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Montana Rate Hearing July 2016

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General Market Overview

- General Market Overview
 - Individual and Small Group Markets
 - Recent financial performance
 - Cost drivers and our mitigation strategies

Overview of 2017 Approach

- Our approach to Individual and Small Group markets
 - Network Changes
 - » SmartHealth network available in Carbon, Musselshell, Stillwater, Sweet Grass, Yellowstone, Missoula and Park counties
 - » Broad PacificSource network available everywhere else
 - Product Offering Changes
 - » No longer offering Bronze plans in the individual market

Individual

I. Proposed Rate Increases by Metal Level, Rating Area, and Network.

	Minimum Increase	Maximum Increase	Average Increase
Same Metal Level and Network	13.7%	25.3%	19.8%
Same Metal Level, but including network changes	5.2%	35.5%	25.2%
Catastrophic and Bronze mapped to Silver, but with same network	41.3%	75.0%	51.3%
Catastrophic and Bronze mapped to Silver, including network changes	30.8%	75.0%	58.2%
All mappings within the same Network	13.7%	75.0%	30.9%
All mappings	5.2%	75.0%	36.9%

Changes in 2017:

- SmartHealth network available in Carbon, Musselshell, Stillwater, Sweet Grass, Yellowstone, Missoula and Park counties
- Broad PacificSource network available everywhere else
- Bronze and Catastrophic plans no longer offered

Some members will change networks and plan designs:

- Members mapped to leaner benefit plans may experience lower increases
- Members mapped to richer benefit plans may experience greater increases

Individual

Rate Change by Metal Level

Metal	Minimum Increase	Maximum Increase	Average Increase
Catastrophic	57.8%	75.0%	68.4%
Bronze	30.8%	68.7%	58.1%
Silver	5.2%	34.8%	25.0%
Gold	22.2%	35.5%	30.5%

Rate Change by Rating Area

Rating Area	Minimum Increase	Maximum Increase	Average Increase
1	6.2%	59.3%	27.3%
2	6.5%	72.7%	41.6%
3	5.2%	70.6%	36.8%
4	7.9%	75.0%	40.6%

Rate Change by Network

Network	Minimum Increase	Maximum Increase	Average Increase
PacificSource	5.2%	75.0%	27.6%
SmartHealth	13.7%	68.7%	38.0%

Individual

II. Specific Drivers of the Rate Increase

Components of Average Rate Change

Utilization (including mix)
Unit Cost
Change in cost sharing
Change in benefits required by law
Change in benefits NOT required by law
Changes in provider network
Population Risk Morbidity
ACA Insurer Fee
PCORI Fee
Exchange User Fee
Risk Adjustment User Fee
Risk Adjustment Receipts/Payments
Contribution to Surplus/Profit/Reserve
All Other Retention Components (not included above)
Over/Understatement of Prior Rates
Other

Proposed Annual Rate Change

2.4%
4.0%
1.1%
0.0%
0.0%
-0.4%
0.0%
-3.0%
0.0%
0.8%
0.0%
0.0%
4.4%
0.0%
17.5%
6.3%

Total (includes impact of benefit and cost sharing changes):

36.9%

Individual

Impact of Medicaid Expansion

- Quantifying impact on 2016 claims difficult without access to all data in market
- A March 2013 article by the Society of Actuaries titled “Cost of the Future Newly Insured under the Affordable Care Act (ACA)” projects an approximate **2% increase in claims** costs due to Medicaid expansion
- However, filed rates assume **no change**

Impact of Federal Reinsurance

- Between January of 2014 and December of 2016, some large claims liability is shared with federal reinsurance program
- Federal Reinsurance is supported by taxes and fees levied on all commercial lines of business, from all carriers
- Program not in effect for 2017, so subsidized “pooling” effect goes away and rates in this line of business increase
- Not including elimination of the reinsurance fee, additional large claims weight is estimated to contribute 5.2% to the rate increase

Individual

III. Trend

Unit Cost vs. Utilization Cost

- Cost trend measures increase in cost of medical services
- Utilization trend measures increase in frequency of use of services
- Separate cost trends and utilization trends developed for a variety of inpatient, outpatient, and physician categories
- Developed with input from Health Services, Provider Contracting, and our pharmacy benefit manager

Trends Used to Develop 2017 Rates:

	Medical	Rx
Cost Trend	3.4%	9.8%
Utilization Trend	2.6%	2.2%
Cost & Utilization Total Trend	6.2%	12.3%
Combined Medical & Rx Allowed Trend	7.0%	

