

FEDERAL ACTUARIAL MEMORANDUM

1. General Information

- Company Identifying Information

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|---------------------|---------------------------------------|
| Company Legal Name: | Anthem Health Plans of Kentucky, Inc. |
| State: | Kentucky |
| HIOS Issuer ID: | 36239 |
| Market: | Individual |
| Effective Date: | January 1, 2016 |

- Company Contact Information

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|-----------------------------------|----------------------------|
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2. Scope and Purpose of the Filing

This filing for Anthem Health Plans of Kentucky, Inc. , also referred to as Anthem, complies with the most recent regulations and related guidance. To the extent relevant rules or guidance on the rules are updated or changed, such as further guidance from CMS on the annual limitation on cost-sharing for individuals, amendments to this filing may be required.

The purpose of this rate filing is to establish rates that are reasonable relative to the benefits provided and to demonstrate compliance with state laws and provisions of the Affordable Care Act (ACA). The rates will be in-force for effective dates on or after January 1, 2016. These rates will apply to plans offered both On-Exchange and Off-Exchange. This rate filing is not intended to be used for other purposes.

Policy Form Number(s):

KY_OFFHIX_PP(1/16)
KY_ONHIX_PP(1/16)
KY_OFFHIX_HM(1/16)
KY_ONHIX_HM(1/16)

3. Introduction

This filing includes product threshold rate changes between 10.4% and 19.1%, with range by plan from 5.7% to 26.4%. More details are provided below in Section 4: Proposed Rate Increase.

Current rates have been developed using a combination of manual rates and single risk pool experience rates, while previous rates were developed assigning full credibility to the manual rates. The single risk pool experience has been assigned 34% credibility in determining current rates.

4. Proposed Rate Increase

Factors that affect the proposed rate change for all plans include:

- Higher claims cost in the experience: We have included emerging 2014 ACA experience in the rate development.
- Medical Trend: The underlying claim costs are expected to increase year over year due to inflation, advancing medical technology and techniques, and increased utilization and cost-shifting.
- Morbidity: There are anticipated changes in the market-wide morbidity of the covered population in the projection period.
- Benefit modifications and plan design changes.
- Changes in taxes, fees, and non-benefit expenses. These include changes in payments from and contributions to the Federal Transitional Reinsurance Program.
- Anticipated changes due to network contracting.

Although rates are based on the same experience, proposed rate changes vary by plan from 5.7% to 26.4%. Factors that affect the variation in the proposed rate changes by plan include:

- Changes in benefit design that vary by plan
- Updated measurement of relative benefits between plans
- Changes in the adjustment factor for Catastrophic eligibility
- Changes in Non-Benefit Expenses that are applied on a PMPM basis
- Anticipated changes due to network contracting that varies by plan

These rate changes by plan are shown in Exhibit I: Non-Grandfathered Rate Changes.

5. Experience Period Premium and Claims

Experience shown in Worksheet 1, Section I of the Unified Rate Review Template is for Kentucky Individual non-grandfathered, single risk pool compliant and transitional policies. The information shown is for the identified legal entity only.

Claims experience in Worksheet 1, Section I of the Unified Rate Review Template reflects dates of service from January 1, 2014 through December 31, 2014.

- Paid Through Date

Claims shown in Worksheet 1, Section I of the Unified Rate Review Template are paid through March 31, 2015.

- **Allowed and Incurred Claims Incurred During the Experience Period**

The allowed claims are determined by subtracting non-covered benefits, provider discounts, and coordination of benefits amounts from the billed amount.

Allowed and incurred claims are completed using the chain ladder method, an industry standard, by using historic paid vs. incurred claims patterns. The method calculates historic completion percentages, representing the percent of claims paid for a particular month after one month of run out, two months, etc. Claim backlog files are reviewed on a monthly basis and are accounted for in the historical completion factor estimates.

Allowed and incurred claims shown in Worksheet 1, Section I of the Unified Rate Review Template are \$206,176,948 and \$137,590,557, respectively. These amounts differ from those shown in Exhibit B: Claims Experience for Rate Developments due to the Unified Rate Review Template taking Transitional Policies and Rx Rebates into account.

Additional information can be found on Exhibit B: Claims Experience for Rate Developments.

- **Premiums (net of MLR Rebate) in Experience Period**

The estimated Non-Grandfathered gross earned premium for Kentucky Individual is \$163,654,014, where earned premium is the pro-rata share of premium owed to Anthem due to subscribers actively purchasing insurance coverage during the experience period.

The preliminary MLR Rebate estimate is (\$4,195,765), which is consistent with the Anthem's current estimate allocated to the Non-Grandfathered portion of Individual. Note that this is an estimate and will not be final until 7/31/2015. Using this MLR estimate, the net earned premium for Kentucky Individual is \$159,458,249 as shown in cell F14 of Worksheet 1, Section I of the Unified Rate Review Template.

6. Benefit Categories

The methodology used to determine benefit categories in Worksheet 1, Section II of the Unified Rate Review Template is as follows:

- **Inpatient Hospital:** Includes non-capitated facility services for medical, surgical, maternity, mental health and substance abuse, skilled nursing, and other services provided in an inpatient facility setting and billed by the facility.
- **Outpatient Hospital:** Includes non-capitated facility services for surgery, emergency room, lab, radiology, therapy, observation and other services provided in an outpatient facility setting and billed by the facility.
- **Professional:** Includes non-capitated primary care, specialist, therapy, the professional component of laboratory and radiology, and other professional services, other than hospital-based professionals whose payments are included in facility fees.

- Other Medical: Includes non-capitated ambulance, home health care, DME, prosthetics, supplies, vision exams, and dental services.
- Capitation: Includes all services provided under one or more capitated arrangements.
- Prescription Drug: Includes drugs dispensed by a pharmacy and rebates received from drug manufacturers.

7. Projection Factors

The experience in Worksheet 1, Section I of the Unified Rate Review Template is brought into the projection period using the factors described below.

- Changes in the Morbidity of the Population Insured

Morbidity changes include the following (for Morbidity factor, see Exhibit D: Projection Period Adjustments):

- Individuals no longer qualifying for Medicaid
- Individuals previously uninsured
- Individuals losing employer coverage
- Individuals converting from Anthem grandfathered or transitional policies
- Individuals electing to drop coverage
- The movement assumptions above are based on market research and assumptions on the retention and sales rates. The morbidity impacts of population movement are based on health status determined from internal risk score data.

Pent-up demand adjustment: As previously uninsured individuals obtained insurance in 2014, Anthem expected them to have some pent-up demand for health care services in year one. This pent-up demand impact is captured in our 2014 experience and Anthem does not expect this additional utilization to continue in 2016. Therefore, an adjustment has been made to back-out the additional utilization in 2014 that was attributed to pent-up demand.

Our goal is to price to the average risk of the 2016 ACA market. Since Anthem-specific experience was used as a starting point, we adjusted this experience to be more consistent with the overall market in Kentucky. CMS released risk adjustment information to carriers on June 30, 2015. We have adjusted our starting experience using the results of that survey, as shown in line item 3 of Exhibit A: Market Adjusted Index Rate Development.

- Changes in Benefits

Benefit changes include the following:

- Rx Adjustments: The claims are adjusted for differences in the Rx formulary, mandatory mail order programs, as well as for the impact of moving drugs into different tiers in the projection period relative to what is reflected in the base experience data as shown in Exhibit D: Projection Period Adjustments.

- Changes in Demographics

The experience data was normalized to reflect anticipated changes in age/gender, area, network, and benefit plan from the experience period to the projection period. See Section 22: Membership Projections for additional information on membership movement. The normalization factors and their aggregate impact on the underlying experience data are detailed in Exhibit C: Normalization Factors.

- Age/Gender: The assumed claims cost is applied by age and gender to the experience period distribution and the projection period distribution.
- Area/Network: The area claims factors are developed based on an analysis of Individual allowed claims by network, mapped to the prescribed 2016 rating areas using the subscriber's 5-digit zip code.
- Benefit Plan: The experience period claims are normalized to an average 2016 plan using benefit relativities. The benefit relativities include the value of cost shares and anticipated changes in utilization due to the difference in average cost share requirements.

