

Part III: Actuarial Memorandum

[Redacted]

Ambetter of North Carolina, Inc.

Annual Individual Health Rate Filing

North Carolina

Effective: January 1, 2021

Forms: 77264NC001, 77264NC002

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1. General Information

SCOPE AND PURPOSE

This document contains the Part III Actuarial Memorandum for the individual health rate filing submitted by Ambetter of North Carolina, Inc. (Ambetter of NC) in the state of North Carolina, effective January 1, 2021. This actuarial memorandum is submitted in conjunction with the Part I Unified Rate Review Template (URRT). This is a renewal rate filing.

The purpose of the actuarial memorandum is to provide certain information related to the submission, including support for the values entered into the Part I URRT, which supports compliance with market rating rules and reasonableness of applicable rates. This information may not be appropriate for other purposes.

This information is intended for use by the North Carolina Department of Insurance, the Center for Consumer Information and Insurance Oversight (CCIIO), and their subcontractors to assist in the review of Ambetter of NC's individual rate filing. However, we recognize that this certification may become a public document. Milliman makes no representations or warranties regarding the contents of this letter to other users. Likewise, other users of this letter should not place reliance upon this actuarial memorandum that would result in the creation of any duty or liability for Milliman or its employees under any theory of law.

Consistent with the October 12, 2017 payment memo from the U.S. Department of Health and Human Services (HHS)¹, the premium rates developed and supported by this Actuarial Memorandum assume that cost-sharing reduction (CSR) subsidies will not be funded. Lawsuits regarding the collectability of CSR payments have been ruled upon since the issuance of the 2017 payment memo, but the individual market continues to operate without payments being funded. Future modifications in legislation, appropriations, regulation, and/or court decisions regarding the funding of CSR payments may affect the extent to which the premium rates are neither excessive nor deficient.

As instructed by Ambetter of NC, the premium rates developed and supported by this Actuarial Memorandum are based on legislative and regulatory provisions in effect at the time of submission. Changes to these provisions that impact 2021 may affect the extent to which the premium rates are sufficient and neither excessive nor deficient. Ambetter of NC reserves the right to file revised rates in the event of changes to the regulatory environment in which they were developed to ensure rates are appropriate.

At the time of this rate filing submission, we acknowledge there is substantial uncertainty regarding the impact of the COVID-19 pandemic on setting premium rates, including whether the pandemic will increase or decrease costs in 2021. Because the range of possible outcomes remains so wide and uncertain, we have chosen not to make an adjustment to the 2021 premium rates at this time. However, it is known that the COVID-19 pandemic could have a material impact on morbidity, enrollment, providers, and other factors related to the individual market. If subsequent information becomes available that would materially affect this rate filing submission, we would like to work with the North Carolina Department of Insurance to update our pricing assumptions regarding the impact of COVID-19 and resubmit this rate filing.

In addition to CSR payments and the medical and economic impact of COVID-19, material rating impacts could arise from changes to various factors, including but not limited to:

- Advanced Premium Tax Credits
- Risk adjustment program payments and operation
- Limit on age rating factors
- Legal challenges to provisions of the Patient Protection and Affordable Care Act (ACA)
- Open enrollment duration and grace period modifications
- Status and implementation of Medicaid Expansion
- Enrollment of other populations (Medicare, Medicaid, high risk pool)
- Non-QHP coverage options (e.g. association health plans, short-term limited-duration insurance)
- Rules for Health Savings Accounts and Health Reimbursement Arrangements

¹ <https://www.hhs.gov/sites/default/files/csr-payment-memo.pdf>

- Section 1332 Waiver (e.g. state-based reinsurance program)
- Pharmacy (e.g. rules concerning mid-year formulary changes, pharmacy rebates, and treatment of cost sharing)
- Taxes and fees

If there are material deviations in the state-wide average premium (SWAP) for 2021 – for example, based on changes in the number of carriers in the market or carriers' pricing assumptions for 2021 – we would like to work with the North Carolina Department of Insurance after the initial submission to update our estimated risk adjustment transfer.

The results are actuarial projections. Actual results will vary from those projected in the filing for a number of reasons, including population changes, claims experience, and random deviations from assumptions.

COMPANY IDENTIFYING INFORMATION

- Company Legal Name: Ambetter of North Carolina, Inc.
- State: The State of North Carolina has regulatory authority over these policies.
- HIOS Issuer ID: 77264
- NAIC: 16395
- Market: Individual
- Effective Date: January 1, 2021

COMPANY CONTACT INFORMATION

- Primary Contact Name [REDACTED]
- Primary Contact Telephone Number [REDACTED]
- Primary Contact Email Address [REDACTED]

DESCRIPTION OF BENEFITS

These products are issued by Ambetter of NC as HMO health policies.

The major provisions of this form for each plan design and product can be found in Appendix 1.1.

The form filing numbers for these products are 77264NC001 and 77264NC002.

RATE GUARANTEES

Rates are guaranteed not to change through December 31, 2021.

RENEWABILITY

Each policy is renewable by paying the applicable renewal premiums unless the policy holder no longer meets the eligibility requirements of the policy or the company decides not to renew all the policies in the state.

APPLICABILITY

The rates will apply to new and renewing business.

GENERAL MARKETING METHOD

This product will be sold through agents, direct mailings, the internet, and the Federally-facilitated Exchange.

