Actuarial Memorandum

South Dakota State Medical Holding Company, Inc. dba DAKOTACARE

Issuer ID #62210

2017 Individual Health Insurance Off-Exchange Premium Rate Filing

June 13th, 2016

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1. EXECUTIVE SUMMARY

This memorandum documents the development of individual market, single risk pool rates for South Dakota State Medical Holding Company. Inc. (dba DAKOTACARE). These rates apply to nine plans, which DAKOTACARE anticipates offering outside the health insurance exchange available to eligible residents of South Dakota. DAKOTACARE is an insurer of commercial plans in South Dakota. DAKOTACARE is offering individual health insurance products in the Bronze, Silver, and Gold metal tiers, effective January 1st, 2017.

2. GENERAL INFORMATION

Company Identifying Information

Company Legal Name: South Dakota State Medical Holding Company, Inc.

Company Marketing Name: DAKOTACARE

Address of the Submitting Company: 2600 W. 49th Street, P.O. Box 7406, Sioux Falls, SD 57117-7406

State: South Dakota

HIOS Issuer ID: 62210

Market: Individual Market

Effective Date: January 1, 2017

Company Contact Information

Primary Contact Name: Ms. Ann DeWeerd

Primary Contact Email Address: ann.deweerd@dakotacare.com

Toll-free number: 1-800-325-5598

SERFF Rate Review Detail

Projected earned premiums	$695,108.72
Projected incurred claims	$579,495.17
Min PMPM	$455.46
Max PMPM	$680.69
Weighted average	$554.84

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Please note that these PMPMs have not been calibrated for age and area. Therefore, these numbers are not directly comparable to corresponding numbers in last year's actuarial memorandum.

Months of Rate Guarantee: These rates will be guaranteed until December 31st, 2017.

3. PROPOSED RATE INCREASE(S)

There were 14 plans across the 6 products included in DAKOTACARE's 2016 single risk pool rate filing, and 9 of those plans are proposed to continue into 2017. The rate filing affects approximately 522 members currently enrolled in 2016. Rate changes vary by plan as summarized below.

Table 3.1 Proposed Rate Increases

Product Name	Product ID	2015 Member Months	Rate Change Range by Plan	Average Rate Change for Product
Universal	62210SD143	30,173	27.75% to 29.48%	28.81%
Core	62210SD144	56,036	27.23% to 27.62%	27.45%
Reserve	62210SD145	16,224	27.40% to 29.27%	28.09%
Signature Plus	62210SD146	2,474	25.09% to 26.10%	25.27%
Signature	62210SD147	9,037	24.60% to 24.60%	24.60%
Basic	62210SD148	1,063	Terminated in 2017	n/a

The proposed rate changes summarized above were calculated based on the current enrollment mix, so are normalized for expected changes in the mix of the covered population. Though rates were developed based on the same single risk pool of experience for the market, rate increases vary by plan within a product due to changes to plan cost sharing.

The key drivers of rate change were a significant increase in experience period claim cost, an additional year of trend, a reduction in the non-benefit expense load, and the loss of Federal reinsurance protections.

4. MARKET EXPERIENCE

Experience Period Premiums and Claims

The basis for experience period claims in Worksheet 1, Section I of the URRT are as follows:

Experience period: Calendar Year 2015

Paid through date: March 4, 2016

Earned premium for CY 2015: $43,283,501 (ACA and non-ACA; net of Risk Adjustment Payable $1,499,830)

Expected MLR rebates incurred in experience period: $0

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Methodology used to estimate MLR rebates: DAKOTACARE estimated the MLR using the following formula and determined there were no rebates for 2015.

(Incurred Claims + Quality Improvement Costs - Transitional Reinsurance Receipts + Risk Corridors and Risk Adj Related Payments - Risk Corridors and Risk Adj Related Receipts)	
(Earned Premiums + Transitional Reinsurance Receipts - Risk Corridors and Risk Adj Related Payments + Risk Corridors and Risk Adj Related Receipts) - Federal and State Taxes and Assessments - Licensing and Regulatory Fees, including Transitional Reins Contributions - (Transitional Reinsurance Receipts - Risk Corridors and Risk Adj Related Payments + Risk Corridors and Risk Adj Related Receipts)	+ Credibility Adjustment

The following table shows the development of allowed and paid claims from raw claims data to claims used for rate development. This illustrates the claims for ACA policies only.

Table 4.1: Development of Experience Period Allowed and Paid Claims

	Allowed Claims	Paid Claims
Claims processed through issuer's claims system for experience period and paid through date above	$67,917,984	$58,795,062
Claims processed outside issuer's claims system for same time period	$0	$0
Estimate of claims incurred but not paid (IBNP) as of paid through date above	$1,311,555	$1,134,205
Rx Rebates	$451,108	$451,108
Private Reinsurance	$162,269	$162,269
Estimated claims incurred during experience period	$68,616,161	$59,315,890

There were no subrogations.

Methodology for determining allowed claims: Allowed claims are computed by combining paid claims with member cost sharing.

