OVERVIEW

This document contains the Part III Actuarial Memorandum for CareSource Kentucky Co.’s (CKY’s) individual comprehensive medical block of business, effective January 1, 2018. These individual rates are guaranteed through December 31, 2018. These products are offered both on and off the Individual Insurance Exchange. 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 of premium rate filings, including support for the values entered in the Part I URRT, which supports compliance with the market rating rules and reasonableness of applicable rate increases. This memorandum may not be appropriate for other purposes.

The information in this Actuarial Memorandum has been prepared for the use of CKY and is intended for use by the Kentucky Department of Insurance (DOI), the Center for Consumer Information and Insurance Oversight (CCIIO), and their subcontractors to assist in the review of CKY’s individual rate filing. However, we recognize that this certification may become a public document. Milliman makes no representations or warranties regarding the contents of this Actuarial Memorandum or rate filing to other users. Likewise, other users of this Actuarial Memorandum 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 the law.

The results are actuarial projections. Actual experience will differ for a number of reasons including, but not necessarily limited to, population changes, claims experience, and random deviations from assumptions.

The 2018 plan year premium rates provided in this Actuarial Memorandum were developed based upon the current Affordable Care Act (ACA) statutes and regulations in full force and effect as of date this Actuarial Memorandum is submitted, but assuming cost-sharing reduction subsidies are not funded. Accordingly, the 2018 plan year premium rates provided in this Actuarial Memorandum are contingent upon the current ACA statutes and regulations, including, but not limited to the advanced premium tax credits, and the individual mandate requirement and penalty not changing (“Financial Uncertainties”), either through legislative or regulatory amendment, court decision, or a decision by Congress, the Health and Human Services Secretary or the Centers of Medicaid and Medicare director to not fund advance premium tax credits or decision not to enforce the individual mandate requirement and penalty, for the upcoming 2018 plan year due to the fact that any change in the Financial Uncertainties have the potential to greatly impact the 2018 plan year premium rates provided in this Actuarial Memorandum. Therefore, since this Actuarial Memorandum and the 2018 plan year premium rates were developed based upon the current ACA statutes and regulations in full force and effect as of the date this Actuarial Memorandum is submitted and any prospective changes to the Financial Uncertainties are not accounted for in the 2018 plan premium rates, CKY retains and reserves the right to amend this Actuarial Memorandum and 2018 plan premium rates accordingly should there be any changes to the Financial Uncertainties.

As prescribed by the Kentucky DOI, the premium rates developed and supported by this Actuarial Memorandum assume that Cost Share Reductions (CSR) will not be funded and therefore are not calculated as described in current regulations and guidance. Furthermore, the Kentucky DOI prescribes the impact of CSR subsidy non-payment should be spread across only silver plans in the single risk pool. Future modifications in legislation, regulation and/or court decisions regarding the funding of CSR payments may affect the extent to which the premium rates are neither excessive nor deficient.
I. GENERAL INFORMATION

Company Identifying Information

<table>
<thead>
<tr>
<th>Company Legal Name:</th>
<th>CareSource Kentucky, Co.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Address:</td>
<td>P.O. Box 8738, Dayton, Ohio 45401-8738</td>
</tr>
<tr>
<td>Toll-Free Number:</td>
<td>1 800 479 9502</td>
</tr>
<tr>
<td>Filer Email:</td>
<td><a href="mailto:Scott.Brockman@caresource.com">Scott.Brockman@caresource.com</a></td>
</tr>
<tr>
<td>State:</td>
<td>Kentucky</td>
</tr>
<tr>
<td>HIOS Issuer ID:</td>
<td>45636</td>
</tr>
<tr>
<td>Market:</td>
<td>Individual</td>
</tr>
<tr>
<td>Effective Date:</td>
<td>January 1, 2018</td>
</tr>
</tbody>
</table>

Company Contact Information

<table>
<thead>
<tr>
<th>Primary Contact Name:</th>
<th>Scott Brockman</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary Contact Telephone Number:</td>
<td>(937) 531 2626</td>
</tr>
<tr>
<td>Primary Contact Email-Address:</td>
<td><a href="mailto:Scott.Brockman@caresource.com">Scott.Brockman@caresource.com</a></td>
</tr>
</tbody>
</table>

Consultant Contact Information

<table>
<thead>
<tr>
<th>Primary Contact Name:</th>
<th>Erik C. Huth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary Contact Telephone Number:</td>
<td>(262) 796 3468</td>
</tr>
<tr>
<td>Primary Contact Email-Address:</td>
<td><a href="mailto:erik.huth@milliman.com">erik.huth@milliman.com</a></td>
</tr>
</tbody>
</table>

Description of Benefits

These products provide comprehensive medical benefits for services received within the provider network. The products have various cost sharing designs which are a combination of deductibles, coinsurance, and copays that vary for in-network services.

Products 45636KY001 and 45636KY002 are HMO products with Gold, Silver, Bronze, and Catastrophic (in the case of 45636KY001) benefit plan options and provide coverage for inpatient, outpatient, physician, prescription drugs, and miscellaneous services subject to deductible, coinsurance, and copays. Products 45636KY003 and 45636KY005 are the Federal Standard silver and bronze benefit plans. All member cost-sharing (deductibles, coinsurance, and copays) accrue toward the annual out-of-pocket maximum. Pharmacy cost sharing reflects a five-tier (generic, preferred brand, non-preferred brand, preferred specialty, and non-preferred specialty) copayment or coinsurance structure for Products 45636KY001 and 45636KY002. Products 45636KY003 and 45636KY005 (Federal Standard plans) cost sharing reflects a four-tier (generic, preferred brand, non-preferred brand, and specialty) copayment or coinsurance structure consistent with regulation.

