



Kaiser Foundation Health Plan, Inc.
(HIOS Issuer ID: 40513)
January 2021 Rate Filing for CA Individual
ACA-Compliant HMO Plans

Actuarial Memorandum

General Information

This memorandum is a part of the Kaiser Foundation Health Plan, Inc. (KFHP) rate filing for the individual HMO plans offered on and off the Covered California exchange. The rates, effective January 1, 2021, will be paid by plan members throughout CY 2021.

It should be noted that the rates for all KFHP ACA-compliant individual plans were developed within the single risk pool framework and the Unified Rate Review Template (URRT) and the Supplemental Rate Review Template (SRRT) referenced in this memorandum reflect all ACA-compliant plans (on- and off-exchange).

This rate filing does not cover pre-ACA individual plans, in which grandfathered members will continue to be enrolled in 2021.

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Proposed Rate Changes

We estimate that implementation of the proposed 2020 rates will result in a 0.8% increase in member dues paid by an average member enrolled in a KFHP individual non-grandfathered plan. The actual rate changes will vary from -14.5% to 8.4% depending on benefit plan and rating area. These changes are prior to the impact of members moving to the next age band at renewal.

The rate changes are affected by the following:

- (a) medical and administrative cost trends;
- (b) benefit adjustments affecting pricing actuarial values;
- (c) projection of risk adjustment amounts;
- (d) adjustment of the rating area factors;
- (e) termination of the HIP fee;
- (f) 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 URRT. As indicated on Worksheet 1, the experience period for this filing is CY 2019.

Paid Through Date: December 31, 2019.

Current Date: In Worksheet 2, Section II, Enrollment is as of March 31, 2020, while Premium PMPM is a projection for CY 2020.

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 individual 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 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 category reflects the costs of Ambulance, DME, Dental, Home Health, etc.

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 2020 and 2021 medical trends used in this rate development are 5.9% and 4.8%, respectively. Please note that the factors in the Utilization columns include the additional impact of benefit buy-downs and buy-ups projected for the pool in 2020 and 2021, respectively, where members use less or more services as they move between plans (induced demand).

Morbidity Adjustment:

At this point, we do not expect the average morbidity of the pool to change from 2019 to 2021 as the expected morbidity increase due to \$0 federal penalty for not having health coverage in 2019 did not materialize. However, there is a significant uncertainty related to potential shift in membership as a result of the COVID-related economic downturn.

Demographic Shift:

A demographic factor of 1.010 reflects an assumption that between 2019 and 2021 the migration of former KP Child Health Plan (CHP) members to Medi-Cal will continue, which will result in a relatively small increase in the medical cost for the pool.

Plan Design Changes:

The introduction of the updated HHS calculator required benefit adjustments to keep the plans within metallic tier ranges. We estimate that the combined impact of these changes on medical costs will be small (a reduction of less than 1%).

Other: The factor of 1.003 entered here is to bring the URRT results in line with the projections developed by our rate setting model. The model is more detailed than the URRT as it develops monthly projections by plan reflecting membership fluctuations. This creates a gap between the model and URRT results and hence the need for an adjustment.

Manual EHB Allowed Claims PMPM

Not applicable as manual rates were not developed.

Applied Credibility %

The experience period data are based on almost 8 million member months. We believe that 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:

According to the July 17, 2020, CMS report, KFHP's individual market risk adjustment transfer for the 2019 benefit year is a payment of \$432.6 million.

In order to project 2021 risk adjustment results, we used Wakely Consulting Group's study of the CA individual 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 individual membership morbidity trends and collected the available information about trends in the CA market. The results were adjusted for the impact of 2020 and draft 2021 coefficient revisions. (Our analysis shows that the model coefficient recalibration will have an unfavorable impact on KP risk adjustment transfers.) The results were further adjusted for metallic tier shifts and estimated market rate increases. We also included assumptions around the impact of COVID-19. KP supported early and expansive telehealth capabilities during the start of the epidemic, shifting medical delivery into telehealth encounters, specifically telephone encounters, which thus far are not eligible for risk score purposes. This will unfavorably impact KP's relative risk.

The 2021 total transfer amount was developed by combining the risk adjustment PMPM amounts for metallic and catastrophic products with the 2021 product-specific member months projections. The resulting risk adjustment payment was converted into a PMPM amount, divided by a projected 2021 Paid to Allowed ratio of 0.925 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 pools on Worksheet 2, Section IV of the URRT.

