



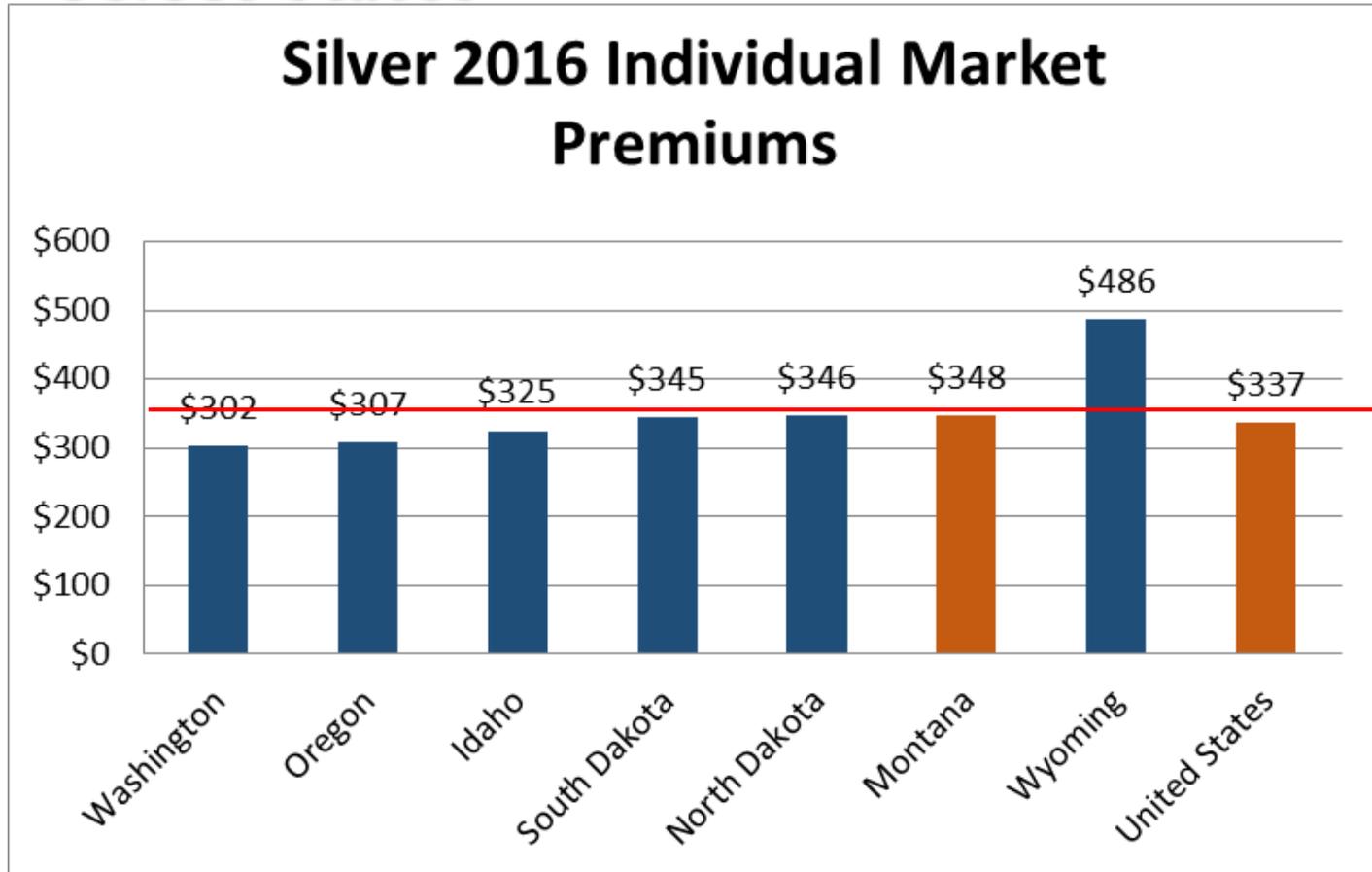
2017 Health Insurance Rates National Trends Terms & Definitions

July 26, 2016
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Agenda

- Introduction
- National Commercial Health Insurance Trends
 - Individual Market Premium Levels
 - Individual Market Premium Rate Increases
 - Small Group Market Premium Rate Increases
- Medical Trends
- Contribution to Reserve
- Risk Adjustment
- Reinsurance
- Administrative Charges