All plans within the products have the same Essential Health Benefits (EHBs). Products 45636KY001 and 45636KY003 include additional coverage for adult routine eye examinations. Products 45636KY002 and 45636KY005 include additional coverage for adult eyewear, adult routine eye examinations, and adult dental services, which are non-EHBs. No EHB substitutions were made.
II. PROPOSED RATE INCREASE(S)

This filing is both an initial rate filing for four plans and a requested rate change filing for ten of CKY’s individual Affordable Care Act (ACA) compliant non-group plan rates originally filed for effective dates January 1, 2017 through December 31, 2017. The experience basis, benefit plans, rating factors, and other projection assumptions were updated for this filing.

CKY’s 2018 plan designs include copay, deductible, out-of-pocket maximum, and other benefit changes from their existing 2017 plan designs to comply with changes in the most recent AV Calculator and also to better compete in the market.

We develop premium rates for these individual plans using CKY’s 2016 individual experience, in conjunction with internal research proprietary to Milliman and other industry studies and surveys. We consider a number of items when developing the premium rates, including but not necessarily limited to the:

- Projected morbidity level of the population anticipated to purchase the products,
- Proposed benefit plan designs,
- Anticipated medical trend, both utilization and cost of services,
- Applicable taxes and fees, including those newly applicable since 2014 under ACA, and
- Anticipated risk adjustment payments (receipts).

This memorandum addresses the rate increase requested for CKY’s individual HMO product, which impacts 22,811 members as of January 2017. These plans are Affordable Care Act (ACA) compliant plan rates, effective for 12 months beginning January 1, 2018 and ending December 31, 2018. Exhibit 1 displays the rate change by plan and area.

The minimum and maximum premium rate changes described are for the base rate (age 21 rate). Due to the revised 2018 federal age curve premium rates, rate changes for dependents will be 20.5% to 52.8% higher. The overall impact is an additional 7.8% to aggregate premium, increasing the adult rate increase to an overall 56.0% for adults and dependents.

Reason for Rate Change

- **Base Experience** – CKY’s 2015 and 2016 individual ACA experience are the bases for CKY’s 2017 and 2018 premium rates, respectively. CKY’s 2016 experience period allowed claims per member per month (PMPM) adjusted for changes in experience member characteristics results in a 3.8% increase in CKY’s premium rates.

- **Trend** – We price CKY’s 2018 premiums using a 5.1% annual trend. This results in a 4.8% increase in premium rates; a 5.1% annual trend to project from 2017 to 2018, and a 0.3% reduction in trend to project from 2016 to 2017 (using 5.1% to project from 2016 to 2017 instead of the 5.4% annual trend used to project from 2016 to 2017 in last year’s pricing).

- **Morbidity** – CKY estimates it will pay 2018 risk adjustment transfers of $63.57 per member per month (PMPM). CareSource’s 2017 risk adjustment transfer estimate was $78.11. We estimate an additional 14.4% 2016 to 2018 morbidity risk due to anti-selective lapsation of members enrolled with carriers exiting the market. The combined risk adjustment and statewide morbidity change results in a 7.8% premium rate increase.
Administrative costs, taxes and fees, profit and risk loads – The total retention increases from $63.27 PMPM in 2017 to $134.97 PMPM in 2018 resulting in an 8.8% increase in premium rates.

Provider Reimbursements – CareSource is introducing new hospital systems into the provider network, resulting in a 12.9% increase in premium rates due to provider reimbursement and pharmacy contracting changes.

Non-Payment of CSR Subsidies – Based on guidance from the DOI, this filing assumes CSR subsidies will not be funded in 2018, but CKY will be responsible for paying claims at the reduced cost sharing variant levels. We spread the impact of the increased claim payments across silver plans in the single risk pool, based on guidance from DOI. The result is a 10.4% increase in premium rates.

Other Factors – Other Factors include changes in geographic mix, and plan benefits and changes in determining the plan design behavior factors of plans resulting in a 1.8% decrease.

| Table 1 |
| CareSource Kentucky Co. Approximate Rate Increase Development |
| Experience Change | 3.8% |
| Annual Trend Change | 4.8% |
| Plan Mix | -1.8% |
| Provider Reimbursement | 12.9% |
| Morbidity | 7.8% |
| Retention Change | 8.8% |
| Non-Payment of CSR Subsidies | 10.4% |
| 2017 to 2018 Rate Change | 56.0% |

There are a number of 2017 to 2018 plan-specific changes that cause the rate increase to vary by plan, including changes in plan benefits, pricing model changes in determining pricing values and the plan design behavior factors, changes to the provider reimbursements, and changes due to non-payment of CSR subsidies. We apply these changes at the benefit plan level resulting in different rate increases by plan.

**Rate Change Not Attributable to Experience**

The rate change not attributable to experience is approximately 50.3%. This includes changes for trend, benefits, contractual arrangements with providers and pharmacies, statewide morbidity, risk adjustment and retention.