ESTIMATED AVERAGE ANNUAL PREMIUM

The estimated average annual premium per policy in calendar year 2021 is [REDACTED]

DISTRIBUTION OF BUSINESS

See Appendix 1.2 for the expected age and geographic distributions for these products.

RATE TABLES

See Appendix 1.3 for allowable rating factors. Appendix 1.4 includes an example of how rating factors will be applied. For family coverage, rates for children are charged to no more than the three oldest covered children under age 21 consistent with the ACA.

2. Proposed Rate Changes

The rate changes for each plan offered in the single risk pool by Ambetter of NC in the State of North Carolina are reflected in Worksheet 2, Section I of the Part I URRT.

REASONS FOR RATE INCREASE(S):

The rate projections for 2021 have been updated from the previous year's projections to reflect the most recent information available.

The following describes and quantifies the significant drivers underlying the proposed rate change for 2021. This breakdown is intended only for explanatory purposes and is distinct from the development of rates, as described in the subsequent sections of this memorandum.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

3. Single Risk Pool

The 2021 rate development is based on the single risk pool set by the State of North Carolina, which was established according to the requirements in 45 CFR Part 156.80. The single risk pool is defined as the non-grandfathered individual business in North Carolina.

Neither the single risk pool for the experience period nor the projection period include members who are eligible to remain enrolled in transitional plans.

4. Experience and Current Period Premium, Claims, and Enrollment

The following information supports the best estimate of premium and claims for the single risk pool during the experience period, as reported in Worksheet 1, Section I and Worksheet 2, Section II of the URRT. The experience period for this rate filing is calendar year 2019.

Paid Through Date: 2/29/2020

Current Date: 2/29/2020

ALLOWED AND INCURRED CLAIMS INCURRED DURING THE EXPERIENCE PERIOD

A breakout of the claims shown in Worksheet 1, Section I is provided in the appendices as Appendix 4.1.

[REDACTED]

[REDACTED] This estimation was performed using a consistent methodology for both allowed and paid claims. Differences in effective completion factors for allowed versus paid claims are attributable to differences in the seasonal patterns of allowed versus paid claims. Actual claims run-out may reflect some variability from expectations.

Incurred claims are defined as allowed claims less member cost-sharing and cost-sharing paid by the U.S. Department of Health and Human Services (HHS) on behalf of low-income members. Cost-sharing paid by HHS will be zero for 2021 under their current guidance.

EXPERIENCE PERIOD RISK ADJUSTMENT AND REINSURANCE ADJUSTMENTS PMPM

The risk adjustment transfer and reinsurance receivables for the experience period are shown on Worksheet 1, Section I of the URRT. The final amount for risk adjustment was not known at the time of rate development. This amount was estimated using data available through 2/29/2020. There were no state or federal reinsurance recoveries in 2019.

CURRENT ENROLLMENT AND PREMIUM

The current enrollment and premium values on Worksheet 2, Section II are reported as of 2/29/2020.

Earned premium in the experience period is not adjusted for taxes, assessments, risk adjustment receivables or payables or MLR rebates.

5. Benefit Categories



The algorithm used to assign the experience and manual data utilization and cost information is summarized as follows:

INPATIENT HOSPITAL

Inpatient hospital includes non-capitated facility services for medical, surgical, maternity, mental health and substance abuse, skilled nursing, and other services provided in an inpatient facility setting and billed by the facility.

OUTPATIENT HOSPITAL

Outpatient hospital includes non-capitated facility services for surgery, emergency room, lab, radiology, therapy, observation, and other services provided in an outpatient facility setting and billed by the facility.

PROFESSIONAL

Professional includes non-capitated primary care, specialist, therapy, the professional component of laboratory and radiology, and other professional services other than hospital based professionals whose payments are included in facility fees.

OTHER MEDICAL

Other medical includes non-capitated ambulance, home health care, DME, prosthetics, supplies, vision exams, dental services, and other services. The measurement units for utilization used in this category are a mix of visits, cases, procedures, etc.

CAPITATION

Capitation includes all services provided under one or more capitated arrangements.

PRESCRIPTION DRUG

Prescription drug includes drugs dispensed by a pharmacy and is net of rebates.

OTHER ADJUSTMENTS

[REDACTED]

Appendix 7.4 decomposes the other changes factor into its components.

ADJUSTMENTS MADE TO THE DATA

The following adjustments were made to calibrate the pricing model to the expected population:

[REDACTED]

See Appendix 8.1 for a demonstration of these adjustments. The adjustments, which are discussed above, are appropriate and necessary to reflect the anticipated population, region, provider network, and benefits anticipated for the 2021 single risk pool.

INCLUSION OF CAPITATION PAYMENTS

[REDACTED]

9. Credibility of Experience

DESCRIPTION OF THE CREDIBILITY METHODOLOGY USED

Credibility is first calculated using the following formula:

[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

TOTAL 2019 MEMBER MONTHS: [REDACTED]

CREDIBILITY LEVEL ASSIGNED TO BASE PERIOD EXPERIENCE: [REDACTED]

Note that credibility is calculated based on 2019 experience data that is suitable for pricing and may not exactly match the total 2019 member months shown above.

The base period experience was not used to develop the manual rate, so there is no double counting of base period experience.

Actuarial Standard of Practice #25 "Credibility Procedures" was considered when determining the credibility level.

