

## Part II: Written Description Justifying the Rate Increase

### Scope and Range of the Rate Increase

Mountain Health CO-OP (MHC) has 9,865 policy holders enrolled who will be affected by 2016 Individual Market rate changes if they continue their coverage. The average increase in premium for these individuals will be 26%. Increases by plan are shown in Table 2.4 from the Actuarial Memorandum.

Plan Name	Rating Area					
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5/6</u>	<u>7</u>
Link Gold		53.2%			44.6%	
Link Silver		31.5%			26.0%	
Link Bronze		20.4%			15.3%	
Link Bronze Plus		22.3%			17.1%	
Access Care Gold	42.2%	47.3%	42.2%	42.3%	41.1%	40.1%
Access Care Silver	22.8%	27.2%	22.8%	22.8%	21.8%	21.0%
Access Care Bronze	9.9%	13.8%	9.9%	9.9%	9.0%	8.3%
Access Care Bronze Plus	11.5%	15.5%	11.5%	11.5%	10.6%	9.8%
Access Care Catastrophic	9.9%	13.8%	9.9%	9.9%	9.0%	8.3%

The main drivers of the increase include the following:

### Changes in Medical Service Costs

#### Assumed an Overall Allowed Cost Trend of 7.8%

Medical service costs are constantly changing. MHC is assuming an overall allowed cost trend of 7.8%. This number has been calculated based on proprietary Milliman data and research and is broken out into the various contributing components of inflation and utilization. Inflation represents a direct increase in the cost of particular services due to any number of causes. The utilization represents an increase in the use of services and is independent of change in utilization for changes in the risk pool or plan designs as discussed below.

#### Increased Morbidity Load by 6% from 2015 to 2016

Morbidity refers to the relative difference in utilization of healthcare services between one population and another for reasons unrelated to plan design or management of care. This is often times referred to as the risk of the population or risk pool. We used the following data source(s) and methodology in order to inform our actuarial judgement in estimating changes in the morbidity of the manual rate development:

- Competitor rates for 2015
- Financial statements for market participants, including underwriting gains and losses, risk corridor expectations, reinsurance recoveries, and risk adjustment expectations
- Industry reports
- MHC Idaho 2015 enrollment and emerging claims experience

Based on these sources we increased the single risk pool morbidity assumption by 6%.

### Utilization Adjustment

When healthcare is cheaper individuals tend to utilize more services. Data from the Individual Marketplace in various states has demonstrated that, even after accounting for risk adjustment, individuals in richer plans tend to utilize more. Risk adjustment is a tool used to transfer the risk of certain individuals across the entire Individual Market. MHC has a line of business in Montana with 2014 experience. Estimates from MHCs Montana Individual market show that the cost for the additional utilization of services for members in higher metal level plans (i.e. Gold vs. Bronze) exceed the amount received in Risk Adjustment. Since the Risk Adjustment program is designed to account for the difference due to Risk or Morbidity as defined above any additional costs in excess of this risk can be considered an effect of the plan design on utilization. Assumed changes in the effect of plan design on utilization account for approximately 10% of the premium increase.

### **Changes in Benefits**

Effective January 1, 2016 benefits have changed based on state requirements, business decisions, and new Actuarial Value Calculator testing. The following are a list of the benefit changes:

The following plans have been terminated:

- Link Platinum
- Link Gold Plus
- Link Silver Plus

The following plans have been added:

- Engage Gold
- Engage Silver
- Engage Bronze

Table 2.3 from the Actuarial Memorandum shows a comparison of Paid to Allowed ratios by plan based on the CMS AV Calculators:

<b>Plan</b>	<b>AV Metal Level</b>	
	<b>2016</b>	<b>2015</b>
Link Gold	78.6%	78.1%
Link Silver	68.1%	69.1%
Link Bronze	60.5%	61.2%
Link Bronze Plus	61.4%	58.9%
Access Care Gold	78.2%	78.2%
Access Care Silver	68.1%	69.3%
Access Care Bronze	60.0%	58.9%
Access Care Bronze Plus	60.6%	58.9%
Access Care Catastrophic	61.6%	59.8%
Engage Gold	78.0%	N/A
Engage Silver	69.2%	N/A
Engage Bronze	61.3%	N/A

Note that because the benefit adjustment includes changes to plans' paid to allowed ratios the premium adjustment varies by plan.

## **Financial Experience of the Product**

MHC has no historical experience for the most recently completed calendar year (CY 2014).

## **Administrative Costs and Anticipated Profits**

### Targeted Profits

In 2015 MHC was targeting a profit of 2%. MHC has not changed its target and is still using 2% as its profit and risk load; MHC believes the rate changes above are appropriate to meet this target.