

Appendix B: Preliminary Rate Increase Justification for 2022

Rate Change

This filing requests an average rate change of +3.1% versus the 2021 fourth quarter rates approved in our most recent filing. PacificSource currently has 10,648 members on ACA-compliant plans that are potentially impacted by this filing. If approved, year over year rate impacts for these policies will range from +5.8% to +8.8%, with a premium-weighted average of +7.7%.

Rate impacts vary based on the following:

- Renewal quarter: Rate changes slightly vary by renewal quarter due to changes in quarterly trend factors versus the 2021 filing.
- Plan: Rate increases will vary by plan due to benefit changes, and as a result of minor updates to the model used to calculate Pricing AVs.

Most Significant Factors

The average +7.7% increase is primarily driven by the following factors.

Trend and leveraging:	+5.0%
Changes in risk assumptions:	+2.7%
Changes in benefits:	-0.4%
Other:	+0.4%
Total:	+7.7%

The table above shows an illustrative breakdown of the factors that most significantly impact the projected rates. These drivers are discussed below:

- Trend and leveraging: This factor captures the impact of baseline increases in unit cost and utilization, as well as deductible, copay, and out-of-pocket maximum leveraging. See “Key Assumptions” below for details.
- Changes in risk assumptions: This reflects changes in assumptions regarding relative morbidity and risk adjustment versus the previous filing. The positive number does not indicate an expected increase in market morbidity between 2021 and 2022.
- Changes in benefits: This reflects changes in average benefit versus the previous filing. This represents anticipated changes in utilization due to changes in average cost sharing.
- Other: This reflects the combined impact of less significant drivers such as changes in administrative expenses, commissions, margin, taxes and fees.

Financial Experience

Over the calendar year 2020, the ACA-compliant Idaho Small Group block earned an estimated 32.3 million in risk-adjusted premium and incurred an estimated 25.3 million in claims, for a medical claims rate of 78.3%.

With the proposed rate increase, we project that the ACA-Compliant Idaho Small Group block will earn 48.1 million in premium in 2022 and incur approximately 39.5 million in claims, for a medical claims rate of 82.2%. Combined administrative expenses, commissions, taxes, and assessments are projected to be 16.8% of premium, leaving 1.0% of premium for contributions to reserves after taxes.

Key Assumptions

The annual cost trends used in developing the 2022 rates are:

Medical:	3.57%
Drug:	8.68%

We are applying two years of combined medical and pharmacy trend. To develop the overall medical trend, we estimate separate utilization trends and allowed cost per service trends for a variety of inpatient, outpatient, and physician categories. These estimates do not include changes in age, benefits, or morbidity. Medical utilization trend in year 1 includes a one-time adjustment of 1.2% to neutralize the impact of the pandemic of 2020 claims experience. We work closely with Health Services and Provider Contracting for these estimates to ensure that they reflect up to date expectations in future medical utilization as well as expectations in future contracting for Idaho Small Group members.

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

The 2022 rates are made up of the following components:

Claims:	82.16%
Administrative costs:	10.15%
Federal taxes and fees:	0.13%
State taxes and fees:	2.05%
Commissions:	4.51%
Contribution to surplus, profit, and risk margin:	1.00%
Total:	100.00%

Components are described below:

- Administration: This is the cost associated with adjudicating and paying claims, marketing, contracting with providers, and so forth. This figure includes health improvement costs that may be included as claims for MLR and rebate calculation purposes.
- Federal taxes and fees: The federal risk adjustment fee is \$3.00 per member per year. PCORI is estimated to be \$0.24 per member per month.
- State taxes and fees: The proposed Your Health Idaho exchange user fee is 2.29% of exchange premium. The children’s immunization program is estimated to be approximately \$1.39 PMPM. Idaho premium tax is 1.50% of premium.
- Commissions: PacificSource will pay broker commissions at a rate of \$31.00 per employee per month for groups size 12+, and \$28.00 per employee per month for all other groups. Commissions do not vary by plan, exchange status, or any other variables.
- Contribution to surplus: PacificSource Health Plans is targeting a pre-income tax margin of 1.00%.