



Part III Actuarial Memorandum

**CareSource Kentucky Co.
Individual Rate Filing
Effective January 1, 2022**

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TABLE OF CONTENTS

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

SECTION #	SECTION TITLE
Section 1	General Information
Section 2	Proposed Rate Changes
Section 3	Experience and Current Period Premium, Claims, and Enrollment
Section 4	Benefit Categories
Section 5	Projection Factors
Section 6	Manual Rate Adjustments
Section 7	Credibility of Experience
Section 8	Establishing the Index Rate
Section 9	Development of the Market-Wide Adjusted Index Rate
Section 10	Plan Adjusted Index Rate
Section 11	Calibration
Section 12	Consumer Adjusted Premium Rate Development
Section 13	Projected Loss Ratio
Section 14	AV Metal Values
Section 15	Membership Projections
Section 16	Plan Type
Section 17	Terminated Plans and Products
Section 18	Effective Rate Review Information
Section 19	Reliance
Section 20	Actuarial Certification

SECTION 1. GENERAL INFORMATION

DOCUMENT OVERVIEW

This document contains the Part III Actuarial Memorandum for CareSource Kentucky Co.'s (CKY) individual comprehensive medical block of business, effective January 1, 2022. These revised individual rates are guaranteed through December 31, 2022. 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 (CCIO), 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 2022 plan year premium rates provided in this Actuarial Memorandum were developed based upon the current Affordable Care Act (ACA) statutes and regulations, relevant CMS and HHS guidance, Executive Orders, relevant Kentucky statutes and regulations, and court decisions in full force and effect as of date this Actuarial Memorandum is submitted, including, but not limited to, the cost-sharing reduction subsidies not being funded for the 2022 plan year and the continued availability of advance premium tax credits to eligible individuals for the 2022 plan year.

Accordingly, the 2022 plan year premium rates provided in this Actuarial Memorandum are contingent upon the current ACA statutes and regulations, relevant CMS and HHS guidance, Executive Orders, and court decisions not changing, which include, but are not limited to, the Cost-Sharing Reduction (CSR) subsidies not being funded for the 2022 plan year and the continued availability of advanced premium tax credits to eligible individuals for the 2022 plan year. Accordingly, CKY retains and reserves the right to amend this Actuarial Memorandum and 2022 plan premium rates should there be any changes to the ACA statutes and regulations, relevant CMS and HHS guidance, Executive Orders, relevant Kentucky statutes and regulations, and court decisions.

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

At the time of this rate filing submission, we acknowledge significant disruption to 2020 experience due to the COVID-19 pandemic, and continued uncertainty remains regarding the impact of the COVID-19 pandemic on setting 2022 premium rates. Due to this uncertainty, we have chosen to develop 2022 rates from the 2019 experience period. It is possible that the COVID-19 pandemic could have a continued material impact on morbidity, enrollment, providers, and other factors related to the individual market. If subsequent information becomes available that would materially affect this rate filing submission, we would likely pursue opportunities to revise our pricing assumptions and resubmit this rate filing.

COMPANY IDENTIFYING INFORMATION

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State:	Kentucky
HIOS Issuer ID:	45636
Market:	Individual
Effective Date:	January 1, 2022

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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 copayments 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.

All member cost-sharing (deductibles, coinsurance, and copays) accrue toward the annual out-of-pocket maximum. Both products have pharmacy cost sharing with a five-tier (generic, preferred brand, non-preferred brand, preferred specialty, and non-preferred specialty) copayment or coinsurance structure. All plans within the products have the same Essential Health Benefits (EHBs). Product 45636KY001 offers no additional non-EHBs. Product 45636KY002 includes additional non-EHB coverage for adult eyewear, adult routine eye examinations, fitness benefits, and adult dental services. No EHB substitutions were made.

SECTION 2. PROPOSED RATE CHANGES

This filing is a requested rate change filing for 12 of CKY's individual Affordable Care Act (ACA) compliant non-group plan rates originally filed for effective dates January 1, 2021 through December 31, 2021. There are no new plans offered. The experience basis, benefit plans, rating factors, and other projection assumptions are updated for this filing.

CKY's 2022 plan designs include copay, deductible, out-of-pocket maximum, and other benefit changes from their existing 2021 plan designs to better compete in the market.