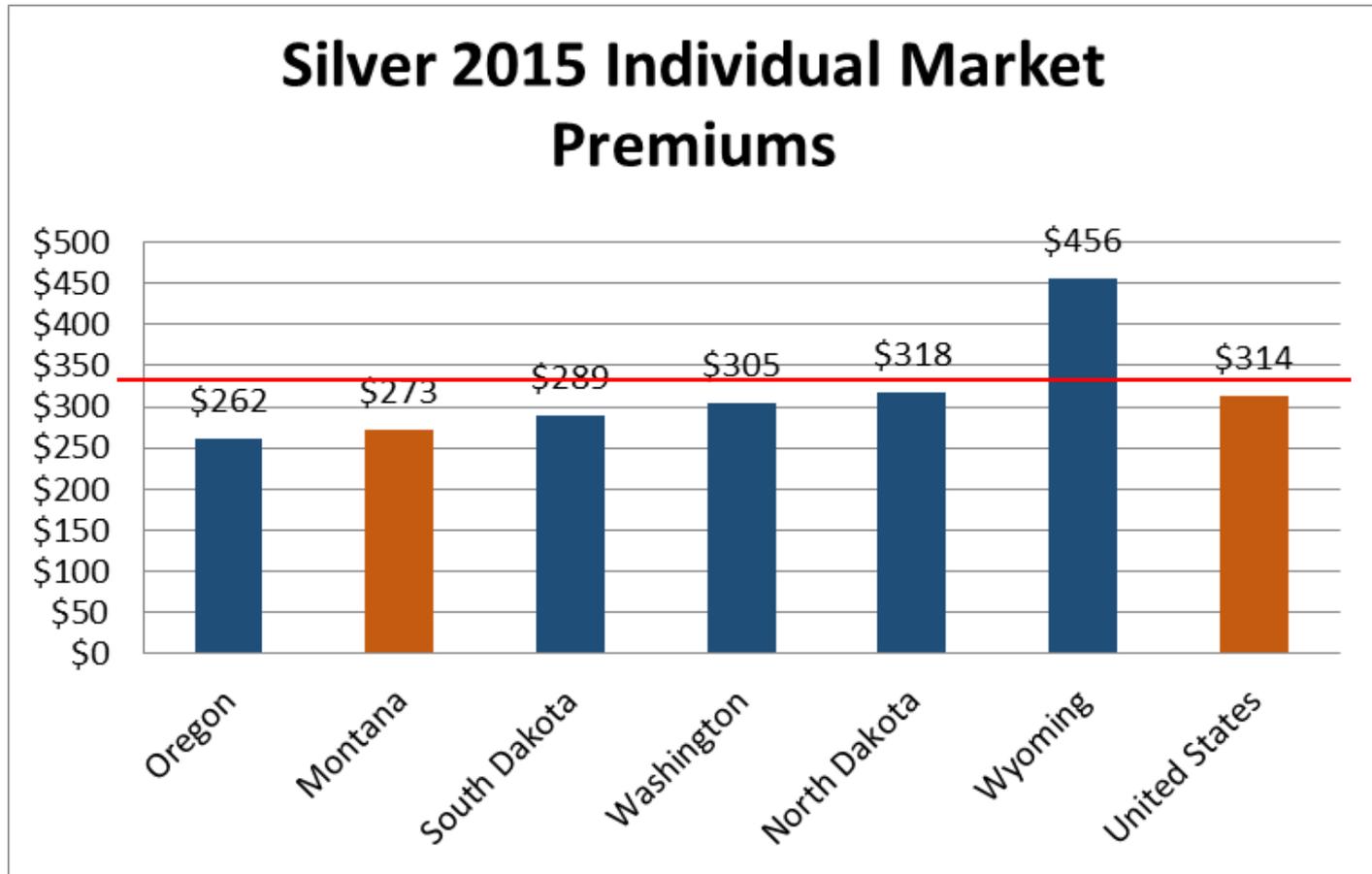
Individual Market 2016 Premiums: Select States



