

## Appendix B: Preliminary Rate Increase Justification for 2021

### Rate Change

This filing requests an average rate change of -3.1% versus the 2020 fourth quarter rates approved in our most recent filing. PacificSource currently has 7,265 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 -5.4% to +4.3%, with a premium-weighted average of +1.2%.

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 2020 filing.
- Plan: Rate increases will vary by plan due to benefit changes, and as a result of updates to the model used to calculate Pricing AVs.
- Rating Area: Rate increases will vary by region due to changes in geographic rating factors.

Rating Area	2020 Factor	2021 Factor
1	0.88	0.88
2	1.06	1.06
3	0.98	0.98
4	1.02	1.00
5	0.98	0.98
6	1.02	1.02

### Most Significant Factors

The average +1.2% increase is primarily driven by the following factors.

Trend and leveraging:	+4.3%
Changes in taxes and Fees:	-2.5%
Changes in risk margin:	-2.1%
Other:	+1.5%
Total:	+1.2%

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 taxes and fees: This reflects the return of PCORI and the elimination of the health insurance industry fee, including its income tax implications.
- Change in Risk Margin: Pre-income tax margin has been decreased from 3.0% to 1.0%.

- Other: This reflects the combined impact of less significant drivers such as changes in benefits, administrative expenses, commissions, and risk assumptions.

**Financial Experience**

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Over the calendar year 2019, the ACA-compliant Idaho Small Group block earned an estimated 24.8 million in risk-adjusted premium and incurred an estimated 20.8 million in claims, for a medical claims rate of 84.0%.

With the proposed rate increase, we project that the ACA-Compliant Idaho Small Group block will earn 30.5 million in premium in 2021 and incur approximately 24.8 million in claims, for a medical claims rate of 81.3%. Combined administrative expenses, commissions, taxes, and assessments are projected to be 17.7% of premium, leaving 1.0% of premium for contributions to reserves after taxes.

**Key Assumptions**

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The annual cost trends used in developing the 2021 rates are:

Medical:	2.94%
Drug:	8.46%

We are applying two years of combined medical and pharmacy trend. To develop the overall medical trend, we estimate separate utilization trends and allowed cost per service trends for a variety of inpatient, outpatient, and physician categories. These estimates do not include changes in age, benefits, seasonality patterns, or any other one-time events between the experience period and the projection period. We work closely with Health Services and Provider Contracting for these estimates to ensure that they reflect 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 2021 rates are made up of the following components:

Claims:	81.35%
Administrative costs:	10.61%
Federal taxes and fees:	0.14%
State taxes and fees:	2.12%
Commissions:	4.79%
Contribution to surplus, profit, and risk margin:	1.00%
<b>Total:</b>	<b>100.00%</b>

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 \$0.23 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 \$30.00 per employee per month for groups size 12+, and \$27.00 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%.