

ACTUARIAL MEMORANDUM

General Information

Company Identifying Information

Company Legal Name:	PacificSource Health Plans
State:	Montana
HIOS Issuer ID:	23603
Market:	Individual
Effective Date:	1/1/2017

Company Contact Information

Primary Contact Name:	Mark Florian
Primary Contact Telephone Number:	541-684-5297
Primary Contact Email Address:	mark.florian@pacificsource.com

Secondary Contact Name:	Clara Comes
Secondary Contact Telephone Number:	208-780-2021
Secondary Contact Email Address:	clara.comes@pacificsource.com

Proposed Rate Increase

This rate change request impacts all ACA compliant benefit plans offered by PacificSource in the Montana Individual Market. PacificSource does not have any grandfathered or transitional business in this market.

Reason for Rate Increase

Changes in morbidity assumptions and necessary risk margin, medical inflation, and the elimination of federal reinsurance are the primary sources of PacificSource's 33.2% rate increase versus filed 2016 rates. Rate changes will vary by plan due to plan specific benefit adjustments. Tobacco factors and age factors have not changed and are not drivers of the variation in rate increases.

Market Experience

Experience Period Premium and Claims

Experience Period:	1/1/2015 - 12/31/2015
Paid Through Date:	4/30/2016
Earned Premium Prior to MLR, including Risk Adjustment:	\$35,892,189
Expected MLR Rebate:	\$0
Allowed Claims Processed (PacificSource):	\$62,696,808
Allowed Claims Processed (Other):	\$0
Estimate of Allowed Claims Incurred but not Paid:	\$743,872
Incurred Claims Processed (PacificSource):	\$47,881,572
Incurred Claims Processed (Other):	\$0
Estimate of Incurred Claims Incurred but not Paid:	\$646,543

Earned premiums come directly from PacificSource premium records, and are consistent with our estimate of having no MLR rebates. The MLR estimate utilizes the prescribed methods of calculating true MLR, using the most up to date information available to us at the time of calculation. However, earned premiums are not adjusted for any reductions prescribed when calculating MLR, such as taxes and assessments. Earned Premiums have been decreased by our 2015 risk adjustment payable to CMS.

Allowed claims come directly from PacificSource claim records, and are defined as the total payments made under the policy to healthcare providers on behalf of covered members. Allowed claims have been reduced for expected pharmacy rebates. Incurred claims are defined as allowed claims less member cost-sharing. Our estimates of incurred but not paid claims (IBNR) are developed using completion factors from a standard lag model. The factor used to estimate IBNR above was developed using claims data which corresponds to the experience period and line of business of this filing. The estimate of IBNR is 1.3% of our total estimated incurred claims, which we do not take to be unusually high or low.

Benefit Categories

Our claims are categorized as Inpatient, Outpatient, Professional, Other Medical, Capitation, or Prescription Drug based on the site of service, procedure codes, and provider type associated with each claim. The capitated claims are with reference to capitated payments made to Vision Service Plan (VSP). The utilization is stated in number of members with VSP coverage per thousand.

Projection Factors

Changes in the Morbidity of the Population Insured

2017 market morbidity is estimated based on market wide allowed claims, incurred claims, member months, and CMS age factors by metal level. With these considerations in mind we calculate that a factor of 1.0164 is required to adjust PacificSource's specific historical experience to the market wide average morbidity.

Changes in Benefits

A benefit adjustment of 1.0224 was applied to account for the difference between the average benefit in the experience period and the projected average benefit under 2017 plan designs. This represents anticipated changes in utilization due to changes in average cost sharing, as well as the impact of network changes.

Changes in Demographics

As of the time of this filing, the average three child capped age factor of our insured population is slightly lower than was the average for 2015. To account for this as well as for small differences in geographic exposure between 2015 and 2017, a factor of 1.0139 was applied for changes in demographics.