We develop premium rates for these individual plans using CKY's 2019 individual experience, in conjunction with internal research proprietary to Milliman and other industry studies and surveys. We consider a number of items in 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
- Direct costs of the COVID-19 pandemic, including vaccines
- Market changes due to additional membership as a result of the American Rescue Plan of 2021 (ARP)
- Anticipated risk adjustment payments (receipts)
- Cost and morbidity changes resulting from shifts in the metallic distribution
- Anticipated administrative costs and profit margin

This memorandum addresses the rate change requested for CKY's individual HMO product, which impacts [REDACTED] members as of May 2021. The rate change being requested weighted by current enrollment for CKY's products is an aggregate [REDACTED]. The requested rate change varies by plan and area within the individual HMO products with a maximum decrease of [REDACTED] and a maximum increase of [REDACTED]. These plans are ACA compliant plan rates, effective for 12 months beginning January 1, 2022 and ending December 31, 2022. Exhibit 1 displays the rate change by plan and area.

Reason for Rate Change

- Base Experience – Due to the impact of the COVID-19 pandemic, we assign 0% credibility to 2020 experience and use 2019 CKY experience to develop 2022 rates. Thus, CKY's 2019 individual ACA experience is the basis for CKY's 2021 and 2022 premium rates. 2019 experience was updated to account for more recent runout and final 2019 risk adjustment transfers. Accordingly, CKY's 2019 revised experience results in a [REDACTED] in CKY premium rates.
- Trend – We price CKY's 2022 premiums using a [REDACTED] annual trend. This results in a [REDACTED] in premium rates; [REDACTED] annual trend to project from 2021 to 2022, and a [REDACTED] in trend to project from 2019 to 2021 (using [REDACTED] to project from 2019 to 2021 instead of the [REDACTED] annual trend used to project from 2019 to 2021 in last year's pricing).

- Demographics Shift – We project CKY’s 2022 demographics based on emerging 2021 CKY enrollment as of May. This reflects a [REDACTED] to the average demographic mix used in the 2021 pricing, resulting in a [REDACTED] impact on CKY premium rates.
- Risk Adjustment and Risk Profile Shift – CKY estimates it will [REDACTED] 2022 risk adjustment transfers of [REDACTED] per member per month (PMPM).
 - [REDACTED]
 - [REDACTED]
 - [REDACTED]
 - [REDACTED]
- CSR Subsidy Shortfall Adjustment – Based on guidance from the Kentucky DOI, this filing assumes CSR subsidies will continue to not be funded in 2022, and CKY will be responsible for paying claims at the reduced cost sharing variant levels. We spread the impact of the increased claim payments across on-exchange silver plans in the single risk pool, based on guidance from the Kentucky DOI.
[REDACTED]
- Plan Benefit Relativity – We adjust premium rates to account for differences between actual and modeled paid to allowed experience to better align CKY experience and projections and plan benefit changes, resulting in a [REDACTED] in premium rates.
- Provider Reimbursement – CKY projects changes to 2022 provider reimbursement arrangements in composite relative to those projected in the 2021 premium development, resulting in a [REDACTED] in premium rates.
- Administrative costs, taxes and fees, profit and risk loads – The total retention [REDACTED] from [REDACTED] PMPM in 2021 to [REDACTED] PMPM in 2022 resulting in a percent of premium [REDACTED] of [REDACTED] to premium rates.
- Market Morbidity – [REDACTED]
- Other Factors – Other Factors include changes in plan mix, area factor calibration, and Non-EHB amounts resulting in [REDACTED] in premium rates.

Table 1 CareSource Kentucky, Inc. Approximate 2021 to 2022 Rate Change Development	
Experience after accounting for morbidity and risk adjustment	
Trend	
Demographics Shift	
Risk Adjustment and Risk Profile Shift	
CSR Subsidy Shortfall Adjustment	
Plan Benefit Relativity	
Provider Reimbursement	
Retention	
Market Morbidity	
Other Factors	
2021 to 2022 Rate Change	
<i>Note: Values are rounded.</i>	

SECTION 3. EXPERIENCE AND CURRENT PERIOD PREMIUM, CLAIMS, AND ENROLLMENT

CKY 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 2022 rates.