- Other Adjustments

- Transitional policies have been removed from the experience period claims as they are not expected to be enrolled in fully ACA-compliant plans during the projection period.
- Single Risk Pool experience contains Cost Sharing Reduction plans, which have increased benefits over standard silver plans. CMS makes payments to bring CSR claims to the silver level. Experience has been adjusted to bring CSR claims to a silver level and in-line with 2016 CSR payment methodology.
- For members active less than 12 months of the experience period, claims were adjusted using company specific seasonality and maturation factors.

Because of the extended open enrollment period in 2014, many Anthem members were enrolled for less than 12 months, resulting in lower than expected paid claims and truncated seasonality factors. Projecting 2016 claims using the unadjusted 2014 claims as a starting point will yield rates that are not sufficient to cover a normal year of claims. Therefore, members active less than 12 months have had their claims adjusted using company specific seasonality and maturation factors.

Maturation factors were calculated using a broad, persistent population of pre-ACA data. The benefits for Anthem were run against this population to produce paid-to-allowed ratios for each maturation period. The paid-to-allowed ratio of each maturation was divided by the paid-to-allowed ratio of the 12 month maturation to produce seasonality factors for each period. These seasonality factors were applied to the actual membership distribution of Anthem to produce a completion factor for 2014 experience. A membership distribution was then developed for 2016 and a completion factor was again calculated. The 2016 factor was taken over the 2014 factor to produce the overall adjustment.

- Induced Demand Due to Cost Share Reductions: Individuals below 250% Federal Poverty Level who enroll in silver plans On-Exchange will be eligible for cost share reductions. The base period experience has higher anticipated utilization built-in as CSR plans were made available in 2014. As a result, the 2016 utilization impact is calculated based on the projected change in silver plans On-Exchange membership.
- Grace Period: The base period experience may be adjusted upward to account for some incidence of enrollees not paying premiums due during the first month of the 90-day grace period when the QHP is liable for paying claims. Based on 2014 experience this adjustment is 1.0028.
- Utilization or cost-per-service change: anticipated changes are reflected in the morbidity changes and trend.
- Change in Medical Management: medical management savings not already included in the claims experience and trend.
- Change in Provider Contracts: anticipated changes in provider contracts are reflected in the plan level adjustments and the region rating factors.
- Rx Rebates: The projected claims cost is adjusted to reflect anticipated Rx rebates. These projections take into account the most up-to-date information regarding anticipated rebate contracts, drug prices, anticipated price inflation, and upcoming patent expirations.
- The cost of pediatric dental and vision benefits are included, as can be found in Exhibit E: Other Claim Adjustments.

- Trend Factors (cost/utilization)

- The annual pricing trend used in the development of the rates is 10.7%. The trend is developed by normalizing historical benefit expense for changes in the underlying population and known cost drivers, which are then projected forward to develop the pricing trend. Examples of such changes include contracting, cost of care initiatives, workdays, costs associated with Hepatitis C, compound drugs, average wholesale price, and expected introduction of generic drugs. The claims are trended 23.33 months from the midpoint of the experience period, which is July 21, 2014, to the midpoint of the projection period, which is July 1, 2016. Additional information can be found in Exhibit D: Projection Period Adjustments.

- Projected trends include the estimated cost of the pharmaceutical Sovaldi and other high-cost drugs for treating Hepatitis C. These cost estimates were based on claims experience, together with CDC recommendations, Industry and Anthem Inc. data.

8. Credibility Manual Rate Development

Consistent with last year's methodology, experience developed and projected herein is Anthem's 2013 Small Group Business based on plan liability amounts.

• Source and Appropriateness of Experience Data Used

Given the most recent calendar year of small group Experience has been widely affected by members moving to ACA plans, the source data underlying the development of the manual rate consists of claims for all Grandfathered and Non-Grandfathered Small Group business, incurred during the period January 1, 2013 – December 31, 2013 and paid through March 31, 2015.

Experience is adjusted as follows:

- Claims incurred for members who live out-of-state were excluded; however, claims incurred by in-state members traveling out-of-state were included.

• Adjustments Made to the Data

The development of the projected claims is summarized in Exhibit A: Market Adjusted Index Rate Development, items (1) - (10). The credibility manual side of the development is described in detail below.

Changes in Demographics (Normalization)

The source data was normalized to reflect anticipated changes in age/gender, area, network, and benefit plan from the experience period to the projection period. The purpose of these factors is to adjust current experience to be reflective of expected claim experience in the projection period. See Section 22: Membership Projections for additional information on membership movement. The normalization factors and their aggregate impact on the underlying experience data are detailed in Exhibit C: Normalization Factors.

The projected claims cost is calculated by multiplying the normalized claims cost by the impact of benefit changes, anticipated changes in population morbidity, and cost of care impacts. The adjustments are described below, and the factors are presented in Exhibit D: Projection Period Adjustments. In addition, the source data is normalized for changes in the provider contracts.

- **Age/Gender:** The assumed claims cost is applied by age and gender to the experience period distribution and the projection period distribution.
- **Area/Network:** The area claims factors are developed based on an analysis of Small Group and Individual allowed claims by network, mapped to the prescribed 2016 rating areas using 5-digit zip code.

- **Benefit Plan:** The experience period claims are normalized to an average 2016 plan using benefit relativities. The benefit relativities include the value of cost shares and anticipated changes in utilization due to the difference in average cost share requirements.

Changes in Benefits

Benefit changes include the following:

- **Preventive Rx (over the counter):** The claims are adjusted for 100% coverage of benefits for specific over the counter drugs obtained with a prescription from a physician.
- **Rx Adjustments:** The claims are adjusted for differences in the Rx formulary, mandatory mail order programs, and impacts for moving drugs into different tiers in the projection period relative to what is reflected in the base experience data.

Changes in the Morbidity of the Population Insured

Morbidity changes include the following:

- **Higher morbidity expected from individual-level purchasing decisions in 2016:** Anthem assumes that the morbidity of the smallest groups, sizes 2 – 5 members, relative to the total small group population are a reasonable approximation for the health status of the individual market. Relative morbidity by group size is based on health status determined from internal risk score data.
- **Morbidity of the uninsured compared to the insured population:** The adjustment considers the expected number of previously uninsured individuals expected to move into the Individual market in 2016, along with the expected health status determined from internal risk score data and market research.
- **Morbidity of Non-Grandfathered compared to Grandfathered members:** The base period experience includes Grandfathered and Non-Grandfathered members. The experience is adjusted to account for the different morbidity between Grandfathered and Non-Grandfathered members to derive a Non-Grandfathered only rate.
- **Impact of selection due to individuals remaining on their current (non-ACA) products in 2016.**
- **Additional information can be found in Exhibit D: Projection Period Adjustments.**

Trend Factors

- The annual pricing trend used in the development of the rates is 9.8%. The trend is developed by normalizing historical benefit expense for changes in the underlying population and known cost drivers, which are then projected forward to develop the pricing trend.. Examples of such changes include contracting, cost of care initiatives, workdays, costs associated with Hepatitis C, compound drugs, average wholesale price, and expected introduction of generic drugs. The claims are trended 36 months from the midpoint of the experience period, which is July 1, 2013, to the midpoint of the projection period, which is July 1, 2016. The trend of 9.8% is consistent with the trend of 10.7% used to develop the experience rate, with the difference in trend being the weighting assigned to the calendar years over which the claims are trended. Additional information can be found in Exhibit D: Projection Period Adjustments.

- Projected trends include the estimated cost of the pharmaceutical Sovaldi and other high-cost drugs for treating Hepatitis C. These cost estimates were based on claims experience , together with CDC recommendations and Industry and Enterprise data.

Other Cost of Care Impacts

- Induced Demand Due to Cost Share Reductions: Individuals below 250% Federal Poverty Level who enroll in silver plans On-Exchange will be eligible for cost share reductions. As a result, the base period experience is adjusted to account for the higher anticipated utilization levels.

- Grace Period: The base period experience may be adjusted upward to account for some incidence of enrollees not paying premiums due during the first month of the 90-day grace period when the QHP is liable for paying claims. Based on 2014 experience this adjustment is 1.0028.

- Utilization or cost-per-service change: anticipated changes are reflected in the morbidity changes and trend.