Premiums on the Health Insurance Marketplace
40 year old non smoker

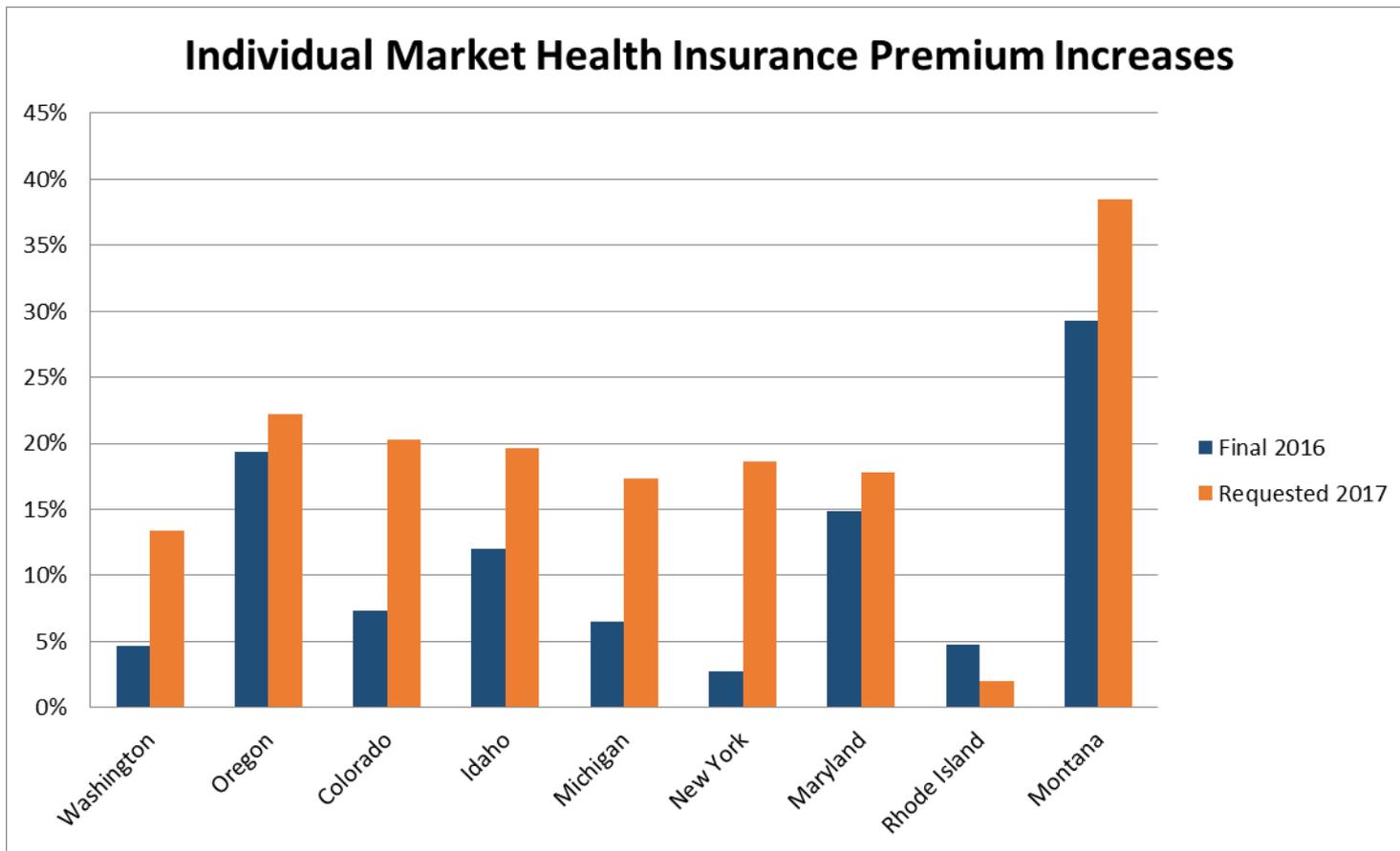
Source: Commonwealth Fund

Individual Market 2015 Premiums: Select States



Premiums on the Health Insurance Marketplace
40 year old non smoker

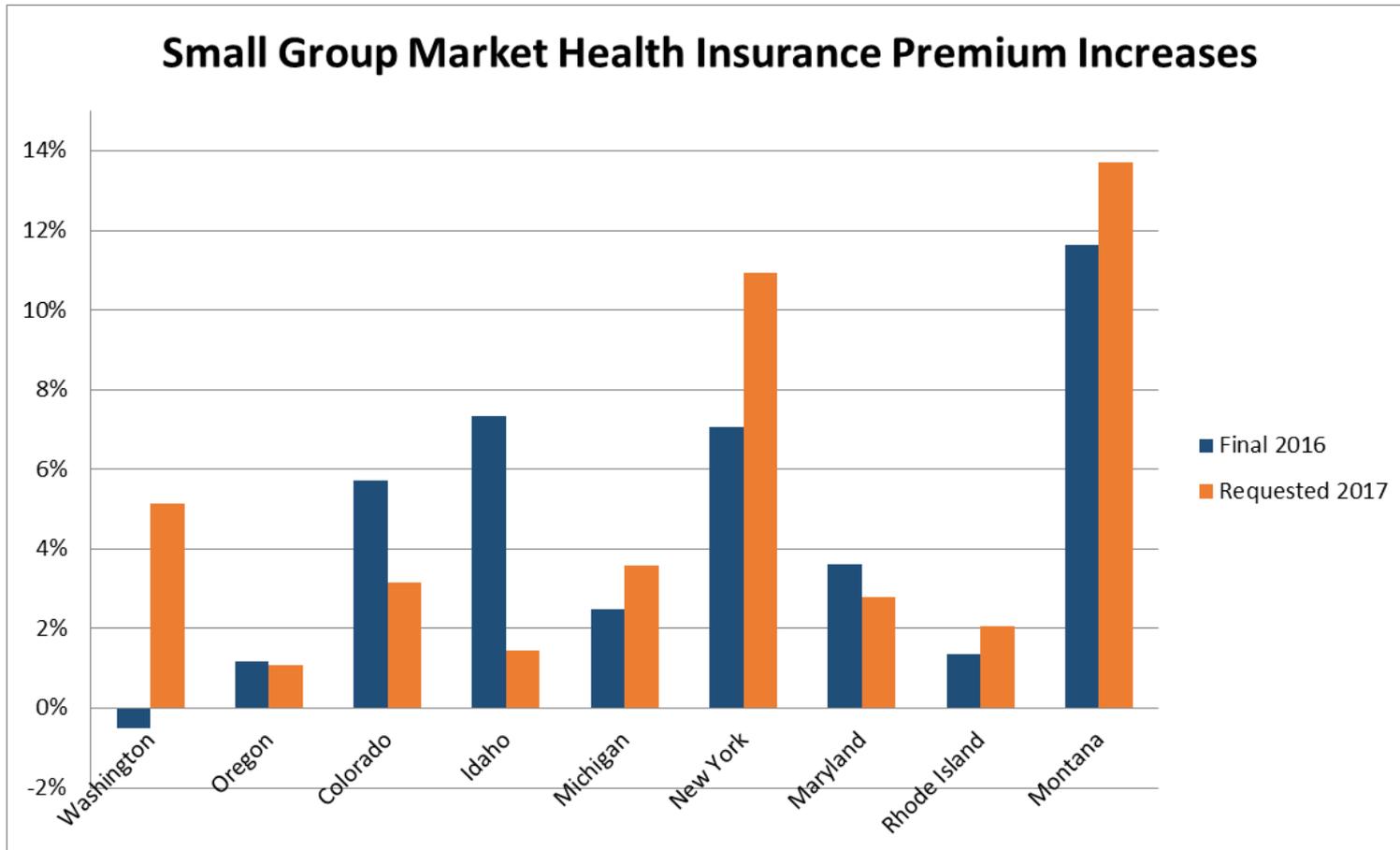
Individual Market Premium Increases 2016 and 2017: Select States