**Rate Change History**

CKY’s individual HMO product rate changes were 29.4% and 14.2% for 2017 and 2016, respectively, reflecting 2016 and 2015 enrollment by plan.
Average Annual Premium

The average annual 2018 premium is $6,429. It is 12 times the $535.75 premium PMPM shown in Worksheet 1, Section III of the 2018 URRT.

The average annual 2017 premium is $4,177. It is 12 times $348.10 premium PMPM.

Number of Policyholders Covered Lives

There are 16,431 policyholders and 22,811 covered lives in January 2017.
III. EXPERIENCE PERIOD PREMIUM AND CLAIMS

CareSource is a managed care organization, contracting with provider networks to provide medical and pharmacy care to its members. CKY contracts with carriers on a fee-for-service basis. CKY’s contractual arrangements for actual claims for services were directly incorporated in the development of the 2018 rates.

Claims Paid Through Date

The claims incurred in the experience for both non-capitated and capitated services reflect payments through January 31, 2017.

Premiums (Net of MLR Rebate) in Experience Period

The earned premium reported in Worksheet 1 of the URRT reflects the sum of member level premium for the experience period (calendar year 2016). CKY’s 2016 individual loss ratio exceeded the MLR requirement. Therefore, an adjustment for MLR rebates was not included. CKY’s 2016 premium is not net of its 2016 estimated risk adjustment payment, per the 2018 instructions.

Allowed and Incurred Claims Incurred During the Experience Period

CKY’s incurred claims include fee-for-service claims and prescription drug claims.

The allowed claims were provided directly from CKY’s claim records.

We review large claims but do not make a specific adjustment for large claims since CKY’s claims volume is sufficiently large such that large claims do not have a material impact on the average allowed claims PMPM.

CKY provided the 2016 claims on a completed basis by using lag development factors for lags across all commercial services. This method estimates the portion of claims that have been paid to date for each incurral month based on past claim lag data, which reflects historic time lags in CKY’s medical and prescription drug claim data between the month of service (i.e., the incurral month) and the month of claim processing (i.e., the processed month).

Table 2 displays a breakdown of the individual allowed claims, incurred benefits, and earned premium for experience since the inception of CareSource’s products in Kentucky.

<table>
<thead>
<tr>
<th>Table 2</th>
<th>CareSource Kentucky Co. 2016 Experience</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Allowed</td>
</tr>
<tr>
<td>Claims Paid through January, 2017</td>
<td></td>
</tr>
<tr>
<td>Incurred But Not Reported (IBNR)</td>
<td></td>
</tr>
<tr>
<td>Earned Premium</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
</tr>
</tbody>
</table>
IV. BENEFIT CATEGORIES IN WORKSHEET 1, SECTION II OF THE URRT

*Experience*: The experience period claim information by benefit category represents CKY’s ACA-compliant individual medical plans in Kentucky in 2016.

We categorize utilization and cost information by benefit using CKY’s 2018 projected Kentucky claims distribution by major service category. CKY’s projected 2018 fee-for-service medical claims are included by service category:

- **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.

CKY’s projected prescription drug claims net of rebates are included in the “Prescription Drug” line in the URRT with a benefit category of “Prescriptions”.

*Credibility Manual*: The experience period claim information was deemed credible. Therefore, no credibility manual was required to develop the 2018 projected allowed experience claims.
V. PROJECTION FACTORS APPLIED TO EXPERIENCE

CKY’s rates are based 100% on an experience rate as their 2016 experience reflects 141,043 member months which we deem fully credible.

Projected Enrollment

We project CKY’s 2018 Kentucky enrollment based on CareSource’s projections. Table 3 shows CKY’s assumed 2018 individual enrollment by metal level and plan.

<table>
<thead>
<tr>
<th>Metal</th>
<th>KY001</th>
<th>KY002</th>
<th>KY003</th>
<th>KY005</th>
<th>Total</th>
<th>% Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gold</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>43,888</td>
<td>7.6%</td>
</tr>
<tr>
<td>Silver</td>
<td>27,791</td>
<td>16,097</td>
<td>77,771</td>
<td>43,542</td>
<td>414,026</td>
<td>71.5%</td>
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<tr>
<td>Bronze</td>
<td>25,401</td>
<td>7,373</td>
<td>51,703</td>
<td>28,820</td>
<td>113,297</td>
<td>19.6%</td>
</tr>
<tr>
<td>Catastrophic</td>
<td>7,789</td>
<td></td>
<td></td>
<td></td>
<td>7,789</td>
<td>1.3%</td>
</tr>
<tr>
<td>Total</td>
<td>250,005</td>
<td>127,159</td>
<td>129,474</td>
<td>72,362</td>
<td>579,000</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Changes in the Morbidity of the Population Insured

We estimate an additional 14.4% 2016 to 2018 morbidity in the statewide market due to anti-selective lapsation of members enrolled with carriers exiting the market.

Changes in Benefits

We adjust CKY’s 2018 index rate to reflect anticipated changes in the average utilization of services due to differences in average 2016 cost sharing requirements and average 2018 cost sharing requirements.

We use Milliman’s Health Cost Guidelines (HCGs), in conjunction with the historical experience of CKY’s Individual market block of business, in order to estimate the benefit changes for each of the items listed above.

