Part II Justification for Proposed Rate Increase
PacificSource Health Plans
Individual Market
Rates Effective 1/1/2017

Scope and Range of the Rate Increase
As of April 1st 2016, PacificSource has approximately 8,500 Montana Individual members that are potentially affected by the requested rate change. Minimum, maximum, and average rate increases are presented before the application of advanced premium tax credits.

Prior to the impact of changes in network, rates for members on catastrophic plans will vary between 47.3 percent and 51.0 percent, averaging 48.8 percent. Rates for members on bronze plans will vary between 21.9 percent and 34.8 percent, averaging 30.5 percent. Rates for members on silver plans will vary between 19.2 percent and 30.8 percent, averaging 25.4 percent. And rates for members on gold plans will vary between 28.1 percent and 31.4 percent, averaging 29.3 percent.

Including the impact of changes in network, rates for members on catastrophic plans will vary between 36.2 percent and 51.0 percent, averaging 45.3 percent. Rates for members on bronze plans will vary between 12.9 percent and 45.6 percent, averaging 36.5 percent. Rates for members on silver plans will vary between 10.3 percent and 41.3 percent, averaging 31.0 percent. And Rates for members on gold plans will vary between 28.1 percent and 42.0 percent, averaging 36.9 percent.

Prior to the impact of changes in network, the average rate impact among all metal mappings is 27.4 percent. Including the impact of changes in network, the average rate impact among all metal mappings is 33.2 percent.

The variation in premium increases is due to adjustments to geographic factors, as well as the impact of mapping members to new plans and networks. Changes in the age or tobacco-use status of each member may also impact the overall premium increase experienced by that member. Specific premium adjustments due to aging or changes in tobacco-use status will vary by individual.

Most Significant Factors Affecting the Rate Increase
The increase in rates from 2016 to 2017 is primarily driven by changes in medical service and pharmacy costs, the elimination of federal reinsurance, and worse than expected claims experience.

Each year the unit cost per service and the overall volume of specific services utilized changes. To account for these changes in medical service and pharmacy costs, an annual medical trend of 6.2 percent and an annual drug trend of 12.3 percent are used, for an overall trend of 7.0 percent.

Additionally, PacificSource was previously able to pass all anticipated federal reinsurance benefits to our members in the form of reduced 2016 premiums. The sunset of the federal reinsurance program on December 31st of 2016 requires PacificSource to recognize the full weight of large claims in its experience for 2017, which leads to higher rates relative to the prior year.

Finally, based on the worse than anticipated 2015 claims experience used in this filing, 2016 premiums are not expected to be rate adequate. No part of the proposed rate increase is being used to recoup expected losses in 2016. However, PacificSource is required to set premiums that are intended to be rate adequate in 2017. Had 2016 premiums been higher, there would be a smaller resultant premium difference between 2016 and 2017.

As there are no changes to covered benefits, no part of the premium increase is due to the addition or removal of covered benefits. However, the specific cost sharing arrangement of each plan will change, often in order to meet federal requirements that plans of each metal level cover a certain percentage of expected medical costs. This can cause deductibles, copays, maximum out of pockets, coinsurances, and other forms of cost sharing to change. Additionally, members who are on plans which will be discontinued will be mapped to new plans, which will have new cost sharing parameters and may be in different networks. Overall, members are projected to be on plans which will cover fewer of their expected medical costs in 2017 than their existing plans would have. These adjustments to cost sharing place members on plans which are 5.6 percent less expensive than their existing plans would be in 2017, on average. The exact changes to cost sharing experienced will be unique to each member's existing plan. A notice of change with the exact premium increase prior to the application of advance premium tax credits, which will also contain information on 2017 cost sharing parameters for a suggested renewal plan, will be postmarked to members by October 3rd for members on discontinued plans and by November 2nd for members on continued plans.

Financial Experience

Over the calendar year 2015, the Montana Individual block earned an estimated 35.9 million dollars in premium and incurred an estimated 48.5 million dollars in claims, for an actual pure loss ratio of 135.2 percent. The estimated incurred claims shown correctly incorporates expected federal reimbursements for members with cost sharing reduced plans.

In this filing, we are proposing a target loss ratio of 84.9 percent for 2017. The proposed target medical loss ratio for the same period, as determined by the federal medical loss ratio formula, is 90.4 percent.

Administrative Costs and Anticipated Profits

With the proposed rate increase, PacificSource anticipates spending approximately 84.9 percent of premium dollars earned on claims in 2017. Approximately 5.9 percent of premium dollars earned in 2017 will go toward administrative expenses including agent commissions, approximately 3.2 percent will be go toward exchange fees, and approximately 2.4 percent will go toward other federal and state taxes and fees. After all claims, administrative expenses, taxes, and fees, PacificSource anticipates 3.6 percent of premium dollars earned in 2017 will be contributed to reserves.