*Average increase is an unweighted average among insurance carriers

Source: Insurance Department websites
Oregon 2017 rates are final

Small Group Market Premium Increases 2016 and 2017: Select States



*Average increase is an unweighted average among insurance carriers

Source: Insurance Department websites
Oregon 2017 rates are final

Drivers of Rate Increase

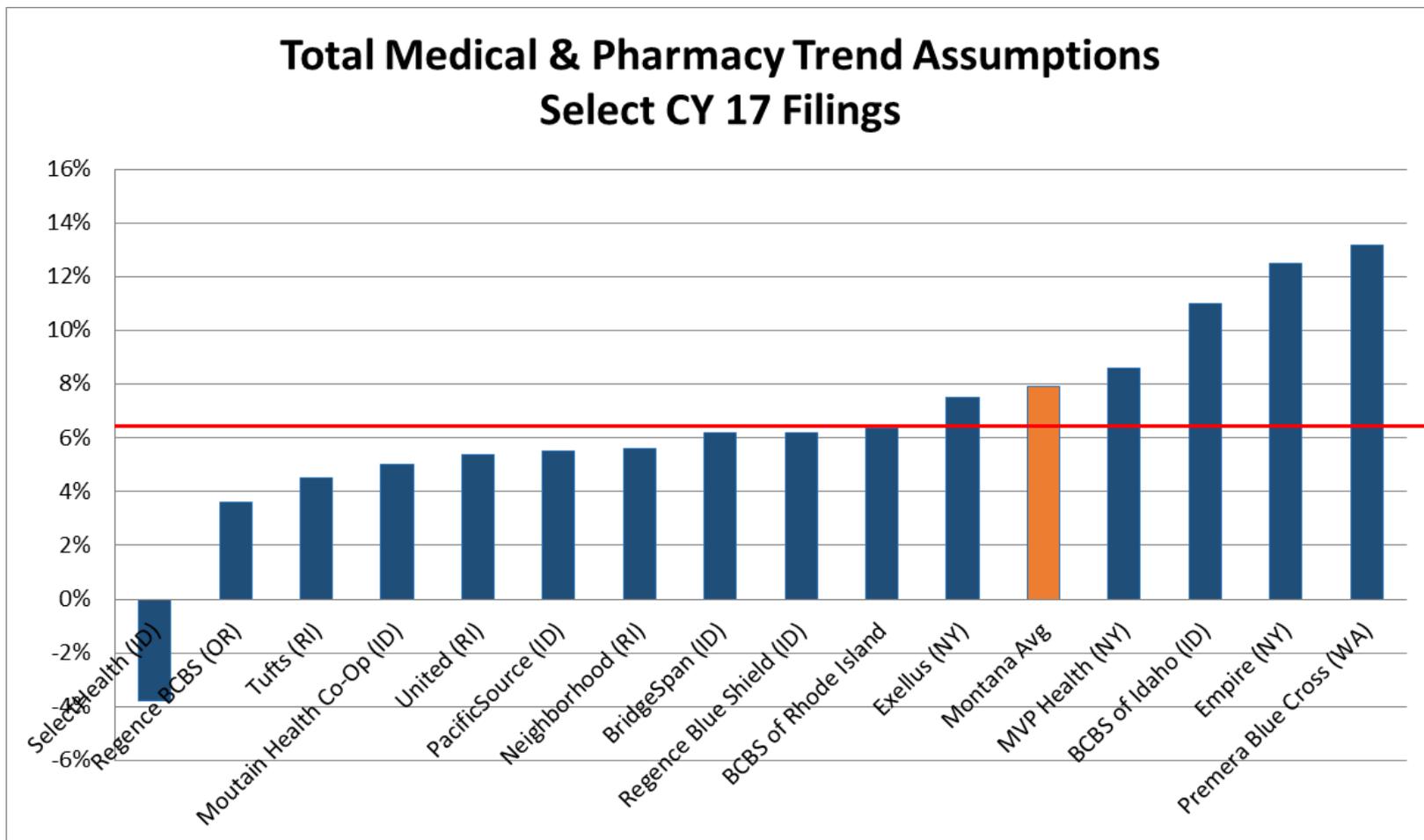
Individual Market

- Medical & Pharmacy Trend
- Contribution to Reserves
- Risk Adjustment
- Elimination of Reinsurance
- Underpricing of Market
- Risk Pool Changes

Small Group Market

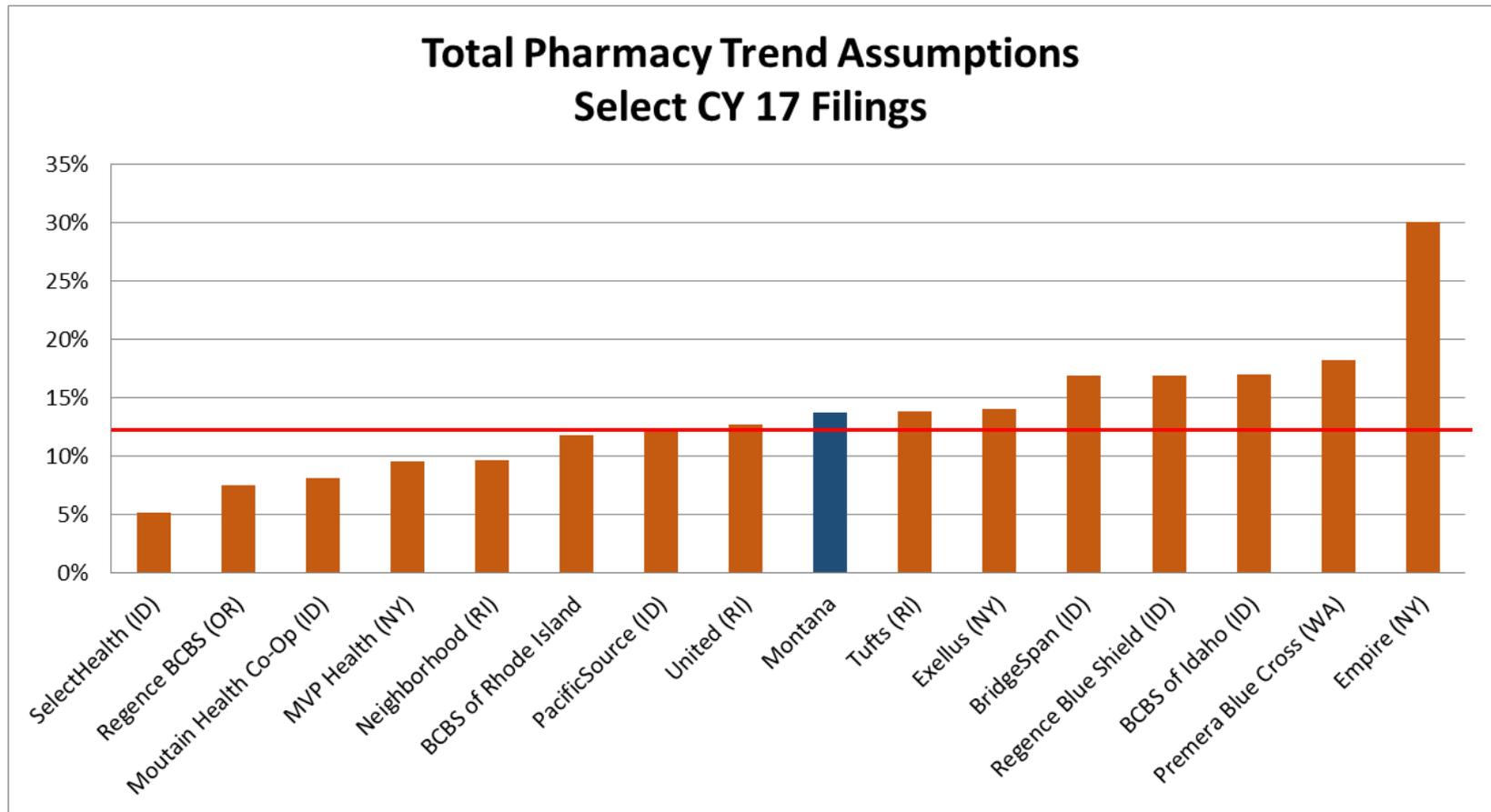
- Medical & Pharmacy Trend
- Contribution to Reserves
- Risk Adjustment

