OVERVIEW AND BACKGROUND OF RATE FILING

This filing is for Baptist Health Plan's (BHP) 2017 Small Group non-grandfathered single risk pool block of business. The proposed average rate increase for this filing is 12.57%. There were no required changes that had a rating impact during the course of the review so the final requested rate increase remained as initially submitted at 12.57%.

BHP is proposing to sell small group HMO & PPO products in 2017 both with and without a HRA/HSA accounts. The Company has terminated 18 plans that were approved in the previous rate filing and is introducing 13 new ones. The Company is offering 10 HMO plans with a narrow network (Baptist Health Community Care Network) which will be limited to rating areas 1-5, 7-8. All other plans offered by the Company are PPO plans and a significant number of these plans have a HRA or HSA account with embedded employer contributions. These plans are offered in rating areas 1-8.

BHP projects its 2017 membership to be 33,285 member months, down from the 63,163 member months assumed in the 2016 rate filing. As of January 2016, the Company had 2,739 members. The Company's projected 2017 enrollment is developed starting with its current membership and applying anticipated lapses based on actual historical Company attrition rates. The Company anticipates its 2-49 small group membership to decrease by a 1,000 members in 2017. The Company provided a detailed demonstration of how it developed the projected 2017 enrollment, which we reviewed for reasonableness.

BHP's Small group rates are set for a 1/1/17 effective date and will increase quarterly at 1.7% per quarter (7.0% annually). The company indicates Essential Health Benefits (EHB) are included in the rates and no material additional benefits in excess of EHB are included.

The anticipated pricing loss ratio is 81.3% which is approximately equivalent to an 86% ACA defined MLR for rebate calculation purposes.

SUMMARY OF RATE DEVELOPMENT, ASSUMPTIONS, AND CHANGES

Premium rates were developed using the Company's 2015 small group experience, with 3 months of claim runout, from BHP's existing non-grandfathered experience for group size 2-99. The experience was adjusted for a number of factors to accurately reflect the projected 2017 small group market. The Company provided a complete breakdown of all adjustments, including the list below.

- Starting base experience
- Changes in benefit design
- Medical utilization and unit cost trends,
- Anticipated morbidity due to better risks staying in transitional policies
- Risk adjustment
- Taxes, fees and other Non-Benefit Expenses (NBE)

A rating trend of 6.0% was assumed for calendar year 2016 and 7.0% for calendar year 2017. This results in an approximate 6.5% annualized trend rate to project the base experience from 2015 to 2017. The average annual trend assumed in the development of last year's rate filing was 7.8%. The Company's medical claims trends are based on a review of historical experience, as well as using Milliman's guidelines for medical trends from the HCGs. The pharmacy trends take into account anticipated increases from specialty drugs. The trend support exhibit provided 5 years of the Company's Group Commercial trend experience broken down by medical category for both unit cost and utilization. Actuarial judgment was used to project each cost and utilization component of the trend to reflect the cost impacts of several provider and smooth recent fluctuations. Some of the trend adjustments by medical category deviated from what the historical experience showed, however the overall aggregate trend assumption of 6.5%% is reasonable based on the historical experience and industry trend averages.

A Morbidity factor of 1.058 was used to account the transitional experience anticipated to transfer to a ACA compliant small group plan. BHP anticipates 25% of its grandmothered members to move to ACA compliant plans in 2017, after the final renewal date for grandmothered plans. The Company stated its ACA experience has historically been worse than the Small Group 2-49 block as a whole, so the morbidity adjustment of 1.058 was necessary to account for this fact. We requested and were provided the detailed quantitative support for the development of this factor. The development and the rationale for using the factor appear reasonable. It is also noted that this adjustment is similar to the factor that was applied last year resulting in very little rating impact.

The Company is offering 10 HMO plans with a narrow network (Baptist Health Community Care Network). The majority of small group plans will remain on the BFH broad network and will not have any provider contract changes and therefore a 1.000 provider contract adjustment factor was used in the rate buildup. For the two narrow network plans are being introduced, the provider contract adjustment is implicit in the pricing AV for those plans. The Company provided a file showing the development of these plan's provider contract factor which it requested to remain confidential. We reviewed the development of this factor and it appears reasonable.

Another major driver of the proposed rate increase is a change in the projected risk adjustment assumption. The Company assumed it would be market average in last year's rate development and therefore assumed no risk transfer payment. For 2017, the Company has assumed it will be a net risk adjustment payer, resulting in a rating impact of 2.5% increase. In last year's rate filing, we questioned the Company's assumption that its population would be market average, given it had a significant number of HSA plans being offered which tend to attract healthier members. The Company decided not to change the assumption because it said it did not have sufficient support however it now believes this adjustment is necessary for 2017. The methodology used develop the proposed risk adjustment assumption is similar to what the Company used to develop the risk adjustment payments for its year end 2015 financials, except it has applied a coding improvement factor it anticipates achieving for 2017. The coding improvement assumption is based on BHP's introduction of its risk score optimization efforts directed by its consultants Evolent, which has had considerable experience assisting other carriers achieve the desired results. The Company provided reasonable qualitative and some empirical evidence to support the Company's assumptions. The effect of using the coding improvement factor results in a lower rate increase then it would have without the use of the factor. After discussions with the Company's consultants along with the RBC scenario testing we requested (mentioned below), I have achieved a comfort level that the assumption is not too aggressive and now consider the risk adjustment assumption reasonable. This assumption should be monitored closely moving forward but I think it's appropriate for the current rate filing based on the support provided.

The Company's federally adjusted MLR calculation of 86.0% demonstrates compliance with the required minimum of 80%. The company provided a detailed buildup of the projected MLR.

The Company made the following changes as a result of the review process.

- The Company also discovered some of the proposed HSA plan designs had Out-of-Pocket maximums above the 2017 limit of $6,550 for HSA plans. The correction required a small corresponding change to the plan's deductible in order to stay within the +/-2% metal AV range. The impact of the benefit changes on pricing AV was sufficiently small that the Company did not need to make a change to the proposed rates.

DESCRIPTION OF FILING REVIEW PROCESS WITH INSURER

The submitted filing was reviewed and subsequent questions requesting additional information sent to the insurer. Rate tables, experience, and detailed data and explanations supporting the filing were requested and provided by the carrier. The company appears to have provided supporting documentation for their assumptions although given the wide range of possible scenarios and magnitude, complexity of ACA provisions, and uncertainty of actual market purchaser characteristics, it is not unlikely that results will vary from the company's assumptions.