10. Establishing the Index Rate

The Index Rate for the Experience Period (calendar year 2019) is a measurement of the average allowed claims PMPM for EHBs. This value is located on Worksheet 1, Section I of the URRT. The Index Rate for the Experience Period reflects the actual mixture of smoker/non-smoker population, area factors, plan enrollment, and the actual mixture of risk morbidity in the single risk pool during the experience period. The Index Rate for the Experience Period has not been adjusted for payments and charges under the risk adjustment and reinsurance programs or for Exchange user fees. We have adjusted the Index Rate for the Experience Period to remove any non-EHBs. The claim system does not currently distinguish between EHB and non-EHB claims, so this adjustment was made based on the expected percentage of non-EHB claims for the experience period. The experience period did not contain non-single risk pool claims, so no adjustment was made for this.

The Index Rate for the Projection Period (calendar year 2021) is reflected in Worksheet 1, Section II of the URRT. It was developed following the specifications of 45 CFR part 156.80(d)(1). The Index Rate for the Projection Period represents the estimated total combined projected allowed claims PMPM for EHBs for calendar year 2021 and has not been adjusted for payments and charges under the risk adjustment program or for Exchange user fees. There is no difference between the total allowed claims PMPM and the Index Rate, as the benefits are 100% EHB. [REDACTED]

[REDACTED] The Index Rate for the Projection Period will remain unchanged until a renewal filing effective January 1, 2022.

The development of the Index Rate for the Projection Period is shown in Worksheet 1, Section II. This reflects:

- The projection period of calendar year 2021
- The anticipated claim level of the projection period with respect to trend, benefits, and demographics
- The experience of all policies expected to be in the single risk pool (with necessary adjustments)

Appendix 10.1 demonstrates the calculation of the Projected Index Rate by blending the Experience Period Index Rate with the Credibility Manual Index Rate, as applicable. The next two sections further describe the steps taken to develop the Market-Wide Adjusted Index Rate and Plan Adjusted Index Rates.

11. Development of the Market-Wide Adjusted Index Rate

The Index Rate for the Projection Period is adjusted to arrive at the Market-Wide Adjusted Index Rate based on the following two adjustments, as outlined in 45 CFR 156.80(d)(1):

- Adjustment for the Risk Adjustment Program
- Exchange user fee adjustment

Since the Index Rate is on an allowed claims basis, the market-level adjustments are applied on an allowed basis. Similar to the Index Rate, the Market-Wide Adjusted Index Rate reflects the average demographic characteristics of the single risk pool. The Market-Wide Adjusted Index Rate is not calibrated. Appendix 11.1 shows the development of the Market-Wide Adjusted Index Rate.

REINSURANCE

No state or federal reinsurance recoveries are expected in the projection period. As such, no reinsurance was entered in the field for projected reinsurance on URRT Worksheet 1, Section II.

RISK ADJUSTMENT PAYMENT/CHARGE

The Projected Risk Adjustment Transfer PMPM is shown on Worksheet 1, Section II on an allowed basis. [REDACTED]

The state transfer calculation portion of the total risk adjustment transfer is based on the risk adjustment transfer formula, as provided in the Federal Register Volume 78 Number 47, and displayed below.

$$T_i = \left[\frac{PLRS_i \times IDF_i \times GCF_i}{\sum_i (s_i \times PLRS_i \times IDF_i \times GCF_i)} - \frac{AV_i \times ARF_i \times IDF_i \times GCF_i}{\sum_i (s_i \times AV_i \times ARF_i \times IDF_i \times GCF_i)} \right] \bar{P}_s$$

Where:

\bar{P}_s = state average premium;

$PLRS_i$ = plan i 's plan liability risk score;

AV_i = plan i 's metal level AV;

ARF_i = plan i 's allowable rating factor;

IDF_i = plan i 's induced demand factor;

GCF_i = plan i 's geographic cost factor;

s_i = plan i 's share of state enrollment as measured in member months;

and the denominator is summed across all plans in the risk pool in the market in the state.

We project the portfolio average for each factor in the risk adjustment transfer formula using a combination of (i) the state's actual historical risk adjustment factors adjusted to the projected population and (ii) adjustments for market and risk adjustment program changes. The resulting aggregate payment or receivable is then proportionally allocated to all plans in the portfolio.

For the purpose of our modeling, each of these factors was approximated as follows.

\bar{P} : The state average premium was assumed to be [REDACTED]

PLRS: The statewide average risk score is [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

HHS's proposed HCC model and coefficient changes for 2020 and 2021 were considered in the development of the projected risk adjustment transfer. The demographic, plan mix, and morbidity assumptions supporting the projected statewide and Ambetter of NC risk score projections are consistent with the demographic, plan mix, and morbidity assumptions used to project claims costs.

IDF: The statewide average IDF is projected based on the average IDF of the single risk pool in 2018, as reported by HHS.

The average IDF for Ambetter of NC is projected by applying the induced demand factors from the market reform rule published in the March 11, 2013 Federal Register, page 15433, Table 11 to Ambetter of NC's projected population. The formula recognizes the following IDF factors by metallic tier: Bronze 1.00, Silver 1.03, Gold 1.08 and Platinum 1.15.

AV: The statewide average actuarial value (AV) is projected based on the average metal level AV of the single risk pool in 2018, as reported by HHS.

