PART II: JUSTIFICATION FOR PROPOSED RATE INCREASE

Blue Cross Blue Shield of Montana
Individual Rate Filing
Effective Date of Rate Change: 1/1/2017

Section I: Scope and Range of the Rate Increase:

Blue Cross and Blue Shield of Montana (BCBSMT) is filing new rates to be effective January 1, 2017, for its Individual ACA metallic coverage. The following table contains the anticipated average increase for the product offering categories. Then looking across all available plans the minimum, and maximum increases are provided. All of these increases are calculated before the application of advanced premium tax credits:

Average Annual Rate Change for All Plans

Product Name	Product ID	Average Rate Increase
Blue Preferred	30751MT055	63.5%
Blue Focus	30751MT065	51.4%
Blue Preferred MSP	30751MT057	60.7%
Total		**62.1%**

Minimum and Maximum Annual Rate Change
Minimum Rate Change for All Plans: 40.0%
Maximum Rate Change for All Plans: 108.3%

Changes in allowable rating factors such as age and tobacco use (if applicable) may also impact the premium amount and vary by individual.

There are currently approximately 55,000 members on Individual Affordable Care Act (ACA) plans that may be affected by these proposed rates.

Section II: Most Significant Factors Affecting the Rate Increase/Decrease:

- Our pricing is driven by our experience and the anticipated health care costs of the members in each line of business. The main driver of the increase in the proposed rates is that the actual claims experience of the members in these Individual ACA metallic policies was significantly higher than expected.
- The annual trend is 7.4% for medical and 16.8% for prescription drug. The annual composite trend is 8.8%.
- There are no legally required changes to covered benefits and no significant changes to the benefit structure.
- Changes to cost sharing were made to some plans within these products allowing these plans to maintain their metallic status.

Section III: Financial Experience:

Consistent with the filed URRT, earned premiums for all non-grandfathered Individual plans during calendar year 2015 were $174,685,762 and total claims incurred after deducting expected reimbursement from Cost Sharing Reduction (CSR) subsidies were $220,582,733. The experienced loss ratio is calculated as claims incurred divided by earned premium:

= (claims incurred) / (earned premium)

= $220,582,733 / $174,685,762

= 126.3%

The calendar year 2015 pricing target loss ratio, calculated as incurred claims divided by earned premium, was 86.7%. After adjusting for anticipated Risk Adjustment receipts and Transitional Reinsurance Recoveries, the target loss ratio was 75.8%.

The calendar year 2017 pricing target loss ratio, calculated as incurred claims divided by earned premium, is 80.3%. After adjusting for anticipated Risk Adjustment receipts, the target loss ratio is 80.5%

The target Medical Loss Ratio (MLR) using the federal formula consistent with 2015 pricing assumptions was 83.6%. For the purposes of calculating this loss ratio, the expected incurred claims are reduced for expenditures on quality improving activities and then adjusted for any payments or receipts due from the transitional reinsurance, transitional risk corridor and risk adjustment programs. Federal and state taxes and assessments and licensing and regulatory fees and reinsurance contributions are deducted from the expected earned premium.

The target Medical Loss Ratio (MLR) using the federal formula consistent with 2017 pricing assumptions is 86.0%.

Section IV: Administrative Costs and Anticipated Profits:

Stated as a percent of total premium, the 2017 proposed rates can be broken out as follows:

- 80.3% for medical and prescription drug claims
- 6.9% for administrative costs
- 3.7% for commissions and exchange fees
- 2.8% for Federal and state taxes and fees
- 6.0% for pre-tax contribution to reserves and profit
- 0.3% for projected to be paid for risk adjustment

Changes to administrative costs, commissions, and exchange fees contribute approximately 1.2% to the increase in rates.