Kentucky
Federal Part II Consumer Justification
UnitedHealthcare of Kentucky, Ltd.

Scope and Range of the Rate Increase

The requested average rate change for small group health benefit plans, which are under both the 23671KY001 and 23671KY002 Product types in the URRT Part I and sold outside of the health insurance exchange in the state of Kentucky, are +10.1%% and 7.8%, respectively. Rate increases may range from +5.5% to +11.1% for 23671KY001 and +5.1% to +16.1% for 23671KY002 depending on the specific plan and geographic area. Additional premium changes may occur due to policyholder aging, changes in plan selection, and changes in geographic location. Rate increases will be effective January 1, 2017. It is projected that there will be 6,010 covered lives impacted by this rate change.

Financial Experience of the Product

The 23671KY002 POS product was first available January 1, 2014, and the 23671KY001 HMO product was first available January 1, 2015. The financial experience for the 2014 and 2015 plan years is included below.

	Product					
	23671KY001			23671KY002		
Plan Year	Earned Premium (ACA Plans Only)	Incurred Claims (ACA Plans Only)	Loss Ratio	Earned Premium (ACA Plans Only)	Incurred Claims (ACA Plans Only)	Loss Ratio
2014	$0	$0	N/A	$3,872,421	$3,190,682	82.4%
2015	$34,586	$12,571	36.3%	$8,550,935	$6,230,269	72.9%

Although we have limited experience available for this product, we base our rates on the best information that we have available about the expected costs for these plans.

Changes in Medical Service Costs

There are many different health care cost trends that contribute to increases in the overall U.S. health care spending each year. These trend factors affect health insurance premiums, which can mean a premium rate increase to cover costs. Some of the key health care cost trends that have affected this year's rate actions include:

- **Increasing Cost of Medical Services**: Annual increases in reimbursement rates to health care providers – such as hospitals, doctors, and pharmaceutical companies.
- **Increased Utilization**: The number of office visits and other services continues to grow. In addition, total health care spending will vary by the intensity of care and use of different types of health services. The price of care can be affected by the use of expensive procedures such as surgery versus simply monitoring or providing medications.
- **Higher Costs from Deductible Leveraging**: While health care costs continue to rise every year, if deductibles and copayments remain the same, a greater percentage of health care costs need to be covered by health insurance premiums each year.

- **Cost shifting from the public to the private sector**: Reimbursements from the Center for Medicare and Medicaid Services (CMS) to hospitals do not generally cover the cost of providing care to these patients. Hospitals generally make up this reimbursement shortfall by charging private health plans more.
- **Impact of New Technology**: Improvements to medical technology and clinical practice require use of more expensive services - leading to increased health care spending and utilization.

Changes in Benefits

Changes in covered benefits or benefit plan designs impact costs and therefore affect premium changes. Benefit plans are typically changed for one of three reasons: to comply with the requirements of the Affordable Care Act, to respond to consumer feedback, or to address a particular medical cost issue to provide for greater long-term affordability of the product.

The Affordable Care Act implemented requirements for the "value" that must be offered by plan designs in the Individual and Small Group markets. These are called "metal levels". For a benefit plan to remain classified within a particular metal level from year to year, adjustments to deductibles, copayments or coinsurance are sometimes required. These adjustments impact the cost and therefore the premium increases for the plan.

Administrative Costs and Anticipated Profits

UnitedHealthcare of Kentucky, Ltd. works to directly control administrative expenses by adopting better processes and technology and developing programs and innovations that make health care more affordable. We have led the marketplace by introducing key innovations that make health care services more accessible and affordable for customers, improve the quality and coordination of health care services, and help individuals and their physicians make more informed health care decisions. Our administrative costs and anticipated margin for profit and contingencies have not significantly changed, so premium changes due to changes in administrative costs and anticipated profit targets are minimal.

State and Federal government imposed taxation and fees are significant factors that impact health care spending and have to be included in the administrative costs associated with the plans. These fees include Patient Protection and Affordable Care Act taxes and fees which impact health insurance costs and need to be reflected in premium. The two largest cost impacts are:

- Federal/State Income Tax: The federal and state income tax on profit and risk load is estimated to be approximately 2.75% for 2017.
- Insurer Fee: UnitedHealthcare (parent company of UnitedHealthcare of Kentucky, Ltd.) estimates that 1.92% of its 2017 premium will be allocated for insurer fees.
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The requested rate change is anticipated to be sufficient to cover the projected benefit and administrative costs for the 2017 plan year.