This filing is for Anthem's 2026 Small Group non-grandfathered ACA block of business. The average requested rate increase request is 18.04%, ranging from 13.72% to 22.69%.

The projected pricing loss ratio for this block is 83.8% for the 2026 rating period. This is equivalent to an 85.8% 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 5.8%, therefore, the profit margin assumption was not considered unreasonable.

Anthem developed its 2026 rates using its 2024 ACA-compliant small group plan experience, which consisted of about 15K members and was considered 100% credible for rating purposes. Anthem's standard for fully credible experience is approximately 8K members.

- **Base Period Experience:** Calendar year 2024 claims data paid through March 2025 is used as the base period experience for the development of the 2026 rates**.**
- **Expected morbidity change**: Anthem assumed a morbidity change of 1.077. 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.
- **Trend:** Anthem assumed an annual allowed trend rate of 9.3%, which translates to a paid trend rate of 10.4%. 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.

The unit cost changes are higher than prior years as potential tariff impacts and expected increases in provider revenue optimization are anticipated to cause a modest 0.5% annual increase in provider unit cost and pharmacy average wholesale prices.

Anthem acknowledged the allowed trend assumption of 9.3% included a 0.6% provision for adverse deviation. Given that the projected ACA-defined loss ratio exceeds the minimum requirement of 80.0% by 5.8%, the provision for adverse deviation in trend was not considered unreasonable.

The filing was reviewed, and requests were sent for additional information to the actuary. The actuary provided answers, and spreadsheet exhibits in response to my questions.

The Company provided satisfactory supporting documentation for its assumptions, although given the wide range of possible scenarios, magnitude and uncertainty of actual market purchaser characteristics, it is not unlikely that results will vary from the company's assumptions.

Based on the review of the material contained in this rate filing, with specific comments for each area of compliance to be found in the body of this report, we find that any outstanding requirements are not, individually or in combination, substantial in effect in failing to meet the provisions of 806 KAR 17:150. Therefore, this rate filing was approved with an average rate increase of 18.04%.