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

Scope and Range of the Rate Increase
As of April 1st 2016, PacificSource has approximately 7,500 Montana Small Group members that are potentially affected by the requested rate change. Both Value and Balance products will continue in 2017. While changes were made to the cost sharing structure of specific plans in both products, products are not rated seperately and the ranges of rate increases presented below apply to both. Minimum, maximum, and average rate increases are presented before the application of advanced premium tax credits.

For reporting purposes, groups have been separated into continued, discontinued, and overall (both) categories by renewal quarter. Increases for groups renewing in quarter one on discontinued plans will vary between negative 7.8 percent and positive 41.2 percent, with an average of 13.7 percent. Increases for groups renewing in quarter one on continuing plans will vary between 2.7 percent and 10.8 percent, with an average of 6.9 percent. Overall, groups renewing in quarter one will have an average rate increase of 8.8 percent. The average rate increase for groups renewing on continued plans in quarters 2, 3, and 4 will be 6.6 percent, 7.5 percent, and 7.6 percent respectively, while the overall average rate increase among all plans for groups renewing in quarters 2, 3, and 4 will be 7.5 percent, 8.3 percent, and 8.2 percent respectively.

The variation in premium increases is due to adjustments to geographic factors, as well as the impact of mapping members to new plans. 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 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 drug trend of 12.3 percent are used, for an overall trend of 8.2 percent.

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 slightly less of their expected medical costs in 2017 than their existing plans would have. These adjustments to cost sharing place members on plans which are negative 1.2 percent percent more 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 Small Group block earned an estimated 39.0 million dollars in premium and incurred an estimated 34.9 million dollars in claims, for an actual pure loss ratio of 89.4 percent.

In this filing, we are proposing a target loss ratio of 86.4 percent for 2017. The proposed target medical loss ratio for the same period, as determined by the federal medical loss ratio formula, is 88.2 percent.

Administrative Costs and Anticipated Profits

With the proposed rate increase, PacificSource anticipates spending approximately 86.4 percent of premium dollars earned on claims in 2017. Approximately 10.3 percent of premium dollars earned in 2017 will go toward administrative expenses, and approximately 1.4 percent of premium dollars earned in 2017 will go toward federal and state taxes and fees. After all claims, administrative expenses, taxes, and fees, PacificSource anticipates 1.8 percent of premium dollars earned in 2017 will be contributed to reserves.