We account for the change in plan mix as it lowers the allowed amount PMPM from 2016 to 2018 and reflects lower utilization in 2018 due to the leaner benefit plan design mix in 2018.

EHBs are consistent between the 2016 experience period and the 2018 projection period, except a child hearing aid benefit has been added as an EHB.

Non-EHBs are consistent between the 2016 experience period and the 2018 projection period, except Plans 45636KY0010014, 45636KY0030004, and 45636KY0030005 now include adult routine eye examinations.
Changes in Demographics

We assume CKY’s 2018 individual enrollment will have the product type and metal level as provided by CKY and shown in Table 3. Within each product and metal, we assume CKY’s 2018 individual enrollment distribution by age, gender, and tobacco status will mirror the demographics underlying CKY’s emerging 2017 enrollment. Our 2018 projected enrollment by geography is proportional to the 2017 exchange market selections by county published by the Center for Medicare and Medicaid Services (CMS).

Our rate projection is based on 2016 experience, and reflects the average demographics and geographic mix of the 2016 enrollees. Our development of the 2018 Index Rate reflects the anticipated differences in the demographic and geographic mix of the population, as compared to the 2016 experience period.

Other Adjustments

CKY has negotiated 2018 Kentucky provider discount levels as a percent of Medicare that are different than the percent of Medicare reimbursement levels underlying the 2016 experience. We adjust CKY’s 2018 index rate for the difference between the provider reimbursement levels as a percent of Medicare. CKY has also negotiated improved pharmacy contracting terms in 2018 relative to 2016. We adjust 2018 index rate for the expected pharmacy contract savings.

CKY’s mix of EHB and non-EHB services changed between the experience and projection period. We account for these changes separately, including adjustments for infertility, adult routine vision examinations, adult eyewear, and adult dental benefits. We project CKY’s 2016 EHB-only claims to increase to account for non-EHB services and benchmark plan changes.

We also account for the change in plan mix as it lowers the allowed amount PMPM from 2016 to 2018 and reflects lower utilization in 2018 due to the leaner benefit plan design mix in 2018. Table 4 displays these adjustments.

<table>
<thead>
<tr>
<th>Table 4</th>
<th>CareSource Kentucky Co.</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>Development of Other Adjustment Factor</td>
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<tr>
<td>Demographic and Tobacco Change</td>
<td>0.981</td>
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<tr>
<td>Provider Contracting Change</td>
<td>1.10</td>
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<tr>
<td>Covered Benefit Changes</td>
<td>1.02</td>
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<tr>
<td>Plan Mix and its Impact on Utilization</td>
<td>0.94</td>
</tr>
<tr>
<td>Resulting Other Factor Change</td>
<td>1.093</td>
</tr>
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</table>

Note: Factors are rounded.

Trend Factors

We trend CKY’s Kentucky 2016 experience forward to 2018 using an aggregate annual trend (annual utilization and charge trends of approximately 0.7 and 4.4%, respectively), as shown in Table 5. We develop the trend assumptions with input from CKY and general industry reports regarding recent trends in medical inflation.
VI. CREDIBILITY MANUAL RATE DEVELOPMENT

We determine CKY’s 2016 individual experience of [ ] member months was fully credible. Thus, no manual rate was developed.

Source and Appropriateness of Experience Data Used

Not applicable.

Projected Enrollment

Not applicable.

Adjustments Made to the Data

Not applicable.

Inclusion of Capitation Payments

Not applicable.
VII. CREDIBILITY OF EXPERIENCE

CKY’s 2016 ACA-compliant experience includes claims for 141,043 member months which we consider 100% credible.

VIII. PAID TO ALLOWED RATIO

The paid to allowed ratio shown in Worksheet 1, Section III of the URRT was developed by calculating the average ratio of paid (i.e., after member cost sharing) to allowed (i.e., before member cost sharing) claims for each plan, weighted by projected member months by plan as shown in Appendix A. Table 6A provides the experience paid to allowed factors for CKY’s individual ACA metal level plans.

<table>
<thead>
<tr>
<th>Metal Level</th>
<th>Member Months</th>
<th>Paid Claims PMPM</th>
<th>Allowed Claims PMPM</th>
<th>Paid-to-Allowed Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gold</td>
<td></td>
<td>$315.04</td>
<td>$383.09</td>
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<td>Silver</td>
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<td>$267.60</td>
<td>$368.77</td>
<td>0.726</td>
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<td>Bronze</td>
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<td>$109.01</td>
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<td>Catastrophic</td>
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<td>$21.02</td>
<td>$58.62</td>
<td>0.359</td>
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<tr>
<td>Total</td>
<td></td>
<td>$228.62</td>
<td>$314.06</td>
<td>0.728</td>
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</table>

The projected paid and allowed claims reflect the member month weighted average by metal level from Worksheet 2, Section IV of the URRT, but without the impact of risk adjustment. The total paid-to-allowed ratio is consistent with Worksheet 1, Section III of the URRT. The average AV metal value is based on AVs calculated using the federal AV calculator, weighted on projected allowable cost by metal level. Table 6B provides the projection paid to allowed factors for CKY’s individual ACA metal level plans.

