



Part III Actuarial Memorandum

Kentucky Health Cooperative, Inc. Small Group Rate Filing Effective January 1, 2016

Prepared for:
Kentucky Health Cooperative, Inc.

Prepared by:
**Rachel W. Killian, FSA, MAAA
Principal & Consulting Actuary
Milliman, Inc.**

3424 Peachtree Road NE, Suite 1900
Atlanta, GA 30326
Tel +1 404 237 7060
Fax +1 404 237 6984

milliman.com

TABLE OF CONTENTS

The following table summarizes the exhibits included in this document. Some exhibits may span multiple pages.

Exhibit #	Exhibit Title
Exhibit 1	General Information
Exhibit 2	Proposed Rate Increase(s)
Exhibit 3	Exp Premium and Claims
Exhibit 4	Benefit Categories
Exhibit 5	Projection Factors
Exhibit 6	Credibility Man Rate Dev
Exhibit 7	Credibility of Experience
Exhibit 8	Paid to Allowed Ratio
Exhibit 9	Risk Adj and Reinsurance
Exhibit 10	NBE, Profit, & Risk
Exhibit 11	Projected Loss Ratio
Exhibit 12	Single Risk Pool
Exhibit 13	Index Rate
Exhibit 14	Market Adj Index Rates
Exhibit 15	Plan Adj Index Rates
Exhibit 16	Calibration
Exhibit 17	Cons Adj Prem Rate Dev
Exhibit 18	AV Metal Values
Exhibit 19	AV Pricing Values
Exhibit 20	Membership Projections
Exhibit 21	Terminated Products
Exhibit 22	Plan Type
Exhibit 23	Warning Alerts
Exhibit 24	Eff Rate Review Info
Exhibit 25	Reliance
Exhibit 26	Actuarial Certification

EXHIBIT 1. GENERAL INFORMATION

Document Overview

This document contains the Part III Actuarial Memorandum for Kentucky Health Cooperative, Inc.'s (KYHC) small group block of business, effective January 1, 2016. This actuarial memorandum is submitted in conjunction with the Part I Unified Rate Review Template (URRT).

The purpose of the actuarial memorandum is to provide certain information related to the submission, including support for the values entered into the URRT, 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 Commonwealth of Kentucky Department of Insurance, the Center for Consumer Information and Insurance Oversight (CCIIO), and their subcontractors to assist in the review of KYHC's small group rate filing. However, we recognize that this certification may become a public document. Milliman makes no representations or warranties regarding the contents of this letter to other users. Likewise, other users of this letter should not place reliance upon this actuarial memorandum that would result in the creation of any duty or liability for Milliman under any theory of law.

Company Identifying Information

Company Legal Name: Kentucky Health Cooperative, Inc.
State: The Commonwealth of Kentucky has regulatory authority over these policies.
HIOS Issuer ID: 77894
Market: Small Group
Effective Date: January 1, 2016

Company Contact Information

Primary Contact Name: Janie Miller
Primary Contact Telephone Number: (502) 287-1285 x1002
Primary Contact Email Address: jmiller@mykyhc.org

EXHIBIT 2. PROPOSED RATE INCREASE(S)

Table 2.1 summarizes the average proposed rate increase for all products effective January 1, 2016. The following are significant factors driving the proposed rate increases discussed below.

Table 2.1 Kentucky Health Cooperative, Inc. Attribution Analysis of Proposed Rate Increases	
Factor	Value
2015 Rate	\$371.17
Paid Claims Trend Factor	
Benefit Change Factor	
Administrative Expense Change Factor	
Transitional Federal Program Factor	
Taxes & Fees Change Factor	
Profit Change Factor	
2016 Rate	\$386.44

Medical and Prescription Drug Inflation & Utilization Trend

Claims costs were increased for anticipated changes due to medical/prescription drug inflation and increased medical/prescription drug utilization. Below are the percentage increases for these changes.

Table 2.2 Kentucky Health Cooperative, Inc. Unit Cost and Utilization Trend Assumptions			
Service Type	Inflation	Utilization	Total
Inpatient			
Outpatient			
Professional			
Other			
Capitation			
Prescription Drug			

New Taxes, Fees and Administrative Expenses

Changes to the overall premium level are needed because of required changes in federal/state taxes and fees. In addition, there are anticipated changes in the administrative expenses and commission arrangements. The following is a list of any anticipated changes and comments regarding the adjustment:

Table 2.3 Kentucky Health Cooperative, Inc. Anticipated Non-Benefit Expenses Changes			
Item	Prior Year Value	Effective Year Value	Reason for Adjustment
Insurer Fee			The fee as a percent of premium has changed due to changes in total market wide net premiums written and KYHC's change in net premiums written.
Commission			KYHC will have lower commission costs this year due to a change in the way commissions are allocated as well as information from emerging experience.
Administrative Expenses			KYHC will have higher general administrative costs this year due to emerging information regarding operating costs. Net Commercial Reinsurance is included in this component.
Transitional Reinsurance			See below

EXHIBIT 2. PROPOSED RATE INCREASE(S)

Prospective Benefit Changes

Effective January 1, 2016 benefits have changed based on state requirements, business decisions and new Actuarial Value Calculator testing. The following are a list of the benefit changes:

- KY Health Cooperative Gold SG - Out of Network MOOP has been increased from \$8,500 to \$12,000
- KY Health Cooperative Silver SG - Out of Network MOOP has been increased from \$10,000 to \$15,000
- KY Health Cooperative Bronze SG - deductible has been increased from \$4,750 to \$5,750
- KY Health Cooperative Silver SG & KY Health Cooperative Bronze SG - MOOP Values increased from \$6,600 to \$6,850
- KYHC MultiStatePlan SG Gold - default coinsurance increased from 10% to 15%
- KYHC MultiStatePlan SG Silver - deductible increased from \$2,000 to \$2,500
- KYHC MultiStatePlan SG Silver - default coinsurance increased from 25% to 35%

Federal Transitional Reinsurance Program Changes

Federal transitional reinsurance program contributions and benefit limits have changed from last year. Specifically, the reinsurance contribution has changed from an estimated \$44 PMPY to \$27 PMPY. Further, the claims threshold upon which reinsurance recoveries are triggered has changed from \$70,000 (the 2015 pricing was based on the original guidance) to \$90,000; therefore, there will be an increase in the individual rates. Changes in the benefit levels of the reinsurance recoveries will only impact the individual market, while the changes in the reinsurance contribution levels will impact both the individual and small group markets.

Anticipated Single Risk Pool Morbidity

We have assumed no change in the anticipated single risk pool morbidity from that assumed in 2014.

Rate Increases by Plan

The following table summarizes proposed rates increase(s) by product:

Product	2015 Rate	2016 Rate	Rate Increase
KY Health Cooperative Gold SG	\$452.26	\$471.52	4.3%
KY Health Cooperative Silver SG	\$368.79	\$380.26	3.1%
KY Health Cooperative Bronze SG	\$292.36	\$307.18	5.1%
KYHCMultistatePlanSG Gold	\$501.40	\$507.83	1.3%
KYHCMultistatePlanSG Silver	\$405.67	\$407.04	0.3%

Rate increases vary by plan due to a combination of factors including shifts in benefit relativities and non-benefit expense allocation.

EXHIBIT 3. EXPERIENCE PREMIUM AND CLAIMS

The experience reported on Worksheet 1, Section I of the URRT shows KYHC's earned premium and incurred and paid claims for the period of 1/1/2014 through 12/31/2014, with claims paid through 3/31/2015.

Premiums (net of MLR Rebate) in Experience Period

The premiums earned during the experience and as reported on Worksheet 1, Section I of the URRT are from KYHC's audited financial statements for CY2014.

Method for Determining Allowed Claims

The following table summarizes the experience premium and allowed claims as listed in Worksheet 1, Section I of the URRT:

Table 3.1 Kentucky Health Cooperative, Inc. Experience Allowed Claims and Premium									
Month	Total Billed Premiums	Allowed Medical	Medical Completion Factor	Estimated Medical	Allowed Rx	Rx Compl. Factor	Estimated Rx	Allowed Capitation	Total Claims Including IBNR
Jan 14									
Feb 14									
Mar 14									
Apr 14									
May 14									
Jun 14									
Jul 14									
Aug 14									
Sep 14									
Oct 14									
Nov 14									
Dec 14									
Total	\$641,671			\$430,169			\$106,245		\$536,414

All allowed claims processed both in and out of the claim system were included. Of this amount, 100% was processed through the claim system. An estimate of incurred but not reported allowed claims was added to the processed amount to arrive at a final estimate of total allowed claims. No estimate of incurred but not reported claims was added to the prescription drug claims or capitated claims.

EXHIBIT 3. EXPERIENCE PREMIUM AND CLAIMS

Method for Determining Paid Claims

The following table summarizes the experience premium and incurred claims as listed in Worksheet 1, Section I of the URRT:

Month	Total Billed Premiums	Paid Medical	Medical Completion Factor	Estimated Medical	Paid Rx	Rx Compl. Factor	Estimated Rx	Paid Capitation	Total Claims Including IBNR
Jan 14	\$24,164								
Feb 14	\$33,041								
Mar 14	\$33,889								
Apr 14	\$54,592								
May 14	\$43,851								
Jun 14	\$47,073								
Jul 14	\$65,644								
Aug 14	\$59,042								
Sep 14	\$69,775								
Oct 14	\$55,806								
Nov 14	\$54,363								
Dec 14	\$100,432								
Total	\$641,671			\$282,934			\$78,426		\$361,361

All paid claims processed both in and out of the claim system were included. Of this amount, 100% was processed through the claim system. An estimate of incurred but not paid claims was added to the processed amount to arrive at a final estimate of total paid claims. No estimate of incurred but not paid claims was added to the prescription drug claims or capitated claims.

Method for Determining Incurred But Not Reported Paid Claims

Incurred claims were calculated by applying a completion factor to the paid claims from the experience period. The completion factors were developed using the lag development method. The completion factors for paid and allowed claims are the same.

Method for Determining Paid Cost Sharing

Paid member cost sharing was determined by subtracting paid claims from allowed claims.

EXHIBIT 4. BENEFIT CATEGORIES

We assigned the experience and manual data utilization and cost information to benefit categories as shown in Worksheet 1, Section II of the URRT based on place and type of service using a detailed claims mapping algorithm summarized 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, dental services and other services. The measurement units for utilization used in this category are a mix of visits, cases, procedures, etc.

Capitation

Includes all services provided under one or more capitated arrangements.