Methodology for developing IBNR for allowed and paid claims: The IBNR was developed by Wakely using the HMO experience and using a triangle method to project completion factors. The experience is combined small and large groups to gain credibility and because the claims processing system is the same across all lines. Each cell in the triangle method is broken out by incurred month and paid month. Ratios are developed between what is paid in x number of months over what is paid in x+1 months for the most recent available 12 months. These ratios are taken to 36 months. The completion factor over 36 months of run out is 1.0000. The above ratios are multiplied starting with month 36 and working back up to month 1. Please note that month 1 is the month that claims are incurred and paid during the same month. For example a completion factor for claims that are paid in 15 months is as follows: Product of (Paid in Month x/Paid in Month x+1) with x being from 15 to 36. The months, for each term, is a twelve-month period

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for each set of x with the most recent month at x months from when the triangles were constructed. In this case the claims triangle was developed in March 2016.

Completion factors are developed for three service categories based on the method described above. The used completion factor represents claims that are incurred in January to December 2015 but are paid from January 2015 to March 4, 2016. This is an average of the respective 12 month completion for the respective payment period. The completion factors were developed separately for inpatient, outpatient, and professional claims. There is no completion factor for pharmacy. The composite completion factor for all claims is 1.02 (multiplicative).

There is no indication of the incurred claims being unusually high or low compared to what is paid for two months of run out.

Benefit Categories

Benefit categories for experience period claims were determined based on the preferred definitions, as follows:

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: 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: 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: Includes non-capitated ambulance, home health care, DME, prosthetics, supplies, vision exams, dental services and other services.

Capitation: There were no services provided under capitated arrangements.

Prescription Drug: Includes drugs dispensed by a pharmacy. This amount should be net of rebates received from drug manufacturers.

The following measurement units were used for each benefit category:

Table 4.2 Measurement Units for Benefit Categories

Benefit Category	Measurement Unit
Inpatient Hospital	Days
Outpatient Hospital	Visits
Professional	Visits
Other Medical	Visits
Capitation	n/a
Prescription Drug	Prescriptions

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Projection Factors

The following describes the factors used to project the experience period allowed claims to the projection period (CY 2017). The projection of experience into projection period and all projection factors are shown in Appendix A.

Changes in Morbidity of the Population Insured

An aggregate adjustment of 0.92 was applied to account for the following expected differences in population morbidity from the experience period to the project period as shown in the URRT. This adjustment was developed by comparing the demographics and claim cost of the population that continued into 2016 relative to the 2015 population.

Other

This column in Section II of the Worksheet 1 of the URRT contains adjustment factors to remove transitional experience from the single risk pool experience as transitional policies are not expected to enter into the ACA market until 1/1/2018.

Changes in Benefits

There are no changes in covered benefits proposed for 2017 relative to the 2015 experience period.

Several changes in cost sharing were made but all of the changes were made solely to comply with Federal requirements on actuarial value of the plan's metal level.

Trend Factors (cost/utilization)

The individual ACA product has had significant changes in membership and is relatively new. Since the same contracts are in place for all insured lines for DAKOTACARE, we believe it is appropriate to use small group trends for the individual market as well.

Claims experience for small group ACA and non-ACA groups from 2013 to 2015 was used to develop historical cost and utilization trends. Small group experience was reviewed and normalized for large claim outliers. High level provider contract information was reviewed with adjustments made to reflect anticipated changes that differ from those underlying the experience. Historic trends for large group and individual blocks were also reviewed for cost trends since the same network is used for all lines of business and we believe it is appropriate to use a combination of experience trends from all lines of business to develop projected trends. In addition, pharmacy trend analysis from the pharmacy benefits manager was used to develop pharmacy cost and utilization trends to reflect future anticipated changes in formulary, introduction of new drugs, and other changes. Industry trend studies were also reviewed to gain insight in to future anticipated changes in pharmacy and medical costs and utilization.

The annualized trends are shown below.

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Table 4.3 Trends

Service Category	Annual Cost Trend	Annual Use Trend
Inpatient Hospital	3.50%	2.50%
Outpatient Hospital	8.50%	0.50%
Professional	2.00%	2.00%
Other Medical	6.00%	1.00%
Capitation	0.00%	0.00%
Rx	11.00%	1.50%
Total	**5.96%**	**1.55%**

The trend assumption takes into account historical data, expectation of future trends such as provider contracting change (not included in an explicit provider contracting adjustment), and adjustments for the inherent volatility in trends.

Inclusion of Capitation Payments

DAKOTACARE does not currently have any capitated arrangements.

5. CREDIBILITY MANUAL RATE DEVELOPMENT

No manual rate was necessary, as the experience was 100% credible.

6. CREDIBILITY OF EXPERIENCE

Credibility assigned to base period experience is shown in Appendix C.

The following formula was used for assigning credibility to the experience period:

$$z = \min\left(1, \left(\frac{\text{MM}}{65{,}800}\right)^{.5}\right) \text{for MM} \geq 3000$$

Experience Period Member Months (MM)

Credibility factor (z)

No credibility is assigned to blocks of business with less than 3,000 MM.

