Part III Actuarial Memorandum

Highmark BCBSD, Inc.

d/b/a Highmark Blue Cross Blue Shield Delaware

Individual Rate Filing

Effective January 1, 2022

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I. General Information

Document Overview

This document contains the Part III Actuarial Memorandum for Highmark Blue Cross Blue Shield Delaware's (Highmark DE) individual block of business rate filing, for products with an effective date of January 1, 2022. 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 DE's rate filing. However, we recognize that this certification may become a public document. Highmark DE 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 that would result in the creation of any duty or liability under any theory of law by Highmark DE.

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 Blue Cross Blue Shield Delaware.
- State: The State of Delaware has regulatory authority over these policies
- HIOS Issuer ID: 76168
- Market: Individual
- Effective Date: January 1, 2022

I.2 Company Contact Information:

- Primary Contact Name:
- Primary Contact Telephone Number:
- Primary Contact Email Address:

II. Proposed Rate Changes

For all rate changes by plan, see the 'Cumulative Rate Change % (over 12 mos prior)' found in Worksheet 2, line 1.11 of the URRT. The rate change varies by plan due to an update in several of our pricing factors and changes in cost sharing required to meet Actuarial Value and other cost sharing restrictions under the Affordable Care Act as well as mappings between discontinued and new plans.

The primary drivers of the rate increase are increasing cost and utilization of medical and pharmacy services in the Individual market.

This rate filing also includes a COVID-19 adjustment. The impact of the American Rescue Plan Act (ARPA) was considered in the rate development and no adjustment was included at this time. This is due to several unknown factors such as competitor entry into market, morbidity of uninsured enrollment, pent-up demand for new entrants, and any potential group conversion to individual.

Other assumptions in the filing account for the elimination of the Individual Mandate penalty and the lack of CSR funding in 2022 by using the factors prescribed in the Department's guidance. Additional assumptions include that advance payment of premium tax credits (APTCs) will continue until the end of 2022, there will be no significant changes in legislation, regulations or otherwise (i.e. rules, regulatory guidance, etc.) impacting the ACA market, and that there are no significant changes in the participation of QHP issuers that would materially change risk adjustment transfer amounts. Finally, modifications to the rate development may be necessary if significant unforeseen events occur. Examples include, but are not limited to, repeal or invalidation of the ACA or material developments in the course of the COVID-19 pandemic. As a result, Highmark DE reserves the right to submit a revised filing.

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

III.1 Paid through Date:

Experience Period claims were based on incurred calendar year 2020, paid through February 2021. This includes 2020 experience in Affordable Care Act compliant plans. Highmark DE did not offer any transitional plans in 2020.

III.2 Current Date:

The current date shown represents a snapshot of February 1, 2021.

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

- Historical Experience: We chose Highmark DE's current experience for the individual block of business for the period January 1, 2020 through December 31, 2020, with claims paid through February, 2021 as the basis for the 2022 projected individual market pricing.

- 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 DE's individual book-of-business. This section includes:

  - The amount of claims which were processed through Company's claims system,
  - Claims processed outside of the Company's claims system, and
  - Our best estimate of claims incurred but not paid as of the paid through date stated above.

- Method for Determining Allowed Claims: For non-capitated claims, the allowed charges are summarized from Highmark DE's detailed claim-level historical data. This experience includes 2020 claims for Affordable Care Act compliant business. For capitated and other off-system claims, historical capitations and experience were tabulated and added to the claims.

- Paid Claims: We also summarized the paid claims from detailed member records. The paid-to-allowed ratio for the experience period reflects the 2020 plan designs chosen by each member.

- Incurred but Not Paid (IBNR) Claims Estimate: Highmark DE is using a completion factor of [redacted] to include IBNR claims in allowed charges. The IBNR completion factor was developed using our corporate reserving system for Highmark DE's individual business. We applied it equally to both paid and allowed total claims (as a change to utilization) to complete the experience.

IV. Benefit Categories

The index rate of the experience period was summarized at the defined benefit categories included in Worksheet 1, Section II of the URRT.

The data provided in this section closely adheres to the preferred definitions of the Benefit Categories included in the URRT instructions, including the "Other Medical" category. The "Other Medical" category units reflect visits for PDN/home health, trips for ambulance and procedures for DME/prosthetics. Prescription drugs utilization were converted to a "per 30-day" script count.

V. Projection Factors

V.1 Trend Factors

This development of the CY2022 rates reflects an annual trend rate of [redacted]% for Medical and [redacted]% for Rx. These trends reflect Highmark DE's expectations in in-network contractual reimbursement, as well as projected out-of-network costs. The significant changes observed in the volume, demographics and morbidity of the ACA population over time yields trends that

are generally not directly applicable for trend analysis. These estimates measure and normalize for benefit leverage, population aging, and historical changes for fee schedules, as well as company-wide utilization management programs, and external trend drivers.