<table>
<thead>
<tr>
<th>Metal Level</th>
<th>Member Months</th>
<th>Paid Claims PMPM</th>
<th>Allowed Claims PMPM</th>
<th>Paid-to-Allowed Ratio</th>
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</thead>
<tbody>
<tr>
<td>Gold</td>
<td></td>
<td>$396.67</td>
<td>$502.00</td>
<td>0.790</td>
</tr>
<tr>
<td>Silver</td>
<td></td>
<td>$350.06</td>
<td>$432.71</td>
<td>0.809</td>
</tr>
<tr>
<td>Bronze</td>
<td></td>
<td>$281.98</td>
<td>$426.55</td>
<td>0.661</td>
</tr>
<tr>
<td>Catastrophic</td>
<td></td>
<td>$122.88</td>
<td>$193.33</td>
<td>0.636</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>$337.21</td>
<td>$433.53</td>
<td>0.778</td>
</tr>
</tbody>
</table>

We price 2018 plans using an internal Milliman cost relativity model based on Milliman's commercial Health Cost Guidelines (HCGs) to calculate the paid to allowed ratios. This proprietary model is updated annually and developed using experience of over 40 million lives. The model estimates actuarial equivalent relative values of different benefit plans using estimated medical costs calibrated to CKY (including service area, provider reimbursement, degree of health care management, etc.). Appendix A also displays the average paid to allowed ratios by metal level, which are consistent with the AV Calculator values for each metal level.
IX. RISK ADJUSTMENT AND REINSURANCE

Experience Period Risk Adjustment and Reinsurance Adjustments PMPM

CKY estimates it will receive $6.92 PMPM in 2016 reinsurance recoverables for individual ACA members and pay $62.60 PMPM in 2016 risk adjustment transfers for individual ACA members. These amounts are not net of reinsurance contributions and risk adjustment administrative fee, respectively.

Projected Risk Adjustments PMPM

Risk transfer payments are estimated at the plan level using the published transfer payment formula, taking into account CKY’s expected differences from the state average. The composite risk adjustment transfer payments are allocated proportionally to all plans based on plan premiums. CKY estimates it will pay in 2018 risk adjustment transfers of $63.57. We estimate the 2018 risk adjustment as CKY’s $62.46 estimated 2016 PMPM risk adjustment payable trended 19.2% to reflect the 2016 through 2018 statewide change in premium PMPM, and reduced 14% to reflect the 2018 change to use an equivalent to statewide incurred claims rather than statewide premium as the multiplicative factor in the risk adjustment transfer estimate formula. We develop our estimated 19.2% 2016 to 2018 statewide change in premium PMPM by analyzing average exchange Silver premium rate changes of each carrier and reflecting consumer movement toward lower premium plans.

The risk adjustment payment includes the $0.14 PMPM risk adjustment administrative fee.

Projected ACA Reinsurance Recoveries Net of Reinsurance Premium

The federal transitional reinsurance program is a temporary program that ends in 2016. Since this program is not expected to continue in 2018, we assume that reinsurance contributions and reinsurance recoveries will be zero. As a result, we did not project any federal transitional reinsurance contributions or recoveries for 2018.

X. NON-BENEFIT EXPENSES AND PROFIT AND RISK

Exhibit 2 displays the total expenses, profit and taxes and fees. (Exhibit 2 values may not tie to URRT Worksheet 1, Section III values due to rounding within URRT Worksheet 1).

Administrative Expense Load

We estimate CKY’s administrative expenses to be PMPM, as shown in Table 7. This estimate is entered as a percent of premium that does not vary by plan in Worksheet 1, Section III of the URRT. It is based on CKY’s estimate of 2018 projected expenses. We adjust the budget amount for ACA implementation expenses. Corporate overhead was allocated to CKY’s individual line of business. This amount does not include any profit, risk load, taxes, or assessments described below. PMPMs within Table 7 may not tie to PMPMs within URRT Worksheet 1, Section III due to rounding within URRT Worksheet 1.
Table 7
CareSource Kentucky Co.
Projected 2018 Administrative Expenses

<table>
<thead>
<tr>
<th>Administrative Expense</th>
<th>PMPM</th>
<th>% of Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Admin</td>
<td>66.5</td>
<td>3</td>
</tr>
<tr>
<td>Quality Improvement / Health IT</td>
<td>8.4</td>
<td>7</td>
</tr>
<tr>
<td>Commission</td>
<td>0.00</td>
<td>0.00%</td>
</tr>
<tr>
<td>Commercial Reinsurance Recoveries</td>
<td>-1</td>
<td>7.54</td>
</tr>
<tr>
<td>Commercial Reinsurance Premiums</td>
<td>20.5</td>
<td>7</td>
</tr>
<tr>
<td>Payment Processing Fee</td>
<td>0.05</td>
<td>0.01%</td>
</tr>
<tr>
<td><strong>Total Administrative Expense Load</strong></td>
<td><strong>78.09</strong></td>
<td><strong>14.58%</strong></td>
</tr>
</tbody>
</table>

Note: Values are rounded.

Target Contribution to Surplus (a/k/a Profit) and Risk Margin

We build in 5.99% of premium for a target contribution to surplus that does not vary by product or plan. We consider the uncertainty of estimated claims in the 2018 market and federal MLR requirements in the target. Exhibit 3 demonstrates the reconciliation of the pre-tax and post-tax profit margin. This is an increase from last year’s 2.91% target contribution. (Exhibit 3 values may not tie to URRT Worksheet 1, Section III values due to rounding within URRT Worksheet 1).