- Change in Medical Management: medical management savings not already included in the claims experience and trend.

- Change in Provider Contracts: anticipated changes in provider contracts are reflected in the benefit plan factors and the region rating factors.

- Additional information can be found in Exhibit D: Projection Period Adjustments.

Other Claim Adjustments

The adjustments described below are presented in Exhibit E: Other Claim Adjustments.

- Rx Rebates: The projected claims cost is adjusted to reflect anticipated Rx rebates. These projections take into account the most up-to-date information regarding anticipated rebate contracts, drug prices, anticipated price inflation, and upcoming patent expirations.

- The cost of adding benefits for pediatric dental and vision are included.

- Capitation Payments

The underlying data includes capitation payments, which are combined with the base medical and pharmacy claims and projected at the same rate. No further adjustment is made to the capitation.

9. Credibility of Experience

- Description of the Credibility Method Used

Based on an analysis of historical data, the standard for fully credible experience is 5,147 members.

To determine credibility, the following formula was used: $\sqrt{(\text{experience period members} / 5,147)}$

- Resulting Credibility Level Assigned to Base Period Experience

With 12,621 members, Anthem's membership meets the credibility standard in terms of the size of the block. However, the credibility level assigned to the experience in Worksheet 1, Section II of the Unified Rate Review Template is 34%. Anthem has experienced significant growth in membership in 2015. For purposes of projecting future experience, we do not believe our base period experience is fully credible. Anthem has assigned 34% credibility to the base period experience, based on the percentage of our total Individual block of business that our base period membership currently represents.

10. Paid to Allowed Ratio

The 'Paid to Allowed Average Factor in Projection Period' shown in Worksheet 1, Section III of the Unified Rate Review Template is developed by membership-weighted essential health benefit paid claims divided by membership-weighted essential health benefit allowed claims of each plan. The projected membership by plan is shown in Worksheet 2, Section II of the Unified Rate Review Template.

11. Risk Adjustment and Reinsurance

- Experience Period Risk Adjustment and Reinsurance

On June 30, 2015 CMS released the actual risk adjustment transfer amounts by carrier for 2014. This has been incorporated into our experience data to bring Anthem's starting claims cost PMPM to a market average risk level. Anthem's risk adjustment transfer is anticipated to be a \$4.9M receivable. This amount has been converted into a factor and applied to the starting claims cost PMPM for the experience rate, as shown in Exhibit A: Market Adjusted Index Rate Development.

Experience period reinsurance recoveries were based on actual amounts received as of December 31, 2014, plus PPIA that was recognized through March 2015.

- Projected Risk Adjustments

The Risk Adjustment program transfers funds from lower risk plans to higher risk plans in the Non-Grandfathered Individual and Small Group market. The HHS operated Risk Adjustment program is supported by a user fee, as shown in Exhibit F: Risk Adjustment and Reinsurance - Contributions and Payments.

Anthem is assuming a risk transfer payment of (\$2), as shown in Exhibit F: Risk Adjustment and Reinsurance - Contributions and Payments.

- Projected ACA Reinsurance Recoveries Net of Reinsurance Premium

The transitional reinsurance risk mitigation program collects funds from all insurance issuers and TPAs and redistributes them to high cost claimants in the Non-Grandfathered Individual market. The reinsurance contribution is equal to the national per capita reinsurance contribution rate as shown in Exhibit F: Risk Adjustment and Reinsurance - Contributions and Payments.

The reinsurance payment is developed using projected paid claims, claim probability distribution, and reinsurance payment guidelines. The claim probability distribution observes claims between \$90,000 and \$250,000 using a claim probability distribution that reflects the anticipated claim cost distribution of the 2016 Individual market. The coinsurance rate is 50%. Expected paid claims are calculated for an assumed average On-Exchange plan design. Reinsurance payments are allocated proportionally by plan premiums to all plans in the risk pool.

12. Non-Benefit Expenses, Profit and Risk

Non-Benefit expenses are detailed in Exhibit G: Non-Benefit Expenses and Profit & Risk.

- Administrative Expense

Administrative Expense contains both acquisition costs associated with the production of new business through non-broker distribution channels (direct, telesales) as well as maintenance costs associated with ongoing costs for the administration of the business. Acquisition costs are projected using historical cost per member sold amounts applied to future sales estimates. Maintenance costs are projected for 2016 based on 2014 actual expenses with adjustments made for expected changes in business operations.

Adjustment to required premium: Anthem has made an adjustment to lower the required premium based on the projected federal MLR of Anthem's entire Individual book of business. Anthem's projected MLR is expected to meet or exceed minimum MLR standards at the market level in 2016 as a result of this adjustment. This is included in the administrative costs.

- Quality Improvement Expense

The quality improvement expense represents Anthem's dedication to providing the highest standard of customer care and consistently seeking to improve health care quality, outcomes and value in a cost efficient manner.

The QI Expense assumptions are based on historical amounts related to the following initiatives: Improve Health Outcomes, Activities to Prevent Hospital Readmissions, Improve Patient Safety and Reduce Medical Errors, Wellness and Health Promotion Activities, HIT Expenses for Health Care Quality Improvements, and ICD-10.

- Selling Expense

Selling Expense represents broker commissions and bonuses associated with the broker distribution channel using historical and projected commission levels. Commissions will be paid both On-Exchange and Off-Exchange.

- Taxes and Fees

- Patient-Centered Outcomes Research Institute (PCORI) Fee: The PCORI fee is a federally-mandated fee designed to help fund the Patient-Centered Outcomes Research Trust Fund. For plan years ending on or after October 1, 2014, and before October 1, 2015, the fee is \$2.08 per member per year. Thereafter, for every plan year ending before October 1, 2019, the fee will increase by the percentage increase in National Healthcare Expenditures.

- ACA Insurer Fee: The health insurance industry will be assessed a permanent fee, based on market share of net premium, which is not tax deductible. The tax impact of non-deductibility is captured in this fee.
- GAP Assessment: The GAP Assessment applies to all fully-insured business.
- Federal income taxes and state income taxes are also included in the retention items.

- Profit

Profit is reflected on a post-tax basis as a percent that does not vary by product or plan. The profit percentage does not include any assumed risk corridor payments or receipts.

13. Projected Loss Ratio

- Projected Federal MLR

The projected Federal MLR for the products in this filing is estimated in Exhibit M: Federal MLR Estimated Calculation. Please note that this calculation is purely an estimate and not meant to be a true measure for Federal or State MLR rebate purposes. The products in this filing represent only a subset of Anthem's Individual business. The MLR for Anthem's entire book of Individual business will be compared to the minimum Federal benchmark for purposes of determining regulation-related premium refunds. Also note that the projected Federal MLR presented here does not capture all adjustments, including but not limited to: three-year averaging, credibility, dual option, and deductible. Anthem's projected MLR is expected to meet or exceed the minimum MLR standards at the market level after including all adjustments.

14. Single Risk Pool

The Anthem Index Rate for Individual business in Kentucky is based on total combined claims costs for providing essential health benefits within the single risk pool of non-grandfathered Individual plans in Kentucky. The Index Rate is adjusted on a market-wide basis for the state based on the total expected market-wide payments and charges under the risk adjustment and reinsurance programs and Exchange user fees. The premium rates for all Anthem non-grandfathered plans in the Individual market use the applicable market-wide adjusted index rate, subject only to the permitted plan-level adjustments. This demonstrates that the Single Risk Pool for Anthem Individual business is established according to the requirements in 45 CFR part 156, §156.80(d).

15. Index Rate

- Experience Period Index Rate

The index rate represents the average allowed claims PMPM of essential health benefits for Anthem's Individual Non-Grandfathered Business. The experience period index rate shown in Worksheet 1, Section I (cell G17) of the Unified Rate Review Template is \$299.00. A comparison to the benchmark was performed, and only essential health benefits were covered during the experience period.

- Projection Period Index Rate

The index rate represents the average allowed claims PMPM of essential health benefits for Anthem's Individual Non-Grandfathered Business. The projection period index rate was developed as shown in Exhibit A: Market Adjusted Index Rate Development by adjusting the projected incurred claims PMPM as described in Section 7: Projection Factors of this memorandum. No benefits in excess of the essential health benefits are included in the projection period allowed claims (cell V32 of Worksheet 1, Section II of the Unified Rate Review Template) or Exhibit A: Market Adjusted Index Rate Development's projection period index rate (also shown in cell V44 of Worksheet 1, Section III of the Unified Rate Review Template).

