



Part III Actuarial Memorandum (REDACTED)

**Aetna Life Insurance Company
Small Group Rate Filing
Effective January 1, 2016**

Prepared for:
Aetna Life Insurance Company

Prepared by:
**David Hayes, FSA, MAAA
Principal & Consulting Actuary
Milliman, Inc.**

3424 Peachtree Road NE, Suite 1900
Atlanta, GA 30326
Tel +1 404 237 7060
Fax +1 404 237 6984

milliman.com

TABLE OF CONTENTS

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

<u>Exhibit #</u>	<u>Exhibit Title</u>
Exhibit 1	General Information
Exhibit 2	Proposed Rate Increase(s)
Exhibit 3	Exp Premium and Claims
Exhibit 4	Benefit Categories
Exhibit 5	Projection Factors
Exhibit 6	Credibility Man Rate Dev
Exhibit 7	Credibility of Experience
Exhibit 8	Paid to Allowed Ratio
Exhibit 9	Risk Adj and Reinsurance
Exhibit 10	NBE, Profit, & Risk
Exhibit 11	Projected Loss Ratio
Exhibit 12	Single Risk Pool
Exhibit 13	Index Rate
Exhibit 14	Market Adj Index Rates
Exhibit 15	Plan Adj Index Rates
Exhibit 16	Calibration
Exhibit 17	Cons Adj Prem Rate Dev
Exhibit 18	AV Metal Values
Exhibit 19	AV Pricing Values
Exhibit 20	Membership Projections
Exhibit 21	Terminated Products
Exhibit 22	Plan Type
Exhibit 23	Warning Alerts
Exhibit 24	Eff Rate Review Info
Exhibit 25	Reliance
Exhibit 26	Actuarial Certification

EXHIBIT 1. GENERAL INFORMATION

Document Overview

This document contains the Part III Actuarial Memorandum for Aetna Life Insurance Company's (Aetna) small group block of business, effective January 1, 2016. This actuarial memorandum is submitted in conjunction with the Part I Unified Rate Review Template.

The purpose of the actuarial memorandum is to provide certain information related to the submission, including support for the values entered into the Part I Unified Rate Review Template, which supports compliance with the market rating rules and reasonableness of applicable rate increases. This information may not be appropriate for other purposes.

This information is intended for use by the Commonwealth of Kentucky Department of Insurance, the Center for Consumer Information and Insurance Oversight (CCIO), and their subcontractors to assist in the review of Aetna's small group rate filing. However, we recognize that this certification may become a public document. Milliman makes no representations or warranties regarding the contents of this letter to other users. Likewise, other users of this letter 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 law.

Company Identifying Information

Company Legal Name: Aetna Life Insurance Company
State: The Commonwealth of Kentucky has regulatory authority over these policies.
HIOS Issuer ID: 39127
Market: Small Group
Effective Date: January 1, 2016

Company Contact Information

Primary Contact Name: Trey Swacker
Primary Contact Telephone Number: (860)-273-4748
Primary Contact Email Address: SwackerW@aetna.com

EXHIBIT 2. PROPOSED RATE INCREASE(S) (REDACTED)

EXHIBIT 3. EXPERIENCE PREMIUM AND CLAIMS

Not applicable as Aetna has no inforce business and no historical experience. Premium rates presented are 100% manually rated.

EXHIBIT 4. BENEFIT CATEGORIES

The benefit categories used generally align with the Federal instructions dated February 21, 2015. Inpatient Hospital consists of care delivered at an inpatient facility and associated expenses, including day-based mental health services. Outpatient Hospital includes outpatient surgical as well as emergency care and associated expenses. Professional includes both specialty physician and primary care physician expenses, including visit-based mental health services. Other includes home health care, mental health care, medical pharmacy expenses, as well as laboratory and radiology expenses. Non-capitated ambulance is included in the Outpatient Hospital category when billed by the facility and included in Specialist Physician otherwise. Prescription Drug includes drugs dispensed by a pharmacy.

The utilization for these services are counted by service type, and aggregated for each benefit category. Inpatient Hospital utilization is counted as days; Outpatient Hospital, Professional, and Other Medical utilization are counted as visits. Prescription Drug utilization is counted per script.

