

BridgeSpan Health Company
Preliminary Rate Increase Justification for 2017
Individual Health Benefit Plans

Rate Change

The projected average rate change for plans effective January 1, 2017 is 12.7%, which is an average rate change of about \$41 per member per month (pmpm). Because 12.7% (or about \$41) is an average, it is possible to have a different rate change. Factors affecting a member's premium are age, tobacco use, family composition, plan, and geographic area. Expected cost differences by product are updated every year to ensure premium differences are appropriate.

Most Significant Factors

The rate change described above is driven by the following factors:

- Loss of Reinsurance : 6.4%
- Medical Trend : 6.2%
- Actual Results vs. Expected : 6.0%
- Other : 1.9%
- Changes in Retention, Taxes and Fees : -4.9%
- Change in Benefits, Cost-Sharing and Network : -2.9%

Loss of reinsurance represents the value of federal reinsurance in the 2016 rate filing, which will not be available for 2017 as 2016 is the final year for the federal reinsurance program. Actual Results vs. Expected reflects mis-estimation of past market morbidity and other minor differences between actual and expected assumptions.

Financial Experience

The 2015 unadjusted premium revenue was \$3,150,030 (\$275 pmpm), compared to total estimated paid claims of \$5,032,435 (\$439 pmpm). This produced an unadjusted loss ratio of 159.8%. Premium revenue will be adjusted by the 2015 Risk Adjustment transfer, currently estimated as a receipt of \$63 pmpm and 2015 Reinsurance receipts, estimated at \$58 pmpm. Any variations from the estimates for the federal risk adjustment and reinsurance programs will not be known until the summer of 2016 and could significantly impact financial results. The URRT premium is net of estimated 2015 Risk Adjustment.

Key Assumptions

The annual cost trends used in developing the 2017 rates:

- Medical : 4.9%
- Rx : 16.9%
- Medical/Rx Blended: 6.2%

To determine projected trend for the rating period, BridgeSpan Health Company analyzed the individual components of trend - change in reimbursement, utilization, mix/intensity, and leverage. High prescription drug costs trends are driven by the increased prevalence of specialty drugs in the market, new specialty drugs expected to be introduced, the extremely high cost per specialty prescription, and the lack of low cost substitutes for these drugs. Blended trend is calculated by weighting Medical and Rx trends based on their relative contribution to claims in the experience period.

The 2017 rates are made up of the following components:

- Claims: 83.2%
- Administrative Costs: 8.3%
- Federal taxes and fees: 0.1%
- State taxes and fees: 3.1%
- Commissions: 1.3%
- Contribution to surplus, profit, and risk margin: 4.0%

Claims costs represent estimated incurred claims; they include the risk adjustment program fee and are net of expected pharmacy rebates and risk adjustment transfer payments. State taxes and fees include state premium tax, the exchange fee and the Idaho Immunization fee.