

July 15, 2025

Rate Filing Justification Part II: Written Description Justifying the Rate Increase
Blue Cross and Blue Shield of Alabama (BCBSAL)

Individual Market – Rates effective January 1, 2026

Scope and Range of the Rate Increase

The average rate increase included in this filing is 19.3%, affecting over 210,000 members.

The main factors driving the need for this increase are:

- Alabama market membership loss and remaining members projected to be less healthy following expiration of enhanced premium subsidies in place since 2021
- Projected claim cost trends are higher for 2025 than anticipated in the 2025 filing and are projected to continue into 2026
- Administrative costs increased in 2025 and are expected to rise further in 2026 due to new eligibility and billing rules, along with a higher Exchange User Fee

The table below reflects the revised rate increase applicable to each plan:

Plan	Original Effective Date	April 2025 Members	2026 Rate Change
Blue Value Gold	1/1/2014	9,883	22.3%
Blue Cross Select Gold	1/1/2016	3,713	22.3%
Blue Standardized Gold	1/1/2023	661	19.6%
Blue Secure Silver	1/1/2014	5,274	22.3%
Blue Value Silver	1/1/2014	24,308	21.1%
Blue Cross Select Silver	1/1/2016	80,201	19.3%
Blue Standardized Silver	1/1/2023	25,756	18.0%
Blue Standardized Silver EPO	1/1/2023	9,031	17.9%
Blue Standardized Statewide Silver EPO	1/1/2026	N/A	N/A
Blue Statewide Silver EPO	1/1/2026	N/A	N/A
Blue Saver Silver EPO	1/1/2022	6,917	12.1%
Blue Saver Silver	1/1/2020	1,070	22.3%
Blue Saver Bronze	1/1/2014	20,849	18.1%
Blue HSA Bronze	1/1/2015	8,171	22.3%
Blue Standardized Bronze	1/1/2023	13,598	18.5%
Blue Protect	1/1/2014	986	14.1%
Total/Average		210,418	19.3%

The premium change experienced by each policyholder will likely differ from the rate increase listed above for the chosen plan because individual and family plan premiums vary based on the age(s) of the individual(s) on the plan, the policyholder's geographic area, and the number of family members included on the plan as permitted under the ACA.

Expiring Enhanced Advance Premium Tax Credits

As of the time of this filing, Enhanced Advance Premium Tax Credits (enhanced premium subsidies) that were made available in 2021 and 2022 through the American Rescue Plan Act (ARPA) and extended by the Inflation Reduction Act (IRA) were allowed to expire by the Federal government and are not available after 2025. As a result of these enhanced premium subsidies, the total Alabama Individual ACA Market grew from 195,000 in 2021 to over 475,000 in 2025. Assumptions in this rate filing related to this change:

- BCBSAL is projecting that a significant number of Individual members will leave the Alabama Individual ACA market in 2026 as enhanced premium subsidies become unavailable and members are no longer able to afford their out-of-pocket premiums.
- Members leaving the market are projected to be healthier than average which will leave the total Alabama market (or single rating pool) projected to be less healthy in 2026.

Changes in Medical Service Costs

BCBSAL expects per capita claim costs to increase around 6% from 2025 to 2026, mainly due to increasing costs for hospital services and prescription drugs. Hospital costs are expected to grow due to increases in both reimbursement levels and the number of services performed. Prescription drug costs continue to escalate largely due to GLP-1s, new expensive drugs and new covered indications for existing drugs.

Changes in benefits

Overall, changes to benefits in 2026 were minor and generally made to satisfy the Actuarial Value range required by law. For 2026, these changes helped to offset the requested rate change by 2-3%.

Financial Experience of the Product

BCBSAL measures the financial performance of its products using the traditional Medical Loss Ratio ("MLR") calculation. The MLR is equal to claim costs divided by premium revenue. The target MLR for the Individual market in 2024 was approximately 88%, while the actual was approximately 89%. This means that 11% of premium went toward non-benefit expenses such as administrative costs, taxes and fees, and contribution to surplus.

BCBSAL expects the MLR in 2025 to be almost 96% due to claims being significantly higher than what was anticipated when developing premiums for 2025 where the projected pricing Loss Ratio was 91%. If that is the case, there will be only 4% revenue available to cover BCBSAL's non-benefit expenses for 2025.

Based on the rate increases listed above, BCBSAL expects the average MLR for the Individual market to be near the target MLR of about 87% in 2026.

Administrative Cost and Anticipated Margins

Administrative expenses for 2025 have come in somewhat higher than anticipated and are expected to increase in 2026 due to overhead expenses being spread over fewer members. Also, this market is perceived to remain volatile, and therefore we have increased our Contribution to Surplus and Risk closer to our historical target for this market of 4%. Finally, 2026 taxes and fees are increasing 0.9% per CMS' 2026 Notice of Benefit and Payment Parameters guidance to carriers.

The table below shows the relevant amounts used in developing 2025 and 2026 premiums:

Component	Retention Factors	
	2025	2026
Administrative Expenses	5.00%	6.00%
Contribution to Surplus & Risk Margin	0.50%	3.00%
Taxes and Fees	3.05%	4.14%
Total Retention	8.55%	13.14%