjusts the PPO experience into EPO.

Trend Factors: The overall annual trend assumption is X% and includes expected contract and utilization changes.

CREDIBILITY MANUAL RATE DEVELOPMENT

Source and Appropriateness of Experience Data Used: The source data used to generate the manual rates consists of historical ICSW Individual PPO experience from January 2017 to December 2017; this data is expected to closely resemble underwriting patterns, product benefits, and the contract rates in the Individual EPO ACA Risk Pool.

Adjustments Made to the Data: As explained in the experience section above, the manual rate has been adjusted to reflect changes in utilization and contracts. Please reference the section *PROJECTION FACTORS* for details.

Inclusion of Capitation Payments: Future contracts are on a Fee-for-Service basis. The experience used to generate the manual rates includes a portion of services as capitation; these capitated claims are re-priced using an equivalent fee schedule so that they may be used in conjunction with FFS claims.

CREDIBILITY OF EXPERIENCE

Prior claims experience is X% credible for this risk pool, initial premium rates are based X% on claims experience.

PAID TO ALLOWED RATIO

The average Paid/Allowed ratio has been calculated as the average of the Paid/Allowed ratios of all the products to be offered in the risk pool weighted by expected membership enrollment. Paid/Allowed ratios used in pricing are relatively consistent with the metallic actuarial value generated by the AV Calculator from HHS as detailed in the following table:

Expected Risk Pool Actuarial Value: X

Product ID	Metal	Plan ID	Plan Name	Plan Type	Exchange Plan?	Existing/New	AV Metal Value	AV Pricing	Expected MM	Weight
37755TX025	BRONZE	37755TX0250001	Select Bronze 7300	EPO	No	Renewing	X	X	X	X
37755TX011	CATASTROPHIC	37755TX0110006	Myplan Transitional Relief	PPO	No	Terminated	X	X	X	X

RISK ADJUSTMENT AND REINSURANCE

Projected Risk Adjustments PMPM:

Risk adjustment fees will be based on the final 2019 user fee of \$1.68/year or \$0.14PMPM.

Risk Adjustment estimates were based on results from Wakely Model. Insurance Company of Scott & White participated in model with other carriers in the state.

Insurance Company of Scott & White expects to have a higher risk membership than the state average and thus expects to receive payments from the risk adjustment program.

Projected ACA Reinsurance Recoveries Net of Reinsurance Premium: Under the current law, the transitional reinsurance program was ended by the end of year 2016 thus Insurance Company of Scott & White Health Plan is assuming no reinsurance premium.

NON-BENEFIT EXPENSES AND PROFIT & RISK

Administrative Expense Load: Administrative costs take into consideration historical costs for each operating division as well as quality payments to providers; administrative costs do not include taxes and fees (such as PBM fees) and are expected to be X% of premium.

Profit & Risk Margin: X% of premium is assumed.

Taxes and Fees: The following taxes and fees have been included in the premium:

Premium Taxes:	X%
PCORI Fees:	\$0.19 PMPM Average 0.04% of Premium

2019 Annual Fee on Health Insurance Providers:	0.0%
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PROJECTED LOSS RATIO

The target loss ratio for the Individual Risk Pool meets the federal standard MLR of 80 percent as demonstrated below.

MLR = [(i + q + n - r) / {(p + n - r) - t - f - n + r}] + c		
i	incurred claims	X
q	quality improvement expenses	X
p	earned premium	X
t	Federal and Sate Taxes	X
f	Licensing and Regulatory Fees	X
s	reinsurance receipts	X
n	reinsurance, risk corridors/risk adjustment payments	X
r	Risk corridors/risk adjustment receipts	X
c	credibility adjustment	X
MLR: X		

INDEX RATE

A detailed walkthrough of the index rate to each individual premium rate is included in the **Development Exhibit** included with this memorandum.

A Market Adjusted Index Rate was developed by adjusting the Index Rate by the expected impact of risk Adjustment, Reinsurance and the Exchange User Fees (if applicable).

The Market Adjusted Index Rate was adjusted for every plan specific Impact of Network Changes, Utilization Management, Benefits Other than EHB, Actuarial Value, Distribution and Admin Costs, Catastrophic Plan Variation (where applicable), and an Adjustment to Reflect non-Tobacco User Rates (if applicable) in order to determine a Plan Adjusted Index Rate.

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Plan Adjusted Index Rates were calibrated in order to develop Calibrated Plan Adjusted Index Rates; the Plan Adjusted Index Rate is then modified by Age Factors and Geographic Factors in order to arrive at specific Consumer Rates.

CATASTROPHIC PLAN VARIATION

There are no Catastrophic plans in this Risk Pool.

AV METAL VALUES

Actuarial Values included in Worksheet 2 of the Part 1 Unified Rate Review Template were entirely based on the AV Calculator made available by HHS.

AV PRICING VALUES

The complete AV Pricing Value is based entirely on cost-sharing design and were developed using the Milliman Healthcost Guidelines.

Specific AVs are detailed in the *Paid to Allowed Ratio* Section above.

Tobacco Calibration

Average tobacco factor is 1.0057 with a calibration factor of 0.994.