The determination of full credibility depends on the assumed variation in the claim experience and was based on an application of classical credibility theory. Full credibility was determined based on the number

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of individuals that are needed to have a probability of 95% of being within 10% of the expected claim amount (consistent with Medicare criteria). The credibility threshold was calculated using random samples of 5,000,000 members from the Truven MarketScan data for years 2010 – 2014.

7. PAID TO ALLOWED RATIO

The Truven benefit modeler developed in conjunction with Wakely uses the data underlying the Truven MarketScan detailed claim data of a nationally-representative sample of over 40 million group lives to develop paid-to-allowed pricing estimates for rate development (as opposed to the actuarial values from the Federal AV calculator). The model uses actuarially-sound pricing methods to value the impact of deductibles, copays, coinsurance and maximum out-of-pocket cost sharing parameters. We calibrated the utilization and unit cost assumptions in the model to the allowed cost estimates underlying the manual rate and/or experience rate, including adjustments for EHB, trend, provider reimbursement changes and other adjustments discussed elsewhere in this report.

The table of paid to allowed ratios by plan and in aggregate are shown in Appendix C. These differ from the AV Metal Values reported on Worksheet 2 of the URRT due to differences in the underlying population and methodologies used to develop actuarial values.

8. RISK ADJUSTMENT AND REINSURANCE

Experience Period Risk Adjustment and Reinsurance Adjustments PMPM

Worksheet 2 of the URRT includes estimates of risk adjustment transfers and reinsurance recoveries for the experience period.

DAKOTACARE participated in the Milliman risk transfer reporting project. This project included participation by issuers representing the majority of the South Dakota Small Group insurance market. DAKOTACARE received summary results showing estimated risk adjustment payables for the calendar year 2015 with no run out. Based on information supplied in these reports, Milliman estimated that DAKOTACARE's risk transfer payments on the individual block to be [redacted] PMPM before netting out risk adjustment fees for the calendar year 2015.

The risk transfer payments were allocated to plans proportionately to plan membership.

Federal reinsurance recoveries for the experience period were provided by DAKOTACARE and estimated full year recoveries were $8.83 million before netting out reinsurance fees.

The reinsurance recoveries were allocated to plan proportionately to membership in the plan.

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Projected Risk Adjustments PMPM

We estimated the 2017 risk transfers to be a receivable of [redacted] PMPM (gross of risk adjustment fee). This estimate was based on a number of factors. Milliman provided risk transfer estimates using CY 2015 data and 2017 HHS risk adjustment coefficients. We used these estimates as our starting point.

We made the following adjustments to the risk scores:

- We adjusted the risk score to reflect known changes in population risk between 2015 and 2016. We did not have HHS risk scores by member. We estimated the morbidity change by comparing the demographics and claim costs of those members who enrolled in 2016 relative to those who were enrolled in 2015. Based on this comparison, we estimated that the risk score of those continuing into 2016 was [redacted] lower than those in 2015.
- The induced demand factor increased by [redacted] due to changes in mix of metal
- As DAKOTACARE has stopped offering coverage on the exchanges, all CSR membership has terminated with DAKOTACARE. In the HHS risk adjustment model, a person with a CSR plan would have a higher PLRS than the PLRS this same person would get in a standard off-exchange Silver plan. The higher PLRS reflects the higher plan liability due to induced demand from having a richer plan. The claims cost/demographic method to estimate changes in morbidity as described above does not take into account the CSR induced demand adjustment to PLRS in the HHS risk score model. We separately estimated the impact of losing CSR members and hence the induced demand PLRS adjustment to be [redacted].
- DAKOTACARE recently started performing risk score optimization to identify members where HCC coding was missing in the year. The market presumably started coding improvements sooner. This was evident in Milliman's risk adjustment report which showed that DAKOTACARE's risk scores improved by more than the market average risk score. Based on Wakely's risk score optimization work for DAKOTACARE and our knowledge of typical risk score improvements that can be achieved in the first couple of years relative to the market, we assumed that DAKOTACARE's risk scores will improve [redacted].

We made the following adjustments to the ratable factors portion of the risk transfer equation.

- The plan mix by metal level changed from 2015 to 2017, as well as the actuarial values were updated resulting in an increase in average actuarial value of [redacted]% for DAKOTACARE.
- The induced demand factor also went up by [redacted]% corresponding to the increase in average actuarial value.
- We also noted that those members who re-enrolled into 2016 were significantly younger than those in 2015 by [redacted]% in the HHS age rating factor. This would result in a reduction in DAKOTACARE's ratable factors.

We made the following adjustments to market average premiums.

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- We compiled the rate increases for 2016 for each insurer in South Dakota's individual market and estimated their market share. Using this information, we estimated that market average premiums increased [redacted]% in 2016.
- We applied claim cost trend for 2016 to 2017.
- We applied the impact of Federal reinsurance being discontinued in 2017.
- Based the 2016 rate increases, the large losses emerging for virtually all carriers in 2015 year end financials, and judgement, we estimated that the 2016 rates were underpriced by approximately [redacted].