The average AV for Ambetter of NC is projected by applying the metal level AV factors from the market reform rule published in the March 11, 2013 Federal Register, page 15433, Table 9 to Ambetter of NC's projected population. The formula recognizes the following AV values by metallic tier: Bronze 0.60, Silver 0.70, Gold 0.80, and Platinum 0.90.

ARF: As stated in the March 11, 2013 Federal Register, page 15433, the allowable rating factor (ARF) adjustment accounts only for age rating.

The statewide average ARF is projected based on the average ARF of the single risk pool in 2018, as reported by HHS, adjusted for projected changes in the demographics of the single risk pool from 2018 to 2021.

The average ARF for Ambetter of NC is projected by applying the proposed 2021 HHS age rating factors to Ambetter of NC's projected population. An equal distribution across ages within each age band was assumed.

GCF: The average GCF for Ambetter of NC relative to the statewide average was modeled based on historical GCFs by rating area, any anticipated changes in these GCFs over time, and Ambetter of NC's projected enrollment by rating area.

The total transfer is calculated as the sum of the state transfer calculation described above and a net transfer for 2021 attributable to the high cost risk pooling program. We modeled this as the combination of a receivable, based on the attachment point and coinsurance from the 2021 Notice of Benefit and Payment Parameters (NBPP), and an assessment, based as a percentage of premium.

Outliers were reflected in our calculations to the extent that outliers are reflected in historical risk scores used as the starting point of the 2021 risk transfer projection and via the calculation of the net high cost risk pooling receivable or payment. Otherwise, there were no "potential outlier assumptions" that would have an impact on transfers.

The projected transfer amount assumes no impact under the Risk Adjustment Data Validation (RADV) process.

The risk adjustment transfer amounts shown on Worksheet 1 of the URRT are the actual PMPM amounts expected in the projection period on an allowed basis. The risk adjustment transfer amount applied to the Index Rate in the development of the Market-Wide Adjusted Index Rate is on an allowed claims basis, as the Index Rate is on an allowed claims basis.

The demographic, plan mix, and morbidity assumptions supporting the risk transfer projection are consistent with the demographic, plan mix, and morbidity assumptions used to project claims costs.

EXCHANGE USER FEES

[REDACTED]
[REDACTED]
[REDACTED]

12. Plan Adjusted Index Rate

The Plan Adjusted Index Rates are included in Worksheet 2, Section III of the URRT. The Plan Adjusted Index Rates are the Market-Wide Adjusted Index Rate adjusted for only the following allowable adjustments, where applicable, as outlined in 45 CFR 156.80(d)(2):

- The actuarial value and cost-sharing design of the plan

[REDACTED]

- The plan's provider network, delivery system characteristics, and utilization management adjustment practices.

[REDACTED]

- Benefits provided under the plan that are in addition to the EHBs.

[REDACTED]

- Administrative costs, excluding the Exchange user fees (which are already accounted for in the Market-Wide Adjusted Index Rate).

[REDACTED]

There are no catastrophic plans being offered, so there is no eligibility adjustment made for catastrophic plan enrollment.

Administrative costs and other benefits (non-EHB) common to all plans are added to the Market-Wide Adjusted Index Rate. Then, factors for actuarial value and cost-sharing and non-EHBs by plan are applied to reach the Plan Adjusted Index Rate for each plan.

The development and values of the Plan Adjusted Index Rates are shown in Appendix 12.1.

The Plan Adjusted Index Rates reflect the average demographic characteristics of the single risk pool and are not calibrated.

ADMINISTRATIVE EXPENSE LOAD

[REDACTED]

The administrative expenses are allocated proportionally by plan on a constant percentage of premium basis. A breakdown of administrative expenses can be found in Appendix 12.2.

TAXES AND FEES

The taxes and fees which may be subtracted from premiums for purposes of calculating the MLR are listed in Appendix 12.2.

For 2021, the Risk Adjustment User Fee is included as part of Taxes and Fees on line 3.7 on Worksheet 2 of the URRT.

See Section 11, "Development of the Market-Wide Adjusted Index Rate", for discussion on how the Exchange user fee is calculated and applied to the Market-Wide Adjusted Index Rate.

PROFIT (OR CONTRIBUTION TO SURPLUS) & RISK MARGIN

This load was applied proportionally to all products and plans and can be found in Appendix 12.2.

13. Calibration

The Plan Adjusted Index Rates are calibrated for plans within the single risk pool to correspond to an age rating factor of 1.0, a geographic rating factor of 1.0, and a tobacco use rating factor of 1.0. The intent of the calibration factors is to reset the Plan Adjusted Index Rates so that applying the age factor, geographic rating area factor, and tobacco use factor will result in the appropriate consumer adjusted premium rate. The calibration factors for each of the age, geographic, and tobacco use factors are shown in Appendix 13.1. Note that each of the calibration factors has one value that is applied uniformly and does not vary by plan.

AGE CURVE CALIBRATION

[REDACTED]

Appendix 13.1 of the Actuarial Memorandum demonstrates the calibration of the Plan Adjusted Index Rates for age. The distribution of members by age is in Appendix 1.2 and the age factors are in Appendix 1.3.