Exchange User Fees:

The 2021 Exchange User Fee of 3.25% was applied to the total projected exchange premium amount, divided by the member months projection for the entire pool, 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 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 individual 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.

Catastrophic Adjustment (Line 3.9):

This factor remained unchanged for several years. The Catastrophic plan experience is not credible due to low enrollment, but its multi-year performance provide justification for lowering its rates.

While the average age of the entire KFHP ACA membership is 39.5 years, the average age of members enrolled in the Catastrophic plan is 22.2 years. The current and projected plan post-risk adjustment margins are better than average. The adjustment factor on Line 3.9 will result in the plan having a greater than average rate reduction in Jan-21. We will continue to monitor the experience as it develops and make further adjustments in the future if warranted.

The catastrophic adjustment factor has no impact on the rates of the other plans in the pool.

Administrative Expense (Line 3.6):

The projection of the 2021 Administrative Cost PMPM was developed by trending the 2019 costs at 3.4% 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.

Taxes and Fees (line 3.7):

The amounts displayed on this line reflect Risk Adjustment User Fees of \$0.25 PMPM and PCORI Fees of \$0.23 PMPM converted into percent of premium.

Profit and Risk Load (Line 3.8):

When setting the rates, our goal is to both avoid high rate increases so that KFHP's individual coverage remains affordable, and to keep KP's integrated delivery system in healthy financial condition.

For 2021, KFHP leadership made a strategic decision to improve our affordability in the Southern CA market by offering coverage at more competitive rates (see details in the Geographic Factor Calibration subsection). This will result in temporary margin deterioration, but the loss will be partially mitigated by RADV credit we expect to receive in 2021 (based on 2017 service dates applied to 2018 risk adjustment transfers and announced last year). The pre-RADV margin projected for 2021 is (7.0%).

Plan Adjusted Index Rates are calculated on Line 3.10. As follows from the above, the differences due to health status are not reflected in the rates.

Calibration**Age Calibration Factor:**

This factor of 0.6204 in Worksheet 2, Section III of the URRT is a reciprocal of 1.6119, the average of standard CMS age curve rate factors weighted by projected 2021 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 the 2020 emerging experience with an adjustment for the changes described in the Demographic Shift subsection above. The same demographics were assumed in the projection period Index Rate development in Worksheet 1 of the URRT.

Geographic Factor Calibration:

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.

In prior years, to remain competitive and continue to offer affordable coverage to individual plan members, we lowered Geographic Adjustment Factors (GAFs) in certain rating areas, mostly in Southern California, where our competitors deliver healthcare using narrow provider networks. In 2018 and 2020 we adjusted some of these factors upward to prevent the corresponding Southern California rates from becoming insufficient. However, in 2020 after we were informed about a significant change to the competitive landscape of the CA individual market, we reversed this adjustment and lowered GAFs for two rating areas, where the majority of our Southern CA membership resides.

These changes created inconsistency between KFHP positions in the Northern and Southern California individual markets. While the organization leads in the Northern California individual market (NCAL, Rating Areas 1 – 11), where it has significant market share and offers coverage at affordable and competitive rates, its position in the Southern California market (SCAL, Rating Areas 12 – 19) is lagging (much lower market share, rates higher than competitors' in many geographies, etc.). After negotiations with Covered CA, KFHP's management decided to address this discrepancy by reducing 2021 rates in several SCAL rating areas. This results in more affordable rates and improved KFHP rate position, which will help introduce Kaiser's healthcare to a wider SCAL population. It will also help Kaiser members transition from group coverage lost due to economic disruptions stemming from the COVID-19 pandemic.

To implement this decision, the SCAL GAFs were reduced as shown in the table below:

Rating Area	2021 GAF	2020 GAF	Change	Rating Area	2021 GAF	2020 GAF	Change
1	0.950	0.950	0.0%	11	0.810	0.810	0.0%
2	1.000	1.000	0.0%	12	0.948	0.952	-0.5%
3	0.950	0.950	0.0%	13	0.900	0.904	-0.5%
4	1.050	1.050	0.0%	14	0.861	0.865	-0.5%
5	0.950	0.950	0.0%	15	0.709	0.792	-10.5%
6	0.975	0.975	0.0%	16	0.725	0.792	-8.5%
7	0.975	0.975	0.0%	17	0.788	0.792	-0.5%
8	1.050	1.050	0.0%	18	0.810	0.904	-10.5%
9	0.975	0.975	0.0%	19	0.819	0.875	-6.5%
10	0.850	0.850	0.0%				

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.