The risk adjustment fee of $0.13 PMPM was incorporated into 2016 rates and is shown in Appendix C.

Projected risk adjustment transfers net of fees are reported in the URRT Worksheet 1 (in aggregate) and Worksheet 2 (allocated to each plan). Risk adjustment transfers were applied at the market level in the development of the Market Adjusted Index Rate. Transfer amounts were converted to an allowed amount in the development of the Market Adjusted Index Rate using the projected aggregate paid to allowed ratio.

The risk transfer charges were allocated to plan proportionately to membership in the plan.

Projected ACA Reinsurance Recoveries Net of Reinsurance Premium

Since the transitional Federal reinsurance program ends at year end 2016, we assumed no Federal reinsurance recoveries or fees in 2017 rating.

9. NON-BENEFIT EXPENSES AND PROFIT & RISK

Administrative Expense Load

DAKOTACARE developed expected administrative costs based on current administrative costs for their individual line of business, adjusted to reflect any differences in functions or level of effort for the individual product. Admin load (excluding commissions and contribution to surplus) was developed and applied on a percentage of premium basis and is expected to be 8.6% of premiums. There is no fixed PMPM admin expense in addition to the percentage loading since all loading was converted to a percentage basis by DAKOTACARE.

DAKOTACARE will be using agents/brokers and expects that the average agent/broker load will be 3.7% of premiums.

Profit / Contribution to Surplus & Risk Margin

Three percent (3%) of proposed 2017 premiums have been allocated to contribution to surplus.

Consistent with the URRT worksheet I, on an after-tax basis, the proposed 2016 premiums include 0.98% allocated to surplus. The Federal income tax estimate is included in the next section.

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The profit load does not vary by plan.

Taxes and Fees

Taxes and regulatory fees included in the development of 2017 rates include the following:

1. PCORI Fee = $0.18 PMPM
2. Issuer Fee = 0%
3. A state premium tax of 1.3% was loaded into the rates
4. Federal income tax of 35% on surplus

The risk adjustment user fees are excluded from the Taxes and Fees section of the URRT since they are included in the risk adjustment transfer lines.

10. PROJECTED LOSS RATIO

Wakely's estimates indicate projected MLRs for the individual line of business of 84.5% for 2017 based on the Federal MLR methodology. DAKOTACARE does not anticipate paying out MLR rebates for the 2017 calendar year.

11. APPLICATION OF MARKET REFORM RATING RULES

Single Risk Pool

DAKOTACARE has established a single risk pool for all of this individual market business. Covered lives for all Individual products and all plans for DAKOTACARE in South Dakota are included in the single risk pool base experience. The index rate for the projection period reflects all non-grandfathered members expected to be enrolled in the ACA-compliant single risk pool.

Index Rate Development

Index Rate for Experience Period

The experience period Index Rate is $547.00 PMPM. This was calculated based on allowed claims for Essential Health Benefits during the experience period for the single risk pool. Total allowed claims in the experience period ($547.30) differ from the Index Rate due to rounding.

DAKOTACARE offered no benefits in excess of EHBs in the experience period.

Index Rate for Projection Period

The projection period index rate is estimated to be $628 PMPM and is shown on WS1 of the URRT. This was calculated based on projected allowed claims for Essential Health Benefits for the single risk pool population during the projection period.

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Market Adjusted Index Rate for Projection Period

We included the impact of reinsurance and risk adjustment, converted to an allowed basis to the index rate for the projection period to develop the market adjusted index rate. All market level adjustments are shown in Appendix C.

Plan Adjusted Index Rate for Projection Period

The plan-level adjustments were made in accordance with 45 CFR 156.80(d)(2). Plan adjusted index rates were developed by applying allowable plan level adjustments to the Market Adjusted Index Rate. The components of the plan level adjustments used for each plan are provided in Appendix C. The following describes how each component of the adjustments were developed.

AV and Cost Sharing Adjustment

Paid to allowed ratios were developed for each plan based on the Truven Benefit Modeler. The Truven Benefit Modeler (developed in partnership with Wakely) enables actuaries to estimate the pricing actuarial values based on state, plan design, demographics, plan type, provider contracting, and several other factors that are critical to estimating the actuarial values accurately. Underlying the modeler is detailed claim and enrollment data for over 40 million sample of nationally-representative and commercially-insured lives.

Additional adjustments were made to account for expected induced utilization, driven by cost sharing differences across each plan. Wakely's induced utilization factors were applied by metal level as described previously. Utilization factors reflect the impact of differences in cost sharing on utilization, health status differences are not reflected in utilization factors.

The plan adjusted index rate must be on a non-tobacco user basis. As such, we applied a factor of 0.9781 to adjust the market adjusted index rate to a non-tobacco user status. The factor was developed based on the distribution of self-reported tobacco and non-tobacco users in the current population. This adjustment is uniform across plans. This adjustment captures the differences in the tobacco loads applicable and/or differences in the availability of wellness programs which reduces the applicable tobacco load. Additional information on this adjustment is provided below under the 'Tobacco Rating' subsection.

