

**Part II Justification For 9.98% Increase
National Foundation Life Insurance Company
Individual Market
Rate Effective 1/1/2017**

Section I: Scope and Range of the rate increase

The proposed average rate increase is 9.98%. Other changes in allowable rating factors such as age and tobacco use (if applicable) may also impact the premium amount and varies by individual. The minimum proposed increase is 9.98% and the maximum proposed increase is 9.98%. The rate increase is applied equally across all products. These products are off exchange only products and do not qualify for advance premium tax credits. The rate increase will affect 0 inforce members.

Section II: Most Significant Factors Affecting the Rate Increase

The rate increase applied to all plans is equal to 9.98% and is due to an increase in medical cost and utilization of 4.7% and the elimination of the Federal Transitional Reinsurance Program in 2017 resulting in a 5.04% increase. Minor changes to the benefits have been made for 2017 but have not affected the proposed rates.

Section III: Financial Experience

There is no experience on these forms. This rate increase is not based on financial experience but reflects the rate we feel that will adequately meet projected profit and financial goals of the company while maintaining the reasonableness of benefits provided to customers in relation to the premiums charged. The Target Loss Ratio is 76% and the specific target MLR as calculated by the federal MLR formula is 82.19% (see calculation below).

$.8219 = (.76 \text{ (loss ratio)} + .003 \text{ (quality improvement cost)}) / (1.0 \text{ (premium)} - .0279 \text{ (taxes and fees)}) + .037 \text{ (credibility adjustment)}$.

Section IV: Administrative Costs and Anticipated Profits

We project that 76% of premiums will be spent on claims. We project that 18.3% of premiums will be spent on administrative costs which include customer service, claims administration, information systems, marketing expenses, general overhead, cost containment, commissions, sales bonus and quality improvement. The rate increase is not based on administrative costs. The percentage of the increase that will go to administrative costs is equal to 1.83% (.183 x .0998). We project that 2.79% of the premiums will be spent on federal and state taxes and fees. We project that 2.91% of the premiums will contribute to profits, surplus, reserves and risk margin.