Taxes and Fees

Table 8 displays the projected taxes and fees that may be subtracted from premiums when calculating CKY’s loss ratio for MLR purposes (with the exception of the $0.14 risk adjustment fee that is shown net of reinsurance recoveries and risk adjustment receivables and not in this section). The composite value is displayed in Worksheet 1, Section III of the URRT. PMPMs within Table 8 may not tie to PMPMs within URRT Worksheet 1, Section III due to rounding within URRT Worksheet 1.

Table 8
CareSource Kentucky Co.
Summary of Taxes and Fees

<table>
<thead>
<tr>
<th>Description</th>
<th>PMPM</th>
<th>% of Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Premium Tax</td>
<td>10.69</td>
<td>2.00%</td>
</tr>
<tr>
<td>Comparative Effectiveness Research Fee</td>
<td>0.20</td>
<td>0.00%</td>
</tr>
<tr>
<td>Exchange Fee</td>
<td>10.69</td>
<td>2.00%</td>
</tr>
<tr>
<td>Health Insurer Fee</td>
<td>2.68</td>
<td>0.50%</td>
</tr>
<tr>
<td>Federal Income Tax</td>
<td>0.53</td>
<td>0.10%</td>
</tr>
<tr>
<td><strong>Total Taxes and Fees</strong></td>
<td><strong>24.79</strong></td>
<td><strong>4.63%</strong></td>
</tr>
</tbody>
</table>

Note: Values are rounded.
XI. PROJECTED LOSS RATIO

The projected loss ratio based on federally prescribed MLR methodology, excluding allowable adjustments, such as for credibility, quality improvement expenses, and high deductible is as shown in Exhibit 4 (Exhibit 4 values may not tie to URRT Worksheet 1, Section III values due to rounding within URRT Worksheet 1).

XII. SINGLE RISK POOL

The experience includes all non-grandfathered HMO individual plans. We consider the 2016 ACA enrollment to be 100% credible.

XIII. INDEX RATE

Index Rate Development

The experience index rate represents the estimated total combined allowed EHB claims PMPM of CKY’s non-grandfathered individual Kentucky plans. The index rate has not been adjusted for risk adjustment transfers, reinsurance fees / recoveries, or Exchange fees. The experience period index rate reflects the actual mixture of tobacco / non-tobacco population, area factors, and the actual mixture of risk morbidity that CKY received in the Single Risk Pool during the experience period.

The experience period index rate is less than the experience period total allowed claims PMPM since CKY covers non-EHBs.

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 2018 mixtures of tobacco / non-tobacco population, area factors, and the projected mixture of risk morbidity that CKY expects to receive in the single risk pool. The projected index rate has not been adjusted for payments and charges projected under the risk adjustment and reinsurance programs, or for Exchange user fees.

We develop the 2018 projected index rate from the 2016 experience index rate. The experience index rate is shown in Worksheet 1, Section I of the URRT. The projected index rate is shown in Worksheet 1, Section III of the URRT. The projected index rate excludes coverage of non-EHBs. Non-EHBs covered in 2018 vary by plan and include adult dental, eyewear, and routine eye examinations.

Section V (Projection Factors Applied to Experience) describes the development of the projected index rate. The projected index rate covers a 12-month period for individuals effective January 1, 2018 through December 31, 2018. As described in Section V, the projected index rate reflects the anticipated claim level of the projection period with respect to trend, benefits, and demographics.

The projected index rate for January 1, 2018 through December 31, 2018 is as shown in Worksheet 1, Section III of the URRT.

XIV. MARKET-ADJUSTED INDEX RATE

The market-adjusted index rate is calculated as the index rate adjusted for all allowable market-wide modifiers defined under the market rating rules in 45 CFR Part 156, §156.80(d)(1). Table 9 displays the development of the market-adjusted index rate.
### Table 9
CareSource Kentucky Co.
Market Adjusted Index Rate Development

<table>
<thead>
<tr>
<th>2018 Index Rate PMPM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Adjustments (Paid Basis)</td>
</tr>
<tr>
<td>Net Risk Adjustment</td>
</tr>
<tr>
<td>Net Transitional Reinsurance</td>
</tr>
<tr>
<td>Exchange Fee</td>
</tr>
<tr>
<td><strong>Total Market Adjustments (Paid Basis)</strong></td>
</tr>
<tr>
<td>Paid to Allowed Ratio</td>
</tr>
<tr>
<td><strong>Total Market Adjustments (Allowed Basis)</strong></td>
</tr>
<tr>
<td>Market-Adjusted Index Rate PMPM</td>
</tr>
</tbody>
</table>

*Note: Values are rounded.*

#### XV. PLAN-ADJUSTED INDEX RATE

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 metal level actuarial value for each plan.
- The pricing actuarial value and cost-sharing adjustment was developed utilizing Milliman’s 2016 HCGs. Relativities between plans were based on the differences in cost and utilization for varying levels of cost-sharing. Appendix B displays this development.
- The AV and Cost Sharing factors reflect full plan liability for CSR silver plans.

##### Provider Network, Delivery System, and Utilization Management Adjustment

CareSource provided their estimated provider network reimbursement rates based on their contractually negotiated reimbursement arrangements to date. Negotiations are ongoing, and contractual provider reimbursements may vary from the ones we assume in our pricing. Section V. Projection Factors Applied to Experience provides additional details.

