

Kentucky
Federal Part III Actuarial Memorandum
Golden Rule Insurance Company
NAIC: 0707-62286 / FEIN: 37-6028756

Purpose

Following is a rate filing prepared by Golden Rule Insurance Company. This filing has been prepared to provide the necessary information required by the Department of Health and Human Services. The purpose of this memorandum is to provide information relevant to the Federal Part I Unified Rate Review Template.

This filing establishes rates intended to be used for individual health benefit plans sold off the health insurance exchange in Kentucky for the 2016 plan year.

This memorandum is intended solely for the information of and use by the Department of Health and Human Services and the Kentucky Department of Insurance. It will demonstrate compliance with state and federal laws and regulations and is not intended to be used for any other purpose.

General Information

Company Identifying Information

Company Legal Name: Golden Rule Insurance Company
State: Kentucky
HIOS Issuer ID: 47949
Market: Individual
Effective Date: January 1, 2016

Primary Contact Information

Name: [REDACTED]
Telephone Number: [REDACTED]
Email Address: [REDACTED]

Proposed Rate Changes

Following are the proposed rate changes for each plan included in the single risk pool. These rate change percentages represent the average change in premium rates over the rates included in the prior rate filing for each plan. They measure the change in premium rate tables using the current distribution of enrollment by age, geographic area, and tobacco status. These values are consistent with the rate change percentages reported in Worksheet 2, Section I of the Unified Rate Review Template.

Plan Name	Rate Change %
Silver HSA 100	10.0%
Silver Copay Select 1	10.3%
Bronze HSA 100	15.7%
Average Rate Change	11.5%

We refined the medical plan price relativities to reflect the most recent pricing models. The model is based on UnitedHealthcare nationwide experience data, which contains utilization frequencies and unit costs by service category, in addition to claim distributions and adjustment factors for a large number of plan design variables. Benefit design parameters such as deductibles, coinsurance, copays, out-of-pocket maximums, etc. were input for each plan to develop expected paid-to-allowed relativities. The expected paid-to-allowed relativities are then used to develop the plan factors for each benefit plan. All benefit plans are priced consistently with each other, with the rates differing only by the estimated value of the benefits.

Other significant factors driving the proposed rate change are discussed in further detail under the 'Credibility Manual Rate Development' section of this memorandum.

Experience Period Premium and Claims

Paid Through Date

The experience period is January 1, 2014 to December 31, 2014, with claims paid through February 28, 2015. Experience includes all grandfathered and non-grandfathered transitional business in Kentucky for the 2014 calendar year to the extent these members are expected to be included in the single risk pool for the 2016 projection period.

Premiums (net of MLR Rebate) in Experience Period

Gross earned premium for the 2014 calendar year in the state of Kentucky was [REDACTED]. MLR rebates are estimated to be approximately [REDACTED] of premium or, equivalently, [REDACTED]. Premiums net of MLR are [REDACTED]. MLR rebate estimates were provided by UnitedHealthcare's (parent company of Golden Rule Insurance Company) finance department.

Allowed and Incurred Claims Incurred During the Experience Period

The claims data was available directly from company claims records. Claim liabilities for medical business are calculated using UnitedHealthcare's own proprietary method. This approach estimates unpaid incurred claims using average claims completion factors, which are based on the historical pattern of paid claims. The total business is split into duration and product type components and a liability estimate is performed on each piece. The total liability is assumed to be the sum of the liabilities for each of the components. The same completion factors are applied to both incurred and allowed claims amounts.

Benefit Categories

Claims were assigned to each of the benefit categories based on where services were administered and the types of medical services rendered.

Projection Factors

Since the products included for the 2014 experience period were discontinued prior to the 2015 plan year, no adjustment factors were developed.

Credibility Manual Rate Development

Source and Appropriateness of Data Used

Our 2016 individual rates are developed from the previously approved individual projections for the 2015 plan year. The experience used in the development of these rates is net of the appropriate coordination of benefit recoveries. Therefore, the rates reflect the necessary equitable reduction in premiums or costs to beneficiaries of such other insurance or contract rights.