Total Smokers:	X	1.50
Non Smokers:	X	1.00
	Average Factor:	X
	Adjusted Needed for non-Smokers:	X

CALIBRATION FACTOR

The Plan Adjusted Index Rate is calibrated to reflect the expected Age and Geographic distribution as follows:

Age Calibration: the Average Age Factor is the weighted average of HHS Age Factors by population. The calculation is as follows, demographic distributions are based on the individual EPO block.

Insurance Company of Scott & White

Average Age (Rounded): x
 Average Factor (Closest Match): x

Age	HHS Age Factors	Population Distribution	Factor Weights	Age Weights	Age	HHS Age Factors	Population Distribution	Factor Weights	Age Weights	Age	HHS Age Factors	Population Distribution	Factor Weights	Age Weights
0	0.765	x	x%	x%	22	1.000	x	x%	x%	44	1.397	x	x%	x%
1	0.765	x	x%	x%	23	1.000	x	x%	x%	45	1.444	x	x%	x%
2	0.765	x	x%	x%	24	1.000	x	x%	x%	46	1.500	x	x%	x%
3	0.765	x	x%	x%	25	1.004	x	x%	x%	47	1.563	x	x%	x%
4	0.765	x	x%	x%	26	1.024	x	x%	x%	48	1.635	x	x%	x%
5	0.765	x	x%	x%	27	1.048	x	x%	x%	49	1.706	x	x%	x%
6	0.765	x	x%	x%	28	1.087	x	x%	x%	50	1.786	x	x%	x%
7	0.765	x	x%	x%	29	1.119	x	x%	x%	51	1.865	x	x%	x%
8	0.765	x	x%	x%	30	1.135	x	x%	x%	52	1.952	x	x%	x%
9	0.765	x	x%	x%	31	1.159	x	x%	x%	53	2.040	x	x%	x%
10	0.765	x	x%	x%	32	1.183	x	x%	x%	54	2.135	x	x%	x%
11	0.765	x	x%	x%	33	1.198	x	x%	x%	55	2.230	x	x%	x%
12	0.765	x	x%	x%	34	1.214	x	x%	x%	56	2.333	x	x%	x%
13	0.765	x	x%	x%	35	1.222	x	x%	x%	57	2.437	x	x%	x%
14	0.765	x	x%	x%	36	1.230	x	x%	x%	58	2.548	x	x%	x%
15	0.833	x	x%	x%	37	1.238	x	x%	x%	59	2.603	x	x%	x%
16	0.859	x	x%	x%	38	1.246	x	x%	x%	60	2.714	x	x%	x%
17	0.885	x	x%	x%	39	1.262	x	x%	x%	61	2.810	x	x%	x%
18	0.913	x	x%	x%	40	1.278	x	x%	x%	62	2.873	x	x%	x%
19	0.941	x	x%	x%	41	1.302	x	x%	x%	63	2.952	x	x%	x%
20	0.970	x	x%	x%	42	1.325	x	x%	x%	64	3.000	x	x%	x%
21	1.000	x	x%	x%	43	1.357	x	x%	x%					

Geographic Calibration: Area factors are calibrated so that the average area is normalized to 1.000. Average area factor is based on expected membership as follows:

Average Factor:	x.xx
Geographic Calibration:	x.xx

State	Rating Area	Area Factor	Factor Weights	Calibrated Area Factor
TX	3	x.xx	x%	x%
TX	6	x.xx	x%	x%
TX	8	x.xx	x%	x%
TX	9	x.xx	x%	x%
TX	10	x.xx	x%	x%
TX	11	x.xx	x%	x%
TX	18	x.xx	x%	x%
TX	19	x.xx	x%	x%
TX	24	x.xx	x%	x%

Family Structure: Family structure takes into account family composition and the maximum of three under age 21 child dependents. The premium for family coverage is determined by summing the premiums for each individual family member, provided at most three child dependents under age 21 are taken into account; this adjustment does not result in a separate rating factor. Family tiering only occurs in states that use pure community rating and is uniformly applied to all plans in the risk pool.

MEMBERSHIP PROJECTIONS

The expected membership is assumed to follow the most current Individual EPO ACA Compliant Risk Pool, with new plans receiving similar enrollment as that of similar products.

This product is not going to be sold through the Exchanges or SHOP.

TERMINATED PRODUCTS

There are no terminated products in 2019.

PLAN TYPE

Plan types listed in Worksheet 2 correctly describe all product offerings.

WARNING ALERTS

The URRT validates; however there are cells that have divide by zero warnings. This is caused by products that do not have membership or claims in the experience period. Furthermore, the warning alert for the projected net amount of reinsurance has a divide by zero warning since the projected value is zero.

RELIANCE

When performing the pricing projections for the Risk Pool reflected in this filing, the following third parties were relied upon for certain sections:

Milliman Consulting – for basic claim distribution information

ACTUARIAL CERTIFICATION

This being a Statement of Actuarial Opinion requires acknowledgement that I, Mario Guajardo, am the Director of Actuarial Services for Scott & White Health Plan, I am a member of the American Academy of Actuaries and 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 population anticipated to be covered
 - 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 for population morbidity by geographic area.
- The AV 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, and for certification that the index rate is developed in accordance with Federal regulation and used consistently and only adjusted by allowable modifiers.

September 24th, 2018

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

Date