

**Part III Actuarial Memorandum**

**Redacted Version**

**Highmark BCBSD, Inc.**

**d/b/a Highmark Blue Cross Blue Shield Delaware**

**Small Group Rate Filing**

**Effective January 1, 2019**

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# **I. General Information**

## **Document Overview**

This document contains the Part III Actuarial Memorandum for Highmark Blue Cross Blue Shield of Delaware's ("Highmark BCBSDE") small group block of business rate filing ("Filing"), for products with an effective date of January 1, 2019. This actuarial memorandum is submitted in conjunction with the Part I Unified Rate Review Template.

The purpose of the actuarial memorandum is to provide certain information related to the submission, including support for the values entered into the Part I Unified Rate Review Template, which supports compliance with the market rating rules and reasonableness of applicable rate increases. This information may not be appropriate for other purposes.

This information is intended for use by the State of Delaware Department of Insurance, the Center for Consumer Information and Insurance Oversight (CCIIO), and their subcontractors to assist in the review of Highmark BCBSDE's Filing. However, we recognize that this certification may become a public document. Highmark BCBSDE makes no representations or warranties regarding the contents of this letter to third parties. Likewise, third parties are instructed that they are to place no reliance upon this actuarial memorandum prepared by Highmark BCBSDE that would result in the creation of any duty or liability under any theory of law by Highmark BCBSDE or its employees to third parties.

The results are actuarial projections. Actual experience is likely to differ for a number of reasons, including population changes, claims experience, and random deviations from assumptions.

### **I.1 Company Identifying Information:**

- Company Legal Name: Highmark BCBSDE, Inc.
- State: The State of Delaware has regulatory authority over these policies.
- HIOS Issuer ID: 76168
- Market: Small Group
- Effective Date: January 1, 2019

## **II. Proposed Rate Increase(s)**

For all rate increases by plan please see the ‘Cum'tive Rate Change % (over 12 mos prior)’ found in Worksheet 2 Row 27 of the URRT. Rate changes vary by plan, as plan benefits need adjusted to help maintain compliance with metal level requirements. Other base rate components (pricing actuarial factor and network discount) are also re-evaluated each year. For 2019, the Company’s proposed rate revisions vary by plan, according to the detail presented in the URRT, Worksheet 2.

The primary driver of the rate increase is anticipated claim cost and utilization increases for the insured population in 2019 versus 2018.

## **III. Experience Period Premium and Claims**

### **III.1 Paid through Date:**

Experience period claims were based on incurred calendar year 2017. We only include the non-grandfathered, insured members in Highmark BCBSDE’s 2017 book-of-business.

### **III.2 Premiums (net of MLR Rebate) in Experience Period:**

The premiums shown for the experience period were based on calendar 2017 actual revenues, net of MLR rebates, in accordance with the Unified Rate Review Instructions.

### **III.3 Allowed and Incurred Claims Incurred During the Experience Period:**

- **Historical Experience:** We chose Highmark BCBSDE’s current experience for the small group block of business for the period January 1, 2017 through December 31, 2017, for the 2019 projected small group market pricing. It is large and represents the closest experience base to the projected population.
- **Claims Incurred During the 12-month experience period:** Worksheet 1, Section I shows our best estimate of the amount of claims that were incurred during the 12-month experience period for Highmark BCBSDE’s book-of-business.
- **Method for Determining Allowed Claims:** For non-capitated claims, the allowed charges are summarized from Highmark BCBSDE’s detailed claim-level historical data.

## **IV. Benefit Categories**

Historical cost and utilization data were pulled from Highmark BCBSDE’s claims systems by the defined benefit categories included in Worksheet 1, Section II of the URRT. This data was used to allocate the Highmark BCBSDE’s total claims into its components on the URRT.

## **V. Projection Factors**

### **V.1 Changes in the Morbidity of the Population Insured**

The morbidity adjustment reflects the anticipated changes in the average morbidity of the covered population (beyond allowable rating factors) from the experience period to the rating period.