Data Adjustments

- Trend:
Our manual rates were developed from our previously approved individual projections for the 2015 calendar year. Rates were adjusted for annual trend, expected to be [REDACTED] in the state of Kentucky. Our annual trend assumption has not changed since the previously approved rate filing for this product.
- Benefit Differential:
Adjustments were made to reflect the benefit variations between our 2015 and 2016 individual portfolios.
- Demographic/Geographic Differential:
Adjustments were made to account for differences in member distribution by geographic rating area and for the expected average age factor. Our member distributions by area and age are based on current enrollment for this product in the 2015 plan year.

Credibility of Experience

Since the products included for the 2014 experience period were discontinued prior to the 2015 plan year, zero credibility is assigned to the experience period claim data. Proposed rates are based on the credibility manual rate development as previously described.

Paid-to-Allowed Ratio

Paid-to-allowed ratios were developed for each plan using the proprietary UnitedHealthcare pricing model. This model uses nationwide UnitedHealthcare experience which is fully credible. Claim data is projected to the pricing period based on national projections of utilization and unit costs. These projections are done at the service category level (inpatient, outpatient, etc.). Benefit design parameters such as deductibles, copays, and coinsurance rates are applied to the claim distributions of the matching service category. Cost sharing is applied, and the values of each service category are summed to determine an overall benefit value, or paid-to-allowed ratio. In order to preserve consistency, the same claim experience and projection assumptions are applied to all plan relativity calculations.

The average paid-to-allowed ratio is based on the paid-to-allowed ratios developed for each plan using the model discussed above and weighting them by the projected membership by plan. The member distribution is discussed under the 'Membership Projections' section later in this memorandum.

Plan Name	Member Distribution	Paid-to-Allowed Ratio
Silver HSA 100	3,227	██████████
Silver Copay Select 1	4,488	██████████
Bronze HSA 100	2,845	██████████
Weighted Average	10,560	██████████

Risk Adjustment and Reinsurance

Projected Risk Adjustments Net of Risk Adjustment User Fees

Lacking sufficient information pertaining to the risk levels of our own business compared to that of our competitors, we are assuming zero risk adjustment transfers at this time. The HHS Notice of Benefit and Payment Parameters for 2016 specifies a risk adjustment user fee of ██████ per member per year, or approximately ██████ PMPM.

The projected risk adjustment transfers net of risk adjustment user fees are therefore -\$0.15 PMPM.

Projected ACA Reinsurance Recoveries Net of Reinsurance Premium

Reinsurance recoveries are expected to be about ██████ of incurred claims, as calculated below. The total incurred claims were calculated using an affiliated carrier's individual market nationwide experience trended to the 2016 benefit period. Reinsurance recoveries were then calculated using the 2016 reinsurance parameters, as published in the HHS Notice of Benefit and Payment Parameters for 2016. The reinsurance parameters include a \$90,000 attachment point, 50% coinsurance, and a \$250,000 reinsurance cap.

Claim Range	Annual Members	Incurred Claims	Claims PMPY	Reinsurance Benefit
(-Infinite,90k] (90k,250k] (250k,Infinite)	██████████	██████████	██████████	██████████
Total Incurred Claims				██████████
Total Reinsurance Benefit				██████████
Estimated 2016 Reinsurance Recoveries as % of Claims				██████████

Incurred claims for this product in the state of Kentucky are expected to be ██████ PMPM. Therefore, reinsurance recoveries are anticipated to be ██████ PMPM. The HHS Notice of Benefit and Payment Parameters for 2016 specifies a reinsurance premium of ██████ per member per year, or ██████ PMPM.

The projected reinsurance recoveries net of reinsurance premium are therefore \$12.03 PMPM.

Non-Benefit Expenses and Profit

Administrative Expense Load

The [REDACTED] administrative expense load includes commissions, quality improvements, and SG&A.

- Commissions: We anticipate average commissions of approximately [REDACTED] for 2016 based on our anticipated commission schedule and the expected distribution of business by first year and renewal, as well as by distribution channel.
- Quality Improvements: We included [REDACTED] for quality improvements based on affiliated carrier data.
- SG&A: Our general and administrative expense assumption is [REDACTED] PMPM based on information provided by UnitedHealthcare's finance department for the 2016 calendar year. For this product in the state of Kentucky, this amount equates to approximately [REDACTED] of premium for 2016.