GEOGRAPHIC FACTOR CALIBRATION

[REDACTED]

TOBACCO USE RATING FACTOR CALIBRATION

[REDACTED]

CALIBRATION ADJUSTMENTS ARE APPLIED UNIFORMLY TO ALL PLANS

The calibration adjustment does not vary by plan as is evident in Appendix 13.1. The member-level adjustments as described in 45 CFR 147.102 are applied uniformly to all plans in the single risk pool, and these adjustments do not vary by plan.

[REDACTED]

[REDACTED] Appendix 1.4 lists the steps to calculate final premium rates and shows the calculation for an example policy with family coverage.

14. Consumer Adjusted Premium Rate Development

Each Plan Adjusted Index Rate is divided by the overall calibration factor to determine the corresponding Calibrated Plan Adjusted Index Rate.

The following allowable rating factors, as specified by 45 CFR Part 147.102, are applied to the Calibrated Plan Adjusted Index Rate to determine the rate that is charged to the health insurance purchaser:

- Age
 - The prescribed standard age factors were used.
- Rating Area
 - The area factors are listed in Appendix 1.3. The methodology for developing geographic factors is included in Section 13, "Calibration".
- Tobacco status

[REDACTED]

- For family coverage, rates for children are charged to no more than the three oldest covered children under age 21. Appendix 1.3 lists the allowable rating factors and Appendix 1.4 has an example calculation of a family's rates.

15. Projected Loss Ratio

The projected medical loss ratio (MLR) is [REDACTED]. The projected MLR is based on the prescribed calculation from 45 CFR 158, but solely reflects the projection year single risk pool experience, rather than the three-year combined period that is used for determining MLR rebates. There was no credibility adjustment applied to the projected MLR. Including a credibility adjustment would only increase the projected MLR, which already satisfies the MLR requirement. See Appendix 15.1 and Appendix 15.2 for the calculation for the projected federal medical loss ratio.

16. AV Metal Values

The AV Metal Values included in Worksheet 2 of the Part I URRT were calculated using the Final 2021 Federal AV Calculator for the plan provisions that fit within the calculator parameters and making appropriate adjustments to the AV identified by the calculator for plan design features that are not compatible with the parameters of the AV Calculator.



The unique plan design certification is located in Section 22 of this actuarial memorandum. Please refer to Appendix 16.1 for screenshots documenting the outcomes of the AV Calculator for each plan.

17. Membership Projections

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

18. Terminated Plans and Products

A list of the plans being terminated and the plans to which these are being mapped is included in the appendices as Appendix 18.1.

19. Plan Type

20. Effective Rate Review Information

See Appendix 20.1 for documents summarizing the capital and surplus position of Ambetter of NC.

In accordance with the NCDOL actuarial memorandum requirements, we have provided the following information.

ITEM 1. GENERAL INFORMATION

- a. **Carrier Information:** Please see Section 1, "General Information" of this memorandum.
- b. **Carrier Contact Information:** Please see Section 1, "General Information" of this memorandum.
- c. **Scope and Purpose:** Please see Section 1, "General Information" of this memorandum.
- d. **Market:** This filing covers products that will be offered in the individual market.
- e. **Policy Forms:** 77264NC001, 77264NC002 – Ambetter, Ambetter + Vision + Adult Dental
- f. **Description of Benefits:** Please see Section 1, "General Information" of this memorandum. All EHBs are covered, with no substitutions, and there have been no EHB changes since the 2019 filing. There are no benefits covered in excess of the State standard EHBs.
- g. **Marketing Method:** Please see Section 1, "General Information" of this memorandum. All plans will be sold both inside and outside of the exchange. No products are marketed through associations. Agent and broker compensation is the same for plans sold both inside and outside the exchange.
- h. **Identification of Blocks as Open or Closed:** This is an open block of business.
- i. **Terminated Products/Plans:** Please see Section 18, "Terminated Plans and Products" of this memorandum.

ITEM 2. PROPOSED RATES

- a. **History of Rate Adjustments:** Please see Appendix 20.4 for information on past rate changes.
- b. **Effective Date and Implementation of Proposed Rate Adjustment:** Rates will go into effect on January 1, 2021.
- c. **Months of Rate Guarantee:** Please see Section 1, "General Information" of this memorandum.
- d. **Proposed Percentage Rate Adjustment:** Please see Section 2, "Proposed Rate Changes" for a description of the rate change. Please see 2021_Ambetter_NC_State_Rate_Increase_Support_20200511.xlsx for the calculation of the proposed rate adjustments by plan, age, and area. The rate change for 77264NC001 is 3.9%. 77264NC002 is a new product and has no rate change.
- e. **Description of How Rates Were Determined:** Please see Section 8, "Manual Rate Adjustments", Section 11, "Development of the Market-Wide Adjusted Index Rate", Section 12, "Plan Adjusted Index Rate", Section 13, "Calibration", and Section 14, "Consumer Adjusted Premium Rate Development".
 - a. In accordance with NCGS 58-51-95, NCGS 58-65-40, and NCGS 58-67-50, rates are:
 - i. Not based on any health-status related factors disallowed by NCGS 58-51-95. Premiums were established for all enrollees as a whole and are not individually determined based on the status of the enrollee's health.
 - ii. Reasonable in relation to the premium charged and within minimum loss ratio requirements. Rates are not excessive, inadequate, or unfairly discriminatory (NCGS 58-67-50).
 - iii. Not offered to subscribers prior to approval by the Commissioner of Insurance. A full schedule of the rates offered has been included as 2021_Ambetter_NC_State_Rate_Table_Template_20200511.xls.
- f. **Reason for Rate Adjustment:** Please see Section 2, "Proposed Rate Changes".
- g. **Percentage of Rate Adjustment Attributable to Experience:** Please see Section 2, "Proposed Rate Changes".