PAID THROUGH DATE

The experience claims incurred presented in Worksheet 1, Section I of the URRT for both non-capitated and capitated services reflect payments through February 28, 2021.

CURRENT DATE

The reported date for current enrollment and premium in URRT Worksheet 2, Section II is May 1, 2021.

EXPERIENCE PERIOD PREMIUM

The earned premium reported in Worksheet 1 of the URRT reflects the sum of member level premium for the 2020 experience period. CKY's 2020 individual loss ratio exceeded the MLR requirement. Therefore, an adjustment for MLR rebates was not included. CKY's 2020 premium is not net of its estimated 2020 risk adjustment payment, per the 2022 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 2020 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, as well as Worksheet 1 Section 1 in the URRT, display a breakdown of the individual allowed claims and incurred benefits for CKY's 2020 Kentucky experience.

Table 2 CareSource Kentucky Co. Kentucky Individual ACA Plans 2020 Experience		
	Allowed	Paid
Claims Paid through February 2021		
Incurred But Not Reported (IBNR)		
Total		
<i>Note: Values are rounded.</i>		

SECTION 4. BENEFIT CATEGORIES

EXPERIENCE

The experience period claim information by benefit category represents CKY's ACA-compliant individual medical plans in Kentucky in 2020.

We categorize utilization and cost information by benefit using CKY's 2022 projected Kentucky claims distribution by major service category. CKY's projected 2022 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 prescription drug claims net of rebates are included in the "Prescription Drug" line in the URRT with a benefit category of "Prescriptions."

SECTION 5. PROJECTION FACTORS

As discussed above, we assume CKY's 2020 single risk pool experience is not credible for rate development purposes due to disruptions from the COVID-19 pandemic. We put 100% weight on CKY's 2019 ACA individual market experience as the basis for a manual rate. The development of the manual rate is discussed further in Section 6.

TREND FACTORS (COST / UTILIZATION)

We input trend factors in URRT Worksheet 1 consistent with those used for the manual rate, although no credibility is being given to the CKY 2020 individual experience. The development of trend is discussed further in Section 6.

MORBIDITY ADJUSTMENT

Not applicable, since no credibility is being given to the CKY 2020 individual experience, as discussed above.

DEMOGRAPHIC SHIFT

Not applicable, since no credibility is being given to the CKY 2020 individual experience, as discussed above.

PLAN DESIGN CHANGES

Not applicable, since no credibility is being given to the CKY 2020 individual experience, as discussed above.

OTHER ADJUSTMENTS

Not applicable, since no credibility is being given to the CKY 2020 individual experience, as discussed above.

ADJUSTMENTS TO TRENDED EHB ALLOWED CLAIMS PMPM

Not applicable, since no credibility is being given to the CKY 2020 individual experience, as discussed above.

SECTION 6. MANUAL RATE ADJUSTMENTS

As discussed above, we assume CKY's 2020 single risk pool experience is not credible for rate development purposes. We place a 100% weight on CKY's 2019 ACA individual market experience as a manual rate. Table 3 displays the build-up of the manual EHB allowed claims illustrated in URRT Worksheet 1, Section II, while the following sections include explanations of the projection factors we apply to arrive at the final manual rate.

Table 3 CareSource Kentucky Co. Kentucky Individual ACA Plans Projected Index Rate Development			Annotation
2019 EHB Allowed Claims PMPM			(1)
Trend (applied for three years)			(2)
2022 EHB Allowed Claims PMPM			(3) = (1) * (2)
Morbidity Adjustment			(4)
Demographic Shift			(5)
Plan Design Changes			(6)
Rx Cost Reduction			(7)
Other Projection Factors			(8)
Projected Index Rate			(9) = (3) * (4) * (5) * (6) * (7) * (8)

SOURCE AND APPROPRIATENESS OF EXPERIENCE DATA USED

We base the credibility manual rate on CKY's 2019 single risk pool experience. We do not include CKY's 2020 experience period claim costs in the manual rate. CKY's 2019 business provides a credible, consistent basis for the determination of claim costs in the individual market. The manual experience represents member months.