Individual

Prior Trend Projections

	Medical			Pharmacy			Medical & Rx
	Cost Trend	Utilization Trend	Total Allowed Trend	Cost Trend	Utilization Trend	Total Allowed Trend	Overall Allowed Trend
2017	3.4%	2.6%	6.2%	9.8%	2.2%	12.3%	7.0%
2016	3.0%	1.7%	4.7%	12.4%	1.0%	13.5%	5.8%
2015	3.6%	2.4%	6.1%	8.1%	1.4%	9.6%	6.3%
2014	4.7%	3.0%	7.9%	3.4%	3.3%	6.8%	7.9%

- Observed trends between 2014 and 2015 were higher than expected

Individual

IV. Claims Experience in 2014 and 2015

	CY 2014 Incurred Claims PMPM	CY 2015 Incurred Claims PMPM	CY 2014 Allowed Claims PMPM	CY 2015 Allowed Claims PMPM
Inpatient Facility (excl. MH/SA)	\$110.88	\$122.99	\$118.96	\$132.11
Outpatient Professional- All Other	\$63.94	\$71.48	\$85.85	\$95.12
Outpatient Facility- All Other	\$50.74	\$55.00	\$58.23	\$61.99
Prescription Drug- Specialty	\$24.24	\$36.13	\$26.42	\$39.14
Outpatient Facility- Ambulatory Surgery	\$34.96	\$33.43	\$41.10	\$37.88
Prescription Drug- Non Specialty	\$22.89	\$24.95	\$30.18	\$32.80
Outpatient Facility- High End Radiology (MRI's, CAT Scans & PET Scans)	\$12.36	\$15.42	\$16.94	\$20.70
Other Medical	\$11.84	\$14.52	\$16.54	\$20.12
Outpatient Facility- Lab/Pathology	\$10.90	\$12.71	\$16.44	\$19.00
Outpatient Professional- Primary Care Visits	\$13.39	\$12.85	\$18.68	\$18.49
Outpatient Professional- Specialty Visits	\$6.84	\$7.69	\$10.20	\$11.45
Outpatient Facility- Non-High End Radiology	\$5.32	\$5.87	\$8.86	\$9.33
Outpatient Professional-MH/SA Visits	\$3.55	\$5.23	\$5.67	\$7.37
Outpatient Facility- Emergency Department	\$4.20	\$4.68	\$6.80	\$7.12
Inpatient Facility & Professional- MH/SA	\$3.50	\$5.21	\$4.16	\$5.78
Outpatient Facility- MH/SA	\$0.28	\$1.17	\$0.34	\$1.28
Capitation & Non-Claims Payments	\$0.00	\$0.50	\$0.00	\$0.50
Inpatient Professional (excl. MH/SA)	\$0.02	\$0.12	\$0.02	\$0.13
Total	\$379.84	\$429.96	\$465.39	\$520.31

- Inpatient increased 12.1%
- Specialty drugs increased 48.1%

Individual

Loss Ratios and Federally Defined Target Medical Loss Ratio

2015

- 37.2M premiums collected
- 48.5M claims paid by PacificSource (not including member cost-sharing or HHS cost-sharing on behalf of low income exchange members)
- **Pure loss ratio of 130.6%**
- Including current CSR reconciliation, reinsurance, and risk-adjustment, **approximate underwriting loss of \$12M, or approximately \$1,140 per member per year**

2017

- **Filed target loss ratio of 85.1%**
- **Filed target medical loss ratio of 90.6%** using federal MLR formula
- After 2015 Risk Adjustment correction, **anticipated loss ratio of 88.7%**
- After 2015 Risk Adjustment correction, **anticipated federal MLR of 94.4%**

Individual

V. Administrative Charges

Non-Claims Expense Category	2017 Individual	
	PMPM	% of Prem
Marketing & Advertising	\$1.22	0.22%
Executive Comp	\$0.82	0.15%
All Other General & Administrative Expense	\$25.96	4.64%
Total General & Administrative Expense	\$28.00	5.01%
Health Improvement and Fraud Detection Expenses:	\$2.10	0.38%
Commissions	\$1.69	0.30%
Exchange User Fees	\$17.59	3.15%
PCORI Fee:	\$0.18	0.03%
Risk Adjustment Fee:	\$0.13	0.02%
Total 2017 Admin/Commissions/Taxes & Fees	\$49.69	8.89%
Total 2016 Admin/Commissions/Taxes & Fees	\$50.80	12.67%
% Year Over Year Change	-2.20%	

VI. Percentage of Premium Contributing to Surplus/Profit

Filed margins increased from prior year to compensate for uncertainty

- Filed pre-tax margin: 6.0%
- Filed post-tax margin: 3.6%

Anticipated margins are lower than margins filed in prior years

- Pre-tax margin after additional 2015 risk adjustment data: 2.4%
- Post-tax margin after additional 2015 risk adjustment data: 1.4%

Last 5 Years RBC:

2015:	416.5%
2014:	394.3%
2013:	381.7%
2012:	301.6%
2011:	410.5%

VII. Membership projections

- In filing, assumed April 2016 membership would continue into the future in a level fashion
- Based on competitive position and competitor's proposed filings it is reasonable to expect increased membership in 2017.