Prescription Drug

Includes drugs dispensed by a pharmacy. This amount is net of rebates received from drug manufacturers.

EXHIBIT 5. PROJECTION FACTORS

Not applicable. While KYHC did have experience during the base period, it is not credible due to only having 1,945 member months. Therefore, the 2016 rate development is based solely on manual rates.

EXHIBIT 6. CREDIBILITY MANUAL RATE DEVELOPMENT

Source and Appropriateness of Experience Data Used in Manual Rate Development

The basis of the manual rates is an average statewide claim cost PMPM, developed utilizing market research, and the benefit relativities from the 2014 Milliman *Health Cost Guidelines* (HCGs). In developing the 2015 claim costs, we calibrated the HCGs to KYHC's current Bronze plan.

Manual Rate Development Steps

- 1 Developed a claims cost model that reflects the cost sharing and covered services of KYHC's current Bronze level plan.
 - Utilization, billed charges, and area factors from the HCGs.
 - Provider discounts and Degree of Healthcare Management (DOHM), which measures managed care efficiency, assumed from the 2015 pricing.
 - Demographics and plan mix assumed from the 2015 pricing.
- 2 Applied one year of trend to the allowed claims estimated during the 2015 pricing, for the Bronze plan.
- 3 We then calibrated our claims cost model in Step1 to the allowed claims PMPM calculated in Step 2 by adjusting the utilization. This adjustment was performed separately for medical and prescription drug claims costs in order to achieve a distribution between the two that is comparable to benchmark information.
- 4 From this calibrated claims cost model, we then created claims cost models for each of KYHC's small group plans in order to determine benefit relativities of each plan to the Bronze plan.

Adjustments Made to the Data

This section includes a description of each factor used to adjust the manual rates and supporting information related to the development of those factors.

Changes in the Morbidity of the Population Insured

We do not expect any change in expected population morbidity of the Single Risk Pool from the level that was assumed in 2015 pricing.

Changes in Benefits

We made the following adjustments to reflect the expected differences in benefits between 2015 and 2016:

We reflected anticipated changes in the average utilization of services due to differences in average cost sharing requirements used to develop the 2014 manual rate and average cost sharing requirements in the projection period:

- KY Health Cooperative Gold SG - Out of Network MOOP has been increased from \$8,500 to \$12,000
- KY Health Cooperative Silver SG - Out of Network MOOP has been increased from \$10,000 to \$15,000
- KY Health Cooperative Bronze SG - deductible has been increased from \$4,750 to \$5,750
- KY Health Cooperative Silver SG & KY Health Cooperative Bronze SG - MOOP Values increased from \$6,600 to \$6,850
- KYHC MultistatePan SG Gold - default coinsurance increased from 10% to 15%
- KYHC MultistatePan SG Silver - deductible increased from \$2,000 to \$2,500
- KYHC MultistatePan SG Silver - default coinsurance increased from 25% to 35%

We used the HCGs in order to estimate the benefit changes for each of the items listed above.

EXHIBIT 6. CREDIBILITY MANUAL RATE DEVELOPMENT

Changes in Demographics

We used the following data source(s) and methodology in order to estimate the changes in the demographic and geographic mix of the population:

Our rate projection is based on population demographics and geographic mix that is the same as that assumed for 2015. Although experience was present in 2014, we do not believe that it is credible. Likewise we do not believe that 2014 was a credible indicator of the steady state of the market. Therefore we are projecting a 2016 demographic and plan mix identical to that which was initially projected for 2015.

Other Adjustments

We did not include any other adjustments.

Trend (Cost/Utilization)

The trends were developed from the HCGs.

Inclusion of Capitation Payments

There are no capitation payments assumed in the projection period.

EXHIBIT 7. CREDIBILITY OF EXPERIENCE

Description of the Credibility Method Used

The credibility used was based on internal Milliman credibility research. This research was specifically completed to determine appropriate credibility levels for Commercial insurance as currently marketed under the ACA environment. The research was performed under two different approaches. The first approach utilized a claims probability distribution (CPD) approach, while the second approach made use of Monte Carlo sampling.

The CPD method proposes a full commercial credibility threshold of 65,591 member months. Therefore, the credibility weight that KYHC's 2014 small group business would be assigned is $(1,945 / 65,591)^{0.5} = 17.2\%$. According to CMS credibility guidelines, credibility levels below 20% can be deemed 0% credible.

Under the Monte Carlo sampling results, in order to achieve 5% projection accuracy, given 1,945 member months, the credibility assigned would be 1.8%. This assumes 0% lapses. Higher lapsation assumptions would serve to lower the credibility assigned even further.

KYHC's individual block of business, although fully credible, is not appropriate for use as an experience-based manual due to the perceived volatile nature of the individual market as compared to the small group market. Therefore, the 2016 small group rate development is based solely on manual rates.

Resulting Credibility Level Assigned to the Base Period Experience

The credibility assigned to the base period experience is 0%.

EXHIBIT 8. PAID TO ALLOWED RATIO

The following table provides support for the average paid to allowed ratio shown in Worksheet 1, Section III of the URRT. The table also demonstrates that the ratio is consistent with membership projections by plan included in Worksheet 2.

