

## Unified Rate Review - Part II

This filing requests an average year over year increase of 10.4% over the rates approved in our 1/1/2014 Idaho Small Group filing. The proposed rates are based on PacificSource's historical Idaho Small Group 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 2013 (experience period) to 2015 (projection period), changes in benefits, and expected state and federal reinsurance recoveries. The proposed rates also reflect changes in the taxes and fees imposed on health insurers for 2015.

The increase in rates from 2014 to 2015 is primarily driven by deteriorating experience, trend, and changes in morbidity assumptions. PacificSource's Idaho Small Group PMPM claims grew by approximately 17% from 2012 to 2013, the experience bases for the 2014 and 2015 filings, respectively. The combined medical and pharmacy annual trend used to in this filing to project claims from 2013 to 2015 is 10.3%, which reflects expected changes in costs, changes in utilization, and the impact of leveraging. With access to more current data and using a revised methodology, the overall increase in morbidity from PacificSource pre-ACA experience to post-ACA market experience is greater than originally projected in our 2014 filing.

Over the period from 1/1/2013 to 12/31/2013, the Idaho Small Group block earned \$33.4 million in premium and incurred an estimated \$34.4 million in claims, for a medical claims rate of 103.1%. Combined administrative expenses, commissions, taxes, and assessments were approximately 18.6% of premium, meaning the total expenses were approximately 121.7% of premium.

PacificSource projects that the Idaho Small Group block will earn \$36.9 million in premium in 2015 and incur approximately \$30.1 million in claims, for a medical claims rate of 81.4%. Combined administrative expenses, commissions, taxes, and assessments are projected to be 15.6% of premium, leaving 3.0% of premium for contributions to reserves.