### **V.2 Changes in Benefits**

We made the following adjustments to reflect the expected differences in benefits between the experience period and projection period:

- We reflected the anticipated change in capitated claim costs for Pediatric Vision benefit coverage.
- We reflected the following newly mandated benefits required under state law, which are not reflected in the experience period claims: None.
- We reflected the following new benefits that are not part of the essential health benefit package or required under state law that did not exist in the experience period claims: None.
- We reflected adjustments for removal of the following benefits that are not part of the essential health benefit package nor required under state law: Adult Vision Capitation.
- We made an adjustment to reflect the removal of benefits covered in the experience period claims that will not be covered in the projection period: None.

### **V.3 Changes in Demographics**

We applied an adjustment for change in rating factor (age, tobacco load and area combined).

### **V.4 Other Adjustments**

We applied an adjustment for additional anticipated benefit cost changes.

### **V.5 Trend Factors (cost/utilization)**

The development of the CY 2019 rates reflects an assumption for trend.

## **VI. Credibility Manual Rate Development**

### **VI.1 Source and Appropriateness of Experience Data Used**

As Highmark BCBSDE's small group experience is fully credible, no manual rate is developed or used in this projection.

## **VII. Credibility of Experience**

The experience is for Highmark BCBSDE's non-grandfathered plans in 2017. It is large enough to be fully credible. Our results are based 100% on the experience rate.

## **VIII. Paid to Allowed Ratio**

The paid-to-allowed ratio is a weighted average of the 2019 plan level paid-to-allowed ratios. Plan level paid to allowed factors were developed using an internal model.

## **IX. Risk Adjustment and Reinsurance**

### **IX.1 Projected Risk Adjustments PMPM:**

Using Highmark BCBSDE's 2017 claim diagnoses, we are able to project the average risk score and combined rating factors to estimate the risk adjustment. The actual calculation of the risk transfer followed the risk transfer methodology as prescribed.

### **IX.2 Projected ACA Reinsurance Recoveries Net of Reinsurance:**

The Individual ACA Reinsurance program terminated at the end of 2016. For the 2019 rating period, there is no Reinsurance Premium amount to include in the rates.

## **X. Non-Benefit Expenses and Profit & Risk**

### **X.1 Administrative Expense Load:**

The proposed rates reflect internal administrative costs. This cost was developed based on standard expense allocation methods.

### **X.2 Profit (or Contribution to Surplus) & Risk Margin:**

The proposed rates include the risk or contribution to surplus margin.

### **X.3 Taxes and Fees:**

The following fees were added: Patient Centered Outcomes Research Fee, Health Insurance Provider Fee, and Risk Adjustment User Fee.

## **XI. Projected Loss Ratio**

The anticipated medical loss ratio is calculated consistently with the federally prescribed MLR methodology.

## **XII. Single Risk Pool**

As described above the base experience used includes all Highmark BCBSDE small group non-grandfathered members in accordance with the Single Risk Pool regulations. The projected membership and their corresponding premiums and claims only include those members who will be enrolled in a fully ACA-compliant plan in 2019.

## **XIII. Index Rate**

The index rates as shown on Worksheet 1 of the URRT are simply the average allowed claims for the Essential Health benefits for the experience and projected populations, respectively, for Highmark BCBSDE.

## **XIV. Market Adjusted Index Rate**

The Market Adjusted Index Rate is the Index Rate further adjusted for risk adjustment and the exchange fee.

## **XV. Plan Adjusted Index Rates**

Plan Adjusted Index Rates are developed by taking the Market Adjusted Index Rate and adjusting for each plan's actuarial value, relative benefit richness, any non-EHB benefits, and retention.

## **XVI. Calibration**

### **XVI.1 Age Curve Calibration (to average age, non-smoker, area with 1.0 geographic factor, January 1 effective date):**

An age calibration is calculated using Highmark BCBSDE average age factor of the projected population. Since no member will pay the rates at this age factor, we calibrated it by the closest age factor on the HHS age curve which also represents the nearest age for the age calibration.

### **XVI.2 Geographic Factor Calibration:**

The state of Delaware only has one geographic region. No calibration is necessary.

### **XVI.3 Quarterly Trend Factor Calibration:**

The Plan Adjusted Index Rate represents the average rate renewing over the four quarters of 2019.