Table 8.1 Kentucky Health Cooperative, Inc. Paid to Allowed Average Factor Support Exhibit		
	Worksheet 1, Section III	Worksheet 2, Section IV
Allowed Per Member Per Month	\$468.96	\$468.96
Paid Per Member Per Month	\$325.46	\$330.54
Average Paid to Allowed Ratio	69.4%	70.5%

The average factor Worksheet 1 shown above was developed based on the projection of the average mix of plans sold. The Worksheet 2 factor shown above was measured using the projected Allowed PMPMs by plan from Worksheet 2 and the Actuarial Value calculated using the Federal AV Calculator model.

EXHIBIT 9. RISK ADJUSTMENT AND REINSURANCE

Experience Period Risk Adjustments PMPM

The following methodology was used to estimate final risk adjustment transfers for CY2014:

We do not feel that credible information is present to suggest a risk adjustment transfer payable or receivable for the experience period. Therefore, we are assuming a risk adjustment transfer amount of \$0.00 PMPM for CY2014.

Projected Risk Adjustments PMPM

The estimates of relative risk and risk transfer payments are highly dependent on the population that enrolls with KYHC but also with other carriers in the state. KYHC's average risk is projected to be approximately equal to the state average risk level. As a result, premium levels have been set at the anticipated state average risk level with the expectation that no significant portion of this premium will be either received from or paid to the Risk Adjustment transfer program.

The anticipated risk transfer payments, net of risk adjustment fees assumed to be \$0.15 PMPM for CY2016, are applied to the Index Rate as a market level adjustment. The overall impact of projected net risk adjustment transfers is a premium increase of \$0.15 PMPM.

Experience Period ACA Reinsurance Recoveries Net of Reinsurance Premium

Not applicable as small group business is not eligible for federal reinsurance recoveries. The CY2014 reinsurance contribution of \$5.25 PMPM was netted against the \$0 receivable for a total net payable of \$5.25 PMPM.

Projected ACA Reinsurance Recoveries Net of Reinsurance Premium

Small group membership is not eligible for federal reinsurance recoveries. We assumed that individual and small group membership both sold through and outside the Marketplace will be assessed \$2.25 PMPM in reinsurance contributions in CY2016.

The transitional reinsurance recoveries, net of contributions, are applied to the Index Rate as a market level adjustment. The overall impact of projected net reinsurance recoveries is a premium increase of \$2.25 PMPM.

EXHIBIT 10. NON-BENEFIT EXPENSES AND PROFIT & RISK

The following table summarizes retention components included in rate development.

Table 10.1 Kentucky Health Cooperative, Inc. Illustration of Administrative Expenses by URRT Worksheet 1 Category				
<u>Retention Description</u>	<u>PMPM</u>	<u>% Premium</u>	<u>Basis</u>	<u>Annotation</u>
<u>Administrative Expense Load</u>				
General Admin			PMPM	(1)
Commission			PMPM	(2)
Commercial Reinsurance Recoveries			PMPM	(3)
Commercial Reinsurance Premiums			PMPM	(4)
+ Quality Improvement			PMPM	(5)
Subtotal: Administrative Expense Load				(6) = (1) + (2) + (3) + (4) + (5)
<u>Profit and Risk Load</u>				
+ Target Gain/Loss			% of Premium	
Subtotal: Profit and Risk Load				(7)
<u>Taxes and Fees</u>				
Kentucky GAP Assessment			% of Premium	(8)
Comparative Effectiveness Research Fee			PMPM	(9)
+ Health Insurer Provider Fee			% of Premium	(10)
Subtotal: Taxes and Fees				(11) = (8) + (9) + (10)
Total Retention				(12) = (6) + (7) + (11)

General Administrative Expenses, Commissions, Commercial Reinsurance Premiums, and Quality Improvement Expenses were developed based on information provided by KYHC. The resulting PMPM was then converted to the average premium PMPM to determine the administrative cost as a percent of premium.

KYHC is filing 0.0% Profit and Risk Margin in 2016. KYHC has a business plan to minimize losses in future years as enrollment increases and short term administrative costs related to start-up are eliminated. KYHC has access to capital through a solvency loan arrangement with the Federal Government that will allow the company to maintain required surplus levels despite the small margin levels. Because of these reasons, we find KYHC's rates to be adequate even though potential losses could occur in 2016.

EXHIBIT 10. NON-BENEFIT EXPENSES AND PROFIT & RISK

The following table summarizes taxes and fees included in rate development.

Table 10.2 Kentucky Health Cooperative, Inc. Summary of Taxes and Fees	
Description	Amount
Kentucky GAP Assessment ¹	1.0% of Premium
Comparative Effectiveness Research	\$0.19 PMPM
Health Insurance Provider Fee	
Marketplace User Fee	0.0% of Premium

¹The Commonwealth of Kentucky levies a 1.0% GAP funding assessment in lieu of Premium Tax

Due to PMPM administrative expense items being applied as a percent of average premium, the administrative expense load as a percent of premium does not vary by plan.

EXHIBIT 11. PROJECTED LOSS RATIO

The projected loss ratio is 86.7%. This loss ratio is calculated consistently with the MLR methodology according to the National Association of Insurance Commissioners as prescribed by 211 CMR 147.00. Based on projected enrollment, this loss ratio would not be credible and no MLR calculation would need to be filed.

No additional state-specific projected loss ratio demonstration is required in the Commonwealth of Kentucky.