Trend Factors (cost/utilization)

We are applying two years of combined medical and pharmacy trend. To develop the overall medical trend, we estimate separate utilization trends and allowed cost per service trends for a variety of inpatient, outpatient, and physician categories. These estimates do not include changes in age, benefits, seasonality patterns, or any other one time events between the experience period and the projection period. We work closely with Health Services and Provider Contracting for these estimates to ensure that they reflect the most up to date expectations in future medical utilization as well as expectations in future contracting for Montana individual members.

A pharmacy trend model is developed separately by our pharmacy benefit manager (PBM). This model takes into account introduction of new drugs, expiration of patents, and our issuer-specific utilization by drug class. Adjustments were made to the trend provided from this model to reflect improved contracting for pharmaceuticals with our PBM.

Below is a breakout of our cost and utilization trends on an allowed basis.

	Medical	Rx
Cost Trend	3.4%	9.8%
Utilization Trend	2.6%	2.2%
Total Allowed Trend	6.2%	12.3%

Other Adjustments

PacificSource purchases corporate reinsurance with a deductible of \$1,000,000. Claims in the experience period were pooled consistent with our reinsurance arrangement. In this filing, the factor for this adjustment was 1.035.

A factor of 0.961 was applied to the prescriptions category of the URRT to account for the improvements in expected rebates between the base experience period and the projection period.

Vision claims in the experience period were capitated, whereas they will be included with Other Medical claims in the projection period. To account for this, an adjustment of 1.025 was applied to Other Medical.

Credibility Manual Rate Development

No credibility manual rate was required.

Credibility of Experience

Based on generally accepted credibility principles and in full accordance with Actuarial Standards of Practice #25, PacificSource considers an experience basis of 24,000 member months or greater to be fully credible for the purposes of prospective rate setting. According to this standard PacificSource's 2015 experience for this line of business is fully credible.

Paid to Allowed Ratio

The expected average paid to allowed factor in the projection period for the Montana individual market is consistent with the membership projections by plan shown in the Unified Rate Review Template Worksheet 2.

Product Description	HIOS ID	Projected Exposure	Average Paid to Allowed
Value	23603MT015	100,912	71.5%
Total			71.5%

Risk Adjustment and Reinsurance

Experience Period Risk Adjustment and Reinsurance Adjustments PMPM

We are expecting a net \$6.68 PMPM payable for Risk Adjustment in 2015. This is our final 2015 Risk Adjustment amount payable to CMS. We also expect a \$50.62 PMPM receivable for Federal Reinsurance. This estimate is based on claims data for 2015 and the Federal Reinsurance parameters for the same year.

Projected Risk Adjustments PMPM

In the rate development, the experience was adjusted to the expected ACA market risk so we do not anticipate any risk adjustment payment or revenue in 2017 beyond the \$0.13 PMPM fee. The adjustments necessary to do so are described in the Projection Factors: Changes in the Morbidity of the Population Insured section of this memorandum.

Non-Benefit Expenses and Profit & Risk

Percentage loads do not vary by product or plan.

Administrative Expense Load

	PMPM % of Premium	
Administration	\$28.00	5.15%
Health Improvement and Fraud Detection Expenses	\$2.10	0.39%
Commissions	\$1.69	0.31%
Administrative Expense Load	\$31.79	5.85%

Profit (or Contribution to Surplus) & Risk Margin

	PMPM	% of Premium
Risk Margin (Post Tax)	\$19.56	3.60%
Profit (or Contribution to Surplus) & Risk Margin	\$19.56	3.60%

The Unified Rate Review Template requires margin to be reported after taxes. PacificSource is requesting a margin equal to 6% of premium. 60% of our margin is reported here, and 40% is reported as Income Tax under Taxes and Fees below.

