

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, 2020

TABLE OF CONTENTS

I.	GENERAL INFORMATION	1
II.	PROPOSED RATE CHANGES	2
III.	EXPERIENCE AND CURRENT PERIOD PREMIUM, CLAIMS, AND ENROLLMENT	2
IV.	BENEFIT CATEGORIES	2
V.	PROJECTION FACTORS	3
VI.	PLAN ADJUSTED INDEX RATES	4
VII.	CALIBRATION	5
VIII.	CONSUMER ADJUSTED PREMIUM RATE DEVELOPMENT	5
IX.	PROJECTED LOSS RATIO	5
X.	AV METAL VALUES	5
XI.	MEMBERSHIP PROJECTIONS	6
XII.	TERMINATED PLANS AND PRODUCTS	6
XIII.	PLAN TYPE	6
XIV.	ACTUARIAL CERTIFICATION	6

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, 2020. 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, 2020

II. Proposed Rate Increase(s)

For all rate increases by plan please see the ‘Cumulative Rate Change % (over 12 mos prior)’ found in line 1.11 of the URRT Worksheet 2. 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 2020, 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 2020 versus 2019.

III. Experience and Current Period Premium, Claims, and Enrollment

III.1 Paid through Date:

Experience period claims were based on incurred calendar year 2018. We only include the non-grandfathered, insured members in Highmark BCBSDE’s 2018 book-of-business.

III.2 Current Date:

The current date used for enrollment and premium is February 2019.

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

- Historical Experience: To complete the URRT historical experience section, we chose Highmark BCBSDE’s current experience for the small group block of business for the period January 1, 2018 through December 31, 2018, for the 2020 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

Experience period claims data were pulled from Highmark BCBSDE’s claims systems, and categorized into benefit category components according to types of services associated with each claim. The resulting categories closely adhere to the preferred definitions of the Benefit Categories included in the URRT instructions.

V. Projection Factors

V.1 Trend Factors (cost/utilization)

The development of the CY 2020 rates reflects an assumption for trend.

V.2 Morbidity Adjustment

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.3 Changes in Demographics

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

V.4 Plan Design Changes

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

- We reflected anticipated changes in the average utilization of services due to differences in average cost sharing requirements during the experience period and average cost sharing requirements in the projection period.
- We reflected the anticipated change in capitated claim costs.
- 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: None
- 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.5 Other Adjustments

We applied an adjustment for additional anticipated benefit cost changes.

V.6 Manual Rate Adjustments

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

V.7 Credibility of Experience

The experience is for Highmark BCBSDE's non-grandfathered plans in 2018. It is large enough to be fully credible. Our results are based 100% on the experience rate.

V.8 Establishing the 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.

V.9 Development of the Market-wide Adjusted Index Rate

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

V.10 Reinsurance

The rate development is appropriately adjusted for any reinsurance contacts in effect for Highmark BCBSDE.

V.11 Risk Adjustment Payment/Charge

Using Highmark BCBSDE's 2018 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.

V.12 Exchange User Fees

The rate development is appropriately adjusted for the projected Exchange User Fees to be charged by CMS in 2020.

VI. 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.

VI.1 Administrative Expense

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

VI.2 Taxes and Fees

The following fees were added: the Health Insurance Provider Fee, the assessment from Delaware House Bill No. 193, and the Risk Adjustment User Fee.

VI.3 Profit & Risk Load

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

VII. Calibration

VII.1 Age Curve Calibration (to age 21, 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.

VII.2 Geographic Factor Calibration

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

VII.3 Tobacco Use Rating Factor Calibration

Highmark BCBSDE does not currently utilize tobacco rating factors.

VIII. Consumer Adjusted Premium Rate Development

The plan adjusted index rate represents the rate for a non-smoker, 1.0 age factor and 1.0 geographic factor for a 1/1/2020 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.

IX. Projected Loss Ratio

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

X. 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.

XI. Membership Projections

Membership projections originate from the Highmark BCBSDE's forecast for 2020. These projections reflect expected changes in market share due to market competition.

XII. Terminated Plans and Products

Highmark BCBSDE is terminating several QHP plans that had experience in the 2018 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.

XIII. 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.

XIV. 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 2020) for the Small Group 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.

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.

I certify that the AV Calculator was used to determine the AV Metal Values shown in Part I of Worksheet 2 in the URRT for all plans.

The 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: 09/04/2019