EXHIBIT 12. SINGLE RISK POOL

KYHC rates are developed using a single risk pool, established according to the requirements in 45 CFR section 156.80(d) and reflects all covered lives for every non-grandfathered product/plan combination, in the Commonwealth of Kentucky small group health insurance market.

EXHIBIT 13. INDEX RATE

The index rate for the experience period is a measurement of the average allowed claims PMPM for EHB benefits. The experience period index rate reflects the actual mixture of smoker/non-smoker population, area factors, and the actual mixture of risk morbidity that KYHC received in the Single Risk Pool during the experience period. There were no additional benefits offered beyond the EHB benefits. The experience Index Rate has not been adjusted for payments and charges under the risk adjustment and reinsurance programs, or for Marketplace user fees.

The experience period Index Rate is equal to the experience period total allowed claims PMPM since there are no benefits that were offered beyond the EHB benefits. Note that the experience period index rate was not used for 2016 pricing because the experience is not credible.

The index rate for the projection period is a measurement of the average allowed claims PMPM for EHB benefits. The projected index rate reflects the projected CY2016 mixture of smoker/non-smoker population, area factors, and the projected mixture of risk morbidity that KYHC expects to receive in the Single Risk Pool. There were no additional benefits offered beyond the EHB benefits. The projected Index Rate has not been adjusted for payments and charges projected under the risk adjustment and reinsurance programs, or for Marketplace user fees.

The projected Index Rate is equal to the projected total allowed claims PMPM since there are no benefits offered beyond the EHB benefits.

The following table summarizes the factors applied to the Manual Index Rate to determine the Projected Index Rate:

Table 13.1 Kentucky Health Cooperative, Inc. Projected Index Rate Development (\$PMPM)	
Manual Index Rate	\$468.96
Single Risk Pool Adjustments	
Benefits	1.000
Demographics	1.000
Projection Period Index Rate	\$468.96

KYHC will change their small group rates on a quarterly basis. Therefore, the Index Rate in the URRT has been calculated as a weighted average using each effective premium rate and the expected number of members at the corresponding quarterly premium levels. The quarterly trend was assumed to be 7.5% annualized. The trend level used is based on information found in the HCGs.

Below is an illustration of the Quarterly Index Rates as well as the Total Single Risk Pool Index Rate. Note that the base allowed claims number shown is the January Index Rate constructed above.

Table 13.2 Kentucky Health Cooperative, Inc. Small Group Index Rate Accounting for Quarterly Trend					
	January	April	July	October	Total Single Risk Pool
Member Months					
Base Allowed Claims	\$468.96	\$468.96	\$468.96	\$468.96	\$468.96
Months of Trend	0	3	6	9	
Annual Trend Rate					
Single Risk Pool Projected Allowed Claims					\$481.95

EXHIBIT 14. MARKET ADJUSTED INDEX RATES

The following table summarizes the factors applied to the Index Rate in the projection period to determine the Market Adjusted Index Rate.

Table 14.1 Kentucky Health Cooperative, Inc. Marked Adjusted Index Rate Development	
Index Rate	\$481.95
Net Risk Adjustment	\$0.15
Net Transitional Reinsurance	\$2.25
Exchange Fee	
Paid to Allowed Average Factor	
Market Adjustments (Allowed Basis)	
Quarterly Trend	
Market Adjusted Index Rate	

* Market Adjusted Index Rate = Market Adjustment (Allowed Basis) x Quarterly Trend + Index Rate

The Market Adjusted Index Rate is not calibrated. This means that this rate reflects the average demographic characteristics of the single risk pool.

Each of the above modifiers were developed as follows:

- **Net Risk Adjustment**
This adjustment includes the impact of the estimated risk adjustment transfer payment as addressed in Exhibit 9 plus the Risk Adjustment User Fee of \$0.15.
- **Net Transitional Reinsurance**
This adjustment includes the impact of the estimated Transitional Reinsurance PMPM recovery as addressed in Exhibit 9 plus the Transitional Reinsurance Contribution of \$2.25 PMPM.
- **Marketplace User Fee adjustment**
The Marketplace User Fee adjustment was determined as the average of no fee and the Marketplace user fee, weighted using the expected distribution of issuer enrollment sold through versus outside the Marketplace.

EXHIBIT 15. PLAN ADJUSTED INDEX RATES

The Market Adjusted Index Rate is adjusted to compute the Plan Adjusted Index Rates using the following allowable adjustments:

- Actuarial value and cost sharing adjustment
 - The CMS Actuarial Value Calculator was used to determine the AV metal value for each plan.
 - The AV and cost sharing pricing adjustment was developed utilizing the HCGs. Relativities between plans were based on the differences in cost and utilization for varying levels of cost sharing.
 - KYHC will charge a tobacco surcharge for smokers. An adjustment has been developed and included here so that the resulting Plan Adjusted Index Rate excludes the cost expected to be recouped through the tobacco surcharge.
- Provider network, delivery system and utilization management adjustment
 - There are no expected differences in the provider network and/or utilization management between plans.
- Adjustment for benefits in addition to the EHBs
 - There are no benefits being offered in addition to the EHBs.
- Adjustment for distribution and administrative costs
 - Adjustment is developed to indicate the impact of non-benefit expenses.
- Impact of specific eligibility categories for the catastrophic plan
 - There are no small group Catastrophic plans; therefore, there is no Catastrophic Eligibility Adjustment present in the small group risk pool.