Taxes and Fees

	PMPM	% of Premium
PCORI	\$0.18	0.03%
Marketplace User Fee	\$17.11	3.15%
Health Insurance Industry Fee	\$0.00	0.00%
Tax Implications of Health Insurance Industry Fee	\$0.00	0.00%
Income Tax	\$13.04	2.40%
Taxes and Fees	\$30.33	5.58%

Federal reinsurance premiums and risk adjustment fees are not included in this amount despite their treatment in MLR calculations, since Projected Incurred Claims as calculated in the URRT Part I are net of reinsurance premium and risk adjustment fees. Note that for pricing purposes, Taxes & Fees (including Marketplace user fees) are considered part of administrative expenses. It is described separately here to facilitate rate review. The average Marketplace User Fee is based on our expected mix of Marketplace and non-Marketplace enrollees. This adjustment is applied to the Index Rate at the market level.

Projected Loss Ratio

The projected loss ratio using Federally-prescribed Medical Loss Ratio methodology is 90.4%.

Application of Market Reform Rating Rules

Single Risk Pool

The single risk pool used in this filing is established according to the requirements in 45 CFR § 156.80(d). The premium rates for all of PacificSource's plans in this filing use the applicable market-wide adjusted rates, subject only to permitted plan-level adjustments. The single risk pool reflects all covered lives for every non-grandfathered product/plan combination for PacificSource in the market of this filing.

Index Rate

The Index Rate represents the estimated total combined allowed claims PMPM in the single risk pool, and is not adjusted for payments and charges under the risk adjustment and reinsurance programs, or for Marketplace user fees. It is developed following the specifications of 45 CFR § 156.80(d)(1). The only non-EHB in the experience period was elective abortion. Taking this into account, the EHB percentage of total allowed claims in the experience period was 99.99%. This value, multiplied by the experience period allowed claims yields the experience period Index Rate.

Experience period allowed claims PMPM	\$519.77
EHB % of total allowed claims	99.99%
Experience Period Index Rate (rounded)	\$520.00

The derivation of the projection period Index Rate is shown below. None of the plans offered in 2017 include adult vision coverage, but all plans include elective abortion. The EHB percentage of total allowed claims is, therefore, 99.99%.

Projected Total Allowed Claims PMPM	\$645.67	(a)
EHB % of Total Allowed Claims	99.99%	(b)
Projected Index Rate (IR)	\$645.60	IR = (a) * (b)

Market Adjusted Index Rate

The Market Adjusted Index Rate is calculated as the Index Rate adjusted for all allowable market-wide modifiers defined in the market rating rules, CFR § 156.80(d)(1). This includes federal reinsurance, risk adjustment, and Exchange user fees. Similar to the Index Rate, the Market Adjusted Index Rate reflects the average demographic characteristics of our estimate of the single risk pool. Since the Index Rate is on an allowed claims basis, please note that these adjustments are also made on an allowed basis.

Index Rate	\$645.60	IR
Net Reinsurance	\$0.00	(d)
Net Risk Adjustment	\$0.13	(e)
Exchange User Fee	\$17.11	(f)
Average Paid:Allowed	71.46%	(g)
Market Adjusted Index Rate (MAIR)	\$669.73	MAIR = IR + [(d)+(e)+(f)]/(g)

Plan Adjusted Index Rates

The Plan Adjusted Index Rates for the projection period are included in Worksheet 2, Section IV of the Unified Rate Review Template. The Plan Adjusted Index Rate is calculated as the PacificSource Market Adjusted Index Rate adjusted for all allowable plan level modifiers defined in the market rating rules CFR § 156.80(d)(2); which include (i) the actuarial value and cost-sharing design of the plan; (ii) the plan’s provider network, delivery system characteristics, and utilization management practices; (iii) the benefits provided under the plan that are in addition to the essential health benefits; (iv) administrative costs, excluding Exchange user fees; and with respect to catastrophic plans, (v) the expected impact of the specific eligibility categories for those plans. The product of each of these factors is collectively known as the Pricing Actuarial Value.

