

## Part II Preliminary Justification

### General Information

Highmark Blue Cross Blue Shield Delaware Inc. (Highmark Delaware) has filed an average rate change of 5.2% for 2018 ACA-qualifying small group plans renewing with effective dates from January 1, 2018 through December 31, 2018.

### Summary

The 5.2% average rate change was measured across renewing benefit plans with renewal effective dates in 2018. The average renewing plan specific rate increases range from -0.51% to 14.76%. The plans with rate increases over 10% moved up a metallic level from 2017 to 2018. These plans have higher actuarial values and richer benefits in 2018. Two of these plans are moving from Gold to Platinum and three are moving from Silver to Gold.

The exact premium change for a small group will depend on their effective date, the plan design they choose, as well as the age composition of the employees and dependents covered on the effective date in 2018.

The rate increases will impact approximately 20,400 members in the small group market.

For calendar year 2016 for its small group market ACA products, Highmark Delaware collected \$140.7 million in premium and incurred expenses of \$111.5 million in claim costs and \$18.6 million in administrative expenses, taxes, and fees for an operating margin of approximately \$10.6 million. The proposed rate change is expected to result in a medical loss ratio over 80% as required by law.

The Total Proposed Rate Change is broken down into the following categories of increases and decreases:

Factor	Rate Change
Base Claims Experience and Projection Year Trend	-0.20%
Shift in Average Age & Demographics	-0.79%
Risk Adjustment	-0.55%
Retention (Admin, Taxes, and Fees)	1.89%
Change in Morbidity (Population Health)	-2.10%
<u>Change in Pricing of Benefits and Benefit Richness</u>	<u>7.09%</u>
<b>Total</b>	<b>5.20%</b>

The proposed average rate change for renewing plans is 5.2% as shown above.

The factors contributing to the rate change approximate the breakdown of each category's impact on the overall rate change. The average rate change can be derived by multiplying the percentages in the table together as factors.

#### **Reason for Proposed Rate Change (Increase/Decrease)**

The primary driver of the rate increase is ensuring that 2018 premiums adequately cover the anticipated provider claim costs and member utilization of benefits for the insured population in 2018.

The cost of medical and prescription drug services increases annually due to higher demand for services by the members (utilization) and higher reimbursement required to maintain our provider network (unit cost). Changes in benefits and the expected impact of those benefits on Highmark Delaware's insured population also impact the requested rate change.

Changes in administrative expenses, taxes and fees increased the rate increase by 1.89% primarily due to the reinstatement of the Health Insurer Fee in 2018. Legally required benefit changes had minimal impact on the rate change.

#### **Effect of the Average Proposed Rate Change (Increase/Decrease) on Policyholders**

The 2018 average rate change will not apply uniformly to all plans. Rate increases will vary by plan and effective date in 2018 due to the inclusion of quarterly rate changes in the small group market. The rates will also vary by plan due to benefit adjustments and metal level changes that were made to maintain a metallic value (Platinum, Gold, Silver, and Bronze) in 2018 while remaining competitive in the small group ACA marketplace. Additionally, some out of pocket maximum parameters were changed to keep up with the rising cost of health care. Highmark Delaware will discontinue and not renew five benefit plans from the 2017 portfolio while introducing seven new plans in 2018 to a portfolio that will contain a total of 42 plan designs across all four metal levels (Platinum, Gold, Silver, and Bronze). The 5.2% average rate change was measured from the benefit plans available in 2017 that will continue to be offered in 2018.

#### **Medical Loss Ratio (MLR)**

The anticipated medical loss ratio is 83.4% relative to total premium less taxes and fees. This loss ratio is calculated consistent with the federally prescribed MLR methodology, which is above the 80% threshold required by law.

Highmark Delaware continues to focus efforts on care management activities in order to lower the future medical cost for its members. Clinical teams, led by experienced doctors and nurses, analyze claim data to identify opportunities for more efficient care delivery and lower medical cost trends.

As health care continues to evolve, Highmark Delaware remains committed to providing a variety of product offerings to meet the needs of small employers.