

**PacificSource Health Plans**  
**Appendix B: Preliminary Rate Increase Justification for 2018**  
**Individual Health Benefit Plans**

**Rate Change**

This filing requests an average increase of +45.6% versus the 2017 rates approved in our most recent filing. PacificSource currently has 533 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 -5.2% to +163.5%.

Rate impacts vary based on the following:

- Age: CMS is adopting a new age curve for 2018, which increases the child rates. On a per member basis, this has a normalized rate impact ranging from -2.9% to 48.4%.
- Rating area: Per DOI guidance, rating areas will be redefined in 2018. Though there are a few exceptions, this change is largely a relabeling of the 2017 rating areas. As such, this is not a significant driver of the range of increases.
- Network: PacificSource currently has membership on three different networks, BrightIdea (BIN), SmartAlliance (SAN), and PacificSource (PSN). Renewals increases will vary by network, with each renewal falling into one of four categories:

2017 Network	2018 Network	Description	Normalized Impact
BIN	BIN	All current BIN will continue in 2018.	-2.4%
SAN	BIN	All current SAN will be moved to BIN in 2018.	-11.0%
PSN	BIN	PSN in Adams and Cassia counties will be moved to BIN in 2018.	-10.0%
PSN	PSN	All other PSN will continue on PSN.	8.4%

- Plan Design: Changes in plan design will have minimal impacts on rate increases in 2018. However, increases will vary widely based on metal level. Per Idaho DOI guidance, the projections in this filing reflect the assumption that CSR payments will not be made in 2018. The associated costs will be covered through additional Silver premium. Consequently, rate increases for Silver plans are significantly higher than for Bronze or Gold plans and inflate the reported overall average increase.

The increase reported is similar but not identical to the average product increase shown in Worksheet 2 of the URRT. The +45.6% captures the overall impact of all current PacificSource membership being mapped from a 2017 ACA plan to the closest 2018 ACA plan. The URRT narrows the calculation of the increase only to those members currently on renewing plans, leaving out the impact of members on discontinued plans who will be mapped to other plans.

## Most Significant Factors

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Defunding of CSR:	23.2%
Trend and leveraging:	7.1%
PSN pricing correction:	3.9%
Changes in taxes and fees:	3.7%
Other:	7.7%
Total:	45.6%

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

- Defunding CSR: If CSR is defunded, additional premium will be required to cover the approximately platinum level benefit of the richest CSR variants. We value this richer benefit mix as approximately 58% above a standard silver benefit. Considering our projected mix by metal level, the average impact of this adjustment is approximately 23%.
- 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.
- PSN pricing correction: Over the course of rate review, our 2017 PSN rates were reduced by 10%. This filing corrects that adjustment. Considering our projected mix by network, the overall impact of this change is approximately 4%.
- Changes in taxes and fees: This primarily reflects the return of the health insurance industry fee, including its income tax implications.
- Other: This reflects the combined impact of less significant drivers such as changes in member-cost sharing, administrative expenses, and commissions.

## Financial Experience

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Over the calendar year 2016, the combined transitional and ACA-compliant Idaho Individual block earned an estimated 6.3 million in risk-adjusted premium and incurred an estimated 5.9 million in claims, for a medical claims rate of 98.8%. Claims expenses are shown before the impact of reinsurance and risk corridor. At this time we do not expect 2016 risk corridor payments to be made to issuers.

With the proposed rate increase, PacificSource projects that the Idaho Individual block will earn 4.1 million in premium in 2018 and incur approximately 3.6 million in claims, for a medical claims rate of 83.7%. Combined administrative expenses, commissions, taxes, and assessments are projected to be 13.8% of premium, leaving 2.4% of premium for contributions to reserves after taxes.

## Key Assumptions

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The annual cost trends used in developing the 2018 rates are:

Medical:	5.82%
Drug:	6.48%

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 Individual 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 2018 rates are made up of the following components:

Claims:	83.7%
Administrative costs:	5.2%
Federal taxes and fees:	3.1%
State taxes and fees:	3.7%
Commissions:	0.3%
<u>Contribution to surplus, profit, and risk margin:</u>	<u>4.0%</u>
Total:	100.0%

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 Patient Centered Outcome Research Institute Fee is estimated to be \$2.35 per member per year, and the federal risk adjustment fee is \$1.68 per member per year.
- State taxes and fees: The proposed Your Health Idaho exchange user fee is 2.29% of exchange premium. The children's immunization assessment is estimated to be approximately \$1.83 PMPM. Idaho premium tax is 1.50% of premium.
- Commissions: PacificSource will pay \$7.00 PMPM to agents for each billable member with an agent. Commissions do not vary by plan or exchange status.
- Contribution to surplus: PacificSource Health Plans is targeting a pre-income tax margin of 4.00%.