ADJUSTMENTS MADE TO THE DATA

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

TREND FACTORS (COST / UTILIZATION)

We trend CKY's 2019 Kentucky experience forward to 2022 using an aggregate annual trend (annual utilization and charge trends of approximately respectively), as shown in Table 4. We develop the trend assumptions with input from CKY and general industry reports regarding recent trends in medical inflation, including potential changes to utilization from the COVID-19 pandemic (deferred utilization, pent up demand, and cost of vaccines / boosters).

Table 4 CareSource Kentucky Co. Kentucky Individual ACA Plans 2019 to 2022 Annual Trend			
Service Category	Utilization Trend	Cost Trend	Total Trend
Inpatient Hospital			
Outpatient Hospital			
Professional			
Other Medical			
Capitation			
Prescription Drugs			
Total			

MORBIDITY ADJUSTMENT

We apply two morbidity adjustments to the 2019 experience:

- [REDACTED]
- [REDACTED]

The combined impact of these two adjustments is a [REDACTED] to allowed claims, as shown in Table 3.

DEMOGRAPHIC SHIFT

We assume CKY's 2022 individual enrollment will have the product type and metal level as provided by CKY and shown in Table 8 in Section 15 – Membership Projections. Within each product and metal, we assume CKY's 2022 individual enrollment distribution by age, gender, and tobacco status will mirror the demographics underlying CKY's emerging 2021 enrollment as of May.

Our rate projection is based on 2019 experience, including the average demographics and geographic mix of the 2019 enrollees. Our development of the 2022 Projected Index Rate reflects the anticipated differences in the demographic, tobacco, and geographic mix of the population, as compared to the 2019 experience period. This results in a [REDACTED] to allowed claims, as shown in Table 3.

PLAN DESIGN CHANGES

We adjust CKY's 2022 Projected Index Rate to reflect anticipated changes in the average utilization of services due to differences in average 2019 cost sharing requirements and average 2022 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. This results in a [REDACTED] to allowed claims of [REDACTED], as shown in Table 3.

EHBs are consistent between the 2019 experience period and the 2022 projection period.

PRESCRIPTION DRUG CONTRACT CHANGES

We [REDACTED] the allowed claims by [REDACTED] for anticipated savings in prescription drug contracts from 2019 due to a new pharmacy benefit manager.

OTHER ADJUSTMENTS

CKY has negotiated 2022 Kentucky provider reimbursement levels as a percent of Medicare that are different than the percent of Medicare reimbursement levels underlying the 2019 experience. We adjust CKY's 2022 Projected Index Rate for the difference between the 2019 and 2022 provider reimbursement levels as a percent of Medicare. We also adjust for changes in county level enrollment mix and expansion into new counties and rating areas. The resulting adjustment is a [REDACTED] to projected allowed claims.

ADJUSTMENTS TO TRENDED EHB ALLOWED CLAIMS PMPM

No additional adjustments were applied to CKY's experience.

SECTION 7. CREDIBILITY OF EXPERIENCE

Given the disruptions in the 2020 healthcare marketplace caused by the COVID-19 pandemic, we assign 0% credibility to CKY's 2020 individual experience and rely fully on a manual rate development. CKY's 2019 experience represents [REDACTED] member months and is deemed fully credible as a manual rate.

SECTION 8. ESTABLISHING THE INDEX RATE

The Projected Index Rate is a measurement of the average allowed claims PMPM for EHBs. The Projected Index Rate reflects the projected 2022 mixture of smoker / non-smoker 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 program or for Marketplace user fees. Worksheet 1, Section II of the URRT demonstrates the build-up of the Projected Index Rate.

SECTION 9. DEVELOPMENT OF THE MARKET-WIDE ADJUSTED INDEX RATE

The Market Adjusted Index Rate was calculated as the Projected Index Rate adjusted for all allowable market wide modifiers as defined in the market rating rules, 45 CFR Part 156, §156.80(d)(1). The development of the Market Adjusted Index Rate is illustrated in Worksheet 1, Section II of the URRT and in Table 5 below. Amounts shown in Table 5 may not match the URRT exactly due to URRT rounding conventions. The adjustments applied to the Index Rate in developing the Market Adjusted Index Rate and their development are described following Table 5.

