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**HIOS Part II Preliminary Justification – Written Explanation of Rate Increase
Montana Health CO-OP
Individual Rate Filing for Montana
January through December 2016**

1. SCOPE AND RANGE OF RATE INCREASE

The 2016 rate increase impacts roughly 17,300 members in force as of March 31, 2015. The average rate increase for these members would be 34% assuming they remain in their current plans. The requested rate increase varies by plan with a minimum increase of 16% and a maximum increase of 59%.

The primary drivers of the large rate increase in the individual market are:

1. Updated market morbidity estimate based on MHC's 2014 experience
2. Annual trend of 7.8%

2. FINANCIAL EXPERIENCE

MHC commenced operations on January 1, 2014. The individual market financial experience was as follows:

Premiums Earned:	\$38.9 million
Incurred Claims before CSR and Reinsurance Adj:	\$54.0 million
Member Months:	115,466

The rate increases will increase premiums to levels that, along with reinsurance and risk adjustment, are expected to be adequate to cover incurred claims and expenses.

3. CHANGES IN MEDICAL SERVICE COSTS AND TREND ASSUMPTIONS

Medical service costs are constantly changing. MHC is assuming an overall allowed cost trend of 7.8%. This number has been calculated based on proprietary Milliman data and research and is broken out into utilization and unit cost trends of approximately 2% and 6% respectively.

4. CHANGES IN BENEFITS

Effective January 1, 2016 benefits have changed based on business decisions and new Actuarial Value Calculator testing. Deductibles and out of pocket limits increased on some plans to account for inflation and to meet the AV requirements.

5. ADMINISTRATIVE COSTS AND ANTICIPATED PROFITS

Due to economies of scale, administrative costs decreased by 4% of premium from 2015 to 2016. MHC has increased the profit and risk load from 2% to 3%.