

This filing is for Anthem's 2025 Small Group non-grandfathered ACA block of business. The initially filed average rate increase request was for 18.2%. During the course of our review, the Company agreed to revise its pricing trend assumption, risk adjustment assumption, adjustment for Senate Bill 188, and adjusted their base period experience for favorable development. The revised final average requested rate change is 16.8%, ranging from 11.8% to 25.5%.

The projected pricing loss ratio for this block is 83.0% for the 2025 rating period. This is equivalent to an 85.1% ACA-defined MLR for rebate calculation purposes. The assumed profit margin is 4.7%. The ACA-defined loss ratio exceeds the minimum requirement of 80.0% by 5.1%, therefore, the profit margin assumption was not considered unreasonable.

The following items are material assumptions and/or adjustments made in the development of the proposed 2025 premium rates:

**Base Period Experience:** Calendar year 2023 claims data is used as the base period experience for the development of the 2025 rates. As initially filed, the 2022 claims data used was paid through March 2024. During the course of the review, this was updated to include data paid through May 2024. This decreased rates by 1.4% compared to the initial filing.

**Trend:** Anthem assumed an annual allowed trend rate of 8.3%, which translates to a paid trend rate of 9.3%. Anthem developed its trend by normalizing historical benefit expense for changes in the underlying population and known cost drivers, which are then projected forward to develop the pricing trend. Examples of such changes include contracting, cost of care initiatives, workdays, average wholesale price, expected introduction of generic drugs, the prescription drug pipeline, etc.

Anthem acknowledged the original allowed trend assumption of 9.3% included a 0.9% provision for adverse deviation. During the review, Anthem reduced the provision for adverse deviation to 0.0% resulting in the final allowed trend assumption of 8.3%.

**Expected morbidity change:** Anthem assumed a morbidity change of 1.039. This assumption was used to reflect the assumed annual change in market morbidity based on a study of historical morbidity changes year-over-year. The Company provided support for the development of the adjustment, which was reviewed and found to be reasonable.

**Non-benefit expense:** The Company's projected 2025 Non-Benefit Expenses (NBE) are estimated to be 13.3% of premium. Administrative Expenses: 5.8%. Taxes & Fees: 2.8%, Profit & Risk Margin: 4.7%. The Company's current 13.3% NBE assumption is lower than last year's NBE assumption of 14.3%.

The anticipated claims, net of risk adjustment divided by expected earned premium produces a pricing loss ratio is 83.0% for 2025. This is equivalent to an 85.1% ACA-defined MLR for rebate calculation purposes.

#### **DESCRIPTION OF FILING REVIEW PROCESS WITH INSURER**

The submitted filing was reviewed and questions requesting additional information and documentation were sent to the carrier. Anthem's actuary provided both text answers and spreadsheet exhibits in response to these questions.

Anthem provided satisfactory supporting documentation for its assumptions, including for modifications made during the review. Given the wide range of possible scenarios and magnitude and uncertainty of actual market purchaser characteristics, it is not unlikely that results will vary from the company's assumptions.

The proposed rates as modified are not unreasonable and therefore this rate filing was approved with an average rate change of 16.8%.