The Pricing Actuarial Value is determined through PacificSource’s proprietary pricing model. This model is based on incurred claims data from 08/1/14-07/31/15 for our commercial block. The model uses historical unit cost and utilization data trended appropriately, and adjustments are made based on plan design. Utilization adjustments reflect differences in cost-sharing, and do not reflect differences due to health status. Member cost-sharing is determined based on the deductible, copays, and coinsurance associated with each benefit plan. Please see section Plan Product Info: AV Pricing Values for further details.

Similar to the Index Rate and Market Adjusted Index Rate, the Plan Adjusted Index Rates reflect the average demographic characteristics of the single risk pool. In other words, the Plan Adjusted Index Rate is not calibrated. Only adjustments specified by CFR § 156.80(d)(2) have been included. Plan Adjusted Index Rates for the experience period are included in Worksheet 2 of the Unified Rate Review Template.

Calibration

Only age and geographic factors are used in calibration. All calibration adjustments are applied uniformly to all plans; no plan specific calibration has been performed. The full CMS age curve, as well as a listing of all geographic factors applicable to the projection period, can be found below in the Consumer Adjusted Premium Rate Development.

Age Curve Calibration

To calculate the average CMS standard age factor, a snapshot of recent exposure is taken from PacificSource's records and is assigned a CMS age factor from the federal CMS age curve based on age. For families with more than three children under the age of 21, an age factor of 0 is applied to children who will not be rated. The sum of all these age factors is then divided by the total number of members in the snapshot. This is the average age factor.

In this filing, the specific average age factor is 1.6058, which was the age calibration factor used. The age that corresponds most closely to this age factor is 48. Please see the Consumer Adjusted Premium Rate Development below for a demonstration of how this methodology is used in practice to create a schedule of rates.

Geographic Factor Calibration

Geographic factors reflect delivery cost differences only and reflect existing and expected developments in provider contracting. Geographic factors do not include any morbidity adjustments. A calibration factor of 0.9930 was used.

To calculate the average geographic area factor, a snapshot of recent exposure is taken from PacificSource's records and is assigned an area factor from the proposed table of area factors based on member area. The sum of all these area factors is then divided by the total number of members in the snapshot. This is the average geographic area factor. Please see the Consumer Adjusted Premium Rate Development below for a demonstration of how this methodology is used in practice to create a schedule of rates.

Consumer Adjusted Premium Rate Development

To generate a consumer specific premium rate for each plan, the Plan Adjusted Index Rate of the plan is divided by both of the calibration factors above. Next the consumer specific smoking status, age factor, and geographic area factors are applied. Rates are rounded to the nearest dollar.

2017 HIOS ID	Pricing AV	Plan Adjusted	Calibrated Plan Adj. Index Rate	Consumer Adjusted Premium Rate
		Index Rate (PAIR): = MAIR x Pricing AV	(CPAIR): = PAIR / (Average CMS Age Factor x Average Geographic Factor)	for 40 year old, Area 5, first quarter: = CPAIR x 40 year old age factor x Area 5 factor x Q1 Trend factor
23603MT0150013	0.8188	\$548.38	\$343.91	\$440
23603MT0150012	1.0292	\$689.29	\$432.28	\$552
23603MT0150005	0.6740	\$451.42	\$283.11	\$362
23603MT0150009	0.7287	\$488.02	\$306.06	\$391
23603MT0150014	0.8852	\$592.84	\$371.80	\$475
23603MT0150015	1.1127	\$745.18	\$467.33	\$597

Age Factors

Age	Factor
0	0.635
21	1.000
22	1.000
23	1.000
24	1.000
25	1.004
26	1.024
27	1.048
28	1.087
29	1.119
30	1.135
31	1.159
32	1.183
33	1.198
34	1.214
35	1.222
36	1.230
37	1.238
38	1.246
39	1.262
40	1.278
41	1.302
42	1.325
43	1.357
44	1.397
45	1.444
46	1.500
47	1.563
48	1.635
49	1.706
50	1.786
51	1.865
52	1.952
53	2.040
54	2.135
55	2.230
56	2.333
57	2.437
58	2.548
59	2.603
60	2.714
61	2.810
62	2.873
63	2.952
64+	3.000