16. Market Adjusted Index Rate

The Market Adjusted Index rate is calculated as the Index Rate adjusted for all allowable market wide modifiers defined in the market rating rules. This development is presented in Exhibit A: Market Adjusted Index Rate Development.

17. Plan Adjusted Index Rate

The Plan Adjusted Index Rate is calculated as the Market Adjusted Index Rate adjusted for all allowable plan level modifiers defined in the market rating rules. This development is presented in Exhibit N: Plan Adjusted Index Rate and Consumer Adjusted Premium Rates.

- Plan Level Modifiers

- Cost Sharing Adjustments: This is a multiplicative factor that adjusts for the projected paid/allowed ratio of each plan, based on the AV metal value with an adjustment for utilization differences due to differences in cost sharing. This also includes an adjustment for the average tobacco factor shown in Exhibit H: Calibration.
- Provider Network Adjustments: This is a multiplicative factor that adjusts for differences in projected claims cost due to different network discounts.

- Adjustments for Administrative Cost: This is an additive adjustment that includes all the Selling Expense, Administration and Retention Items shown in Exhibit G: Non-Benefit Expenses and Profit & Risk.
- Adjustment to required premium: Anthem has made an adjustment to lower the required premium based on the projected federal MLR of Anthem's entire Individual book of business. Anthem's projected MLR is expected to meet or exceed minimum MLR standards at the market level in 2016 as a result of this adjustment. This is included in the administrative costs column of Exhibit N: Plan Adjusted Index Rate and Consumer Adjusted Premium Rates.
- Catastrophic Factor: This adjustment assumes a healthier than average population will select the catastrophic plan. The catastrophic adjustment factor is only applied to catastrophic plans, as shown in Exhibit N: Plan Adjusted Index Rate and Consumer Adjusted Premium Rates.

18. Calibration

The required premium in the projection period is calibrated by the average rating calibration factors (Age and Area), which are used to develop the Consumer Adjusted Premium Rates. The average rating factors are shown in Exhibit H: Calibration, Exhibit N: Plan Adjusted Index Rate and Consumer Adjusted Premium Rates.

- Age Factors

Tobacco factors have been updated to reflect the most recent experience. Refer to Exhibit J: Age and Tobacco Factors.

The average age rating factor shown in Exhibit H: Calibration is calculated as a member-weighted average of the age rating factors, using the projected age distribution assumptions in our pricing model, with an adjustment for the maximum of 3 child dependents under age 21. Using the same methodology, the approximate average age rounded to the nearest whole number for the associated risk pool is 48.

- Area Factors

Area factors have been adjusted to reflect anticipated changes in network contracting. Refer to Exhibit K: Area Factors.

19. Consumer Adjusted Premium Rate

The Consumer Adjusted Premium Rate is calculated as the Plan Adjusted Index Rate calibrated as described in the previous section. This development is presented in Exhibit N: Plan Adjusted Index Rate and Consumer Adjusted Premium Rates. The calibration is shown in Exhibit H: Calibration.

20. Actuarial Value Metal Values

The Actuarial Value (AV) Metal Values included in Worksheet 2 of the Unified Rate Review Template are based on the AV Calculator. To the extent a component of the benefit design was not accommodated by an available input within the AV Calculator, the benefit characteristic was adjusted to be actuarially equivalent to an available input within the AV Calculator for purposes of utilizing the AV Calculator as the basis for the AV Metal Values. Benefits for plans that are not compatible with the parameters of the AV Calculator have been separately identified and documented in the Unique Plan Design Supporting Documentation and Justification that supports the Plan & Benefits Template.

21. Actuarial Value Pricing Values

The Actuarial Value (AV) Pricing Values for each Plan ID are in Worksheet 2, Section I of the Unified Rate Review Template. The AV Pricing Value represents the cumulative effect of adjustments made by the issuer to move from the Market Adjusted Index Rate to the Plan Adjusted Index Rate. Consistent with final Market rules, utilization adjustments are made to account for member behavior variations based upon cost-share variations of the benefit design and not the health status of the member. The average allowable modifiers to the Index Rate can be found in Exhibit N: Plan Adjusted Index Rate and Consumer Adjusted Premium Rates.

22. Membership Projections

Membership projections in Worksheet 2 of the Unified Rate Review Template are developed using a population movement model plus adjustments for sales expectations. This model projects the membership in the projection period by taking into account:

- Uninsured to Individual as a result of guaranteed issue, subsidized coverage, and individual mandate
- Small Group to Individual as a result of guaranteed issue and rate disruptions due to the transition to Modified Community Rating
- High Risk Pools to Individual as a result of guaranteed issue
- Individual and Uninsured to Medicaid as a result of expanded Medicaid eligibility

The plan distribution is based on assumed metal tier and network distributions.

The projected morbidity changes shown in Exhibit D: Projection Period Adjustments include expected morbidity changes due to population movement.

Cost share reduction subsidies will be available on silver level plans. Anthem ran projections to estimate enrollment by income level in each of the plans. Projected enrollment by plan and subsidy level can be found in Exhibit P: Membership Projections for Cost-Sharing Reductions.

23. Warning Alerts

There are warning alerts in cells A54 and A56 on Worksheet 2, Section III of the Unified Rate Review Template. This is because the Plan Adjusted Index Rates on Worksheet 2 are based on the distribution of ages, geography, and benefits that was projected when developing rates versus the Worksheet 1 average premium rate which reflects what actually emerged.

24. Terminated Products

The list of terminated products is shown in Exhibit O: Terminated Products.

25. Plan Type

Plan types in Worksheet 2, Section I of the URRT adequately describe Anthem's plans.

26. Reliance

In support of this rate development, various data and analyses were provided by other members of Anthem's internal actuarial staff, including data and analysis related to cost of care, valuation, and pricing. I have reviewed the data and analyses for reasonableness and consistency. I have also relied on Michele Archer, FSA, MAAA to provide the actuarial certification for the Unique Plan Design Supporting Documentation and Justification for plans included in this filing.

27. Actuarial Certification

I, Mark E. McGuire FSA, MAAA, am an actuary for Anthem. I am a member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. I hereby certify that the following statements are true to the best of my knowledge with regards to this filing:

(1) 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 the population anticipated to be covered
- Not excessive, deficient, or unfairly discriminatory.

(2) 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.

(3) The percent of total premium that represents essential health benefits included in Worksheet 2, Sections III and IV of the Part I Unified Rate Review Template is calculated in accordance with Actuarial Standards of Practice.

(4) 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.

(5) The Actuarial Value (AV) Metal Values included in Worksheet 2 of the Unified Rate Review Template are based on the most recent AV Calculator. To the extent a component of the benefit design was not accommodated by an available input within the AV Calculator, the benefit characteristic was adjusted to be actuarially equivalent to an available input within the AV Calculator for purposes of utilizing the AV Calculator as the basis for the AV Metal Values. Benefits for plans that are not compatible with the parameters of the AV Calculator have been separately identified and documented in the Unique Plan Design Supporting Documentation and Justification that supports the Plan & Benefits Template.

The Part I Unified Rate Review Template does not demonstrate the process used by the issuer to develop the rates. Rather it represents information required by Federal regulation to be provided in support of the review of rate changes, for certification of Qualified Health Plans for Federally-Facilitated Exchanges, and for certification that the Index Rate is developed in accordance with Federal regulation, used consistently, and only adjusted by the allowable modifiers. However, this Actuarial Memorandum does accurately describe the process used by the issuer to develop the rates.