Provider Network, Delivery System and Utilization Management Adjustment

Since all products being filed have the same network, no network adjustments were required.

The weighted average of network adjustments is 1.00.

Adjustments for benefits in addition to EHB

No benefits in addition to EHB are being offered.

Adjustment for Distribution and Administrative Costs

As noted earlier, administrative costs are applied on a percent of premium basis.

The development of the plan adjusted index rates can be found in Appendix C.

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Tobacco Rating

We applied the tobacco surcharge of 15% as in prior years.

The tobacco adjustment factor is intended to convert the rates to a non-tobacco basis. The development of the factor is shown below. As shown below, the tobacco normalization factor was calculated by applying the tobacco factor to the % of tobacco users over the age of 20. The resulting age factor with the tobacco rate was calculated and compared to age factor without the tobacco loads. We used 2016 mix of membership by age to calculate the age factor. However, the % tobacco users was available for 2015 enrollment only so we assumed that the % of tobacco users will stay consistent between 2015 and 2017.

Table 11.1 Tobacco Factor Development

	2016 Members	Age Factor	Tobacco Factor	Tobacco % Users	Combined Factor	
0-19	205	0.635	1.00	0.0%	0.635	
20+	317	1.538	1.15	14.5%	1.571	
all	522				**1.2034**	A
Composite Age Factor					**1.1771**	B
Tobacco adjustment					**0.9781**	=B/A

The impact of this adjustment can be seen in Appendix C.

Calibration

Per the instructions, plan adjusted index rates are next calibrated to age 21 and at the weighted average geographic factor level. The calibration is shown in Appendix C.

Age Calibration

To bring the experience to age 21 rate, we divided the plan adjusted index rate by the weighted average age factor. The age factor was calculated as the weighted average of ACA age factors and the projected 2017 individual market enrollment by age. The age associated with this factor is 32 years. Once calibrated, the standard Federal age factors can be applied on a multiplicative basis to get to the rates for other ages.

Area Calibration

DAKOTACARE does not use area factors.

Calibration factors are applied uniformly to all plans.

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Consumer Adjusted Index Rate

The consumer adjusted index rates were calculated by multiplying the calibrated plan adjusted index rates by the consumer's specific age factor (subject to maximum allowable rating of 3 kids under 21), area factor, and tobacco load as applicable.

We used the ACA age factors and a uniform set of rating area factors.

The rating factors are shown in Appendix D and the consumer adjusted index rates are provided in the rate templates.

12. AV METAL LEVELS

The Federal AVC was used without modification to generate the AV metal tier (URRT, Worksheet 2). DAKOTACARE provided the AV calculations for all plans. Wakely reviewed a sample of these calculations along with Summaries of Benefits and Coverage documents and believe the calculations produced by DAKOTACARE using the Federal AV calculator are in accordance with applicable guidance.

13. AV PRICING VALUES

The methodology for development AV Pricing Values is included in the Plan Adjusted Index Rate section. Only allowable modifiers were used in the development of these values.

Benefit richness utilization adjustments were applied to stratify the market adjusted index rate to levels suitable for each of the metal tiers. We used the following values which were developed using nationwide allowed claim cost PMPM data for similar products and plans by metal level and then normalizing the costs for morbidity using risk scores.

Bronze = [redacted]

Silver = [redacted]

Gold = [redacted]

The adjustment factors above are shown in Appendix C.

The same underlying cost distribution and cost level was used in the development of cost sharing factors, adjusted for only induced demand. Therefore, differences in expected morbidity across metal tiers were not included in the pricing development for each metal tier plan.

The pricing AVs are different from the Federal AVCs primarily because the estimated allowed PMPMs are different than those underlying the Federal AV calculator. This impacts the AVs due to a leveraging effect for fixed cost sharing elements like copays, deductibles and MOOPs. The other variance is differences in the methodology of the pricing models.

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14. MEMBERSHIP PROJECTIONS

The membership projections for 2017 were developed by DAKOTACARE based upon internal discussion. Actual enrollment is highly dependent on consumer decisions and the competitiveness of rates in the market.

The following table shows estimates of DAKOTACARE individual enrollment by plan name.

Table 14.1 Projected 2017 Membership

Plan Name	Projected Member Months for 2017
Universal Plan 1	185
Universal Plan 4	355
Core Plan 2	115
Core Plan 3	156
Reserve Plan 1	41
Reserve Plan 2	86
Signature Plus Plan 1	22
Signature Plus Plan 2	113
Signature Plan 2	180

15. PLAN TYPE

The plan types listed in the drop-down box in Worksheet 2, Section I of the URRT describe the plans exactly.

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16. TERMINATED PLANS AND PRODUCTS

A summary of 2016 plans that are being discontinued/continued into 2017, as well as crosswalk of terminated plan members to an active 2017 plan is shown below. Plans in red text designate the terminated plans.

