

Regence BlueShield of Idaho Preliminary Rate Increase Justification for 2018 Individual Health Benefit Plans

Rate Change

The projected average rate change for plans effective January 1, 2018 is 46.0% including the change of the federal age curve, which is an average rate change of about \$175 per member per month (pmpm). Because 46.0% (or about \$175) is an average, it is possible to have a different rate change. Factors affecting a member's premium are age, tobacco use, family composition, plan, and geographic area. Expected cost differences by product are updated every year to ensure premium differences are appropriate.

Most Significant Factors

The rate change described above is driven by the following factors:

- Change in Market Morbidity : 17.3%
- Medical Trend : 7.7%
- Actual Results vs. Expected : 5.0%
- Changes in Federal Age Curve : 8.2%
- Change in Benefits, Cost-Sharing and Network : -2.5%
- Changes in Retention, Taxes and Fees : 4.3%

The Change in Market Morbidity assumption represents the expectation that lower cost members are less likely to purchase coverage in 2018. Actual Results vs. Expected reflects mis-estimation of past market morbidity and other minor differences between actual and expected assumptions.

Financial Experience

The 2016 ACA unadjusted premium revenue was \$10,488,481 (\$305 pmpm), compared to total estimated incurred claims of \$12,062,540 (\$351 pmpm). This produced an unadjusted loss ratio of 115.0%. Premium revenue will be adjusted by the 2016 Risk Adjustment transfer, currently estimated as a payment of \$8 pmpm. Incurred claims will be adjusted by 2016 Reinsurance receipts, estimated at \$15 pmpm. Any variations from the estimates for the federal risk adjustment and reinsurance programs will not be known until the summer of 2017 and could significantly impact financial results. The URRT premium includes Transitional experience.

Key Assumptions

The annual cost trends used in developing the 2018 rates:

- Medical : 6.5%
- Rx : 17.9%
- Medical and Rx Blended: 7.7%

To determine projected trend for the rating period, Regence BlueShield of Idaho analyzed the individual components of trend - change in reimbursement, utilization, mix and intensity, and leverage. High prescription drug costs trends are driven by the increased prevalence of specialty drugs in the market, new specialty drugs expected to be introduced, the extremely high cost per specialty prescription, and the lack of low cost substitutes for these drugs. Blended trend is calculated by weighting Medical and Rx trends based on their relative contribution to claims in the experience period.

The 2018 rates are made up of the following components:

- Claims: 84.3%
- Administrative Costs: 5.8%
- Federal taxes and fees: 3.4%
- State taxes and fees: 1.8%
- Commissions: 1.8%
- Contribution to surplus, profit, and risk margin: 3.0%

Claims costs represent estimated incurred claims. They are net of BlueCard access fees, expected pharmacy rebates and risk adjustment transfer payments. State taxes and fees include state premium tax and the Idaho Immunization fee.