EXHIBIT 5. PROJECTION FACTORS (REDACTED)

EXHIBIT 6. CREDIBILITY MANUAL RATE DEVELOPMENT (REDACTED)

Source and Appropriateness of Experience Data Used in Manual Rate Development

Adjustments Made to the Data

Changes in the Morbidity of the Population Insured

Area Adjustment

EXHIBIT 6. CREDIBILITY MANUAL RATE DEVELOPMENT (REDACTED)

Change in Network

Change in Benefit

Changes in Demographics

Benefit Richness

Change to Pharmacy Benefits

Trend (Cost/Utilization)

Below is a summary of trend by major service category:

EXHIBIT 7. CREDIBILITY OF EXPERIENCE

Not applicable. Aetna does not have experience in the base period to use in rate development; therefore, the 2016 rate development is based solely on manual rates.

EXHIBIT 8. PAID TO ALLOWED RATIO (REDACTED)

The following table provides support for the average paid to allowed ratio shown in Worksheet 1, Section III. The table also demonstrates that the ratio is consistent with membership projections by plan included in Worksheet 2.

Table 8.1
Aetna Life Insurance Company
Paid to Allowed Average Factor Support Exhibit

EXHIBIT 9. RISK ADJUSTMENT AND REINSURANCE (REDACTED)

Projected Risk Adjustments PMPM

Projected ACA Reinsurance Recoveries Net of Reinsurance Premium

EXHIBIT 10. NON-BENEFIT EXPENSES AND PROFIT & RISK (REDACTED)

EXHIBIT 11. PROJECTED LOSS RATIO (REDACTED)

EXHIBIT 12. SINGLE RISK POOL

Aetna premium rates are developed using a single risk pool, established according to the requirements in 45 CFR section 156.80(d) and reflects all covered lives for every non-grandfathered product/plan combination, in the Commonwealth of Kentucky small group health insurance market.

Note that the Single Risk Pool includes transitional products/plans for purposes of the base rate experience; however, the experience for these policies has only been used in the projection to the extent that Aetna anticipates the members in those policies will be enrolled in their fully ACA-compliant plans during the projected period.

EXHIBIT 13. INDEX RATE (REDACTED)

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 CY2016 mixture of area factors and the projected mixture of risk morbidity that Aetna expects to receive in the Single Risk Pool. There were no additional benefits offered beyond the EHB benefits. The projected Index Rate has not been adjusted for payments and charges projected under the risk adjustment and reinsurance programs, or for Marketplace user fees.

The projected Index Rate is equal to the projected total allowed claims PMPM since there are no benefits offered beyond the EHB benefits. The index rate for the projection period is \$579.80.

The projected index rate shown in Section III of Worksheet 1 of the URRT is \$579.80. Per the URRT instructions, this is the weighted average index rate for all four quarters. The step-by-step development of this amount is shown in the table below.

EXHIBIT 14. MARKET ADJUSTED INDEX RATES (REDACTED)

The following table summarizes the factors applied to the Index Rate in the projection period to determine the Market Adjusted Index Rate.

The Market Adjusted Index Rate is not calibrated. This means that this rate reflects the average demographic characteristics of the single risk pool.

Each of the above modifiers were developed as follows:

- Net Risk Adjustment
- Net Transitional Reinsurance
- Marketplace User Fee adjustment

EXHIBIT 15. PLAN ADJUSTED INDEX RATES (REDACTED)

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 AV metal value for each plan.
- Provider network, delivery system and utilization management adjustment
 - Not applicable.
- Adjustment for benefits in addition to the EHBs
 - No additional EHBs benefits were added.
- Adjustment for distribution and administrative costs
 - Adjustment is developed to indicate the impact of non benefit expenses.
- Impact of specific eligibility categories for the catastrophic plan
 - No Adjustment was made for the impact of catastrophic membership eligibility.

The following table demonstrates the Plan Adjusted Index Rate development for each plan:

The Plan Adjusted Index Rates reflect the average demographic characteristics of the single risk pool and therefore are not calibrated.