Table 15.1 Terminated Plans and Crosswalk

2016 Plan Metal Level	2016 HIX ID	2017 Plan Name	2017 Metal Level	2017 HIX ID Mapping
Gold	62210SD143000100	DAKOTA Universal Plan 1	Gold	62210SD143000100
Gold	62210SD143000400	DAKOTA Universal Plan 2	NA	62210SD143000300
Silver	62210SD143000200	DAKOTA Universal Plan 3	NA	62210SD143000300
Silver	62210SD143000300	DAKOTA Universal Plan 4	Silver	62210SD143000300
Gold	62210SD144000100	DAKOTA Core Plan 1	NA	62210SD144000200
Silver	62210SD144000200	DAKOTA Core Plan 2	Silver	62210SD144000200
Silver	62210SD144000300	DAKOTA Core Plan 3	Silver	62210SD144000300
Silver	62210SD145000200	DAKOTA Reserve Plan 1	Silver	62210SD145000200
Bronze	62210SD145000300	DAKOTA Reserve Plan 2	Bronze	62210SD145000300
Gold	62210SD146000100	DAKOTA Signature Plus Plan 1	Gold	62210SD146000100
Silver	62210SD146000200	DAKOTA Signature Plus Plan 2	Silver	62210SD146000200
Silver	62210SD147000200	DAKOTA Signature Plan 1	NA	62210SD147000300
Bronze	62210SD147000300	DAKOTA Signature Plan 2	Bronze	62210SD147000300
Silver	62210SD148000200	DAKOTA Basic	NA	62210SD147000300

17. URRT WARNINGS

Section III:

- Warning on plan adjusted index rate and total premium in WS2: This warning arises because the transitional plan adjusted index rate in WS2 is set to zero per the instructions.

18. RELIANCE

Wakely Consulting Group, Inc., 9777 Pyramid Ct, Suite 260, Englewood, CO 80112 relied on information provided by DAKOTACARE and publicly available information to develop the 2017 individual premium rates. This information includes, but is not limited to the following:

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- Base data and enrollment, including financial reconciliation
- Trend assumptions
- Membership projections
- Provider contracting levels, including descriptions of the relationship between the Delivery systems and DAKOTACARE
- Administrative cost projections
- Product design information
- CCIIO and the State of South Dakota regulatory and compliance interpretations and rulings

19. ACTUARIAL CERTIFICATION

I, Karan Rustagi, am an Associate in the Society of Actuaries (ASA) and a member of the American Academy of Actuaries (MAAA). I meet the Qualification Standards of Actuarial Opinion as adopted by the American Academy of Actuaries for preparing premium rate filings for insurers.

This actuarial certification applies to the DAKOTACARE individual products to be offered outside the health exchange.

1. In accordance with ARSD 20:06:22:03(03), I certify that to the best of my knowledge and judgment, the entire rate filing was developed in compliance with applicable laws, rules and guidelines of the State of South Dakota.
2. The premium rates filed are reasonable in relation to the benefits provided and are not excessive, inadequate, or unfairly discriminatory based on the provisions of the ACA as currently implemented.
3. The premium rates are calculated on the basis of sound actuarial principles.
4. The premium rates are reasonable when related to the applicable coverage and characteristics of the applicable class of enrollees.
5. The index rates are developed in accordance with Federal regulations and the index rate along with allowable modifiers are used in the development of plan specific premium rates.
6. The premium rates filed are prepared in conformity with the Actuarial Standards of Practice (ASOPs) promulgated by the Actuarial Standards Board that are listed below:

   ASOP No. 5, Incurred Health and Disability Claims

   ASOP No. 8, Regulatory Filings for Health Plan Entities

   ASOP No. 12, Risk Classification

   ASOP No. 23, Data Quality

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ASOP No. 25, Credibility Procedures Applicable to Accident and Health, Group Term Life, and Property/Casualty Coverages

ASOP No. 41, Actuarial Communication

ASOP No. 42 - Determining Health and Disability Liabilities Other Than Liabilities for Incurred Claims

In my opinion, the premiums are reasonable in relation to the benefits provided and the population anticipated to be covered. Further, the premiums are neither excessive nor deficient based on the provisions of the ACA as currently implemented. Actual experience will vary from the estimates given the inherent uncertainty in developing premium rates under the ACA.

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.

The percent of total premium that represents essential health benefits included in Worksheet 2, Sections III and IV were calculated in accordance with ASOPs.

DAKOTACARE did not use geographic factors.

The Federal AV Calculator was used to determine the AV Metal Values shown in Worksheet 2 of the Unified Rate Review Template for all plans.

The Part I Unified Rate Review Template does not demonstrate the process used 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 for Federally-facilitated exchanges and for certification that the index rate is developed in accordance with Federal regulation and used consistently and only adjusted by the allowable modifiers.

