

## Appendix B: Preliminary Rate Increase Justification for 2021

### Rate Change

This filing requests an average rate change of -7.1% versus the 2020 rates approved in our most recent filing. PacificSource currently has 568 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 -29.0% to +1.3%.

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.
- Network: Some members will be mapped to a different network in 2021. Renewal increases will vary by network, with each renewal falling into one of three categories:

2020 Network	2021 Network	Description	Normalized Impact
NAV	NAV	All current NAV will continue in 2021.	0.7%
VOY	NAV	VOY in Bannock, Bingham, Caribou, Oneida and Power counties will be moved from VOY to NAV in 2021.	-14.4%
VOY	VOY	All other VOY will continue on VOY.	0.7%

- 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

Trend and leveraging:	+4.8%
Changes in benefit and network:	-3.6%
Changes in taxes and fees:	-2.6%
Change in Risk Margin:	-3.2%
Other:	-2.6%
<b>Total:</b>	<b>-7.1%</b>

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 benefit and network: This reflects changes in average benefit versus the previous filing. This

represents anticipated changes in utilization due to changes in average cost sharing, as well as the impact of network changes.

- Changes in taxes and fees: This primarily reflects the return of the PCORI and the elimination of the health insurance industry fee.
- Change in Risk Margin: Pre-income tax margin has been decreased from 4.0% to 1.0%.
- Other: This reflects the combined impact of less significant drivers such as changes in reinsurance funding, administrative expenses, commissions, and risk assumptions.

**Financial Experience**

---

Over the calendar year 2019, the ACA-compliant Idaho Individual block earned an estimated 5.7 million in risk-adjusted premium and incurred an estimated 5.5 million in claims, for a medical claims rate of 95.9%.

With the proposed rate change, PacificSource projects that the ACA-compliant Idaho Individual block will earn 3.7 million in premium in 2021 and incur approximately 3.2 million in claims, for a medical claims rate of 86.6%. Combined administrative expenses, commissions, taxes, and assessments are projected to be 12.4% of premium, leaving 1.0% of premium for contributions to reserves after taxes.

**Key Assumptions**

---

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 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 2021 rates are made up of the following components:

Claims:	86.60%
Administrative costs:	6.59%
Federal taxes and fees:	0.89%
State taxes and fees:	3.72%
Commissions:	1.19%
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 assessment is estimated to be approximately \$1.39 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 1.00%.