Experience Period Plan Adjusted Index Rates

Not applicable as Aetna is a new to the Kentucky small group market and has no historical experience.

EXHIBIT 16. CALIBRATION (REDACTED)

A single calibration factor is applied to the Plan Adjusted Index Rates from Exhibit 15 to calibrate rates for the expected age and geographic distribution expected to enroll in the plan. The single calibration factor is applied uniformly across all plans.

Age Curve Calibration

Additional information regarding the age curve can be found on Exhibit 17.

Geographic Factor Calibration

Additional information regarding the area rating factors can be found on Exhibit 17.

The following table demonstrates the calibration performed for each plan.

EXHIBIT 17. CONSUMER ADJUSTED PREMIUM RATE DEVELOPMENT (REDACTED)

The Consumer Adjusted Premium Rate is the final premium rate for a plan that is charged to an individual, family, or small employer group 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, the age rating factor and the tobacco status rating factor. All rating factors are described and shown below.

Aetna's CY2016 age and tobacco rating factors are shown below. The age rating factors used by Aetna are identical to those prescribed by CMS. No tobacco factors will be used.

EXHIBIT 17. CONSUMER ADJUSTED PREMIUM RATE DEVELOPMENT (REDACTED)

EXHIBIT 18. AV METAL VALUES

The AV metal values included in Worksheet 2 are entirely based on the AV Calculator. Table 18.1 below summarizes these values for each product.

Table 18.1 Aetna Life Insurance Company Actuarial Values		
Plan	Actuarial	Actuarial Value
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
KY Silver PPO 3000 100/75 HSA	0.706	Federal AV Calculator
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
KY Silver PPO 3000 100/75 HSA TIF	0.681	Federal AV Calculator
KY Silver Indemnity 2000 80	0.709	Federal AV Calculator

EXHIBIT 19. AV PRICING VALUES (REDACTED)

The following table summarizes all of the adjustments included in the AV Pricing Value:

EXHIBIT 20. MEMBERSHIP PROJECTIONS (REDACTED)

EXHIBIT 21. TERMINATED PRODUCTS

No products will be terminated prior to the effective date.

EXHIBIT 22. PLAN TYPE

There are no differences between the plans of Aetna and the plan type selected in the drop-down box in Worksheet 2, Section I of the Part I Unified Rate Review Template.

EXHIBIT 23. WARNING ALERTS

There is a Warning Alert in A80 and A82 on worksheet 2. The values on Worksheet 1 reflect first quarter business whereas the values on Worksheet 2 are an average for all members expected to enroll during the year.

EXHIBIT 24. EFFECTIVE RATE REVIEW INFORMATION (OPTIONAL)

Not applicable.

EXHIBIT 25. RELIANCE

In performing this analysis, I relied on data and other information provided by Aetna Life Insurance Company. I have not audited or verified this data and other information. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete.

I performed 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.

EXHIBIT 26. ACTUARIAL CERTIFICATION

I am a Principal & Consulting Actuary with the firm of Milliman, Inc. Aetna Life Insurance Company engaged me to provide the opinion herein.

Guidelines issued by the American Academy of Actuaries require actuaries to include their professional qualifications in all actuarial communications. I am a member of the American Academy of Actuaries, and I meet its qualification standards to perform the analysis and render the actuarial opinion contained herein.

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 2016 Individual market.
2. The index rate and only the 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 used reflect only differences in the cost of delivery, 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 State and Federal regulations to be provided in support of the review of rate increases, for certification of qualified health plans for State facilitated marketplaces and for certification that the index rate is developed in accordance with State and Federal regulations and used consistently and only adjusted by the allowable modifiers.

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.

Differences between the projections and actual amounts depend on the extent to which future experience conforms to the assumptions made for this analysis. It is certain that actual experience will not conform exactly to the assumptions used in this analysis. Actual amounts will differ from projected amounts to the extent that actual experience deviates from expected experience.

Signed: 
Name: David Hayes, FSA, MAAA
Title: Principal & Consulting Actuary
Date: June 25, 2015