Small Group

I. Proposed Rate Increases by Metal Level, Rating Area, and Network.

	Minimum Increase	Maximum Increase	Average Increase
Renewing Plans, Same Network	2.7%	10.8%	6.5%
Renewing, but Including Network Changes	2.7%	19.7%	8.6%
Terminating Plans, Same Network	-7.8%	30.7%	1.2%
Terminating Plans, but Including Network Changes	-7.8%	41.2%	3.1%
All mappings within the same Network			6.4%
All mappings			8.4%
	Q2	Q3	Q4
Quarterly Average Increases	8.7%	9.1%	9.4%

Changes in 2017:

- SmartHealth network available in Carbon, Musselshell, Stillwater, Sweet Grass, Yellowstone, Missoula and Park counties
- Broad PacificSource network available everywhere else

Some members will change networks:

- Members in rural areas may receive higher increases, due to richer network

Small Group

Rate Change by Metal Level

Metal	Minimum Increase	Maximum Increase	Average Increase
Bronze	-4.7%	16.1%	4.7%
Silver	4.9%	19.7%	10.4%
Gold	3.9%	41.2%	19.7%

Rate Change by Rating Area

Rating Area	Minimum Increase	Maximum Increase	Average Increase
1	-7.0%	28.6%	7.9%
2	-6.7%	39.3%	12.3%
3	-7.8%	37.6%	10.0%
4	-5.5%	41.2%	12.8%

Rate Change by Network

Network	Minimum Increase	Maximum Increase	Average Increase
PacificSource	-7.8%	30.7%	7.2%
SmartHealth	-4.7%	41.2%	13.8%

- Weighted averages will vary by quarter

Small Group

Quarterly Rate Changes

- PacificSource is proposing an approximate 2.0% quarterly trend factor for 2017 small group rates

Small Group

II. Specific Drivers of the Rate Increase

Components of Average Rate Change

Utilization (including mix)
Unit Cost
Change in cost sharing
Change in benefits required by law
Change in benefits NOT required by law
Changes in provider network
Population Risk Morbidity
ACA Insurer Fee
PCORI Fee
Exchange User Fee
Risk Adjustment User Fee
Risk Adjustment Receipts/Payments
Contribution to Surplus/Profit/Reserve
All Other Retention Components (not included above)
Over/Understatement of Prior Rates
Other

Proposed Annual Rate Change

2.3%
3.6%
-1.1%
0.0%
0.0%
0.0%
0.0%
-2.9%
0.0%
0.0%
0.0%
1.0%
-0.3%
4.3%
1.0%

Total (includes impact of benefit and cost sharing changes):

8.1%

Small Group

Impact of Medicaid Expansion

- Quantifying impact on 2016 claims difficult without access to all data in market
- Filed rates assume **no change**

Small Group

Impact of Federal Reinsurance

- Between January of 2014 and December of 2016, some individual large claims liability is shared with federal reinsurance program
- Federal Reinsurance is supported by taxes and fees levied on all commercial lines of business, from all carriers
- Program not in effect for 2017, so subsidized “pooling” effect goes away
- Small Group rates reduced by \$2.25 per member per month relative to 2016

Small Group

III. Trend

Unit Cost vs. Utilization Cost

- Cost trend measures increase in cost of medical services
- Utilization trend measures increase in frequency of use of services
- Separate cost trends and utilization trends developed for a variety of inpatient, outpatient, and physician categories
- Developed with input from Health Services, Provider Contracting, and our pharmacy benefit manager

Trends Used to Develop 2017 Rates:

	Medical	Rx
Cost Trend	3.4%	9.8%
Utilization Trend	2.6%	2.2%
Cost & Utilization Total Trend	6.2%	12.3%
Combined Medical & Rx Allowed Trend	6.9%	

Small Group

Prior Trend Projections

	Medical			Pharmacy			Medical & Rx
	Cost Trend	Utilization Trend	Total Allowed Trend	Cost Trend	Utilization Trend	Total Allowed Trend	Overall Allowed Trend
2017	3.4%	2.6%	6.2%	9.8%	2.2%	12.3%	6.9%
2016	3.0%	1.7%	4.7%	12.4%	1.0%	13.5%	5.8%
2015	3.6%	2.4%	6.1%	8.1%	1.4%	9.6%	6.4%
2014	4.7%	3.0%	7.9%	3.4%	3.3%	6.8%	7.8%

