

Appendix B: Preliminary Rate Increase Justification for 2023

Rate Change

This filing requests an average rate change of -1.22% versus the 2022 rates approved in our most recent filing. PacificSource currently has 1325 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 -7.7% to +7.5%.

Rate impacts vary by plan, as described below.

- Plan: Rate increases will vary by plan due to benefit changes, as a result of minor updates to the model used to calculate Pricing AVs, and due to changes in silver loads. Catastrophic plans will see higher than average premium increases due to an adjustment in the catastrophic adjustment factor.

Cohort	2022 Factor	2023 Factor
Catastrophic	0.83	0.88
Non Catastr.	1.00	1.00

- Network: Rate increases will vary by network due to slight changes in network factors.

Network	2022 Factor	2023 Factor
Navigator	0.85	0.88
Voyager	1.00	1.00

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

Rating Area	2022 Factor	2023 Factor
1	0.88	0.87
2	1.06	1.06
3	0.98	0.98
4	1.00	1.02
5	0.98	0.98
6	1.02	1.02

Most Significant Factors

Changes in HRP Assumptions:	-8.6%
Trend and Leveraging:	+5.7%
Changes in Benefit and Network:	+1.4%
Changes in Risk Assumptions:	+1.2%
Change in Risk Margin:	-1.0%
Other:	+0.2%
Total:	-1.2%

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

- Changes in HRP Assumptions: This reflects an increase in expected HRP reinsurance funding versus the previous filing. Note that the figure above does not reflect the full impact of the proposed reinsurance program. In total, proposed rates are 12.0% lower than they would be in the absence of a reinsurance program.
- 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 Risk Assumptions: This reflects changes in assumptions regarding market morbidity and risk adjustment versus the previous filing. The positive number does not indicate an expected increase in market morbidity between 2022 and 2023.
- Change in Risk Margin: Pre-income tax margin has been decreased from 1.0% to 0.0%.
- Other: This reflects the combined impact of less significant drivers such as changes in administrative expenses, commissions, taxes and fees.

Financial Experience

Over the calendar year 2021, the ACA-compliant Idaho Individual block earned an estimated 7.5 million in risk adjusted premium and incurred an estimated 8.0 million in claims, for a medical claims rate of 106.7%.

With the proposed rate change, PacificSource projects that the ACA-compliant Idaho Individual block will earn 8.9 million in risk adjusted premium in 2023 and incur approximately 7.8 million in claims, for a medical claims rate of 87.5%. Combined administrative expenses, commissions, taxes, and assessments are projected to be 12.5% of premium, leaving 0.0% of premium for contributions to reserves after taxes.

Key Assumptions

The annual cost trends used in developing the 2023 rates are:

Medical:	3.67%
Drug:	11.29%

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 Individual members.

The impacts of COVID-19 resulted in high observed 2021/2022 trends. Claims in 2020 were depressed due to the impact of stay-at-home orders and other early pandemic responses. Claims in 2021 were inflated due to the costs associated with testing and treating for COVID-19, including the Delta wave in fall 2021. Both of these forces are assumed to not be applicable in future trends. For the purposes of establishing projected trend, we compared 2021 claims excluding COVID expenses to 2019 claims and annualized the results. The trends presented above represent underlying trends independent of COVID-related expenses. COVID-related expenses for 2023 are expected to drop significantly from 2021 levels. This assumption is applied separately from trend as a one-time adjustment.

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 2023 rates are made up of the following components:

Claims:	87.49%
Administrative costs:	7.53%
Federal taxes and fees:	0.08%
State taxes and fees:	3.35%
Commissions:	1.54%
Contribution to surplus, profit, and risk margin:	0.00%
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 \$2.64 per member per year. PCORI is estimated to be \$0.25 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 assessment is estimated to be approximately \$1.29 PMPM. Idaho premium tax is 1.50% of premium.
- Commissions: PacificSource will pay \$15.00 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 0.0%.