Table 5 CareSource Kentucky Co. Kentucky Individual ACA Plans Market Adjusted Index Rate Development			Annotation
2022 Index Rate PMPM			(1)
Market Adjustments (paid basis)			
Gross Risk Adjustment			(3)
Net Federal Transitional Reinsurance			(3)
Exchange User Fees			(4)
Paid-to-Allowed Ratio			(5)
Market Adjustments (allowed basis)			
Gross Risk Adjustment			(6) = (2) / (5)
Net Federal Transitional Reinsurance			(7) = (3) / (5)
Exchange User Fees			(8) = (4) / (5)
Market Adjusted Index Rate PMPM			(9) = (1) + ((6) + (7) + (8))

Note: Values may not match the URRT due to rounding.

RISK ADJUSTMENT PAYMENT / CHARGE

Experience Period Risk Adjustment and Reinsurance Adjustments PMPM

CKY estimates it will [REDACTED] PMPM in 2020 risk adjustment transfers for Kentucky individual ACA members. This amount does not include the risk adjustment administrative fee.

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 [REDACTED]

The risk adjustment [REDACTED] when accounting for the [REDACTED] PMPM risk adjustment administrative fee.

Based on current regulatory guidance, we assume that the high-cost enrollee risk pooling program will be cost neutral for CKY, and as such, we do not make an explicit adjustment for this program in CKY's 2022 risk adjustment transfer estimate.

REINSURANCE

There are no federal or state reinsurance programs expected to impact CKY expected costs in 2022.

EXCHANGE USER FEES

CKY is writing all projected business through the Kentucky state-based exchange in 2022, which is funded through the GAP assessment. Therefore, we anticipate [REDACTED].

PAID TO ALLOWED RATIOS

The average paid to allowed ratio was developed as follows:

$$\frac{\text{Weighted Average Paid Claim PMPM by Plan}}{\text{Weighted Average Allowed Claim PMPM by Plan}}$$

The weighted average in both the numerator and denominator was developed based on projected member months by plan, as presented in Worksheet 2, Section IV of the URRT.

SECTION 10. PLAN ADJUSTED INDEX RATE

Plan Adjusted Index Rates reflect the Market Adjusted Index Rate adjusted for allowable plan level modifiers defined in the market rating rules, 45 CFR Part 156, §156.80(d)(2). This is summarized as follows:

Market Adjusted Index Rate

- x (1) Plan actuarial value and cost sharing value factor.
- x (2) Plan provider network, delivery system characteristics, and utilization management practices factor.
- x (3) Benefits provided by the plan that are in addition to EHB.
- x (4) Distribution and administrative costs, excluding user exchange fees.
- x (5) With respect to catastrophic plans, the expected impact of the specific eligibility categories for those plans.

The applicable adjustment factors for each plan are illustrated in Worksheet II, Section III of the URRT.

ACTUARIAL VALUE AND COST SHARING DESIGN OF THE PLAN

The impact of each plan's actuarial value and cost sharing includes the expected impact of each plan's cost-sharing amounts on the member's utilization of services, excluding expected differences in the morbidity of the members assumed to select the plan. In other words, these adjustments are based only on utilization expectations related to the comparative richness of each benefit plan and not on the people who select such a plan.

The Milliman *HCGs* were used 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, thereby excluding expected differences in the morbidity of members assumed to select the plan.

The *HCGs* provide a flexible, but consistent basis for the determination of claim costs for a wide variety of health benefit plans. These rating structures are used to anticipate future claim levels, evaluate past experience, and establish interrelationships between different health coverages.

The Milliman *HCGs* are developed as a result of Milliman's continuing research on health care costs. They were first developed in 1954 and have been updated and expanded annually since then. These guidelines are continually monitored as we use them in measuring the experience or evaluating the rates of our clients and as we compare them to other data sources.

The *HCGs* are a cooperative effort of all Milliman health actuaries and represent a combination of their experience, research, and judgment. An extensive amount of data is used in developing these guidelines, including published and unpublished data. In most instances, cost assumptions are based upon our evaluation of several data sources and, hence, are not specifically attributable to a single source. Since these guidelines are a proprietary document of Milliman, they are only available for release to specific clients that lease these guidelines and to Milliman consulting health actuaries.

