

## **CAREFIRST BLUECROSS BLUESHIELD (CF)**

### **PART II – Written Description Justifying the Rate Increase**

Group Hospitalization & Medical Services, Inc. (GHMSI) - VA is requesting an average increase of 31.6%. Underlying this average is a large amount of variation (+7% to +72%). The primary driver of this variation are benefit changes for the portion of the pool currently in bronze plans in 2016, who are being uniformly modified into silver plans in 2017. The average deductible for these members will fall significantly (from \$4,500 to \$2,500), but they will see a significant increase of around 72%, to offset the richer benefits. Members currently in silver, gold, will see more moderate increases from 7-19%. There are approximately 9,000 members currently enrolled in these products who will be impacted by the increases.

An additional significant driver of the average increase is the continued worsening of the pool morbidity, as members with lower claims costs are lapsing at a higher rate than members with high claims cost, which is driving up the average cost of the pool. Additionally, the end of the federal reinsurance program in 2016 is contributing to an increase in the claims above and beyond trend/morbidity.

These products were first launched on 1-1-14. For the 2015 calendar year, GHMSI collected \$49.2 million in premiums and paid out \$62.0 million in claims, for a loss ratio of 125.6%. The proposed rate increases have been set to bring the loss ratio to 84.0%.

GHMSI has assumed a moderate trend assumption of 9.0%, an increase of 2.4% from last year's 6.6%. The 9.0% for this year has been set based off the emerging experience of Individual ACA members, while last year's lower trend was set to be in alignment with small group, as Individual experience was not yet available.

The benefits for these products have remained the same, except for changes necessary to bring the Actuarial Values within range of the Federal metal levels. Additionally, we will no longer sell bronze plans starting in 2017. Members in bronze plans in 2016 will be uniformly modified into silver plans.

As a percent of premium, administrative expenses have declined from 10.4% to 10.1%. The decline is driven by the increase in claims costs. Taxes and fees have declined from 6.5% to 3.9% of premium, which is driven by a moratorium on the Health Insurer Fee for 2017. Pre-tax contribution to reserve has been increased from a break-even 0% to 2.0% (1.6% post-tax), as pricing to break-even was intended to be short-term and help ease the premium transition between pre-ACA and post-ACA policies, and is not sustainable long-term.