##### Adjustment for Benefits in Addition to the EHBs

We adjust Products 45636KY001 and 45636KY003 to include the Non-EHB routine eye examinations benefit, and Products 45636KY002 and 45636KY005 to include the Non-EHB adult dental, eyewear, and routine eye examinations benefits.
Impact of Specific Eligibility Categories for the Catastrophic Plan

The adjustment was developed to reflect the impact on the Plan Adjusted Index Rate of the projected difference in demographic characteristics of those enrolling in a catastrophic plan as compared to the entire single risk pool.

Adjustment for Tobacco Premium Differential

CKY applies a tobacco premium load for users age 21 and over that varies by age. We determine this rate was reasonable as it resulted in a similar weighted average premium adjustment compared to the projected tobacco morbidity surcharge. Exhibit 5 displays the development of the tobacco adjustment factor.

Adjustment for Distribution and Administrative Costs

Distribution and administrative costs were developed and applied to each plan as a mix of “percent of premium,” “percent of claim,” and PMPM bases.

The development of the plan-adjusted index rates are shown in Appendix B.

XVI. CALIBRATION

The approximate average age of the single risk pool to equal the correct age calibration factor is 49. The age curve calibration is applied to all plans. We composite the CMS-approved premium factors by the projected membership at each age based on emerging 2017 membership. We then round the weighted average premium factor to the nearest table value to determine the average rounded age. Our development of the weighted average age calibration complies with the standard age curve methodology and with applicable rating rules. Exhibit 6 displays the development of the age calibration factor.

CKY applies geographic rating factors to its plans as shown in Table 10. The geographic rating factors were developed based on the area factors in Milliman’s HCGs, projected provider reimbursement discounts in each geographic area, and the relative geographic and reimbursement-based differences among areas used in the 2017 pricing. Exhibit 7 displays the development of the geographic calibration factor.

Table 10

<table>
<thead>
<tr>
<th>Rating Area</th>
<th>Factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rating Area 3</td>
<td></td>
</tr>
<tr>
<td>Rating Area 4</td>
<td></td>
</tr>
<tr>
<td>Rating Area 5</td>
<td></td>
</tr>
<tr>
<td>Rating Area 6</td>
<td></td>
</tr>
<tr>
<td>Rating Area 7</td>
<td></td>
</tr>
<tr>
<td>Rating Area 8</td>
<td></td>
</tr>
</tbody>
</table>

The development of the plan-adjusted calibrated index rates are shown in Appendix C.
XVII. CONSUMER-ADJUSTED PREMIUM RATE DEVELOPMENT

The consumer-adjusted premium rate is the final premium rate for a plan charged to an individual 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, and the age rating factor. The tobacco rating factors are 1.00 for children and between 1.10 and 1.18 for ages 21 and over.

Appendix D summarizes Appendices A, B, and C and shows a consumer adjusted premium rate calculated from the index rate.

XVIII. AV METAL LEVELS

The AV Metal Values included in Worksheet 2, Section I of the URRT were developed using the CMS Actuarial Value calculator and are shown in Attachment B.

XIX. AV PRICING VALUES

Appendix E provides a summary of the AV pricing values by plan, as illustrated in Worksheet 2, Section I, and a breakdown of the components attributable to each of the allowable modifiers to the index rate, as described in 45 CFR Part 156, §156.80(d)(2), to arrive at the plan level rate.

The AV and Cost Sharing factor calculation is the product of the non-normalized actuarial value and normalized benefit design behavior change factor from my pricing models, and a composite non-tobacco factor. This calculation is shown in Appendix F. The impact of each plan’s actuarial value and cost sharing includes the expected impact of each plan’s benefit design on the member's utilization of services, excluding expected differences in the morbidity of the members assumed to select the plan. We use the Milliman HCGs to estimate the value of cost-sharing and relative utilization of services for each plan. Our pricing models assume the same demographic and risk characteristics for each plan priced, thereby excluding expected differences in the morbidity of members assumed to select the plan.

The AV and Cost Sharing factors reflect full plan liability for CSR silver plans.

XX. MEMBERSHIP PROJECTIONS

CKY projected membership (as displayed in Worksheet 2, Section IV of the URRT) is detailed in Section V and in Table 3 of this memorandum.

Methodology to Project Cost Sharing Reduction (CSR) Eligibles: We estimate CSR eligibles based on the actual 2017 distribution to date.

Projected Cost Sharing Reduction (CSR) Eligibles: For the Silver level plans, we assume a member will generally select the richest benefit plan the member qualifies for a given income level (we understand that some individuals will not select the richest subsidy for which they qualify based on personal preference, but we do not expect this impact to be material). This approach produced the distribution across the Silver level plans shown in Table 11.
XXI. TERMINATED PRODUCTS

Exhibit 8 outlines the 2017 plans that were terminated prior to January 1, 2018, the 2018 plan to which they were crosswalked, and the plans renewing in 2018.

A number of 2016 plans were crosswalked prior to January 1, 2017. These are listed in Exhibit 8.

PLAN TYPE

CKY’s plans are HMO plans as noted in Worksheet 2, Section I of the URRT.