The AV pricing values reflect full plan liability for CSR plans.

PROVIDER NETWORK, DELIVERY SYSTEM CHARACTERISTICS AND UTILIZATION MANAGEMENT PRACTICES

CKY 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 6 Manual Rate Projection Factors - Other Adjustments provides additional details.

BENEFITS IN ADDITION TO EHBS

Product 45636KY001 does not include any non-EHB benefits. Product 45636KY002 includes non-EHB benefits of adult dental, eyewear, fitness, and routine eye examinations so an adjustment is made within this product.

ADMINISTRATIVE COSTS (EXCLUDING EXCHANGE USER FEES AND REINSURANCE FEES)

We estimate CKY's administrative expenses to be [REDACTED] PMPM, as shown in Table 6. This estimate is entered as a percent of premium that varies by plan due to certain PMPM expenses entered as a level PMPM regardless of metal type as shown in Worksheet 2, Section III of the URRT. It is based on CareSource's estimate of 2022 projected expenses. This amount does not include any profit, risk load, taxes, or assessments described below.

Table 6 CareSource Kentucky Co. Kentucky Individual ACA Plans Summary of Administrative Expenses		
	Administrative Expense	
	PMPM	% of Premium
General Admin	[REDACTED]	[REDACTED]
Quality Improvement / Health IT	[REDACTED]	[REDACTED]
Commercial Reinsurance Recoveries	[REDACTED]	[REDACTED]
Commercial Reinsurance Premiums	[REDACTED]	[REDACTED]
Subtotal: Administrative Expense Load	[REDACTED]	[REDACTED]

Note: Values are rounded.

PROFIT AND RISK LOAD

We build in [REDACTED] of premium for a target pre-tax contribution to surplus that does not vary by product or plan. We build an additional [REDACTED] into the profit and risk load to account for the three child cap premium load, as well as an additional [REDACTED] to account for metallic premium insufficiency due to catastrophic plan rating. This provides for a total profit and risk load of [REDACTED], which varies slightly by plan. We do not build in any additional loads for profit or risk. We consider the uncertainty of estimated claims in the 2022 market and federal MLR requirements in the target.

TAXES AND FEES

Table 7 provides a breakdown of projected taxes and fees.

Table 7 CareSource Kentucky Co. Kentucky Individual ACA Plans Summary of Taxes and Fees		
	Taxes and Fees	
	PMPM	% of Premium
State Premium Tax		
Risk Adjustment Admin Fee		
PCORI Fee		
GAP Assessment Fee		
Total		
<i>Note: Values are rounded.</i>		

CATASTROPHIC ADJUSTMENT

The catastrophic adjustment factor reflects the projected average demographics of individuals enrolled in a catastrophic plan relative to the other metal tiers. This adjustment represents the impact of the restricted age requirements in the catastrophic risk pool, and the effect of tobacco loads applied to the expected catastrophic population.

SECTION 11. CALIBRATION

AGE CALIBRATION FACTOR

To develop the age calibration factor, we calculate the CMS federal age curve factors on a projected membership basis. The age curve calibration is applied to all plans. We use the underlying demographic mix assumptions as described in Section 6. The average age curve calibration factor is [REDACTED]. The calibration to the age curve complies with the rating rules specified in 45 CFR Part 147, §147.102.

Exhibit 2 provides an illustration for the development of the applicable calibration factor for age. We round the average premium factor to the nearest table value to determine the average rounded age. The age calibration factor is approximately equal to the age [REDACTED] adult factor.

GEOGRAPHIC CALIBRATION FACTOR

CKY applies geographic rating area factors to its plans as shown in Worksheet 3 of the URRT. The geographic rating factors were developed based on a combination of risk-adjusted experience (2019 and 2020 premium-weighted aggregate loss ratios by rating area), changes to Milliman's HCGs area factors by rating area, provider reimbursement changes by rating area, the credibility of a rating area, and other considerations if applicable. The impact of these items is applied to 2021 area factors (normalized on projected 2022 enrollment to result in a geographic calibration factor of [REDACTED]) to calculate 2022 area factors. Exhibit 3 provides an illustration for the development of the applicable calibration factor for geography.