Sincerely,

Karan Rustagi, ASA, MAAA
Consulting Actuary
Wakely Consulting Group
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Appendix A
Experience and Projections

	2015			Utilization adjustment Factors to project to 2017									Unit Cost Adjustment Factors to project to 2017						2017
	Experience Period Util/1,000	Experience Period Unit Cost Allowed	Experience period Allowed PMPM	Trend Factor	Pent up	Med Mgmt	Demographics	Morbidity	Benefits (differences in covered services)	Induced utilization due to AV difference	Geographic	Other	Trend Factor	Pent Up	Med Mgmt	Population	Provider contracting changes	Other	Allowed PMPM
Grand Total	**22,061.12**	**$316.62**	**$592.00**	**1.03**	**1.00**	**1.00**	**1.00**	**0.92**	**1.00**	**1.00**	**1.00**	**1.00**	**1.12**	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**	**$628.12**
Hospital Inpatient	457.51	$4,776.50	$186.05	1.05	1.00	1.00	1.00	0.92	1.00	1.00	1.00	1.00	1.07	1.00	1.00	1.00	1.00	1.00	$191.86
Hospital Outpatient	954.25	$2,502.21	$203.29	1.01	1.00	1.00	1.00	0.92	1.00	1.00	1.00	1.00	1.18	1.00	1.00	1.00	1.00	1.00	$221.48
OP Physician	6,789.51	$187.35	$108.29	1.04	1.00	1.00	1.00	0.92	1.00	1.00	1.00	1.00	1.04	1.00	1.00	1.00	1.00	1.00	$107.41
Other	3,415.93	$121.97	$35.47	1.02	1.00	1.00	1.00	0.92	1.00	1.00	1.00	1.00	1.12	1.00	1.00	1.00	1.00	1.00	$37.25
Capitation	1.00	$0.00	$0.00	1.00	1.00	1.00	1.00	0.92	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	$0.00
Prescription Drugs	10,442.93	$69.26	$60.29	1.03	1.00	1.00	1.00	0.92	1.00	1.00	1.00	1.00	1.23	1.00	1.00	1.00	1.00	1.00	$70.12

Please note that transitional experience has already been excluded here.

Appendix B
Manual Rate Development

Manual rate was not required

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Appendix C
Rate Development

Formula where applicable		Step										
Reflects EHBs only	Experience - Allowed PMPM - adjusted to rating year basis	(01)	$628.12									
	Manual Rate - Allowed PMPM - adjusted to rating year basis	(02)	$502.40									
	Experience Period Member Months	(03)	115,907									
	Credibility	(04)	100.0%									
	Remove non-EHBs	(05)	1.0000									
['(1)*(4) + (2)*(1-(4))] * (5)	**Allowed PMPM (with induced demand)**	(06)	$628.12									
	Market Adjusted Index Rate		**2017 Impact**	**Allowed PMPM Recovery**	**Paid PMPM Net of Fees**							
	Impact of reinsurance	(07)	100.00%	$0.00	$0.00							
	Risk adjustment factor	(08)										
	Equivalent exchange user fee	(09)	0.0%									
(6)*(7)*(8)/(1-(9))	Market adjusted index rate	(10)										
	Plan level adjustments											
	HIOS ID ->	(11)	62210SD143000100	62210SD143000300	62210SD144000200	62210SD144000300	62210SD145000200	62210SD145000300	62210SD146000100	62210SD146000200	62210SD147000300	
	Plan Name ->	(12)	Universal Plan 1	Universal Plan 4	Core Plan 2	Core Plan 3	Reserve Plan 1	Reserve Plan 2	Signature Plus Plan 1	Signature Plus Plan 2	Signature Plan 2	
	Metal ->	(13)	Gold	Silver	Silver	Silver	Silver	Bronze	Gold	Silver	Bronze	**Average**
	Pricing AV's	(14)										**75.27%**
	Induced Demand	(15)										
	Induced Demand Normalization	(16)										
	Projected Enrollment by Plan	(17)	15%	28%	9%	12%	3%	7%	2%	9%	14%	
	Network Factors	(18)	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	
	Network Normalization	(19)	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	
	Catastrophic Adjustment	(20)	1.0000	*1.0000*	*1.0000*	*1.0000*	*1.0000*	*1.0000*	*1.0000*	*1.0000*	*1.0000*	
	Non-EHBs	(21)	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	
	PMPM administrative expenses	(22)	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	
	Broker commissions	(23)	$0.04	$0.04	$0.04	$0.04	$0.04	$0.04	$0.04	$0.04	$0.04	
	PPACA fees	(24)	$0.18	$0.18	$0.18	$0.18	$0.18	$0.18	$0.18	$0.18	$0.18	
	State premium tax	(25)	1.30%	1.30%	1.30%	1.30%	1.30%	1.30%	1.30%	1.30%	1.30%	
	Issuer fee rate (carrier tax)	(26)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	
	Profit/Contribution to Surplus	(27)	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	
	Percent administrative expense	(27)	8.60%	8.60%	8.60%	8.60%	8.60%	8.60%	8.60%	8.60%	8.60%	