The Geographic Calibration Factor of 1.1405 in Worksheet 2, Section III of the URRT is a reciprocal of 0.8768, the average geographic factor weighted by 2021 projected membership distribution by rating area, calculated in the following table:

Rating Area	Area Factor	% of 2021 Non-GF Membership	Rating Area	Area Factor	% of 2021 Non-GF Membership
1	0.950	0.2%	11	0.810	2.0%
2	1.000	7.2%	12	0.948	1.8%
3	0.950	10.2%	13	0.900	0.0%
4	1.050	3.6%	14	0.861	0.8%
5	0.950	6.5%	15	0.709	7.7%
6	0.975	9.7%	16	0.725	14.0%
7	0.975	5.8%	17	0.788	6.6%
8	1.050	3.4%	18	0.810	6.7%
9	0.975	1.4%	19	0.819	6.1%
10	0.850	6.3%			
All				0.8768	100.0%

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 the calibration factors.

Consumer Adjusted Premium Rate Development

For each benefit plan, member age and rating area combination, the premium rate is a product of:

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

Projected Loss Ratio

Our best estimate of the 2021 projected loss ratio based on the federally-prescribed MLR methodology (a 3-year average) is presented in the following table:

	(Actual) 2019	(Projected) 2020	(Projected) 2021	Total
Claims	\$3,212.4M	\$3,576.6M	\$3,846.5M	\$10,635.6M
Quality Improvement	\$33.6M	\$34.0M	\$34.8M	\$102.3M
Risk Adjustment	\$443.4M	\$694.7M	\$896.0M	\$2,034.1M
Adjusted Claims	\$3,689.4M	\$4,305.3M	\$4,777.3M	\$12,772.0M
Premium	\$4,202.5M	\$4,548.6M	\$4,739.5M	\$13,490.7M
Taxes and Fees	(\$116.86M)	(\$165.7M)	(\$123.4M)	(\$405.9M)
Charitable Contributions	(\$37.6M)	(\$65.8M)	(\$83.0M)	(\$186.4M)
Adjusted Premium	\$4,048.1M	\$4,317.1M	\$4,533.2M	\$12,898.4M
MLR	91.1%	99.7%	105.4%	99.0%

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 highly unlikely KFHP’s ACA-adjusted individual 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 standard plans which either are not compatible with the calculator or for which the calculator produces unreasonable values. For these plans, the Covered CA exchange provided calculations by their actuarial consultants, which we reviewed and relied upon.

Membership Projections

The membership projections found in the URRT and elsewhere in this submission were developed by the KFHP Strategic Market Planning department. The projections reflect the results of 2020 open enrollment and provide monthly membership counts by benefit plan. In particular, these projections break down the on-exchange Silver plan membership among the regular (Base) plan and its CSR versions as shown in the table below:

Plan	Base	CSR 73%	CSR 87%	CSR 94%	All
%	25.0%	16.6%	38.7%	19.7%	100.0%

No CSR amounts will be paid by HHS’s fund on behalf of members in 2021, which is indicated by zeros in the corresponding lines in Worksheet 2 of the URRT.

Terminated Plans and Products

In Jan-21, off-exchange Bronze HDHP 6800/40% will be terminated. Changes to standard Bronze HDHP (becoming 7000/0% in 2021) and IRS limitations on HSA-eligible plans made this plan obsolete. Membership from the terminated plan is projected to move into the standard plan, which is offered on- and off-exchange, has similar benefits and whose membership is almost 10 times bigger.

New off-exchange Bronze DHMO 8200/0% will be offered in 2021.

Due to an HHS AV Calculator revision, the plans were modified by the Covered California exchange and KFHP to keep their Actuarial Values within the allowed metal tier ranges.

Reliance

In preparing this memorandum, I have relied upon information and data provided by others. These include the experience period data provided by KFHP Decision Support department, 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, Boris Shekhter, Senior 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 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 benefits 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.
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 the 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.



Boris Shekhter, MAAA, FSA
July 22, 2020