

Unified Rate Review - Part II

This filing requests an aggregate increase of 31.9% over the rates approved in our 2015 Montana Individual filing. The proposed rates are based on PacificSource's historical Montana Individual claims experience adjusted for PacificSource's historical average risk and demographics compared to the market average risk and demographics, expected medical trend, expected change in market morbidity from 2014 (experience period) to 2016 (projection period), changes in benefits, and expected federal reinsurance recoveries. The proposed rates also reflect changes in the taxes and fees imposed on health insurers for 2016.

The range of rate increases is 16.0% to 37.8% and impacts PacificSource's 11,058 Montana Individual members. The variation in rate increases is driven by some changes in benefits (copays, deductibles, OOP max), as well as adjustments to geographic area factors. The overall average impact of benefit changes on the requested rate increase is -1.8%.

The increase in rates from 2015 to 2016 is primarily driven by a dramatic worsening of claims experience in 2014 as compared to 2013, and the reduction of expected reinsurance recoveries in 2016. Note that this is the first rate filing where a full year of post-ACA experience data was available. This data shows that the overall increase in morbidity from PacificSource pre-ACA experience to post-ACA market experience is much greater than originally projected in our 2014 and 2015 rate filings. The allowed medical, pharmacy and combined annual trends used in this filing are 4.7%, 13.5%, and 5.8% respectively, which reflect expected changes in cost and utilization. The primary driver of the annual trend assumption is specialty drug cost and utilization, particularly Hepatitis C drugs.

Over the calendar year 2014, the Montana Individual block earned \$26.5 million in premium and incurred an estimated \$31.7 million in claims, for a medical loss ratio of 119.3%. Premium and claims expenses are shown before the impact of reinsurance, risk adjustment, and risk corridor, but include the impact of cost-share reduction (CSR) subsidies.

PacificSource projects that the Montana Individual block will earn \$53.2 million in premium in 2016 and incur approximately \$45.4 million in claims after reinsurance, for a medical claims rate of 85.3%. Combined administrative expenses, commissions, taxes, and assessments are projected to be 13.5% of premium, leaving 1.2% of premium for contributions to reserves after taxes.