

Recent changes in marketplace regulations have impacted the number of people who have health insurance and how they pay for that insurance. These changes have resulted in more people than ever gaining access to healthcare services. For many, this is the first time they've had health coverage.

With the advantage of health coverage, people have accessed healthcare services at a higher rate than insurers throughout the industry anticipated. As a result, many insurance plans in the individual market were underpriced in 2014 and 2015. This recent experience in the individual marketplace has provided a clearer idea for how the market will react to regulatory changes, and is the basis for this rate filing.

We based rates in 2014 and 2015 on Idaho's pre-Affordable Care Act individual market, with estimated adjustments for the new ACA market. As noted above, the actual experience was different. Because of this, for every \$100 Blue Cross of Idaho individual qualified health plans (QHP) members paid for premiums in 2014, Blue Cross of Idaho paid out \$105.40 in benefits and taxes. This resulted in a loss of \$25 million in this market. This loss and the high rate of utilization in the last two years makes it even more important for Blue Cross of Idaho to maintain its cash reserves to ensure we can meet the needs of all our members while continuing to pay providers promptly.

The 2016 rates are the first rates Blue Cross of Idaho has based on the actual experience of the 2014 ACA market. Our 2016 rates assume that the market will improve 7.5 percent from the observed 2014 market experience. This reflects an assumption that over time, more people will enter the individual market and that they will use services at a rate similar to other markets. Furthermore, as the incentives to buy insurance increase, more healthy people are likely to join the pool and help stabilize costs.

A lower dollar amount from the reinsurance program is also adding to the financial pressure in this market. In 2014, the Temporary Reinsurance Program provided a reduction in claim cost representing 25.5 percent of premium. The reinsurance program phases out over three years and the portion phased out in 2016 increases the premium rates 2.4%.

Additionally, the increased cost of care is another major component influencing the rate change. The utilization of services is expected to increase by 2 percent annually for non-pharmacy services, 2.9 percent annually for pharmacy services, and the cost per service is expected to increase 2.9 percent.

Other factors in the rate change include benefit changes required by law, including how we calculate out-of-pocket maximums and changes needed to continue to meet the law's Actuarial Value requirements.

Taxes and fees – including the reinsurance program fee – represent 5.9 percent of the 2016 premium. This is a 0.2 percent reduction from 2015. Fees increased substantially in 2015 compared to 2014 because of the scheduled Section 9010 tax increase. Fees went down in 2016 primarily due to phasing out the reinsurance fee. The target margin remains unchanged from those in the 2015 rates. The target administration load was reduced from 12.99 percent in the 2015 rates to 8.69 percent in the 2016 rates.

These rate changes impact all members on our individual QHP plans. The size of the rate change varies by benefit design, geographic region, the effect of the customer's age, and changes in government subsidies.