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	Interim Calculation		Universal Plan 1	Universal Plan 4	Core Plan 2	Core Plan 3	Reserve Plan 1	Reserve Plan 2	Signature Plus Plan 1	Signature Plus Plan 2	Signature Plan 2	Average
[(10)*(14)*(15)/(16)*(18)/(19)*(20)*(21)+ SUM($retention)] / (1-SUM(% retention))	Gross Premium	(28)	$680.69	$574.06	$537.85	$510.28	$569.31	$455.46	$672.62	$561.18	$463.53	**$554.84**
(10)*(14)*(15)/(16)*(18)/(19)*(20)*(21)	Net Premium	(29)	$567.51	$478.59	$448.39	$425.39	$474.62	$379.68	$560.78	$467.84	$386.41	**$462.56**
	Tobacco Adjustment	(30)	0.9781									
	Plan Adjusted Index Rate (before calibration)											
(28) * (30)	Gross Premium	(31)	$665.78	$561.49	$526.08	$499.11	$556.84	$445.49	$657.89	$548.89	$453.39	**$542.70**
	Claims over Premium	(32)	**83.3%**									
	Projected Loss Ratio ACA	(33)	**84.5%**									
	Calibration											
	Age corresponding to age factor	(34)	32									
	Age calibration factor	(35)	1.1771									
	Area calibration factor	(36)	1.0000									
	Plan Adjusted Calibrated Index Rates Index Rates (at 1.0 HHS)		Universal Plan 1	Universal Plan 4	Core Plan 2	Core Plan 3	Reserve Plan 1	Reserve Plan 2	Signature Plus Plan 1	Signature Plus Plan 2	Signature Plan 2	**Average**
(31) / (35) / (36)	Plan Adjusted Calibrated Index Rates	(37)	$565.64	$477.04	$446.95	$424.03	$473.08	$378.48	$558.93	$466.33	$385.19	**$461.06**
	Projected Member Months	(38)	185	355	115	156	41	86	22	113	180	**1,253**

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Appendix D
Rating Factors

Age and Tobacco Factors	
Age	Age Factor
0-20	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
65 and over	3.000

Example Rate Buildup:
A member with the following characteristics:

- Universal Plan 1 (Gold plan)
- Rating area 1

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- Age 25
- Smoker

The following rate would be calculated:

Calibrated plan adjusted index rate: $565.64
x geographic factor 1.0
x age factor 1.004
x tobacco load 1.15
= Consumer adjusted index rate: $653.08 (corrected for any rounding error)

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Appendix E
DAKOTACARE Cost Sharing Reduction Estimates and Justification

Since DAKOTACARE is offering plans off-exchange only, no CSR estimates were developed

Appendix F
Non-Applicable ASOPs

ASOP 26 – Compliance with Statutory and Regulatory Requirements for the Actuarial Certification of Small Employer Health Benefit Plans was not used in relation to this filing. DAKOTACARE's filing is only for individual business, not small group.

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Appendix G
Plan Designs

Plan name	HIOS Plan ID	Deductible	Coins	Total OOP	RX generic/pref brand/brand	RX specialty	office visits and urgent care	lab and x-ray	rehab - PT outpt only	Federal AV	Metal Level
Universal plans											
Universal Plan 1	62210SD143000100	1500	20%	3000	10/35/100	50% coins, no ded	30 copay	covered under office visit copay	30 copay aft ded	81%	Gold
Universal Plan 4	62210SD143000300	4000	20%	7150	10/35/100	50% coins, no ded	30 copay	0%	30 copay aft ded	71%	Silver
Core plans											
Core Plan 2	62210SD144000200	2500	50%	6000	10-gen 50% no ded brand	50% coins, no ded	30 copay	50%	50%	72%	Silver
Core Plan 3	62210SD144000300	4000	50%	7150	10-gen 50% no ded brand	50% coins, no ded	30 copay	50%	50%	69%	Silver
Reserve Plans											
Reserve Plan 1	62210SD145000200	3750	0%	3750	Ded applies	Ded applies	Ded applies	Ded applies	Ded applies	71%	Silver
Reserve Plan 2	62210SD145000300	6550	0%	6550	Ded applies	Ded applies	Ded applies	Ded applies	Ded applies	61%	Bronze
Signature Plus Plans											
Signature Plus Plan 1	62210SD146000100	1500	20%	3000	0-pref gen List /10/35/100	50% coins, no ded	first 3 free, then 20% aft ded, same for chiro	20%	20%	81%	Gold
Signature Plus Plan 2	62210SD146000200	3000	20%	7000	0-pref gen List /10/35/100	50% coins, no ded		20%	20%	72%	Silver
Signature Plans											
Signature Plan 2	62210SD147000300	6750	50%	7150	0-List Ded/Coin Other	50% - ded does apply		50%	50%	62%	Bronze

- *All plans have embedded individual deductibles, 2 x for family deductible and MOOP.*
- *Items with % coinsurance also apply deductible, unless otherwise noted.*
- *Mail order Rx is 3x retail.*

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