The following table demonstrates the Plan Adjusted Index Rate development for each plan:

Table 15.1 Kentucky Health Cooperative, Inc. Projection Period Plan Adjusted Index Rate Development							
Plan	Market Adjusted Index Rate	AV & Cost Sharing	Provider Network Adjustment	Benefits In Addition to EHBs	Admin Costs Excl. Mktplace User Fee	Specific Catastrophic Eligibility	Plan Adjusted Index Rate
KY Health Cooperative Gold SG (77894KY0090001)							\$470.63
KY Health Cooperative Silver SG (77894KY0090002)							\$379.54
KY Health Cooperative Bronze SG (77894KY0090003)							\$306.60
KYHCMultistatePlanSG Gold (77894KY0210001)							\$506.86
KYHCMultistatePlanSG Silver (77894KY0210002)							\$406.27

The Plan Adjusted Index Rates reflect the average demographic characteristics of the single risk pool and therefore are not calibrated.

EXHIBIT 15. PLAN ADJUSTED INDEX RATES

Experience Period Plan Adjusted Index Rates

Although Plan Adjusted Index Rates were not required for the CY2014 filing, the methodology for their development is given below. The following table demonstrates the retroactive Plan Adjusted Index Rate development for each filed CY2014 plan, recognizing the relationship between the Consumer Adjusted Premium Rate and the Plan Adjusted Index Rate. We begin with a single Consumer Adjusted Premium Rate and remove the consumer-specific adjustments, then translating the resulting values into rates that reflect the average demographic characteristics of the single risk pool as filed for CY2014. The result is the retroactive Plan Adjusted Index Rates for the experience period:

Table 15.2 Kentucky Health Cooperative, Inc. Experience Period Plan Adjusted Index Rate Development							
Plan	Age 21 Rate	Rating Area	Area Factor	Age 21 Factor	Area Calibration	Demographic Calibration	Plan Adjusted Index Rate
KY Health Cooperative Gold SG (77894KY0090001)							\$391.46
KY Health Cooperative Silver SG (77894KY0090002)							\$331.44
KY Health Cooperative Bronze SG (77894KY0090003)							\$289.52
KYHCMultistatePlanSG Gold (77894KY0210001)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
KYHCMultistatePlanSG Silver (77894KY0210002)	N/A	N/A	N/A	N/A	N/A	N/A	N/A

The Plan Adjusted Index Rates reflect the average demographic characteristics of the single risk pool and therefore are not calibrated.

EXHIBIT 16. CALIBRATION

A single calibration factor is applied to the Plan Adjusted Index Rates from Exhibit 15 to calibrate rates for the expected age and geographic distribution expected to enroll in the plan. The single calibration factor is applied uniformly across all plans.

Age Curve Calibration

In order to determine the calibration factor for age, the projected distribution of members by age was determined. The weighted average of the factors in the age curve was then calculated using this distribution. The average age was then determined by finding the age of a member that would have the closest factor to the weighted average age curve calibration factor. Prior to applying the allowed rating factors for age, geography and tobacco, the plan adjusted index rates need to be divided by the age curve calibration factor.

Additional information regarding the age curve can be found on Exhibit 17.

Geographic Factor Calibration

In order to determine the calibration factor for geography, the projected distribution of members by area was determined. The weighted average of the area factors was then determined using this distribution. The area factors used are reflective of differences in delivery costs (including unit cost and provider practice pattern differences) only, and do not reflect any difference in population morbidity. Prior to applying the allowed rating factors for age, geography and tobacco, the plan adjusted index rates need to be divided by the geography calibration factor.

Additional information regarding the area rating factors can be found on Exhibit 17.

The following table demonstrates the calibration performed for each plan:

Plan	Plan Adjusted Index Rate	Age Calibration Factor	Geography Calibration Factor	Calibration Factor	Calibrated Plan Adjusted Index Rate
KY Health Cooperative Gold SG (77894KY0090001)	\$470.63			1.385	\$339.69
KY Health Cooperative Silver SG (77894KY0090002)	\$379.54			1.385	\$273.94
KY Health Cooperative Bronze SG (77894KY0090003)	\$306.60			1.385	\$221.30
KYHCMultistatePlanSG Gold (77894KY0210001)	\$506.86			1.385	\$365.84
KYHCMultistatePlanSG Silver (77894KY0210002)	\$406.27			1.385	\$293.24

EXHIBIT 17. CONSUMER ADJUSTED PREMIUM RATE DEVELOPMENT

The Consumer Adjusted Premium Rate is the final premium rate for a plan that is charged to an individual, family, or small employer group utilizing the rating and premium adjustments as articulated in the applicable Market Reform Rating Rules. It is the product of the Plan Adjusted Index Rate, the geographic rating factor, the age rating factor and the tobacco status rating factor. All rating factors are described and shown below.

KYHC's CY2016 age and tobacco rating factors are shown below. The age rating factors used by KYHC are identical to those prescribed by CMS. Industry research regarding tobacco use and differences in health costs for smokers by age was used as the basis of our adjustment factors.