Total Individual Market Trend Assumptions: Select CY 17 Filings



Source: From Select 2017 Individual Market Rate Filings found on Insurance Department websites
Montana trend assumptions are based on unweighted average among the top three insurers

Total Individual Market Pharmacy Trend Assumptions: Select CY 17 Filings

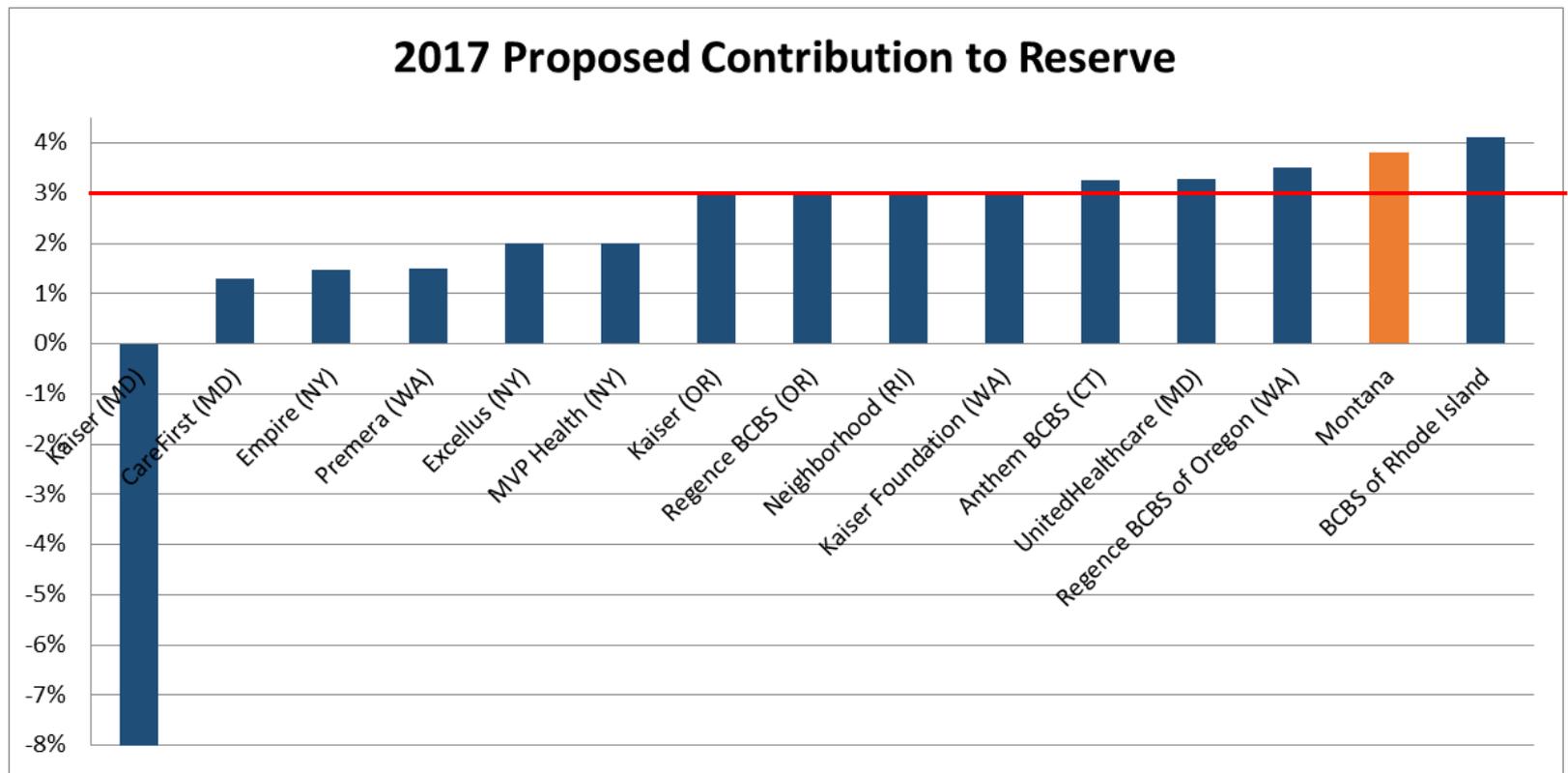


Source: From Select 2017 Individual Market Rate Filings found on Insurance Department websites
Montana trend assumptions are based on unweighted average among the top three insurers