- h. **Average Annual Premium per Member:** [REDACTED]
- i. **Number of Policy Holders and Covered Lives:** [REDACTED]

ITEM 3. BASE PERIOD PREMIUM AND CLAIMS

The items requested below are not applicable, as there is no base period experience. Please see Section 8, "Manual Rate Adjustments", for details regarding the rate development process.

- a. **Dates of Service for the Base Period Used to Develop Rates:** 1/1/2019-12/31/2019
- b. **Date Through Which Claims Were Paid:** 2/29/2020
- c. **Estimate of Allowed Claims during the Base Period Used to Develop Rates:** Please see Section 4, "Experience and Current Period Premium, Claims, and Enrollment". Allowed claims in the base period are estimated to be [REDACTED]
- d. **Treatment of Experience for Grandfathered Plans:** Not applicable. This filing was new as of 1/1/2019; there are no grandfathered policies.
- e. **Method for Determining Allowed Claims:** Please see Section 4, "Experience and Current Period Premium, Claims, and Enrollment".
- f. **Incurred But Not Paid Claims:** Please see Section 4, "Experience and Current Period Premium, Claims, and Enrollment".
- g. **Premium in Experience Period (Net of Risk Transfers and MLR Rebate):** [REDACTED]

ITEM 4. ADJUSTMENTS TO ALLOWED CLAIMS DURING THE BASE PERIOD

The items requested below are not available, as no reinsurance or risk pooling are used. Please see Section 7, "Adjustments to Trended EHB Allowed Claims PMPM", for details regarding the rate development process.

- a. **Private Reinsurance:** No private reinsurance used.
- b. **Pooling:** No risk pooling used.

ITEM 5. PROJECTION FACTORS

- a. **Changes in Benefits:** There were no changes in medical benefits for 2021 plan offerings. Beginning 1/1/2021, Ambetter of North Carolina is offering supplemental coverage for non-EHB vision and adult dental services.
- b. **Trend Factors (Cost and Utilization):** Please see Section 6, "Trend Factors". This filing was new as of 1/1/2019 and there is not yet enough experience to display actual trends.
- c. **Projected Changes in the Demographics of the Population Insured:** Please see Section 7, "Adjustments to Trended EHB Allowed Claims PMPM".
- d. **Projected Changes in the Morbidity of the Population Insured:** Please see Section 7, "Adjustments to Trended EHB Allowed Claims PMPM".
- e. **Other Projected Changes:** Please see Section 7, "Adjustments to Trended EHB Allowed Claims PMPM".

ITEM 6. CREDIBILITY MANUAL RATE DEVELOPMENT

- a. **Methodology Used to Develop the Credibility Manual Rate:** Please see Section 8, "Manual Rate Adjustments" of this memorandum.
- b. **Source and Appropriateness of Experience Used to Develop the Credibility Manual Rate:** Please see Section 8, "Manual Rate Adjustments" of this memorandum.
- c. **Adjustments Made to Data Used to Develop the Credibility Manual Rate:** Please see Section 8, "Manual Rate Adjustments" of this memorandum.
- d. **Inclusion of Capitation Payments in Developing the Credibility Manual Rate:** Please see Section 8, "Manual Rate Adjustments" of this memorandum.

ITEM 7. CREDIBILITY

- a. **Credibility Methodology:** Please see Section 9, "Credibility of Experience" of this memorandum.
- b. **Credibility Level(s):** Please see Section 9, "Credibility of Experience" of this memorandum.

ITEM 8. COVERED SERVICES

This section discusses services that are currently covered but will no longer be covered in the projection period and those that will be newly covered in the projection period that are not currently covered.

- a. **Essential Health Benefits:** There are no changes to the EHBs offered between 2020 and 2021.
- b. **State Mandated Benefits which are Not Essential Health Benefits:** There are no state mandated benefits that are not EHBs.
- c. **Eliminated Benefits:** There were no eliminated benefits between 2020 and 2021.
- d. **Additional Mandatory Supplemental Benefits:** For medical coverage, there are no additional supplemental benefits offered in either 2020 or 2021. Beginning 1/1/2021, Ambetter of North Carolina is offering supplemental coverage for non-EHB vision and adult dental services.
- e. **Changes in the Level of Covered Services:** There are no changes to the level of covered services between 2020 and 2021.
- f. **EHB Substitutions:** There are no substituted EHBs in either 2020 or 2021 benefit offerings.
- g. **Changes in Formulary:** There were no explicit pricing adjustments made for formulary changes between 2020 and 2021.

ITEM 9. CREDIBILITY ADJUSTED PROJECTED CLAIMS PMPM

Please see Appendix 10.1 for the development of the estimated claims for the projection period adjusted for credibility.

ITEM 10. PROJECTED INDEX RATE

Please see Section 10, "Establishing the Index Rate" of this memorandum.