Mark E. McGuire FSA, MAAA
Director and Actuary III

7/2/2015

Date

Exhibit A - Market Adjusted Index Rate Development

Anthem Health Plans of Kentucky, Inc. Individual

Rates Effective January 1, 2016

| | Experience Rate | Manual Rate | |
|---|------------------|------------------|--|
| 1) Starting Paid Claims PMPM | \$ 374.98 | \$ 271.76 | Exhibit B |
| 2) x Seasonality | 1.0067 | 1.0000 | |
| 3) x Risk Adjustment Factor | 0.9076 | 1.0000 | |
| 4) Mature Claims PMPM | \$ 342.61 | \$ 271.76 | = (1) x (2) x (3) |
| 5) x Normalization Factor | 0.9088 | 0.8812 | Exhibit C |
| 6) = Normalized Claims | \$ 311.36 | \$ 239.47 | = (4) x (5) |
| 7) x Benefit Changes | 0.9950 | 0.9638 | Exhibit D |
| 8) x Morbidity Changes | 0.8670 | 1.0822 | Exhibit D |
| 9) x Trend Factor | 1.2185 | 1.3238 | Exhibit D |
| 10) x Other Cost of Care Impacts | 0.9865 | 0.9977 | Exhibit D |
| 11) Projected Paid Claim Cost | \$ 322.87 | \$ 329.89 | = (6) x (7) x (8) x (9) x (10) |
| 12) Credibility Weight | 34% | 66% | |
| 13) Blended Paid Claims | \$327.50 | | |
| 14) - Non-EHBs Embedded in Line Item 1) Above | \$0.00 | | |
| 15) = Projected Paid Claims, Excluding ALL Non-EHBs | \$327.50 | | |
| 16) + Rx Rebates | -\$7.88 | | Exhibit E |
| 17) + Additional EHBs {1} | \$4.97 | | Exhibit E |
| 18) = Projected Paid Claims Reflecting only EHBs | \$324.59 | | |
| 19) ÷ Paid to Allowed Ratio | 0.73421 | | |
| 20) = Projected Allowed Claims Reflecting only EHBs | \$442.10 | | = Index Rate |
| 21) Reinsurance Contribution | \$2.25 | | Exhibit F |
| 22) Expected Reinsurance Payments | -\$20.45 | | Exhibit F |
| 23) Risk Adjustment Fee | \$0.15 | | Exhibit F |
| 24) Risk Adjustment Net Transfer | -\$1.59 | | Exhibit F |
| 25) Market Adjusted Index Rate {2} | \$415.35 | | = [(18)+(21)+(22)+(23)+(24)] ÷ (19) |

NOTE:

{1} Pediatric Dental and Pediatric Vision

{2} The Market Adjusted Index Rate is the same for all plans in the single risk pool

Exhibit B - Claims Experience for Rate Developments

Anthem Health Plans of Kentucky, Inc.
Individual

Experience Rate Claims Experience
Incurred January 1, 2014 through December 31, 2014
Paid through March 31, 2015

| PAID CLAIMS: | | | | | | | | | | | |
|---------------------------|---------------|--------------|-----------|------------------------|---------------|------------|----------------|-----------------|---------|-----------|--|
| Incurred and Paid Claims: | | IBNR: | | Fully Incurred Claims: | | | CSR | Total | Member | Total | |
| Medical | Drug | Medical | Drug | Medical | Drug | Capitation | Receivable | Benefit Expense | Months | PMPM | |
| \$ 41,803,373 | \$ 17,559,373 | \$ 1,365,831 | \$ 11,918 | \$ 43,169,204 | \$ 17,571,291 | \$ - | \$ (3,948,108) | \$ 56,792,388 | 151,455 | \$ 374.98 | |

| ALLOWED CLAIMS: | | | | | | | | | | | |
|---------------------------|---------------|--------------|-----------|------------------------|---------------|------------|------------|-----------------|---------|-----------|--|
| Incurred and Paid Claims: | | IBNR: | | Fully Incurred Claims: | | | CSR | Total | Member | Total | |
| Medical | Drug | Medical | Drug | Medical | Drug | Capitation | Receivable | Benefit Expense | Months | PMPM | |
| \$ 55,383,782 | \$ 21,542,083 | \$ 1,770,621 | \$ 14,079 | \$ 57,154,403 | \$ 21,556,162 | \$ - | N/A | \$ 78,710,565 | 151,455 | \$ 519.70 | |

Manual Rate Claims Experience
Incurred January 1, 2013 through December 31, 2013
Paid through March 31, 2015

| PAID CLAIMS: | | | | | | | | | | | |
|---------------------------|---------------|-----------|-----------|------------------------|---------------|------------|------------|-----------------|-----------|-----------|--|
| Incurred and Paid Claims: | | IBNR: | | Fully Incurred Claims: | | | CSR | Total | Member | Total | |
| Medical | Drug | Medical | Drug | Medical | Drug | Capitation | Receivable | Benefit Expense | Months | PMPM | |
| \$ 216,130,889 | \$ 76,000,901 | \$ 28,508 | \$ 56,723 | \$ 216,159,397 | \$ 76,057,624 | \$ 129,133 | N/A | \$ 292,346,155 | 1,075,747 | \$ 271.76 | |

| ALLOWED CLAIMS: | | | | | | | | | | | |
|---------------------------|---------------|-----------|-----------|------------------------|---------------|------------|------------|-----------------|-----------|-----------|--|
| Incurred and Paid Claims: | | IBNR: | | Fully Incurred Claims: | | | CSR | Total | Member | Total | |
| Medical | Drug | Medical | Drug | Medical | Drug | Capitation | Receivable | Benefit Expense | Months | PMPM | |
| \$ 295,836,357 | \$ 95,954,475 | \$ 38,018 | \$ 70,481 | \$ 295,874,375 | \$ 96,024,956 | \$ 129,133 | N/A | \$ 392,028,463 | 1,075,747 | \$ 364.42 | |

Note

The claims shown above in the Experience Rate Claims Experience do not account for Transitional Plans or Rx Rebates; whereas, the claims shown in Worksheet 1, Section 1 of the Unified Rate Review Template do include those pieces. Drug Claims are processed by an external vendor.

Exhibit C - Normalization Factors

Anthem Health Plans of Kentucky, Inc.
Individual

Rates Effective January 1, 2016

| | Average Claim Factors - Experience Rate | | Normalization Factor |
|--------------|---|-------------------|----------------------|
| | Experience Period Population | Future Population | |
| Age/Gender | 1.0293 | 1.0018 | 0.9733 |
| Area/Network | 0.9385 | 0.9112 | 0.9709 |
| Benefit Plan | 0.6927 | 0.6662 | 0.9617 |
| Total | | | 0.9088 |

| | Average Claim Factors - Manual Rate | | Normalization Factor |
|--------------|-------------------------------------|-------------------|----------------------|
| | Experience Period Population | Future Population | |
| Age/Gender | 0.8885 | 1.0018 | 1.1275 |
| Area/Network | 0.9952 | 0.9112 | 0.9157 |
| Benefit Plan | 0.7805 | 0.6662 | 0.8535 |
| Total | | | 0.8812 |

Exhibit D - Projection Period Adjustments

Anthem Health Plans of Kentucky, Inc. Individual

Rates Effective January 1, 2016

| <i>Impact of Changes Between Experience Period and Projection Period:</i> | | |
|---|------------------------|--------------------|
| | <u>Experience Rate</u> | <u>Manual Rate</u> |
| <u>Benefit changes</u> | | |
| Preventive Rx | 1.0000 | 1.0001 |
| Rx Adjustments {1} | 0.9950 | 0.9637 |
| Total Benefit Changes | 0.9950 | 0.9638 |
| <u>Morbidity changes</u> | | |
| Total Morbidity Changes | 0.8670 | 1.0822 |
| <u>Cost of care impacts</u> | | |
| Annual Medical/Rx Trend Rate | 10.70% | 9.80% |
| # Months of Projection | 23.33 | 36.00 |
| Trend Factor | 1.2185 | 1.3238 |
| Medical Management | 0.9856 | 0.9711 |
| Induced Demand for CSR | 0.9981 | 1.0245 |
| Grace Period | 1.0028 | 1.0028 |
| Total other Impacts | 0.9864 | 0.9976 |

NOTES:

{1} Includes Rx formulary, mandatory mail order, and impacts for moving drugs into different tiers

Exhibit E - Other Claim Adjustments

Anthem Health Plans of Kentucky, Inc. Individual

Rates Effective January 1, 2016

| <i>Adjustments to projection period claims to reflect covered benefits not included in experience period data:</i> | |
|--|--------------------|
| | <u>PMPM</u> |
| Rx Rebates | (\$7.88) |
| Pediatric Dental | \$2.35 |
| Pediatric Vision | \$0.83 |
| Adult Hearing Aid Coverage | \$1.79 |
| Total | (\$2.91) |

NOTES:

Adjustments above reflect ONLY additional costs beyond those already captured in line Item 15 of Exhibit A.