TOBACCO USE RATING FACTOR CALIBRATION

CKY applies a tobacco premium load for users age 21 and over that varies by age. We determine this rate is reasonable as it results in a very similar weighted average premium adjustment compared to the projected tobacco morbidity surcharge. The tobacco rating factors are [REDACTED] for children and between [REDACTED] and [REDACTED] for ages 21 and over. Exhibit 4 displays the development of the tobacco adjustment factor.

SECTION 12. 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 age calibration factor, the geographic calibration factor, and the tobacco calibration factor.

The applicable adjustment factors for each plan are illustrated in Worksheet II, Section III of the URRT.

SECTION 13. PROJECTED LOSS RATIO

The projected loss ratio based on federally prescribed MLR methodology is [REDACTED], as shown in Exhibit 5. Section 13 values may not tie to URRT Worksheet 2, Section IV, since the calculations do not consider the same exclusions / adjustments.

The Exhibit 5 loss ratio is a single year value only. To the extent this amount, on a three-year rolling average basis, and after applying applicable credibility adjustments, falls below the federal 80% threshold, CareSource will comply with all federal rebate regulations found in Public Health Service Act (PHS Act) section 2718.

SECTION 14. AV METAL VALUES

The AV Metal Values included in Worksheet 2, Section I of the URRT were developed using the 2022 CMS Actuarial Value calculator and are shown in Attachment B.

SECTION 15. MEMBERSHIP PROJECTIONS

CareSource projected membership (as displayed in Worksheet 2, Section IV of the URRT) is detailed in Table 8 below. We base CKY's projected 2022 enrollment off 2021 open enrollment exchange data and CKY marketing projections.

Table 8 CareSource Kentucky Co. Kentucky Individual ACA Plans Projected 2022 Member Months				
Product Type	KY001	KY002	Total	% Distribution
Gold				
Silver				
Bronze				
Catastrophic				
Total				

METHODOLOGY TO PROJECT COST SHARING REDUCTION (CSR) ELIGIBLES

We estimate CSR eligible members based on 2021 open enrollment exchange data.

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 do not expect this impact to be material). Table 9 shows the projected distribution across the Silver level plans.

Table 9 CareSource Kentucky Co. Kentucky Individual ACA Plans Assumed Member Distribution Across Silver Metal Tier	
Silver Plan	Assumed Member Distribution
Silver 94%	
Silver 87%	
Silver 73%	
Silver 70%	

SECTION 16. PLAN TYPE

CKY's plans are HMO plans. The applicable plan type for each plan has been selected in the drop-down box in Worksheet 2, Section I of the URRT.

SECTION 17. TERMINATED PLANS AND PRODUCTS

No plans were terminated.

SECTION 18. EFFECTIVE RATE REVIEW INFORMATION

Information is available upon request.

SECTION 19. RELIANCE

In preparing the Part I Unified Rate Review Template (URRT) and Part III Actuarial Memorandum, we rely on information provided to us 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 do not find 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 is beyond the scope of the assignment.

A data reliance letter is attached to this rate submission.

SECTION 20. ACTUARIAL CERTIFICATION

I, [REDACTED], am a Senior 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 CareSource.

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.
 - Neither excessive nor deficient based on my best estimates of the 2022 individual market.
2. The Projected 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 geographic rating factors shown in Worksheet 3 of the Part I Unified Rate Review Template (URRT) 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.
4. The CMS Actuarial Value Calculator was used to determine the AV Metal Values shown in Worksheet 2, Section I of the URRT for all plans.

The 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.

Milliman has developed certain models to estimate the values included in this filing. The intent of the models was to estimate 2022 rates for individual policies offered in the ACA market. We reviewed the models, including their inputs, calculations, and outputs for consistency, reasonableness, and appropriateness to the intended purpose and in compliance with generally accepted actuarial practice and relevant actuarial standards of practice (ASOP).

The 2022 plan year premium rates provided in this Actuarial Memorandum were developed based upon the current Affordable Care Act (ACA) statutes and regulations, relevant CMS and HHS guidance, Executive Orders, relevant Kentucky statutes and regulations, and court decisions in full force and effect as of date this Actuarial Memorandum is submitted, including, but not limited to, the cost-sharing reduction subsidies not being funded for the 2022 plan year and the continued availability of advanced premium tax credits to eligible individuals for the 2022 plan year.