- Observed trends between 2014 and 2015 were higher than expected

Small Group

IV. Claims Experience in 2014 and 2015

	CY 2014 Incurred Claims PMPM	CY 2015 Incurred Claims PMPM	CY 2014 Allowed Claims PMPM	CY 2015 Allowed Claims PMPM
Outpatient Professional- All Other	\$53.32	\$61.03	\$76.57	\$86.01
Inpatient Facility (excl. M/SA)	\$87.32	\$79.11	\$91.31	\$85.54
Outpatient Facility- All Other	\$32.84	\$46.40	\$38.72	\$54.21
Outpatient Facility- Ambulatory Surgery	\$22.58	\$29.07	\$26.26	\$33.67
Prescription Drug- Non Specialty	\$16.80	\$19.53	\$26.85	\$29.11
Prescription Drug- Specialty	\$15.76	\$20.80	\$16.80	\$22.33
Other Medical	\$9.99	\$15.37	\$12.85	\$19.39
Outpatient Facility- Lab/Pathology	\$8.95	\$8.59	\$14.33	\$15.73
Outpatient Facility- High End Radiology (MRI's, CAT Scans & PET Scans)	\$8.96	\$10.15	\$13.62	\$15.73
Outpatient Professional- Primary Care Visits	\$9.60	\$9.60	\$14.72	\$15.73
Outpatient Professional- Specialty Visits	\$4.95	\$5.44	\$8.46	\$9.66
Outpatient Facility- Non-High End Radiology	\$3.75	\$3.90	\$6.95	\$7.61
Outpatient Facility- Emergency Department	\$2.92	\$3.02	\$5.69	\$6.26
Outpatient Professional-MH/SA Visits	\$2.30	\$2.93	\$4.19	\$5.57
Inpatient Facility & Professional- MH/SA	\$3.01	\$2.34	\$3.81	\$2.79
Capitation & Non-Claims Payments	\$0.00	\$1.55	\$0.00	\$1.55
Outpatient Facility- MH/SA	\$0.90	\$0.24	\$0.95	\$0.27
Inpatient Professional (excl. MH/SA)	\$0.14	\$0.04	\$0.14	\$0.05
Total	\$284.08	\$319.11	\$362.21	\$411.22

- Inpatient decreased 6.3%
- Specialty drugs increased 32.9%

Small Group

Loss Ratios and Federally Defined Target Medical Loss Ratio

2015

- 39.0M premiums collected
- 34.9M claims paid by PacificSource (not including member cost-share)
- **Pure loss ratio of 86.4%**

2017

- **Filed target loss ratio of 86.4%**
- **Filed target medical loss ratio of 88.2%** using federal MLR formula
- After 2015 Risk Adjustment correction, **anticipated loss ratio of 91.4%**
- After 2015 Risk Adjustment correction, **anticipated federal MLR of 93.3%**

Small Group

V. Administrative Charges

Non-Claims Expense Category	2017 Small Group	
	PMPM	% of Prem
Marketing & Advertising	\$1.22	0.28%
Executive Comp	\$0.82	0.19%
All Other General & Administrative Expense	\$25.96	6.04%
Total General & Administrative Expense	\$28.00	6.51%
Health Improvement and Fraud Detection Expenses:	\$2.10	0.49%
Commissions	\$14.41	3.35%
Exchange User Fees	\$0.79	0.18%
PCORI Fee:	\$0.18	0.04%
Risk Adjustment Fee:	\$0.13	0.03%
Total 2017 Admin/Commissions/Taxes & Fees	\$45.61	10.60%
Total 2016 Admin/Commissions/Taxes & Fees	\$57.43	15.16%
% Year Over Year Change	-20.60%	

Small Group

VI. Percentage of Premium Contributing to Surplus/Profit

- Margins restored to standard levels, up 1% (pre-tax) from last year
- Filed pre-tax margin: 3.0%
- Filed post-tax margin: 1.8%
- Pre-tax margin after 2015 risk adjustment correction: -2.0%

Last 5 Years RBC:

2015:	416.5%
2014:	394.3%
2013:	381.7%
2012:	301.6%
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Small Group

VII. Membership projections

- In filing, assumed April 2016 membership would continue into the future in a level fashion
- Based on competitive position and competitor's proposed filings it is reasonable to expect increased membership in 2017.