Geographic Area Factors

Area	Factor
1	1.000
2	1.025
3	0.970
4	1.010

Smoking Factors

Category	Factor
Non-Smoker	1.00
Smoker	1.20
Smoker in Tobacco Cessation Program	1.00

Plan Product Info

AV Metal Values

The AV Metal Values included in Worksheet 2 of the Unified Rate Review Template were entirely based on the federal AV Calculator.

AV Pricing Values

The AV Pricing Values vary from the AV Metal Values for a variety of reasons. AV Pricing Values are intended to be applied to a single Market Adjusted Index Rate, whereas the AV Metal Values assume different average allowed cost PMPMs by metal level based on induced utilization related to the level of member cost-sharing. Pricing is based on PacificSource data, and so cost and utilization differ from federal calculator data. Furthermore, different provider networks have varying levels of discount and care management practices. Finally, an administrative adjustment is applied to take the AV Pricing Value from a paid basis to a premium basis. Administrative costs were applied uniformly to all plans.

2017 HIOS ID	AV and Cost-Sharing	Provider Network, Delivery System	Benefits in Addition to EHBs	Catastrophic Eligibility	Administrative Cost Adjustment	Pricing AV
23603MT0150013	0.77	0.95	1.00	1.00	1.13	0.82
23603MT0150012	0.96	0.95	1.00	1.00	1.13	1.03
23603MT0150005	0.63	0.95	1.00	1.00	1.13	0.67
23603MT0150009	0.63	1.03	1.00	1.00	1.13	0.73
23603MT0150014	0.77	1.03	1.00	1.00	1.13	0.89
23603MT0150015	0.96	1.03	1.00	1.00	1.13	1.11

The “AV and Cost-Sharing” component of the AV Pricing Value is derived from PacificSource’s proprietary benefit plan pricing model. This model includes adjustments to account for differences in induced utilization based upon the plan design. These capture only differences for an average person’s behavior based on cost sharing requirements, and do not include any anti-selection due to differences in morbidity between the populations which might purchase different plan designs. The impact of these adjustments is similar to the federal AV assumptions for induced utilization based on metal level.

Membership Projections

The membership projection in Worksheet 2 of the Unified Rate Review Template was developed based on PacificSource's membership levels as of 4/30/2016. It is equal to the size of our current ACA block. For silver plans, the portion of projected enrollment eligible for cost-sharing reduction (CSR) subsidies is estimated to be the same as the percentage of silver membership eligible for each CSR variant during the experience period.

2017 HIOS	Plan Name	CSR subsidy level projected member months			
		73%	87%	94%	All CSR
23603MT0150013	SmartHealth Silver HSA 3000	2,124	3,657	5,990	11,771
23603MT0150014	PSN Silver HSA 3000	3,925	6,759	11,071	21,755

Terminated Plans and Products

Terminated Plans

The following plans were available in the experience period, but were not marketed past 12/31/2015.

2015 HIOS ID	Plan Name
23603MT0140002	SmartHealth Catastrophic
23603MT0150008	SmartHealth Value Silver 3000
23603MT0160006	SmartHealth Balance Silver 1500
23603MT0160010	SmartHealth Balance Bronze 4000
23603MT0160008	Balance Bronze PSN 4000

The following plans are available in 2016, but will not be marketed past 12/31/2016.