Accordingly, the 2022 plan year premium rates provided in this Actuarial Memorandum are contingent upon the current ACA statutes and regulations, relevant CMS and HHS guidance, Executive Orders, and court decisions not changing, including, but not limited to, the cost-sharing reduction subsidies not being funded for the 2022 plan year and the continued availability of advanced premium tax credits to eligible individuals for the 2022 plan year.

Accordingly, CKY retains and reserves the right to amend this Actuarial Memorandum and 2022 plan premium rates should there be any changes to the ACA statutes and regulations, relevant CMS and HHS guidance, Executive Orders, relevant Kentucky statutes and regulations, and court decisions.

At the time of this rate filing submission, we acknowledge there is continued uncertainty regarding the impact of the COVID-19 pandemic on setting premium rates, including whether the pandemic will increase or decrease costs in 2022. Due to this uncertainty, we have chosen to base 2022 rates on 2019 experience. As the situation of the medical and economic impact of the COVID-19 pandemic continues to evolve, it is possible the 2022 premium rates will become excessive or deficient, and we would need to adjust the rates in order to result in premiums that are neither excessive, nor deficient.

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 deviations from assumptions.

Respectfully submitted,

[REDACTED]

[REDACTED]

Milliman, Inc.

[REDACTED]

Attachments

RELIANCE LETTER



May 20, 2021

Barbara Collier, FSA, MAAA
Senior Consulting Actuary
Milliman, Inc.
15800 Bluemound Road, Suite 100
Brookfield, WI 53005-6069

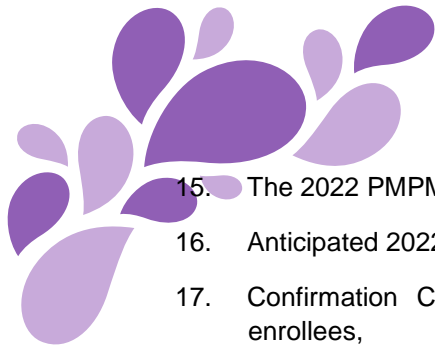
Re: CareSource Kentucky Co.'s 2022 Individual Pricing

Dear Barb:

I, Stephen Butz, Director of Actuarial Science, CareSource, Inc. hereby affirm the data sources, assumptions, and information identified below and provided to Milliman, Inc. for developing CareSource's 2022 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 2022 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 2021 plans CareSource intends to renew or terminate,
2. Benefit plans and networks CareSource offers in 2022,
3. The rating regions in which CareSource offers products in 2022,
4. HIOS Product Names, Product IDs, and Plan Names for each 2022 benefit plan,
5. Renewal / new plan status based on compliance with the Uniform Modification regulations,
6. Historical 2019 and 2020 claim experience and membership for CareSource's products and plans,
7. Projected changes in statewide morbidity,
8. Estimates of CareSource's 2019 and 2020 risk adjustment transfer payments/receivables,
9. Projected 2022 administrative expenses and target profit margin,
10. Emerging 2021 enrollment by county, plan, and demographics,
11. Guidance on appropriate utilization and unit cost trend assumptions,
12. Projected 2022 enrollment by county,
13. Geographic rating area factors to be used for 2022 pricing and information regarding the calculations and assumptions used in their development,
14. Description of contractual provider reimbursement arrangements, including 2019, 2020, and projected 2022 provider reimbursements by service category and area,



15. The 2022 PMPM cost of payments related to added benefits (both EHB and non-EHB),
16. Anticipated 2022 costs from capitation arrangements,
17. Confirmation CareSource has no Kentucky Access/Guaranteed Acceptance Program (GAP) enrollees,
18. Projected changes in projected 2022 prescription drug costs related to the new Pharmacy Benefit Manager contract,
19. Assurance that CareSource has completed the plan benefit template and has found no meaningful discrepancies in Actuarial Value calculations, and
20. Other information provided by CareSource in various meetings, phone calls, emails, and other correspondence.

May 20, 2021

Date

Stephen Butz

Signature

Stephen Butz, FSA, MAAA
Director, Actuarial Science
937-609-1705
CareSource

May 20, 2021