Age Band	Rate Factor	Tobacco Factor	Age Band	Rate Factor	Tobacco Factor
0-17	0.635	1.000	41	1.302	1.160
18	0.635	1.000	42	1.325	1.160
19	0.635	1.000	43	1.357	1.160
20	0.635	1.000	44	1.397	1.160
21	1.000	1.100	45	1.444	1.170
22	1.000	1.100	46	1.500	1.170
23	1.000	1.100	47	1.563	1.170
24	1.000	1.100	48	1.635	1.170
25	1.004	1.120	49	1.706	1.170
26	1.024	1.120	50	1.786	1.180
27	1.048	1.120	51	1.865	1.180
28	1.087	1.120	52	1.952	1.180
29	1.119	1.120	53	2.040	1.180
30	1.135	1.140	54	2.135	1.180
31	1.159	1.140	55	2.230	1.190
32	1.183	1.140	56	2.333	1.190
33	1.198	1.140	57	2.437	1.190
34	1.214	1.140	58	2.548	1.190
35	1.222	1.150	59	2.603	1.190
36	1.230	1.150	60	2.714	1.200
37	1.238	1.150	61	2.810	1.200
38	1.246	1.150	62	2.873	1.200
39	1.262	1.150	63	2.952	1.200
40	1.278	1.160	64+	3.000	1.200

KYHC's CY2016 geographic rating factors are shown below. These factors were developed from the HCGs. The geographic factors used incorporate differences in delivery costs (including unit cost and provider practice pattern differences) only, and do not reflect any difference in population morbidity.

Area	Rate Factor
Rating Area 1	0.958
Rating Area 2	0.983
Rating Area 3	1.045
Rating Area 4	0.939
Rating Area 5	0.975
Rating Area 6	1.098
Rating Area 7	1.086
Rating Area 8	0.958

EXHIBIT 17. CONSUMER ADJUSTED PREMIUM RATE DEVELOPMENT

The premium for family coverage is determined by summing the consumer adjusted premium rates for each individual family member, provided at most three child dependents under age 21 are taken into account.

For Small Group plans, the result from above would further be multiplied by a quarterly trend factor. Since the consumer adjusted premium rate developed above is the member weighted average over the calendar year, an adjusted trend factor must be applied. The following shows the adjusted trend factor for each quarter and how it was developed:

Table 17.3 Kentucky Health Cooperative, Inc. Small Group Quarterly Trend Factors				
Trend Effective Date	Qrtly Trend Factor	Member Month Weights	Weighted Avg Trend Factor	Adjusted Trend Factor
1/1/2016				
4/1/2016				
7/1/2016				
10/1/2016				

Below is an example of how to arrive at the July 1 rate for an age 34 individual in rating area 4 that is a smoker:

Table 17.4 Kentucky Health Cooperative, Inc. Sample Consumer Adjusted Premium Rate Development	
Plan Adjusted Index Rate for KY Health Cooperative Silver SG (77894KY0090002), Calibrated	\$273.94
Age factor for a 34-year-old	1.214
Smoker status adjustment: smoker	1.140
Area 4 factor	0.939
Quarterly Trend Adjustment	1.009
Consumer Adjusted Premium Rate	\$359.16

EXHIBIT 18. AV METAL VALUES

The AV metal values included in Worksheet 2 of the URRT are entirely based on the AV Calculator. Table 18.1 below summarizes these values for each product.

Table 18.1 Kentucky Health Cooperative, Inc. Actuarial Values		
Plan	Actuarial Value	Actuarial Value Source
KY Health Cooperative Gold SG (77894KY0090001)	0.793	Federal AV Calculator
KY Health Cooperative Silver SG (77894KY0090002)	0.689	Federal AV Calculator
KY Health Cooperative Bronze SG (77894KY0090003)	0.620	Federal AV Calculator
KYHCMultistatePlanSG Gold (77894KY0210001)	0.815	Federal AV Calculator
KYHCMultistatePlanSG Silver (77894KY0210002)	0.719	Federal AV Calculator

EXHIBIT 19. AV PRICING VALUES

The following table summarizes all of the adjustments included in the AV Pricing Value:

Table 19.1 Kentucky Health Cooperative, Inc. Actuarial Value Pricing Values						
Plan	AV & Cost Sharing	Provider Network Adjustment	Benefits In Addition to EHBs	Admin Costs Excl. Mktplace User Fee	Specific Catastrophic Eligibility	AV Pricing Value
KY Health Cooperative Gold SG (77894KY0090001)						0.969
KY Health Cooperative Silver SG (77894KY0090002)						0.782
KY Health Cooperative Bronze SG (77894KY0090003)						0.632
KYHCMultistatePlanSG Gold (77894KY0210001)						1.044
KYHCMultistatePlanSG Silver (77894KY0210002)						0.837

The AV Pricing Value represents the cumulative effect of the adjustments made by KYHC to move from the Market Adjusted Index Rate to the Plan Adjusted Index Rate.

The adjustment for plan cost sharing includes expected differences in utilization due to differences in cost sharing. Adjustments in utilization due to differences in cost sharing were based on the contractual adjustments from the HCGs. These adjustment factors only contain expected differences in utilization due to differences in cost sharing and not due to health status.

EXHIBIT 20. MEMBERSHIP PROJECTIONS

The projected membership (as displayed in Worksheet 2, Section IV of the URRT) was determined by considering the size of the projected Kentucky small group market in 2016 in the plan's service area and an assumed penetration rate of this market. The size of the market was estimated based on the following:

- Current size of the Kentucky small group market in the plan's service area
- The individual mandate
- Potential Medicaid expansion
- Projected population growth in the Commonwealth
- Projected "take-up" rates based on current membership status (i.e., current insured/uninsured) and federal subsidy available if a member enrolls in a plan sold in the marketplace.