## **XVII. Consumer Adjusted Premium Rate Development**

The plan adjusted index rate represents the rate for a non-smoker, average age and average geographic member for an average quarterly renewal. Consumer adjusted premium rate is obtained by multiplying by the combined age, geographic, and quarterly renewal calibration factors for the calibrated age/non-smoker in a 1.0 geographical area. The standard HHS Age Curve along with the filed tobacco factors and geography factors can be used to calculate any rate found in the QHP rate template.

## **XVIII. AV Metal Values**

The AV Metal Values included in Worksheet 2 of the Part I Unified Rate Review Template were based entirely on the Federal AV Calculator.

## **XIX. AV Pricing Values**

The AV Pricing Values are based on the allowable pricing modifiers. The utilization due to differences in cost sharing is based on the factors adopted by the risk adjustment methodology. No differences due to health status are in these adjustments.

## **XX. Membership Projections**

Membership projections originate from the Highmark BCBSDE's forecast for 2019. These projections reflect expected changes in market share due to market competition.

## **XXI. Terminated Plans and Products**

Highmark BCBSDE is terminating several QHP plans that had experience in the 2017 calendar year period. These plans are being terminated due to changes in the CMS Actuarial Value calculator, which would have valued these plans outside of the regulated metal level bands. These plans will be mapped to a corresponding QHP of similar metal level and plan design, and the experience period members and allowed charges will be moved to the mapped plans in the URRT.

## **XXII. Plan Type**

The Plan types listed in Worksheet 2, Section I of the Part I Unified Rate Review Template describe Highmark BCBSDE's plans adequately.

## **XXIII. Warning Alerts**

There are no Warning Alerts produced in Worksheet 2. All results from plan level projections on Worksheet 2 are within tolerable bounds of the Worksheet 1 projected amounts.



## **XXIV. Actuarial Certification**

I am a member of the American Academy of Actuaries and meet its qualification standards for actuaries issuing statements of actuarial opinions in the United States. This filing is prepared on behalf of Highmark BCBSDE to accompany its initial rate filing (for calendar year 2019) for the small group combined market off the Delaware Exchange.

I hereby certify that the projected index rate is, to the best of my knowledge and understanding:

- In compliance with all applicable State and Federal Statutes and Regulations (45 CFR 156.80 and 147.102),
- Developed in compliance with the applicable Actuarial Standards of Practice
- Reasonable in relation to the benefits provided and the population anticipated to be covered
- Neither excessive nor deficient.

I certify that the index rate and only the allowable modifiers as described in 45 CFR 156.80(d)(1) and 45 CFR 156.80(d)(2) were used to generate plan level rates. The allowable modifiers used to generate plan-level rates were:

- The actuarial value and cost-sharing design of the plan.
- The plan's provider network, delivery system characteristics, and utilization management practices.
- The benefits provided under the plan that are in addition to the essential health benefits. These estimated benefits were pooled with similar benefits within the single risk pool and the claims experience from those benefits was utilized to determine rate variations.
- Administrative costs, excluding Exchange user fees.

I certify that the per cent of total premium that represents essential health benefits included in Worksheet 2, Sections III and IV were calculated in accordance with actuarial standards of practice.

I certify that the benefits included in Highmark BCBSDE's plans are substantially equivalent to the Essential Health Benefits (EHBs) in the State of Delaware's benchmark plans. I certify that any benefit substitutions are:

- Actuarially equivalent to the benefits being replaced,
- Are made within only the same essential health benefit category,
- Are based on a standardized plan population,

- Are determined regardless of cost-sharing,
- Are not prescription drug benefits, and
- Are based on an analysis performed in accordance with generally accepted actuarial principles and methodologies.

I certify that the AV Metal Values included in Worksheet 2 of the Part I Unified Rate Review Template were based entirely on the Federal AV Calculator.

I certify that the geographic rating factors reflect only differences in the costs of delivery (which can include unit cost and provider practice pattern differences) and do not include differences for population morbidity by geographic area.

The Part I Unified Rate Review Template does not demonstrate the process used by Highmark BCBSDE to develop the rates. Rather, it represents information required by Federal regulation to be provided in support of the review of rate increases, for certification of qualified health plans for federally facilitated exchanges and for certification that the index rate is developed in accordance with Federal regulation and used consistently and only adjusted by the allowable modifiers.

Signed: [REDACTED]

Date: 7/3/2018