ITEM 11. MARKET ADJUSTED INDEX RATE

- a. **Risk Transfer Payments:** Please see Section 10, “Establishing the Index Rate”, and Section 11, “Development of the Market-Wide Adjusted Index Rate” of this memorandum.
- b. **Transitional Reinsurance:** No transitional reinsurance payments or assessments are expected in the projection period.
- c. **Exchange User Fees:** Please see Section 11, “Development of the Market-Wide Adjusted Index Rate” of this memorandum.

ITEM 12. PLAN ADJUSTED INDEX RATE

Please see Section 12, “Plan Adjusted Index Rate” and Section 13, “Calibration” of this memorandum.

ITEM 13. AV METAL VALUES

Please see Section 16, “AV Metal Values” of this memorandum.

ITEM 14. PAID TO ALLOWED RATIO

Please see Appendix 20.6 for the development of the paid to allowed ratio.

ITEM 15. NON-BENEFIT EXPENSES INCLUDING RISK AND PROFIT MARGIN

- a. **Projected Non-Benefit Expenses:** Please see Section 12, “Plan Adjusted Index Rate” of this memorandum. The category-level detail on non-benefit expenses can be found in the following locations:
 - a. General Administrative Expenses
 - i. 2021_Ambetter_NC_Rate_Submission_Template_20200511.xlsm
 - b. Sales and Marketing
 - i. Appendix 12.2
 - c. Commissions and Broker Fees
 - i. Appendix 12.2
 - d. Premium Tax
 - i. Appendix 12.2
 - e. Other Taxes, Licenses, and Fees,
 - i. Appendix 12.2
 - f. Health Care Quality Improvement and Fraud Detection Expenses
 - i. Appendix 12.2
 - g. Other Expenses
 - i. Appendix 12.2
 - h. Investment Income
 - i. 2021_Ambetter_NC_Rate_Submission_Template_20200511.xlsm

- i. Risk Margin
 - i. Appendix 12.2
- j. Profit or Contribution to Surplus Margin
 - i. Appendix 12.2
- b. **Comparison of Current and Proposed Non-Benefit Expenses:** Please see Appendix 20.3 for a comparison of current and proposed non-benefit expenses.
- c. **Varying Non-Benefit Expenses by Plan:** Please see Section 12, "Plan Adjusted Index Rate" of this memorandum.

ITEM 16. ADJUSTED COMMUNITY RATING FACTORS

- a. **Age Factors:** Please see Section 1, "General Information" and Section 14, "Consumer Adjusted Premium Rate Development" of this memorandum.
- b. **Geographic Factors:** Please see Section 1, "General Information" and Section 13, "Calibration" of this memorandum.
- c. **Tobacco Factors:** Please see Section 1, "General Information" and Section 14, "Consumer Adjusted Premium Rate Development" of this memorandum.

ITEM 17. DEVELOPMENT OF RATE TABLES

Please see Section 13, "Calibration", and Section 14, "Consumer Adjusted Premium Rate Development" of this memorandum.

ITEM 18. COMPANY FINANCIAL POSITION

See Appendix 20.1 for documents summarizing the capital and surplus position of Ambetter of NC.

ITEM 19. LOSS RATIOS

- a. **Loss Ratio Requirements:** Please see Section 15, "Projected Loss Ratio" of this memorandum.
- b. **Projected Federal MLR:** Please see Section 15, "Projected Loss Ratio" of this memorandum.
- c. **Required North Carolina Loss Ratio Projections:** Please see Appendix 20.2 for the lifetime loss ratio exhibit. [REDACTED]

ITEM 20. RELIANCE

Please see Section 21, "Reliance" of this memorandum.

ITEM 21. ACTUARIAL CERTIFICATIONS

- a. **Identification of the Certifying Actuary:** Please see Section 22, "Actuarial Certification" of this memorandum.
- b. **Certification of the Index Rate:** Please see Section 22, "Actuarial Certification" of this memorandum.
- c. **Certification of Plan Adjusted Index Rates:** Please see Section 22, "Actuarial Certification" of this memorandum.
- d. **Certification of Metal AV:** Please see Section 22, "Actuarial Certification" of this memorandum.
- e. **Certification of EHB Substitutions:** There are no substituted EHBs.

- f. **Certification of Geographic Factors:** Please see Section 22, "Actuarial Certification" of this memorandum.
- g. **Compliance with Applicable State and Federal Laws and Regulations:** Please see Section 22, "Actuarial Certification" of this memorandum.
- h. **Compliance with Actuarial Standards of Practice:** Please see Section 22, "Actuarial Certification" of this memorandum.

ITEM 22. ACTUAL TO PROJECTED FINANCIAL RESULTS

- a. **HMO Actual to Projected Financial Results:** Please see Appendix 20.5.

21. Reliance

In the preparation of this filing, I relied upon data provided under the direction [REDACTED] [REDACTED] I performed general reasonableness checks, but I have not audited the data and have relied upon its accuracy. To the extent that the underlying data is inaccurate, this filing may also be inaccurate. Actual results will vary from those projected in the filing. This is due to random fluctuations, unexpected large claims, changes in population, and other such factors.

See Appendix 21.1 for a listing of items received for the rate development.

22. Actuarial Certification

I, [REDACTED], am a member of the American Academy of Actuaries in good standing and meet its qualification standards for actuaries issuing statements of actuarial opinion in the United States promulgated by the American Academy of Actuaries, and have the education and experience necessary to perform the work. This filing is prepared on behalf of Ambetter of North Carolina, Inc. (the "Company") to comply with applicable State and Federal Statutes for individual rate filings.