Profit and Risk Margin

Our projected profit margin for the 2016 rating period is approximately [REDACTED] of premium.

Premium	[REDACTED]	[REDACTED]
Claims	[REDACTED]	[REDACTED]
GAP Assessment	[REDACTED]	[REDACTED]
Premium Tax	[REDACTED]	[REDACTED]
Reinsurance Fees	[REDACTED]	[REDACTED]
Reinsurance Recoveries	[REDACTED]	[REDACTED]
Risk Adjustment User Fees	[REDACTED]	[REDACTED]
Risk Adjustment Transfers	[REDACTED]	[REDACTED]
Net Insurer Fees	[REDACTED]	[REDACTED]
PCORI Fee	[REDACTED]	[REDACTED]
Commissions	[REDACTED]	[REDACTED]
SG&A	[REDACTED]	[REDACTED]
Quality Improvements	[REDACTED]	[REDACTED]
Pre-Tax Income	[REDACTED]	[REDACTED]
Federal Income Tax	[REDACTED]	[REDACTED]
After-Tax Income	[REDACTED]	[REDACTED]

The figures above may not tally exactly due to rounding of the display.

Taxes and Fees

Taxes and fees are expected to be [REDACTED] and include premium tax, GAP assessments, insurer fees, PCORI fees, and federal income tax.

- Premium Tax: The premium tax rate is [REDACTED] in the state of Kentucky.
- GAP Assessments: The Kentucky GAP assessment is currently [REDACTED] of premium.
- Insurer Fees: Each insurance carrier's assessment of insurer fees will be based on earned health insurance premium in the prior year, with certain exclusions. UnitedHealthcare (parent company of Golden Rule Insurance Company) estimates that [REDACTED] of its 2016 premium will be allocated for insurer fees.
- PCORI Fees: This product will be offered for the 2016 plan year, with a PCORI fee of [REDACTED] per member per year, or approximately [REDACTED] PMPM. For this product in the state of Kentucky, this equates to approximately [REDACTED] of premium.
- Federal Income Tax: Federal income tax is projected to be [REDACTED] of premium and is calculated as $35\% * (\text{Pre-Tax Income} + \text{Insurer Fees})$, since insurer fees are not tax deductible.

Projected Loss Ratio

The projected loss ratio using the federally prescribed MLR methodology for calendar year 2016 is [REDACTED]. Golden Rule Insurance Company agrees to comply with the rebate requirements of 45 CFR Part 158 should the actual market MLR fall below the 80.0% requirement.

Claims	[REDACTED]	[REDACTED]
Reinsurance Recoveries	[REDACTED]	[REDACTED]
Risk Adjustment Transfers	[REDACTED]	[REDACTED]
Quality Improvement	[REDACTED]	[REDACTED]
Total MLR Claims	[REDACTED]	[REDACTED]
Premium	[REDACTED]	[REDACTED]
GAP Assessment	[REDACTED]	[REDACTED]
Premium Tax	[REDACTED]	[REDACTED]
Reinsurance Fees	[REDACTED]	[REDACTED]
Risk Adjustment User Fee	[REDACTED]	[REDACTED]
Net Insurer Fees	[REDACTED]	[REDACTED]
PCORI Fee	[REDACTED]	[REDACTED]
Federal Income Tax	[REDACTED]	[REDACTED]
Total MLR Premium	[REDACTED]	[REDACTED]
Federal Medical Loss Ratio	[REDACTED]	[REDACTED]

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Single Risk Pool

The single risk pool reflects all covered lives for every individual non-grandfathered product and plan combination for Golden Rule Insurance Company in the state of Kentucky. It is established in accordance with the requirements of 45 CFR Part 156, §156.80(d).

Index Rate

The products included for the 2014 calendar year were non-ACA compliant, so EHB requirements were not yet applicable.