KYHC's penetration rate in the market was determined based on 2014 and emerging 2015 membership counts as compared to the size of the Kentucky small group market as a whole.

For 2016, we assumed that the expected statewide members and their health status would be the same as what was projected for 2015.

We estimated the members that would select each of KYHC's benefit plans based on the plans for which they would qualify (given their age and income level).

There are no differences between the distribution of projected member months relative to the current membership distribution.

No portion of the Silver plan enrollment is eligible for cost sharing reduction in the small group market; therefore, no estimation for this enrollment was determined.

EXHIBIT 21. TERMINATED PRODUCTS

No products will be terminated prior to the effective date.

EXHIBIT 22. PLAN TYPE

There are no differences between the plans of KYHC and the plan type selected in the drop-down box in Worksheet 2, Section I of the URRT.

EXHIBIT 23. WARNING ALERTS

The following warning alerts occurred in Worksheet 2 of the URRT:

There is a warning on the Plan Adjusted Index Rate line of Worksheet 2, Section III. The difference is due to the fact that the Plan Adjusted Index Rates for CY2014 were based on a projected population, while the premium amount on Worksheet 1 is based on actual population mix. In addition, the Plan Adjusted Index Rate differs from Average Premium in that the Plan Adjusted Index Rate does not include the impact of any tobacco load.

There is an additional warning on the Total Premium line of Worksheet 2, Section III. The difference is due to the issue noted above, as the values on this are equal to the values on the Plan Adjusted Index Rate line multiplied by projected member months.

EXHIBIT 24. EFFECTIVE RATE REVIEW INFORMATION (OPTIONAL)

Not applicable.

EXHIBIT 25. RELIANCE

In performing this analysis, I relied on data and other information provided by KYHC. I have not audited or verified this data and other information. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete.

I performed a limited review of the data used directly in the analysis for reasonableness and consistency and have not found material defects in the data. If there are material defects in the data, it is possible that they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable or for relationships that are materially inconsistent. Such a review was beyond the scope of the assignment.

A data reliance letter is attached to this rate submission.

EXHIBIT 26. ACTUARIAL CERTIFICATION

I am a Principal & Consulting Actuary with the firm of Milliman, Inc. Kentucky Health Cooperative, Inc. engaged me to provide the opinion herein.

Guidelines issued by the American Academy of Actuaries require actuaries to include their professional qualifications in all actuarial communications. I am a member of the American Academy of Actuaries, and I meet its qualification standards to perform the analysis and render the actuarial opinion contained herein.

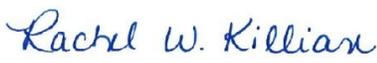
I certify to the best of my knowledge and judgment:

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, and
 - Neither excessive nor deficient based on my best estimates of the 2016 small group market.
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 (URRT) was calculated in accordance with actuarial standards of practice.
4. The geographic rating factors used reflect only differences in the cost of delivery, and do not include differences for population morbidity by geographic area.
5. The CMS Actuarial Value Calculator was used to determine the AV Metal Values shown in Worksheet 2, Section I of the Part I URRT for all plans.

The Part I URRT does not demonstrate the process used to develop proposed premium rates. It is representative of 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 as well as state-run marketplaces and for certification that the index rate is developed in accordance with Federal regulation and used consistently and only adjusted by the allowable modifiers.

The information provided in this actuarial memorandum is in support of the items illustrated in the URRT and does not provide an actuarial opinion regarding the process used to develop proposed premium rates. It does certify that rates were developed in accordance with applicable regulations, as noted.

Differences between the projections and actual amounts depend on the extent to which future experience conforms to the assumptions made for this analysis. It is certain that actual experience will not conform exactly to the assumptions used in this analysis. Actual amounts will differ from projected amounts to the extent that actual experience deviates from expected experience.

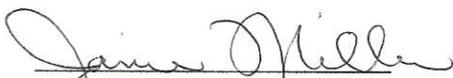
Signed: 
Name: Rachel W. Killian, FSA, MAAA
Title: Principal & Consulting Actuary
Date: April 30, 2015

Kentucky Health Cooperative, Inc.

**List of Data and Information Received and Relied Upon by Milliman
for the Unified Rate Review Template (URRT)**

I, Janie Miller, Chief Executive Officer, hereby affirm that to the best of my knowledge and belief, the underlying data sources and information relied upon by Milliman for use in preparing the Unified Rate Review Template (URRT) and Actuarial Memorandum are accurate and complete.

Further, I acknowledge that in preparing the URRT and Actuarial Memorandum, Milliman has relied on certain assumptions provided by Kentucky Health Cooperative, Inc. as described in the attached, and I affirm that to the best of my knowledge and belief, these assumptions are consistent with the Company's reasonable expectations regarding the future financial performance.



4/30/15

Date

Kentucky Health Cooperative, Inc.

**List of Data and Information Received and Relied Upon by Milliman
Provided Under the Direction of Janie Miller, Chief Executive Officer
Unified Rate Review Template (URRT)**

- A. Detailed claims and membership information
- B. Projected 2016 General administrative costs
- C. Projected 2016 Commissions and QI expenses
- D. Projected 2016 Commercial reinsurance terms
- E. 2016 Plan benefit designs and product offerings