I am affiliated with Milliman, Inc. ("Milliman"), an independent actuarial consulting firm that is not affiliated with, nor a subsidiary of, nor in any way owned or controlled by a health plan, health insurer, or a trade association of health plans or insurers.

I certify the rates were developed in accordance with the appropriate Actuarial Standards of Practice (ASOPs) and the profession's Code of Professional Conduct. While other ASOPs apply, particular emphasis was placed on the following:

- ASOP No. 5, Incurred Health and Disability Claims
- ASOP No. 8, Regulatory Filings for Health Benefits, Accident and Health Insurance, and Entities Providing Health Benefits
- ASOP No. 12, Risk Classification
- ASOP No. 23, Data Quality
- ASOP No. 25, Credibility Procedures
- ASOP No. 26, Compliance with Statutory and Regulatory Requirements for the Actuarial Certification of Small Employer Health Benefit Plans
- ASOP No. 41, Actuarial Communications
- ASOP No. 42, Health and Disability Actuarial Assets and Liabilities Other Than Liabilities for Incurred Claims
- ASOP No. 45, The Use of Health Status Based Risk Adjustment Methodologies
- ASOP No. 50, Determining Minimum Value and Actuarial Value under the Affordable Care Act

I certify that to the best of my knowledge and judgment:

1. The Index Rate for the Projection Period 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 the applicable Actuarial Standards of Practice
 - c. Reasonable in relation to the benefits provided and the population anticipated to be covered
 - d. Neither excessive nor deficient based on my best estimates of the 2021 individual market.
2. The Index Rate and only the 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 used reflect only differences in the cost of delivery (which can include unit cost and provider practice pattern differences) and do not include differences for population morbidity by geographic area.
4. The CMS Actuarial Value Calculator, with appropriate adjustments, was used to determine the AV Metal Values shown in Worksheet 2, Section I of the URRT for all plans.
5. That this filing is in compliance with all applicable Federal and State Laws and Regulations, including the Patient Protection and Affordable Care Act (PPACA) and the Health Care and Education Reconciliation Act of 2010.

The URRT does not demonstrate the process used to develop proposed premium rates. It is representative of 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 in accordance with Federal regulation and used consistently and only adjusted by the allowable modifiers.

The 2021 plan year premium rates in this actuarial memorandum are contingent upon the status of the ACA statutes and regulations including any regulatory guidance, court decisions, or otherwise. Changes have the potential to greatly impact the 2021 plan year premium rates provided in this Actuarial Memorandum and the alignment of these premium rates with incurred costs. Changes include, but are not limited to, any legislative or regulatory amendment, court decision, 1332 waivers bringing

reinsurance or other such programs to a state; or a decision by Congress, the Health and Human Services Secretary, or the Centers for Medicare and Medicaid Services director to fund cost-sharing reduction subsidies, alter advance premium tax credits, or further modify the individual mandate requirement and penalty. In the event that a material provision is impacted, a revision to the rates will be needed. In particular, rates were developed assuming steady funding of Advanced Premium Tax Credits (APTCs) and no funding of cost-sharing reduction (CSR) subsidy payments. The continuity of this funding approach will impact whether rates are sufficient and not excessive. Milliman expresses no opinion with regard to the future funding of CSR payments.

At the time of this rate filing submission, we acknowledge there is substantial uncertainty regarding the impact of the COVID-19 pandemic on setting premium rates, including whether the pandemic will increase or decrease costs in 2021. Because the range of possible outcomes remains so wide and uncertain, we have chosen not to make an adjustment to the 2021 premium rates at this time. As more information becomes known about the medical and economic impact of the COVID-19 pandemic, it is possible the 2021 premium rates will become excessive or deficient, and we would need to adjust the rates in order to produce premiums that are neither excessive nor deficient.

The information provided in this actuarial memorandum is in support of the items illustrated in the URRT and does not provide an actuarial opinion regarding the URRT's process used to develop proposed premium rates. It does certify that rates were developed in accordance with applicable regulations, as noted.

It is certain that actual experience will not conform exactly to the assumptions used in this analysis.

Signed:

Name: [REDACTED]

Title: Consulting Actuary

Date: May 11, 2020

Unique Plan Design Certification

[REDACTED]

CONFIRMATION THAT ONLY IN-NETWORK COST SHARING, INCLUDING MULTITIER NETWORKS, WAS CONSIDERED:

Only in-network cost sharing, including multitier networks, was considered.

ACTUARIAL CERTIFICATION LANGUAGE:

The AVC was used to determine the AV for the plan provisions that fit within the calculator parameters. For benefits that deviate substantially from the parameters of the AVC and have a material impact on the actuarial value, the development of the AV is based on one of the acceptable alternative methods outlined in 45 CFR 156.135(b)(2) or 45 CFR 156.135(b)(3).

The analysis was

- (i) conducted by a member of the American Academy of Actuaries, and
- (ii) performed in accordance with generally accepted actuarial principles and methods.

Signed:

Name: [REDACTED]

Title: Consulting Actuary

Date: May 11, 2020

THE FOLLOWING APPENDICES HAVE BEEN REDACTED: 1.1 - 21.1