Exhibit F - Risk Adjustment and Reinsurance - Contributions and Payments

Anthem Health Plans of Kentucky, Inc. Individual

Rates Effective January 1, 2016

| <u>Risk Adjustment:</u> | | | |
|--|---|--------------------------|--|
| PMPM | User Fee | Net Transfer | |
| Federal Program | \$0.15 | (\$1.59) | |
| | <p><u>Note:</u> An adjustment for Anthem's 2014 anticipated risk adjustment transfer is applied to the starting experience period data (Exhibit A, row 3) so that the Anthem-specific experience is consistent with the overall market in Kentucky.</p> | | |
| <u>Reinsurance:</u> | | | |
| PMPM | Contributions Made | Expected Receipts | |
| Federal Program | \$2.25 | (\$20.45) | <i>Small Group Plans contribute funds but only Individual Plans are eligible to receive payments</i> |
| | <p><u>Source:</u> HHS estimates a national per capita contribution rate of \$2.25 per month (\$27 per year) in benefit year 2016 (per Payment Parameter Rule).</p> | | |
| Grand Total of All Risk Mitigation Programs | | | (\$19.64) |

Exhibit G - Non-Benefit Expenses and Profit & Risk

Anthem Health Plans of Kentucky, Inc. Individual

Rates Effective January 1, 2016

| | Expenses Applied As a PMPM Cost | Expenses Applied as a % of Premium | Expressed as a PMPM {1} |
|---|------------------------------------|---------------------------------------|----------------------------|
| Administrative Expenses | | | |
| Administrative Costs | \$32.44 | | |
| Quality Improvement Expense | \$3.38 | | |
| Selling Expense | | 2.29% | |
| Specialty Expenses | \$0.89 | | |
| Adjustment to required premium {4} | | -2.54% | |
| Total Administrative Expenses | \$36.71 | -0.25% | \$35.78 |
| Taxes and Fees | | | |
| PCORI Fee | \$0.18 | | |
| ACA Insurer Fee | | 3.41% | |
| MLR-Deductible Federal/State Income Taxes {2} | | 1.94% | |
| GAP Fee | | 1.00% | |
| Total Taxes and Fees | \$0.18 | 6.35% | \$24.07 |
| Profit and Risk {3} | | 3.06% | \$11.52 |
| Total Non-Benefit Expenses, Profit, and Risk | \$36.89 | 9.16% | \$71.36 |

NOTES:

{1} The sum of the rounded percentages shown may not equal the total at the bottom of the table due to rounding.

{2} Includes only those income taxes which are deductible from the MLR denominator; in particular, Federal income taxes on investment income are excluded.

{3} Profit shown here is post-tax profit, net of those federal and state income taxes which are deductible from the MLR denominator.

{4} Adjustment to required premium: Anthem has made an adjustment to lower the required premium based on the projected federal MLR of Anthem's entire Individual book of business. Anthem's projected MLR is expected to meet or exceed minimum MLR standards at the market level in 2016 as a result of this adjustment, which is being done via a non-benefit expense adjustment of -2.54%.

Exhibit H - Calibration

Anthem Health Plans of Kentucky, Inc. Individual

Rates Effective January 1, 2016

| <i>Average 2016 rating factors for 2016 population:</i> | |
|---|------------------------------|
| | Average Rating Factor |
| Tobacco | 1.0137 |
| | Calibration Factors |
| Age | 1.6002 |
| Area | 1.0000 |
| Total Calibration Factor | 1.6002 |
| Total Average Rating Factor | 1.6222 |

NOTES:

See Calibration Factor on Exhibit N.

When computing family premiums, no more than the three oldest covered children under the age of 21 are taken into account, whereas the premiums associated with each child age 21+ are included. As such, the average rating factor was adjusted to reflect the portion of the population under age 21 for which the calibration can be made.

Tobacco factors have been adjusted. Refer to Exhibit J - Age and Tobacco Factors.

Exhibit I - Non-Grandfathered Rate Changes

Anthem Health Plans of Kentucky, Inc. Individual

Rates Effective January 1, 2016

| HIOS Plan Name | 2016 HIOS Plan ID | On/Off | | Network Name | Area(s) Offered | 2015 HIOS Plan ID Mapping | Plan Specific Rate Increase |
|---|-------------------|----------|--------------|-------------------|-----------------|---------------------------|-----------------------------|
| | | Exchange | Metal Level | | | | (excluding aging) |
| | | | | | | | {1} |
| Anthem Catastrophic Pathway X PPO 6850/0% | 36239KY0970023 | On | Catastrophic | KY IND::Pathway X | All | 36239KY0970023 | 18.0% |
| Anthem Bronze Pathway X PPO 5900/20% | 36239KY0970015 | On | Bronze | KY IND::Pathway X | All | 36239KY0970015 | 8.0% |
| Anthem Bronze Pathway X PPO 4500/20% | 36239KY0970016 | On | Bronze | KY IND::Pathway X | All | 36239KY0970016 | 8.3% |
| Anthem Bronze Pathway X PPO 20% for HSA | 36239KY0970017 | On | Bronze | KY IND::Pathway X | All | 36239KY0970017 | 12.3% |
| Anthem Bronze Pathway X PPO 6000/30% | 36239KY0970018 | On | Bronze | KY IND::Pathway X | All | 36239KY0970018 | 7.8% |
| Anthem Bronze Pathway X PPO 0% for HSA | 36239KY0970019 | On | Bronze | KY IND::Pathway X | All | 36239KY0970019 | 16.0% |
| Anthem Silver Pathway X PPO 10% for HSA | 36239KY0970020 | On | Silver | KY IND::Pathway X | All | 36239KY0970020 | 10.9% |
| Anthem Silver Pathway X PPO 2500/10% | 36239KY0970021 | On | Silver | KY IND::Pathway X | All | 36239KY0970021 | 5.7% |
| Anthem Silver Pathway X PPO 2000/20% | 36239KY0970022 | On | Silver | KY IND::Pathway X | All | 36239KY0970022 | 6.4% |
| Anthem Silver Pathway X PPO 4000/10% | 36239KY0970025 | On | Silver | KY IND::Pathway X | All | 36239KY0970025 | 11.8% |
| Anthem Gold Pathway X PPO 1500/10% | 36239KY0970027 | On | Gold | KY IND::Pathway X | All | 36239KY0970027 | 18.0% |
| Anthem Silver Pathway PPO 3750/0% | 36239KY1000020 | Off | Silver | KY IND::Pathway | All | 36239KY1000020 | 8.9% |
| Anthem Gold Pathway PPO 1000/10% | 36239KY1000024 | Off | Gold | KY IND::Pathway | All | 36239KY1000024 | 16.8% |
| Anthem Blue Cross and Blue Shield Silver DirectAccess, a Multi-State Plan | 36239KY1130005 | On | Silver | KY IND::Pathway X | All | 36239KY1130005 | 8.6% |
| Anthem Blue Cross and Blue Shield Gold DirectAccess, a Multi-State Plan | 36239KY1130006 | On | Gold | KY IND::Pathway X | All | 36239KY1130006 | 16.3% |
| Anthem Bronze Pathway X HMO 5000/40% | 36239KY1140001 | On | Bronze | KY IND::HMO | All | 36239KY1140001 | 15.1% |
| Anthem Silver Pathway X HMO 3500/25% | 36239KY1140005 | On | Silver | KY IND::HMO | All | 36239KY1140005 | 16.9% |
| Anthem Silver Pathway X HMO 4250/30% | 36239KY1140013 | On | Silver | KY IND::HMO | All | None | n/a |
| Anthem Gold Pathway X HMO 1450/20% | 36239KY1140009 | On | Gold | KY IND::HMO | All | 36239KY1140009 | 26.4% |

NOTES:

{1} Plan level increases in rates do not include demographic changes in the population.