A multi-year regression analysis was developed by the Company's valuation team to analyze the ACA individual population trend levels. The analysis was completed at the medical and pharmacy level. The regression tool removes components of trend that are more explainable from the observed trend rates and then uses regression analysis to isolate the underlying trend rate. Some of the more explainable variables include high dollar claims, workdays, provider contracting, demographics, and seasonality. The medical and Rx trend reflects the explainable components and the estimated underlying trend rate. The valuation regression tool primarily informed the trend selection with the final requested trend also based on actuarial judgment.

V.2 Changes in the Morbidity of the Population Insured

The Change in Morbidity adjustment of ███ is comprised of the morbidity impact from claims experience.

V.3 Changes in Demographics

We project that the average rating factor (age, tobacco load and area combined) will increase by about ██% due to the change in the population. This is primarily due to the expectation that the new members from the group and/or uninsured populations to be slightly older than the population in the underlying experience. This increases the projected allowed claims (utilization) by the same amount.

V.4 Changes in Benefits

There is no change in benefits related to the essential health benefit (EHB) categories so the factor is set to ██. The cost sharing changes for the EHBs are captured in the paid to allowed ratio factors discussed in the AV and Cost Sharing Design of Plan section X.1.

V.5 Changes in Other

The ███ factor represents the changes in utilization due to cost sharing requirements, pharmacy rebates and hospital/physician settlements and any state/federal mandates, health insurance coverage mandate and covid 19 adjustments.

Impact of Health Insurance Coverage Mandate

There is no individual mandate factor included for 2022 rates.

Covid-19 Impact

In order to account for the impact of COVID-19 on projected claim costs, the Company took the following steps:

1. Adjusted the claims in the base experience period to a non-COVID-19 baseline environment. This was done to provide a more stable base from which to project future claims. Claims in the base experience period were increased by ██%, representing the expected degree of claims suppression experienced.

2. Projected claims to the projection period using trends with the impact of COVID-19 excluded. Again, this provides for a more stable projection of future claims, before applying the anticipated impact of COVID-19 in the projection period. This was accomplished by applying a trend of ██% (which excludes any impact from COVID-19) to our adjusted BEP medical claims and ██% to Rx claims.

3. The projected claims were then further adjusted by applying the anticipated impacts of COVID costs expected in the projection period. There are four components of this adjustment determined by the Company:

a. Treatment costs (████ PMPM) – COVID treatment utilization in 2022 are expected to follow a similar utilization pattern as flu treatment from 2018 and 2019, with COVID specific admission costs based on recent admission costs for COVID.

b. COVID Testing (████ PMPM) – COVID testing utilization in 2022 are expected to follow a similar utilization pattern as flu testing from 2018 and 2019, with COVID specific testing costs based on recent testing costs for COVID.

c. COVID Vaccine (████ PMPM) – The Company is assuming that ██% of the population will be receiving vaccine boosters at a frequency of once every two years. This impact represents the expected cost that the Company will incur.

d. Additional morbidity (███% claims impact) – Due to insureds missing preventative care (maintenance care and testing services) and quarantine rules leading to a more sedentary lifestyle, the Company expects a general trend towards worsening member morbidity.

The application of the above COVID claim adjustments to the rating period results in a COVID adjustment factor of ████.

VI. Manual Rate Adjustments

Highmark DE's individual experience is fully credible. No manual rate is developed or used in this projection.

VII. Credibility of Experience

The experience is from Highmark DE's individual book of business in 2020. It is large enough to be fully credible. Our results are based ███% on the experience rate, as adjusted.

VIII. Index Rate

The Index Rates as shown on Worksheet 1 of the URRT are simply the single risk pool average allowed claims for the Essential Health Benefits for the experience and projected populations,

respectively, for Highmark DE. For the experience period, only non-grandfathered plans are included. The projection period Index Rate is not adjusted for reinsurance or risk adjustment programs or any other fee.

IX. Market Adjusted Index Rate [MAIR]

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

IX.1 Projected Reinsurance PMPM

As outlined in the State of Delaware's Section 1332 State Innovation waiver application, the State is anticipating the reinsurance program with the following parameters for 2022:

- Attachment point of $65,000, a coinsurance rate of 80%, and a cap of $300,000.

The reinsurance PMPM in worksheet 1, section II of the URRT was derived by converting the reinsurance claims savings of [redacted]% to an equivalent allowed claims savings PMPM. The [redacted]% was selected for reinsurance claim savings to achieve a total reinsurance rate reduction of [redacted]% consistent with the reinsurance value estimated by DE DOI. The [redacted]% rate reduction is calculated by comparing rates with reinsurance to rates with no reinsurance. Thus, the net rate change after reinsurance program is [redacted]%.

IX.2 Projected Risk Adjustments PMPM:

[redacted]

[redacted]

IX.3 The Exchange User Fee %

The [redacted]% value shown in worksheet 1 of the URRT is developed by multiplying the [redacted]% exchange user fee by the assumed percentage of on exchange membership. This calculated amount is then divided by the paid-to-allowed factor to bring it to an equivalent allowed claims basis and adjusted further for the composite effect of catastrophic eligibility.

X. Plan Adjusted Index Rates [PAIR]

The Plan Adjusted Index Rates can be found on line 3.10, Worksheet 2 of the URRT. The PAIR rates calculated by applying the allowable rating factors as described below to the Market Adjusted Index Rate.