Contribution to Reserve

- Also known as contribution to surplus or profit
- Insurers build explicit margin into the rates to account for unexpected events
- Insurers also build in the federal tax they must pay on this contribution to reserve
- Example:
 - Contribution to reserve is 6%
 - Assume a 20% federal tax rate
 - 20% of the 6% results in a federal tax payment or 1.2%
 - Remaining 4.8% is the contribution that insurance companies put in reserve

Individual Market Contribution to Reserve Assumptions: Select CY 17 Filings



Post Tax

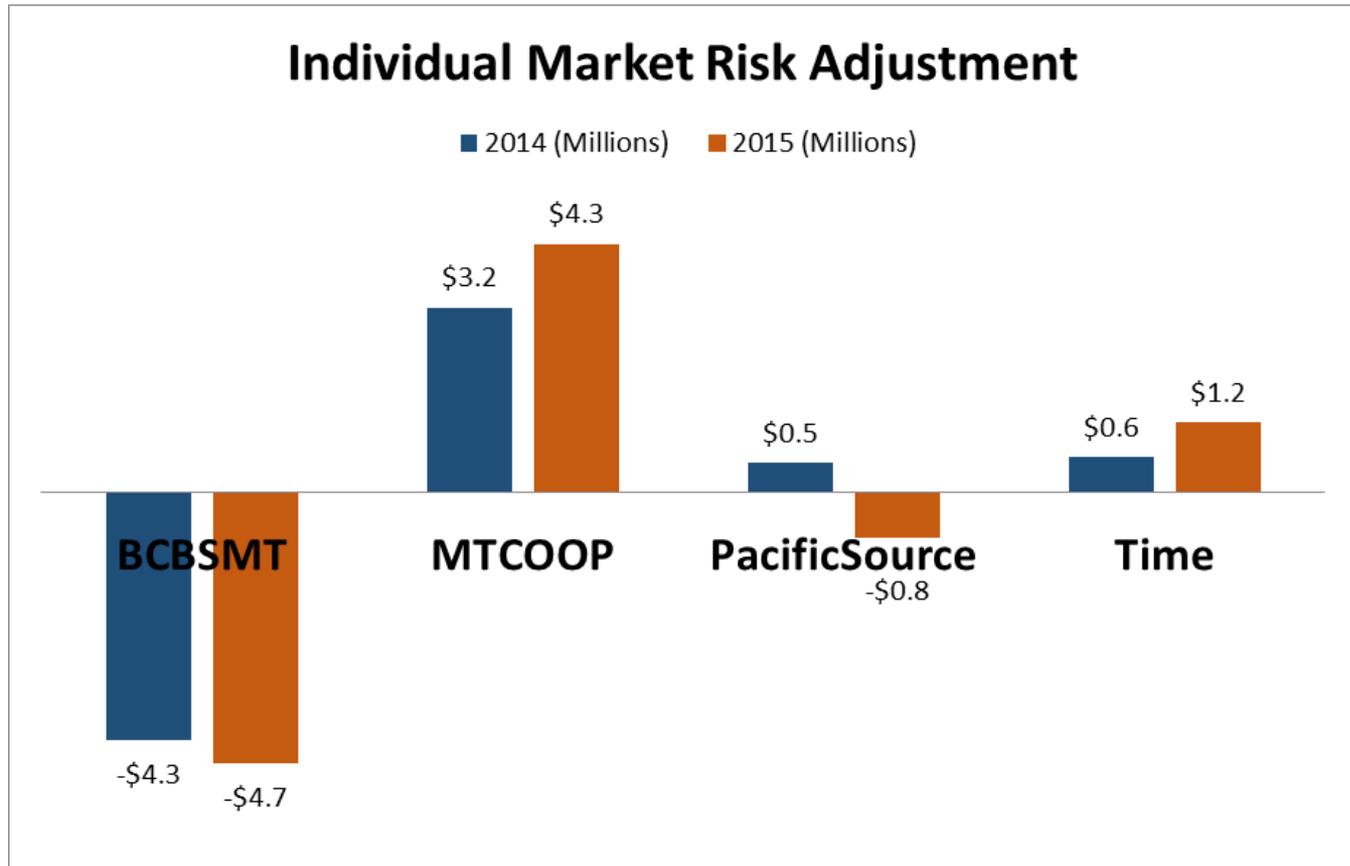
Source: Select Insurance Carrier Individual Market URRTs

Montana contribution to reserve assumptions are based on unweighted average among the top three insurers