XXII. WARNING ALERTS

The following warning alerts appear in Worksheet 2, Section III of the URRT:

Total Allowed Claims (Row 61) – This warning is triggered because risk adjustment transfers are included in Worksheet 2, but not included in Worksheet 1. URRT instructions state, “The Total Allowed Claims (TAC) across all benefit plans for the Experience Period should be consistent with the Allowed Claims entered in Section I of Worksheet 1, except it should be net of Risk Adjustment transfers.”

Allowed Claims PMPM (Row 74) – This warning is triggered because these values are simply the values causing the row 61 warning divided by member months.

The following warning alerts appear in Worksheet 2, Section IV of the URRT:

Total Allowed Claims (Row 87) – This warning is triggered because risk adjustment transfers are included in Worksheet 2, but not included in Worksheet 1, similar to the row 61 warning. URRT instructions state, “The Total Allowed Claims (TAC) across all benefit plans for the projection period should be consistent with the total allowed claims and the projected risk adjustments entered in Section III of Worksheet 1.”

Total Incurred Claims, Payable with Issuer Funds (Row 94) – This warning is triggered because these values are based on the values causing the row 87 warning. Risk adjustment transfers are included in Worksheet 2, but not included in Worksheet 1.

Incurred Claims PMPM (Row 99) – This warning is triggered because these values are simply the values causing the row 94 warning divided by member months.
Allowed Claims PMPM (Row 100) – This warning is triggered because these values are simply the values causing the row 87 warning divided by member months.

XXIII. EFFECTIVE RATE REVIEW INFORMATION

Information is available upon request.

XXIV. RELIANCE

In preparing the Part I Unified Rate Review Template (URRT) and Part III Actuarial Memorandum, we rely on information provided to me by the CKY management and its affiliates. To the extent that it is incomplete or inaccurate, the contents of the URRT and Actuarial Memorandum along with many of our conclusions may be materially affected.

We perform 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.

XXV. ACTUARIAL CERTIFICATION

I am a Consulting Actuary with the firm of Milliman, Inc. I am a member of the American Academy of Actuaries and I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. This filing is prepared on behalf of CKY.

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 2017 individual market.

2. The index rate and only 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 were calculated in accordance with actuarial standards of practice.

4. The geographic rating factors reflect only differences in the costs of delivery (e.g., unit costs, provider practice pattern differences) 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 Unified Rate Review Template for all plans.

The Part I Unified Rate Review Template (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 exchanges, and for certification that the index rate is developed in accordance with Federal regulation and used consistently and only adjusted by the allowable modifiers.

The 2018 plan year premium rates in this actuarial memorandum are contingent upon the status of the ACA statutes and regulations including any regulatory guidance, court decisions, or otherwise. Changes have the potential to greatly impact the 2018 plan year premium rates provided in this Actuarial Memorandum. Changes include, but are not limited to, any legislative or regulatory amendment, court decision, or a decision by Congress, the Health and Human Services Secretary or the Centers for Medicare and Medicaid Services director whether to fund cost-sharing reduction subsidies, advance premium tax credits or a decision not to enforce the individual mandate requirement and penalty. Milliman expresses no opinion with regard to the future funding of CSR payments.

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.

The results are actuarial projections. Actual experience will differ for a number of reasons including, but not necessarily limited to, population changes, claims experience, and random deviations from assumptions.

Respectfully submitted,

Erik C. Huth, FSA, MAAA
Consulting Actuary
Milliman, Inc.

ECH/laa

Attachments
April 24, 2017

Mr. Erik Huth, FSA, MAAA
Principal and Consulting Actuary
Milliman, Inc.
15800 Bluemound Road, Suite 100
Brookfield, WI 53005-6069

Re: CareSource’s 2018 Individual Pricing

Dear Erik:

I, Scott Brockman, Director Risk Adjustment & Actuarial Science, CareSource Kentucky Co. (CareSource) hereby affirm the data sources, assumptions, and information identified below and provided to Milliman, Inc. for developing CareSource’s 2018 individual commercial premium rates were prepared under my direction. These items were relied upon by Milliman and are, to the best of my knowledge, accurate and complete. Finally, I affirm all information that affects the 2018 individual premium rate development has been given to you, and I have disclosed all items of which I am aware that would have a material impact on the rate projections.

The information provided includes:

1. Specific 2017 plans CareSource intends to renew or terminate,
2. Benefit plans and networks CareSource offers in 2018,
3. The rating regions in each state in which CareSource offers products in 2018,
4. HIOS Product Names, Product ICs, and Plan Names for each 2018 benefit plan,
5. Renewal / new plan status based on compliance with the Uniform Modification regulations.
6. Historical 2016 claim experience and membership for CareSource’s products and plans,
7. Estimates of CareSource’s 2016 risk adjustment transfer payments, federal reinsurance recoveries, and cost-sharing subsidy receipts,
8. Confirmation that the cost relativity associated with each rating area provided by CareSource does not include the impact of morbidity,
9. Projected administrative expenses and target profit margin,
10. Projected 2018 enrollment by county and plan,
11. Description of contractual provider reimbursement arrangements, including actual 2016 and projected 2018 provider discounts by service category,
12. Other information provided by CareSource in various meetings, phone calls, emails, and other correspondence,
Assurance that CareSource has completed the plan benefit template and has found no meaningful discrepancies in Actuarial Value calculations.

April 24, 2017
Date

Signature