Exhibit J - Age and Tobacco Factors

Anthem Health Plans of Kentucky, Inc. Individual

Rates Effective January 1, 2016

| Age | Age Factors | Tobacco Factors | | |
|------|-------------|-----------------|-------|--------|
| | 2016 | 2016 | 2015 | Change |
| 0-17 | 0.635 | 1.000 | 1.000 | 0% |
| 18 | 0.635 | 1.000 | 1.000 | 0% |
| 19 | 0.635 | 1.000 | 1.000 | 0% |
| 20 | 0.635 | 1.000 | 1.000 | 0% |
| 21 | 1.000 | 1.000 | 1.000 | 0% |
| 22 | 1.000 | 1.000 | 1.000 | 0% |
| 23 | 1.000 | 1.000 | 1.000 | 0% |
| 24 | 1.000 | 1.000 | 1.000 | 0% |
| 25 | 1.004 | 1.000 | 1.000 | 0% |
| 26 | 1.024 | 1.000 | 1.000 | 0% |
| 27 | 1.048 | 1.000 | 1.000 | 0% |
| 28 | 1.087 | 1.000 | 1.000 | 0% |
| 29 | 1.119 | 1.000 | 1.000 | 0% |
| 30 | 1.135 | 1.050 | 1.050 | 0% |
| 31 | 1.159 | 1.050 | 1.050 | 0% |
| 32 | 1.183 | 1.050 | 1.050 | 0% |
| 33 | 1.198 | 1.050 | 1.050 | 0% |
| 34 | 1.214 | 1.050 | 1.050 | 0% |
| 35 | 1.222 | 1.050 | 1.050 | 0% |
| 36 | 1.230 | 1.050 | 1.050 | 0% |
| 37 | 1.238 | 1.050 | 1.050 | 0% |
| 38 | 1.246 | 1.050 | 1.050 | 0% |
| 39 | 1.262 | 1.050 | 1.050 | 0% |
| 40 | 1.278 | 1.100 | 1.100 | 0% |
| 41 | 1.302 | 1.100 | 1.100 | 0% |
| 42 | 1.325 | 1.100 | 1.100 | 0% |
| 43 | 1.357 | 1.100 | 1.100 | 0% |
| 44 | 1.397 | 1.100 | 1.100 | 0% |
| 45 | 1.444 | 1.100 | 1.100 | 0% |
| 46 | 1.500 | 1.100 | 1.100 | 0% |
| 47 | 1.563 | 1.100 | 1.100 | 0% |
| 48 | 1.635 | 1.100 | 1.100 | 0% |
| 49 | 1.706 | 1.100 | 1.100 | 0% |
| 50 | 1.786 | 1.180 | 1.200 | -2% |
| 51 | 1.865 | 1.180 | 1.200 | -2% |
| 52 | 1.952 | 1.180 | 1.200 | -2% |
| 53 | 2.040 | 1.180 | 1.200 | -2% |
| 54 | 2.135 | 1.180 | 1.200 | -2% |
| 55 | 2.230 | 1.180 | 1.200 | -2% |
| 56 | 2.333 | 1.180 | 1.200 | -2% |
| 57 | 2.437 | 1.180 | 1.200 | -2% |
| 58 | 2.548 | 1.180 | 1.200 | -2% |
| 59 | 2.603 | 1.180 | 1.200 | -2% |
| 60 | 2.714 | 1.180 | 1.200 | -2% |
| 61 | 2.810 | 1.180 | 1.200 | -2% |
| 62 | 2.873 | 1.180 | 1.200 | -2% |
| 63 | 2.952 | 1.180 | 1.200 | -2% |
| 64+ | 3.000 | 1.180 | 1.200 | -2% |

NOTES:

The weighted averages of these factors for the entire risk pool included in this rate filing is detailed in Exhibit H.

Exhibit K - Area Factors

Anthem Health Plans of Kentucky, Inc. Individual

Rates Effective January 1, 2016

| Rating Area Description | 2016 Area Rating Factor |
|-------------------------|-------------------------|
| 1 Western KY | 1.0231 |
| 2 Owensboro | 1.0998 |
| 3 Louisville | 0.9414 |
| 4 Southern KY | 1.0803 |
| 5 Lexington | 0.9886 |
| 6 Northern KY | 1.1237 |
| 7 Northeastern KY | 0.9903 |
| 8 Southeastern KY | 1.1141 |

NOTES:

The weighted average of these factors for the entire risk pool included in this rate filing is detailed in Exhibit H.

Exhibit L - Sample Rate Calculation

Anthem Health Plans of Kentucky, Inc. Individual

Rates Effective January 1, 2016

Name: John Doe
Effective Date: 1/1/2016
On/Off Exchange: On
Metal Level: Bronze
Plan ID: 36239KY0970019
Rating Area: 01

Family Members Covered:

| | <u>Age</u> | <u>Smoker?</u> |
|-----------------|------------|----------------|
| Subscriber | 47 | N |
| Spouse | 42 | N |
| Child (age 21+) | 25 | Y |
| Child #1 | 20 | N |
| Child #2 | 16 | N |

Calculation of Monthly Premium:

| | | |
|--------------------------------|---------------|-----------|
| Consumer Adjusted Premium Rate | \$ 197.84 | Exhibit N |
| <u>x Area Factor</u> | <u>1.0231</u> | Exhibit K |
| Rate Adjusted for Area = | \$ 202.41 | |

Age/Tobacco Factors:

| | <u>Age Factor</u> | <u>Tobacco Factor</u> |
|-----------------|-------------------|-----------------------|
| Subscriber | 1.563 | 1.000 |
| Spouse | 1.325 | 1.000 |
| Child (age 21+) | 1.004 | 1.000 |
| Child #1 | 0.635 | 1.000 |
| Child #2 | 0.635 | 1.000 |

Exhibit J

Final Monthly Premium PMPM:

| | <u>PMPM</u> |
|-----------------|--------------------|
| Subscriber | \$ 316.37 |
| Spouse | \$ 268.19 |
| Child (age 21+) | \$ 203.22 |
| Child #1 | \$ 128.53 |
| Child #2 | \$ 128.53 |
| TOTAL | \$ 1,044.84 |

NOTES:

As per the Market Reform Rule, when computing family premiums no more than the three oldest covered children under the age of 21 are taken into account whereas the premiums associated with each child age 21+ are included.

Minor rate variances may occur due to differences in rounding methodology.

Exhibit M - Federal MLR Estimated Calculation

Anthem Health Plans of Kentucky, Inc. Individual

Rates Effective January 1, 2016

Numerator:

| | | | |
|---|-----------|---------------|---|
| Incurred Claims | \$ | 324.59 | Exhibit A (Line 13) + Exhibit E (Total) |
| + Quality Improvement Expense | \$ | 3.38 | Exhibit G |
| + Risk Corridor Contributions | \$ | - | |
| + Risk Adjustment Net Transfer | \$ | (1.59) | Exhibit F |
| + Reinsurance Receipts | \$ | (20.45) | Exhibit F |
| + Risk Corridor Receipts | \$ | - | |
| + Reduction to Rx Incurred Claims (ACA MLR) | \$ | (7.80) | {1} |
| = <i>Estimated Federal MLR Numerator</i> | \$ | 298.13 | |

Denominator:

| | | | |
|---|-----------|---------------|---|
| Premiums | \$ | 376.32 | Incurred Claims + Exhibit F (Total) + Exhibit G (Total) |
| - Federal and State Taxes | \$ | 7.30 | Premiums x Exhibit G (Income Taxes) |
| - Premium Taxes | \$ | - | Premiums x Exhibit G (Premium Tax) |
| - Risk Adjustment User Fee | \$ | 0.15 | Exhibit F |
| - Reinsurance Contributions | \$ | 2.25 | Exhibit F |
| - Licensing and Regulatory Fees | \$ | 13.01 | Premiums x Exhibit G (Fees) |
| = <i>Estimated Federal MLR Denominator</i> | \$ | 353.61 | |

Estimated Federal MLR

84.31%

NOTES:

{1} This is the percentage of 2016 pharmacy claims that are attributable to PBM Administrative Expenses (i.e. the "retail spread" or "pharmacy claims margin"). It is calculated by applying the 3rd party margin percentage to the 2016 projected Pharmacy claims including projected rebates.