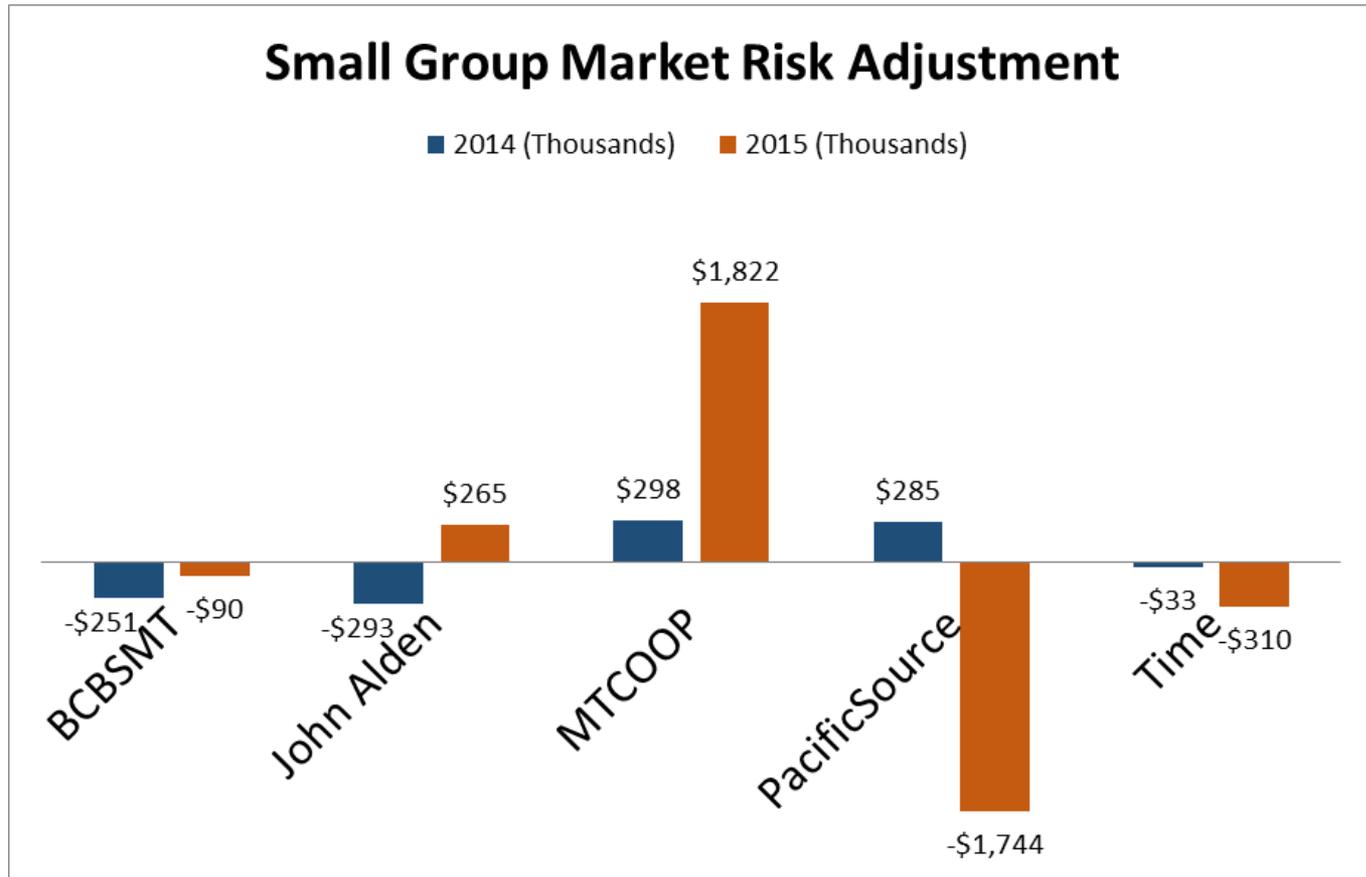
Risk Adjustment Program

- Permanent, not temporary, program started in 2014
- Goal is to create market stability, and protect against selection in the Individual and Small Group Markets by spreading financial risk
- Requires insurers with “healthier risk” to pay those insurers with “less healthy risk”
- Insurers that expect to receive money adjust their rates downward, insurers that expect to pay money adjust their premiums upward
- Past few years have resulted in volatility- difficult to predict

Montana Individual Market CY 2014 & CY 2015 Risk Adjustment Results



Montana Small Group Market CY 2014 & CY 2015 Risk Adjustment Results



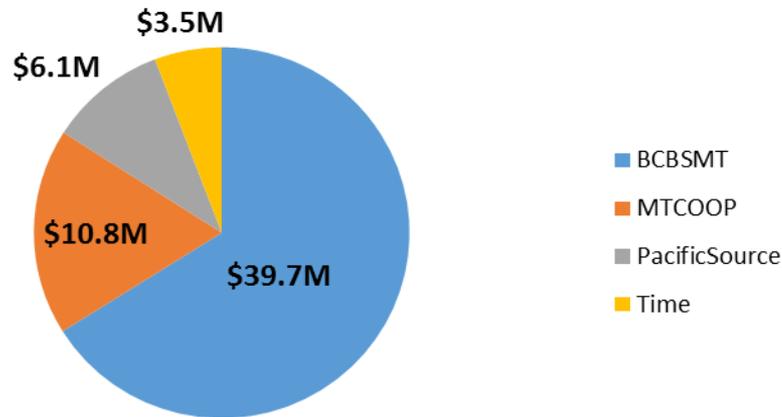
Insurers shown are for payments over \$50K in any given year

Transitional Reinsurance Program

- Temporary program that reimbursed insurers for high risk members in the Individual Market (CY 14 through CY 16)
- Funded through assessments on all business in the fully insured and self insured markets
- Expected payments would reduce the need to charge higher premiums for CY 14, CY 15, and CY 16
- Program is eliminated for CY 17
 - Many estimate this has a 4% to 7% impact on overall rate increase
 - For example, if the increase in 2017 is 20%, the increase would have been 13% to 16% if reinsurance program was in place