The index rate for the 2016 projection period represents [REDACTED] of allowed claims for this block of business. Benefits in excess of EHB requirements include travel and lodging associated with organ transplants, which is expected to account for approximately [REDACTED] of allowed claims. These benefits are expected to have minimal effect on total claims, and the reported percentage is based on informed actuarial judgment, remaining unchanged since the previously approved rate filing for this product

The projected index rate is calculated below.

Allowed Claims PMPM	Benefits in Excess of EHBs	Index Rate
[REDACTED]	[REDACTED]	\$342.29

The figures above may not tally exactly due to rounding of the display.

Market Adjusted Index Rate

The market adjusted index rate includes market-wide adjustments for the federal reinsurance program, the risk adjustment program, and exchange user fees. These products are only being offered off the individual exchange, so zero exchange fees apply. Please refer to the 'Risk Adjustment and Reinsurance' section previously discussed in this memorandum for a brief description of the other items. The market adjusted index rate is calculated below.

Index Rate	Net Reinsurance Adjustment	Net Risk Adjustment	Market Adjusted Index Rate
\$342.29	█	█	█

The figures above may not tally exactly due to rounding of the display.

Plan Adjusted Index Rates

Plan adjusted index rates include adjustments for all allowable plan level modifiers as defined in the market rating rules. The calculations are shown below, and the allowable adjustments are subsequently discussed in further detail.

Plan Name	Market Adjusted Index Rate	AV & Cost Sharing Adjustment	Benefits in Excess of EHBs	Distribution & Admin. Costs	Plan Adjusted Index Rate
Silver HSA 100	█	█	█	█	\$294.22
Silver Copay Select 1	█	█	█	█	\$303.21
Bronze HSA 100	█	█	█	█	\$257.12

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The actuarial value and cost sharing adjustment accounts for benefit differences and an adjustment for non-tobacco user status. Since we will be applying tobacco user rating factors, an adjustment must be made to remove the portion of costs that is expected to be recouped through the tobacco surcharge. The total average tobacco surcharge is expected to be about █ of premium as calculated below. Member distributions by age and tobacco use are based on enrollment for this product in the 2015 plan year.

Age Group	Member Distribution			Tobacco Surcharge Factors		
	Tobacco User	Non-Tobacco	Total	Tobacco User	Non-Tobacco	Average
0-20	█	█	█	█	█	█
21-34	█	█	█	█	█	█
35-49	█	█	█	█	█	█
50+	█	█	█	█	█	█
Total	█	█	█	█	█	█

The figures above may not tally exactly due to rounding of the display.

Benefits in excess of EHBs were previously discussed under the 'Index Rate' section of this memorandum, and are expected to be █ of allowed claims.

Distribution and Administrative Costs include premium tax, GAP assessments, insurer fees, PCORI fees, commissions, SG&A, quality improvements, federal income tax, and after-tax income. These items were previously discussed in the 'Non-Benefit Expenses and Profit' section of this memorandum. Reinsurance recoveries and fees and risk adjustment transfers and user fees have already been adjusted out of the market adjusted index rate prior to the plan adjusted index rate calculation.

Calibration

The calculated age curve calibration, equal to the average age factor of the expected member distribution by age, is █. Member distribution by age is based on enrollment for this product in the 2015 plan year.

The geographic area factor calibration is █, which equals the average geographic area factor. Geographic area factors do not vary by rating region, and the statewide area factor is █.

Calibrating the plan adjusted index rate to the age curve and geographic distribution results in the calibrated premium rate for each plan. The calibrated premium rate represents the preliminary premium rate charged to an individual before applying the consumer specific rating adjustments for age, area, and tobacco status. The calculations are shown below.

Plan Name	Plan Adjusted Index Rate (a)	Age Curve Calibration (b)	Geographic Factor Calibration (c)	Calibrated Premium Rate (d) = a/(b*c)
Silver HSA 100	\$294.22			
Silver Copay Select 1	\$303.21			
Bronze HSA 100	\$257.12			

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Consumer Adjusted Premium Rate Development

The consumer adjusted premium rate is the final premium rate for each plan that is charged to an individual. It is developed by calibrating the plan adjusted index rate to the average age and geographic rating factors, and applying the consumer specific age, geographic, and tobacco status rating factors. Sample calculations are shown below and represent consumer adjusted premium rates for a 25-year old consumer, residing in rating region 1, with tobacco user status.

