

**CareSource Kentucky Co.
Individual Comprehensive Medical Business
Rate Filing Justification
Part III - Actuarial Memorandum and Certification**

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, 2017. These individual rates are guaranteed through December 31, 2017. 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.

CareSource Kentucky Co.
Individual Comprehensive Medical Business
Rate Filing Justification
Part III - Actuarial Memorandum and Certification

I. GENERAL INFORMATION

Company Identifying Information

Company Legal Name:	CareSource Kentucky, Co.
Address:	P.O. Box 8738, Dayton, Ohio 45401-8738
Toll-Free Number:	1-800-479-9502
Filer Email:	Scott.Brockman@caresource.com
State:	Kentucky
HIOS Issuer ID:	45636
Market:	Individual
Effective Date:	January 1, 2017

Company Contact Information

Primary Contact Name:	Scott Brockman
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Primary Contact Name:	Erik C. Huth
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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, 45636KY002, and 45636KY003 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. 45636KY004 is an HMO product with Silver benefit plan options and has the same coverage of services subject to deductible, coinsurance, and copays as CKY's other products. 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, and 45636KY004. Product 45636KY003 (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). Product 45636KY001 includes additional coverage for adult routine eye examinations which is a non-EHB. Product 45636KY002 includes additional coverage for adult eyewear, adult routine eye examinations, and adult dental services, which are non-EHBs. The level of EHBs and non-EHBs in these products changed from 2015 to 2017 due to the addition of child hearing aids as an additional EHB benefit in 2017. No EHB substitutions were made.

CareSource Kentucky Co.
Individual Comprehensive Medical Business
Rate Filing Justification
Part III - Actuarial Memorandum and Certification

II. PROPOSED RATE INCREASE(S)

This filing is both an initial rate filing for seven plans and a requested rate change filing for four of CKY's individual Affordable Care Act (ACA) compliant non-group plan rates originally filed for effective dates January 1, 2016 through December 31, 2016. The experience basis, benefit plans, rating factors, and other projection assumptions were updated for this filing.

Note that we are consolidating plans that previously had unique HIOS plan IDs into one HIOS plan ID to simplify CKY's filings and administration. These plans had the same benefits, but covered different service areas. Although the plans are technically considered "terminated" plans in the URRT, CKY is renewing them at the consolidated HIOS plan ID.

CKY's 2017 plan designs include copay and other benefit changes from their existing 2016 plan designs to comply with changes in the most recent AV Calculator and also to better compete in the market.

Premium rates for the individual plans were developed using CKY's 2015 individual non-grandfathered experience, in conjunction with internal research proprietary to Milliman and other industry studies and surveys. A number of items were considered 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,
- Anticipated risk adjustment payments (receipts), and
- Removal of Federal Transitional Reinsurance Program receipts and contributions in 2017.

This memorandum addresses the rate increase requested for CKY's individual HMO product, which impacts 12,660 members. The rate increase being requested weighted by current enrollment for CKY's products is an aggregate 29.4%. The requested rate increase varies by plan and area within the individual HMO product with a minimum rate change of a 20.8% increase and a maximum rate change of a 44.1% increase. These plans are Affordable Care Act (ACA) compliant plan rates, effective for 12 months beginning January 1, 2017 and ending December 31, 2017. Exhibit 1 displays the rate change by plan and area.

Reason for Rate Change

- Base Experience – CKY's 2015 individual ACA experience is the basis for CKY's 2017 premium rates. 2015 is the first year that CKY offered plans in the individual market. CKY's 2016 premium rates are based on CareSource's actual 2014 Ohio commercial ACA experience adjusted for market differences between Ohio and Kentucky.
- Trend – We price CKY's 2017 premiums using a [REDACTED] annual trend.
- Federal Transitional Reinsurance Program – The federal reinsurance program reinsurance payments expires at the end of 2016, resulting in a 3.6% increase to incurred claims from 2016 to 2017.
- Morbidity – CKY estimates it will [REDACTED] per member per month (PMPM) for ACA members. We price by applying an adjustment for improved coding to CKY's actual 2015 risk adjustment PMPM of [REDACTED]