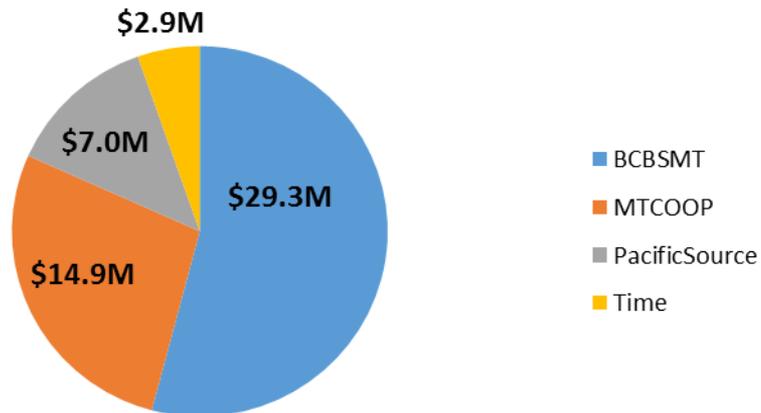
Montana Individual Market Reinsurance Results

2014 MT Reinsurance Payments



Total Payments Received
\$60.1M

2015 MT Reinsurance Payments



Total Payments Received
\$54.1M

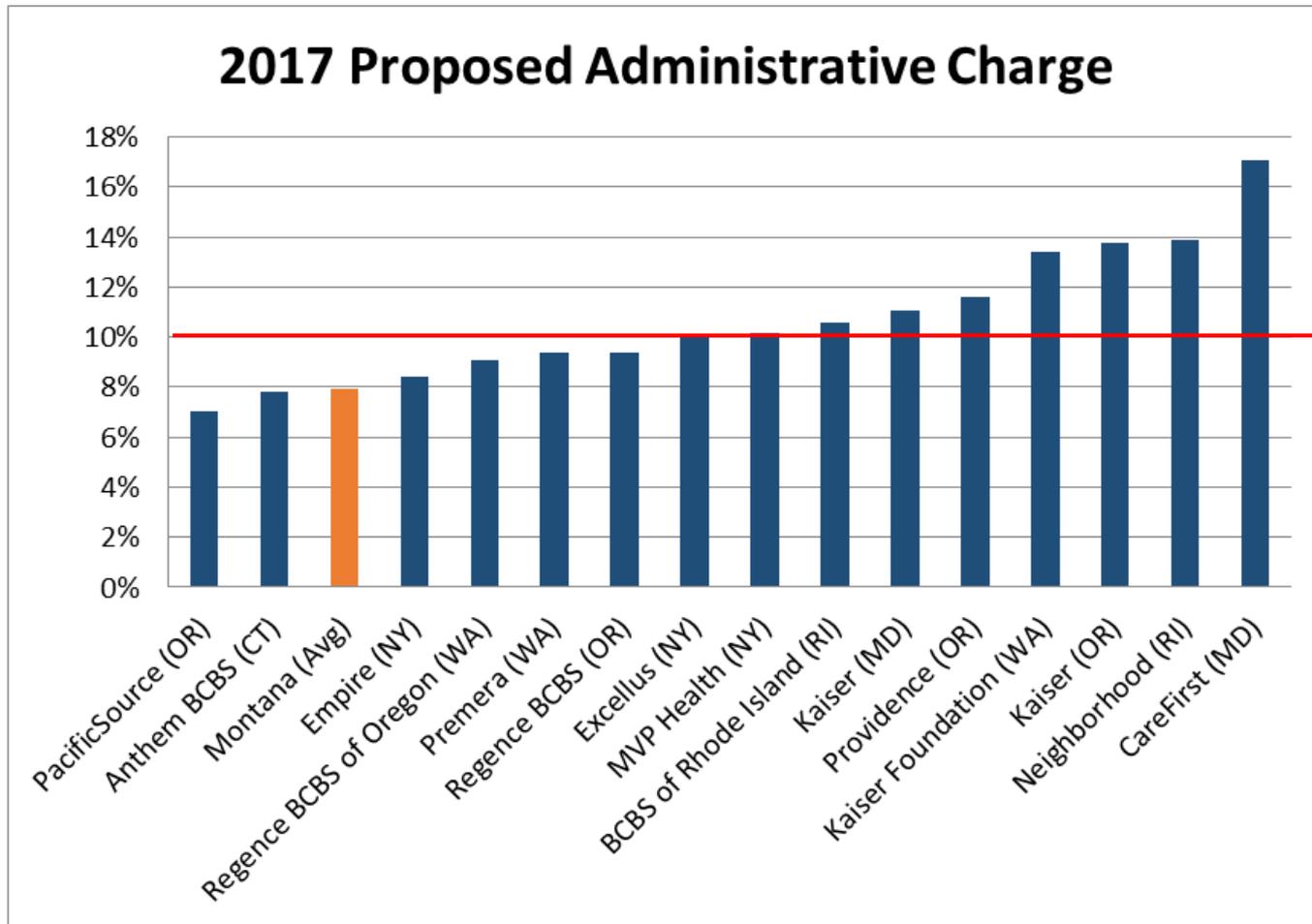
Premium Rates: Other Considerations

- Premium rates understated in the prior year
- Morbidity Adjustment
 - Expected changes in the population
 - Medicaid expansion
 - Other market changes
- Additional Margins

Administrative Charges

- Insurance company expenses
 - Buildings & infrastructure
 - Employee salaries
 - Member materials
 - Taxes & fees
 - Broker commissions
- More certainty in projecting administrative costs

Individual Market Administrative Charge Assumptions: Select CY 17 Filings



Source: Select Insurance Carrier Individual Market URRTs

Montana administrative charges assumptions are based on unweighted average among the top three insurers

Summary of Terms

- Rate Increase
- Trend
- Contribution to Reserves (Surplus)
- Risk Adjustment
- Reinsurance
- Other Considerations
- Administrative Charge