Plan Name	Calibrated Premium Rate (a)	25-Year-Old Age Factor (b)	Region 1 Area Factor (c)	25-Year-Old Tobacco Factor (d)	Consumer Adjusted Premium Rate (e) = a*b*c*d
Silver HSA 100					
Silver Copay Select 1					
Bronze HSA 100					

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AV Metal Values

The AV Metal Values were entirely based on the AV Calculator. No alternative methodology was necessary.

AV Pricing Values

The AV pricing values represent the cumulative effect of adjustments made by the issuer to move from the market adjusted index rate to the plan adjusted index. The AV pricing values are shown below. Each of the allowable modifiers to move from the market adjusted index rate to the plan adjusted index rate were previously discussed in the 'Plan Adjusted Index Rates' section of this memorandum.

Plan Name	Market Adjusted Index Rate	Plan Adjusted Index Rate	AV Pricing Value
Silver HSA 100		\$294.22	0.891
Silver Copay Select 1		\$303.21	0.918
Bronze HSA 100		\$257.12	0.778

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Membership Projections

Total membership projections for the 2016 plan year were based on enrollment for this product in the 2015 plan year and anticipated lapse rates. Member distributions by plan were also based on enrollment for this product in the 2015 plan year. These products will not be actively marketed off the individual exchange, though they will be available for anyone who requests to purchase them.

Plan Name	Plan Weight	Member Distribution
Silver HSA 100		3,227
Silver Copay Select 1		4,488
Bronze HSA 100		2,845
Total		10,560

Terminated Products

The following products contained grandfathered and transitional non-single risk pool compliant business during the 2014 experience period and were terminated prior to the 2015 plan year. These products were combined for reporting purposes and shown as a single product in Worksheet 2 of the Unified Rate Review Template. Grandfathered business was included in the 2014 experience period to the extent these members are expected to be included in the single risk pool for the 2016 projection period.

- 47949KY001-Gen 21-Individual-PPO
- 47949KY002-ET-Individual-PPO

Plan Type

The plan types selected in the Unified Rate Review Template describe the plans exactly.

Warning Alerts

There are no Warning Alerts in Worksheet 2 of the Unified Rate Review Template.

Reliance

Due to responsibility allocation, I have relied upon other members within the UnitedHealthcare organization to provide certain assumptions. Although I have reviewed the information for reasonableness and consistency, I have not reviewed it in detail due to the substantial amount of additional time required. I have therefore relied upon the expertise of those individuals who have developed the assumptions. A list of reliances is included below.

UnitedHealthcare Finance Department

- Projected SG&A Assumption
- 2014 MLR Rebate Estimates

Actuarial Certification

I, [REDACTED], am a Senior Actuarial Consultant for UnitedHealthcare's individual line of business, which includes Golden Rule Insurance Company's health insurance products marketed to individuals. I am a member of the American Academy of Actuaries, and I meet the Academy's qualification standards for rendering statements of actuarial opinion with respect to the filing of rates for health insurance products.

To the best of my knowledge and judgment, I certify that:

- The projected index rate is:
 - In compliance with all applicable State and Federal Statutes and Regulations (45 CFR 156.80(d)(1)),
 - Developed in compliance with the applicable Actuarial Standards of Practice,
 - Reasonable in relation to the benefits provided and population anticipated to be covered,
 - Neither excessive, deficient, nor unfairly discriminatory.
- 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 percent 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.
- The geographic rating factors reflect only differences in the costs of delivery and do not include differences for population morbidity by geographic area.
- The AV calculator was used to determine the AV metal values shown in Worksheet 2 of the Unified Rate Review Template. No alternative methodology was necessary.
- The Part I Unified Rate Review Template does not demonstrate the process used by the issuer to develop their 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.

[REDACTED]

[REDACTED]
Senior Actuarial Consultant

04/22/2015
Date