

## Appendix B: Preliminary Rate Increase Justification for 2024

### Rate Change

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This filing requests an average rate change of +2.3% versus the 2023 fourth quarter rates approved in our most recent filing. PacificSource currently has 12,100 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 +4.2% to +11.8%, with a premium-weighted average of +7.1%.

Rate impacts vary based on the following:

- **Renewal quarter:** Rate changes slightly vary by renewal quarter due to changes in quarterly trend factors versus the 2023 filing.
- **Plan:** Rate increases will vary by plan due to benefit changes, and as a result of minor updates to the model used to calculate Pricing AVs.
- **Network:** Rate increases do not vary by network in this filing.
- **Rating Area:** Rate increases do not vary by region in this filing.

### Most Significant Factors

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The average +7.1% increase is primarily driven by the following factors.

Trend and Leveraging:	+5.6%
Change in Risk Margin:	+1.0%
Changes in Risk Assumptions:	+0.6%
Changes in Benefits:	-0.5%
Other:	+0.4%
<b>Total:</b>	<b>+7.1%</b>

The table above shows an illustrative breakdown of the factors that most significantly impact the projected rates. 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.
- **Change in Risk Margin:** Pre-income tax margin has been increased from 0.0% to 1.0%.
- **Changes in Risk Assumptions:** This reflects changes in assumptions regarding relative morbidity and risk adjustment versus the previous filing. The positive number does not indicate an expected increase in market morbidity between 2023 and 2024.
- **Changes in Benefits:** This reflects changes in average benefit versus the previous filing. This represents anticipated changes in utilization due to changes in average cost sharing.
- **Other:** This reflects the combined impact of less significant drivers such as changes in administrative expenses, commissions, taxes and fees.

**Financial Experience**

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Over the calendar year 2022, the ACA-compliant Idaho Small Group block earned an estimated 63.7 million in risk adjusted premium and incurred an estimated 61.2 million in claims, for a medical claims rate of 97.6%.

With the proposed rate increase, we project that the ACA-Compliant Idaho Small Group block will earn 69.5 million in risk adjusted premium in 2024 and incur approximately 58.8 million in claims, for a medical claims rate of 84.6%. Combined administrative expenses, commissions, taxes, and assessments are projected to be 14.4% of premium, leaving 1.0% of premium for contributions to reserves after taxes.

**Key Assumptions**

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The annual cost trends used in developing the 2024 rates are:

Medical:	4.17%
Drug:	10.16%

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 are informed by examining our commercial block of business. They do not include changes in age, benefits, or morbidity. 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 Small Group 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.

The 2024 rates are made up of the following components:

Claims:	84.61%
Administrative costs:	8.74%
Federal taxes and fees:	0.10%
State taxes and fees:	1.96%
Commissions:	3.58%
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 \$0.21 per member per month. PCORI is estimated to be \$0.27 per member per month.
- State taxes and fees: The proposed Your Health Idaho exchange user fee is 2.49% of exchange premium. The children's immunization program is estimated to be approximately \$1.44 PMPM. Idaho premium tax is 1.50% of premium.
- Commissions: PacificSource will pay broker commissions at a rate of \$31.00 per employee per month for groups size 12+, and \$28.00 per employee per month for all other groups. 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 1.0%.