2016 HIOS ID	Plan Name	2017 Plan Mapping
23603MT0140003	PSN Catastrophic	PSN Bronze HSA 6550 or SmartHealth Bronze HSA
23603MT0160011	PSN Balance Bronze 6850	PSN Bronze HSA 6550 or SmartHealth Bronze HSA
23603MT0150011	PSN Value Bronze 3500	PSN Bronze HSA 6550 or SmartHealth Bronze HSA
23603MT0160004	SmartHealth Balance Bronze 6850	PSN Bronze HSA 6550 or SmartHealth Bronze HSA
23603MT0150006	SmartHealth Value Bronze 3500	PSN Bronze HSA 6550 or SmartHealth Bronze HSA
23603MT0160009	PSN Balance Silver 2500	PSN Silver HSA 3000 or SmartHealth Silver HSA 3000
23603MT0160005	SmartHealth Balance Silver 2500	PSN Silver HSA 3000 or SmartHealth Silver HSA 3000
23603MT0160007	SmartHealth Balance Gold 1000	PSN Gold 1500 or SmartHealth Gold 1500

Terminated Products

The following products will be terminated effective 12/31/2016.

Terminated Product ID	Terminated Product Name
23603MT016	Balance
23603MT014	Catastrophic

Plan Type

The plan types listed in the drop-down box in Worksheet 2, Section I of the Unified Rate Review Template fully describe their respective PacificSource plans.

Warning Alerts

The URRT Part I, Section III yielded two warnings: Total Incurred claims, payable with issuer funds (Worksheet 2, cell A68), and Incurred Claims PMPM (Worksheet 2, cell A73).

The first warning is caused because the Incurred Claims in Experience Period entered on Worksheet 1, cell F15, has not been adjusted for risk adjustment, reinsurance, or the associated fees, while the value calculated on Worksheet 2, cell F68 includes net reinsurance and net risk adjustment. The second warning is due to the same reason as the prior warning, the only difference being that the values are expressed in dollars per member per month.

In addition to these warnings, the URRT Part I, section IV produced a divide by zero error: Net Amt of Rein (Worksheet 2, cell A96). Due to the elimination of the federal reinsurance program in 2017, the projected net amount of reinsurance is \$0 for all plans.

Miscellaneous

Reliance

We are relying on final 2015 Risk Adjustment results given by CMS for our relative risk versus market for the experience period. These figures come from CMS's *Summary Report on Transitional Reinsurance Payments and Permanent Risk Adjustment Transfers for the 2015 Benefit Year*, released June 30, 2016.

Actuarial Certification

I, Mark Florian, FSA, am a member of the American Academy of Actuaries and an employee of PacificSource Health Plans. I have reviewed the pricing and analyses related to the PacificSource Montana individual block of business for a 1/1/2017 effective date. My review relied upon work prepared by other employees, and considered such review of the assumptions as I considered necessary.

The projected index rate is in compliance with all applicable State and Federal Statutes and Regulations (45 CFR § 156.80), and was developed in accordance with the Actuarial Standards of Practice. In my opinion, the rates included in this filing are reasonable in relation to the benefits provided and the population anticipated to be covered, and are neither excessive nor deficient.

Only the index rate and the allowable modifiers as described in 45 CFR § 156.80(d)(1) and 45 CFR § 156.80(d)(2) were used to generate the plan level rates included in this filing. The percentages of total premium that represent essential health benefits (EHB) included in Worksheet 2, Sections III and IV were calculated in accordance with applicable Actuarial Standards of Practice.

Geographic rating factors reflect only differences in the costs of delivery, which include unit cost and provider practice pattern differences. Geographic rating factors do not include differences for population morbidity by geographic area.

The federal AV calculator was used to determine all AV Metal Values shown in Worksheet 2 of the Part I Unified Rate Review Template.

The Part I Unified Rate Review Template does not demonstrate the process used by the issuer to develop the rates. 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, used consistently, and adjusted only by the allowable modifiers.

This memorandum was prepared in order to provide the federal and state rate reviewers the information necessary to evaluate the reasonability of this rate request, and it should not be relied upon for any other purpose.



Mark Florian, FSA, MAAA
August 12, 2016