X.1 AV and Cost Sharing Design of Plan

The AV and cost sharing allowable rating factor is comprised of the following components:

- The utilization due to differences in cost sharing is based on the factors adopted by the risk adjustment methodology relative its weight average. No differences due to health status are in these adjustments.

- The pricing AV for the benefits and cost sharing of the plan and a CSR load for the on exchange silver plan.

Impact of Non-Payment of Cost Sharing Reduction Subsidies

In accordance with the Department's guidance, we have applied an additional adjustment to our AV pricing values for those Silver plans not offered exclusively off-exchange. This adjustment factor was [redacted] and represents the non-payment of Cost Sharing Reduction subsidies.

X.2 Provider Network Adjustment

The provider network adjustments are developed by dividing the plan level network factor by the overall weighted average from all plans.

X.3 Benefits in Addition to EHB

Six plans have adult dental and vision benefits in addition to EHB. Two plans have a hearing and personal assistance benefit (i.e. Papa Pals).

X.4 Administrative Expense

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

X.5 Taxes and Fees:

The following fees were added:

- [redacted] PMPM for Risk Transfer User Fee
- [redacted] PMPM for the Patient-Centered Outcomes Research Institute (PCORI) fee
- [redacted]% for the Health Insurance Provider Fee
- [redacted]% for State Premium Tax and Reinsurance Program Fee

X.6 Profit (or Contribution to Surplus) & Risk Margin:

The proposed rates reflect a [redacted]% contribution to surplus margin for all products and plans pursuant to the Delaware Insurance Department's review of the initial rate filing.

X.7 Catastrophic Adjustment

For catastrophic plans, we use a ███ factor for the specific eligibility adjustment.

XI. Calibration

XI.1 Age Curve Calibration:

The projected weighted average age factor for billable members is ███. This factor is calculated by dividing the all members age factor of ███ by the ratio of billable members to total members ███. The age curve calibration factor is ███ = ███.

XI.2 Geographic Calibration Factor:

The projected weighted average geographic factor is ███. Each Plan Adjusted Index Rate represents the rate for an average member with a geographic factor of ███. The geographic calibration factor is ███ = ███.

XI.3 Tobacco Calibration Factor:

The projected weighted average tobacco factor is ███. Each Plan Adjusted Index Rate represents the rate for an average member with a tobacco factor of ███. The tobacco calibration factor is ███ = ███.

XI.4 Consumer Adjusted Premium Rate Developments:

The calibrated plan adjusted index rate represents the base rate for an age factor of ███, geographic rating factor of ███ and tobacco rating factor of ███. Thus, the approximate premium for a specific member can be derived by multiplying this rate by the HHS age curve factor, the rating area factor on Worksheet 3 of the URRT, and the appropriate tobacco factor. Please note that this method will only produce approximate rates due to URRT rounding constraints.

XII. Projected Loss Ratio

The projected loss ratio for 2022 using the federally prescribed MLR methodology is ███%.

XIII. AV Metal Values

The AV Metal Values included in Worksheet 2 of the Part I Unified Rate Review Template were based the Federal AV Calculator. Some plans did require an adjustment to the inputs entered into the AV calculator. Screen shots and certifications for these plans were submitted as part of Highmark DE's QHP application.

XIV. Membership Projections

Membership projections reflect Highmark DE's expectations for 2022. These projections reflect expected changes in market share due to market competition, relative price levels, and changes in plan offerings (where applicable).

Highmark DE expects membership in 2022 to follow a similar metal level distribution as the Individual ACA experience period in the markets where plans will continue to be offered.

For the Silver level plans, the projected membership by cost sharing subsidy levels is based on the observed distribution of ACA members that were eligible under the federal poverty levels as determined by the federal health insurance exchange. The projected enrollment by plan and subsidy level is as follows:

FPL	Subsidy Level	% of Silver Membership	% of Total Membership
<150%	94.0%		
150%-200%	87.0%		
200%-250%	73.0%		
>250%	70.0%		
Total			

XV. Terminated Plans and Products

Plans in the 2020 experience period that will no longer be available in 2022 can be found in Exhibit I. All 2021 EPO plans are being terminated and the similar PPO products will be offered in 2022. Members will be cross walked based on their 2021 plan selection into similar plans for 2022. Therefore most of the 2022 plans are being marked as renewing so they are subjected to rate review.

XVI. Plan Type

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

XVII. 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 to accompany Highmark DE's rate filing for the individual combined market on and 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 AV Calculator was used to determine the AV Metal Values shown in Worksheet 2 of the Part I Unified Rate Review Template for all plans. The AV Metal Values included in Worksheet 2 of the Part I Unified Rate Review Template were based on the Federal AV Calculator. If any adjustments were required outside of the AV Calculator, appropriate certification has been provided to CMS through the QHP application process.

I certify that the geographic rating 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 DE 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]

[redacted]

Title: [redacted]

Date: August 17, 2021

XVIII. Exhibit I

Highmark Blue Cross Blue Shield Delaware