The above calculation is purely an estimate and not meant to be compared to the minimum MLR benchmark for federal/state MLR rebate purposes:

- * The above calculation represents only the products in this filing. Federal MLR will be calculated at the legal entity and market level.
- * Not all numerator/denominator components are captured above (for example, fraud and prevention program costs, payroll taxes, assessments for state high risk pools etc.).
- * Other adjustments may also be applied within the federal MLR calculation such as 3-year averaging, new business, credibility, deductible and dual option. These are ignored in the above calculation.
- * Licensing and Regulatory Fees include ACA-related fees as allowed under the MLR Final Rule.

Exhibit N - Plan Adjusted Index Rate and Consumer Adjusted Premium Rates

**Anthem Health Plans of Kentucky, Inc.
Individual**

Rates Effective January 1, 2016

| HIOS Plan Name | HIOS Plan ID | Market Adjusted | | Provider Network Adjustment | Adjustment for Benefits in Addition to the | | Catastrophic Plan Adjustment | Administrative Costs | Plan Adjusted Index Rate | Calibration Factor | Consumer Adjusted Premium Rate |
|---|----------------|------------------------|-------------------------|-----------------------------|--|--------|------------------------------|----------------------|--------------------------|--------------------|--------------------------------|
| | | Index Rate (Exhibit A) | Cost Sharing Adjustment | | EHBS | {1} | | | | | |
| Anthem Catastrophic Pathway X PPO 6850/0% | 36239KY0970023 | \$415.35 | 0.5983 | 1.0196 | 1.0000 | 0.8267 | \$49.31 | \$258.79 | 1.6002 | \$161.72 | |
| Anthem Bronze Pathway X PPO 5900/20% | 36239KY0970015 | \$415.35 | 0.6102 | 1.0196 | 1.0000 | 1.0000 | \$60.62 | \$319.01 | 1.6002 | \$199.35 | |
| Anthem Bronze Pathway X PPO 4500/20% | 36239KY0970016 | \$415.35 | 0.6046 | 1.0196 | 1.0000 | 1.0000 | \$60.07 | \$316.12 | 1.6002 | \$197.55 | |
| Anthem Bronze Pathway X PPO 20% for HSA | 36239KY0970017 | \$415.35 | 0.6085 | 1.0196 | 1.0000 | 1.0000 | \$60.45 | \$318.14 | 1.6002 | \$198.81 | |
| Anthem Bronze Pathway X PPO 6000/30% | 36239KY0970018 | \$415.35 | 0.5718 | 1.0196 | 1.0000 | 1.0000 | \$56.86 | \$299.02 | 1.6002 | \$186.86 | |
| Anthem Bronze Pathway X PPO 0% for HSA | 36239KY0970019 | \$415.35 | 0.6055 | 1.0196 | 1.0000 | 1.0000 | \$60.15 | \$316.58 | 1.6002 | \$197.84 | |
| Anthem Silver Pathway X PPO 10% for HSA | 36239KY0970020 | \$415.35 | 0.7143 | 1.0196 | 1.0000 | 1.0000 | \$70.78 | \$373.26 | 1.6002 | \$233.26 | |
| Anthem Silver Pathway X PPO 2500/10% | 36239KY0970021 | \$415.35 | 0.7412 | 1.0196 | 1.0000 | 1.0000 | \$73.41 | \$387.28 | 1.6002 | \$242.02 | |
| Anthem Silver Pathway X PPO 2000/20% | 36239KY0970022 | \$415.35 | 0.7344 | 1.0196 | 1.0000 | 1.0000 | \$72.74 | \$383.75 | 1.6002 | \$239.81 | |
| Anthem Silver Pathway X PPO 4000/10% | 36239KY0970025 | \$415.35 | 0.7406 | 1.0196 | 1.0000 | 1.0000 | \$73.36 | \$386.99 | 1.6002 | \$241.84 | |
| Anthem Gold Pathway X PPO 1500/10% | 36239KY0970027 | \$415.35 | 0.9321 | 1.0196 | 1.0000 | 1.0000 | \$92.07 | \$486.82 | 1.6002 | \$304.22 | |
| Anthem Silver Pathway PPO 3750/0% | 36239KY1000020 | \$415.35 | 0.7530 | 1.0196 | 1.0000 | 1.0000 | \$74.58 | \$393.48 | 1.6002 | \$245.89 | |
| Anthem Gold Pathway PPO 1000/10% | 36239KY1000024 | \$415.35 | 0.9423 | 1.0196 | 1.0000 | 1.0000 | \$93.08 | \$492.12 | 1.6002 | \$307.53 | |
| Anthem Blue Cross and Blue Shield Silver DirectAccess, a Multi-State Plan | 36239KY1130005 | \$415.35 | 0.7530 | 1.0196 | 1.0000 | 1.0000 | \$74.58 | \$393.48 | 1.6002 | \$245.89 | |
| Anthem Blue Cross and Blue Shield Gold DirectAccess, a Multi-State Plan | 36239KY1130006 | \$415.35 | 0.9423 | 1.0196 | 1.0000 | 1.0000 | \$93.08 | \$492.12 | 1.6002 | \$307.53 | |
| Anthem Bronze Pathway X HMO 5000/40% | 36239KY1140001 | \$415.35 | 0.5702 | 0.9340 | 1.0000 | 1.0000 | \$52.03 | \$273.25 | 1.6002 | \$170.76 | |
| Anthem Silver Pathway X HMO 3500/25% | 36239KY1140005 | \$415.35 | 0.6991 | 0.9340 | 1.0000 | 1.0000 | \$63.57 | \$334.77 | 1.6002 | \$209.20 | |
| Anthem Silver Pathway X HMO 4250/30% | 36239KY1140013 | \$415.35 | 0.6790 | 0.9340 | 1.0000 | 1.0000 | \$61.77 | \$325.20 | 1.6002 | \$203.22 | |
| Anthem Gold Pathway X HMO 1450/20% | 36239KY1140009 | \$415.35 | 0.8998 | 0.9340 | 1.0000 | 1.0000 | \$81.53 | \$430.62 | 1.6002 | \$269.10 | |

Notes:

{1} This adjustment assumes a healthier than average population will select the catastrophic plan.

{2} The Plan Adjusted Index Rate is calculated by multiplying the Market Adjusted Index Rate by the AV and cost sharing, provider network, benefits in addition to the EHBS, and catastrophic plan adjustments and then adding the administrative costs. The Plan Adjusted Index Rate can also be described as a Plan Level Required Premium.

{3} See Exhibit H - Calibration.

{4} The Consumer Adjusted Premium Rate is calculated by dividing the Plan Adjusted Index Rate by 'Calibration Factor'. The Consumer Adjusted Premium Rate can also be described as a Plan Level Base Rate.

Exhibit O - Terminated Products

Anthem Health Plans of Kentucky, Inc.
Individual

Effective January 1, 2016

| | |
|--|--------------------------|
| Following are the products that will be terminated prior to the effective date: | |
| <i>This includes products that have experience included in the URRT during the experience period and any products that were not in effect during the experience period but were made available thereafter.</i> | |
| Pre ACA Terminated Products | |
| HIOS Product ID | HIOS Product Name |
| Post ACA Terminated Products | |
| HIOS Product ID | HIOS Product Name |

Exhibit P - Membership Projections for Cost-Sharing Reductions

Anthem Health Plans of Kentucky, Inc. Individual

Rates Effective January 1, 2016

| Silver Plan | Projected Membership by Subsidy Level: | | | |
|---|---|-------------------------|-------------------------|------------------------|
| <u>HIOS Standard Component Plan ID</u> | <u>100-150%</u> | <u>150%-200%</u> | <u>200%-250%</u> | <u>Standard</u> |
| 36239KY0970020 | 442 | 762 | 218 | 1,913 |
| 36239KY0970021 | 373 | 643 | 184 | 1,613 |
| 36239KY0970022 | 401 | 692 | 198 | 1,738 |
| 36239KY0970025 | 223 | 384 | 110 | 963 |
| 36239KY1000020 | 0 | 0 | 0 | 621 |
| 36239KY1130005 | 544 | 939 | 268 | 548 |
| 36239KY1140005 | 290 | 501 | 143 | 1,258 |
| 36239KY1140013 | 290 | 501 | 143 | 1,258 |