

Appendix B: Preliminary Rate Increase Justification for 2020

Rate Change

This filing requests an average increase of +3.6% versus the 2019 rates approved in our most recent filing. PacificSource currently has 539 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 -6.8% to +16.8%.

Rate impacts vary by plan, as described below.

- 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. Catastrophic plans will see higher than average premium increases due to an adjustment in the catastrophic adjustment factor.

Cohort	2019 Factor	2020 Factor
Catastrophic	0.70	0.82
Non Catastr.	1.00	1.00

- Rating Area: Rate increases will vary by region due to changes in geographic rating factors.

Rating Area	2019 Factor	2020 Factor
1	0.96	0.88
2	1.06	1.06
3	0.98	0.98
4	1.02	1.02
5	0.98	0.98
6	1.02	1.02

Most Significant Factors

Trend and leveraging:	+6.3%
Changes in risk assumptions:	-6.5%
Taxes and Fees:	+2.8%
Increase in Risk Margin:	+1.1%
Other:	-0.1%
Total:	+3.6%

The table above shows an illustrative breakdown of the factors that most significantly impact the rate increase. 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 negative number does not indicate an expected improvement in market morbidity between 2019 and 2020.
- Changes in taxes and fees: This primarily reflects the return of the health insurance industry fee, including its income tax implications.
- Increase in Risk Margin: Pre-income tax margin has been increased from 3.0% to 4.0%.
- Other: This reflects the combined impact of less significant drivers such as changes in reinsurance funding, member-cost sharing, administrative expenses, and commissions.

Financial Experience

Over the calendar year 2018, the combined transitional and ACA-compliant Idaho Individual block earned an estimated 6.6 million in risk-adjusted premium and incurred an estimated 6.4 million in claims, for a medical claims rate of 96.3%.

With the proposed rate increase, PacificSource projects that the ACA-compliant Idaho Individual block will earn 3.7 million in premium in 2020 and incur approximately 3 million in claims, for a medical claims rate of 81.8%. Combined administrative expenses, commissions, taxes, and assessments are projected to be 15.2% of premium, leaving 4.0% of premium for contributions to reserves after taxes.

Key Assumptions

The annual cost trends used in developing the 2020 rates are:

Medical:	4.32%
Drug:	9.37%

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 2020 rates are made up of the following components:

Claims:	81.78%
Administrative costs:	6.79%
Federal taxes and fees:	2.63%
State taxes and fees:	3.64%
Commissions:	1.16%
Contribution to surplus, profit, and risk margin:	4.00%
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 \$2.16 per member per year. The Health Insurance Industry fee is estimated to be 2.60% percent of premium, including income tax implications.

- 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 \$1.01 PMPM. Idaho premium tax is 1.50% of premium.
- Commissions: PacificSource will pay \$12.00 PMPM to agents for each billable member with an agent. 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 4.00%.