CareSource Kentucky Co.
Individual Comprehensive Medical Business
Rate Filing Justification
Part III - Actuarial Memorandum and Certification

Table 1 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 1 CareSource Kentucky Individual ACA Plans 2015 Experience			
2015	Allowed	Paid	Premium
Claims Paid through January, 2016 (net of CSR)	██████████	██████████	██████████
Incurred But Not Reported (IBNR)	██████████	██████████	██████████
Earned Premium	██████████	██████████	██████████
Estimated Risk Adjustment	██████████	██████████	██████████
Total	██████████	██████████	██████████

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 2015.

We categorize utilization and cost information by benefit using CKY’ 2017 projected Kentucky claims distribution by major service category. CKY’s projected 2017 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 2017 projected allowed experience claims.

V. PROJECTION FACTORS APPLIED TO EXPERIENCE

CKY’s rates are based 100% on an experience rate as their 2015 experience reflects 57,060 member months which we deem fully credible.

**CareSource Kentucky Co.
Individual Comprehensive Medical Business
Rate Filing Justification
Part III - Actuarial Memorandum and Certification**

Projected Enrollment

We project CKY's 2017 Kentucky enrollment based on CareSource's projections. Table 2 shows CKY's assumed 2017 individual enrollment by metal level and plan.

Table 2 CareSource Kentucky Individual ACA Plans Projected 2017 Member Months						
Product Type:	KY001	KY002	KY003	KY004	Total	% Distribution
Gold						
Silver						
Bronze						
Catastrophic						
Total						

Changes in the Morbidity of the Population Insured



We use our risk score model to estimate the [REDACTED] in the 2015 to 2017 statewide morbidity level, as described below.

We develop 2014 statewide Kentucky member months, plan liability risk score (PLRS), allowable rating factor (ARF), actuarial value (AV), and induced demand factor (IDF) relativities for eight categories (On / Off Exchange; four metal levels) using carrier information and publicly available data. We calibrate the statewide aggregate PLRS, ARF, AV, and IDF to CMS' *Summary Report on Transitional Reinsurance Payments and Permanent Risk Adjustment Transfers for the 2014 Benefit Year*.

We model the percentage of statewide members re-enrolling in each of the eight categories and project new 2015 statewide enrollees for each of the eight categories. We calibrate Kentucky's statewide aggregate member months, PLRS, ARF, AV, and IDF to the *Summary Report on Transitional Reinsurance Payments and Permanent Risk Adjustment Transfers for the 2015 Benefit Year* report issued by CMS on June 30, 2016. We also calibrate Kentucky's Exchange member months and Exchange AV to the 2015 and 2016 *Assistant to the Secretary of Planning and Evaluation (ASPE)* Exchange reports. 2016 to 2017 population changes are 2015 to 2016 population changes with increased re-enrollee persistency and decreased new enrollees.

We model Kentucky 2014 to 2015 ARF change for 16 categories (On / Off Exchange; four metal levels; re-enrollee / new enrollee) using carrier information and publicly available data. We calibrate Kentucky' 2014 through 2016 Exchange ARF to the Exchange ARFs from the 2014 through 2016 ASPE reports. We also calibrate Kentucky's total 2015 ARF to the *Summary Report on Transitional Reinsurance Payments*

CareSource Kentucky Co.
Individual Comprehensive Medical Business
Rate Filing Justification
Part III - Actuarial Memorandum and Certification

and Permanent Risk Adjustment Transfers for the 2015 Benefit Year. We assume 2016 to 2017 change in new enrollees' ARFs, and re-enrollees' ARF increases 2.4%, which equates to being one year older.

We develop PLRS assumptions independent of age. We model Kentucky 2014 to 2015 PLRS change for the above 16 categories using carrier information and publicly available data. We project the 2015 to 2016, and 2016 to 2017 Exchange re-enrollees' PLRS [REDACTED] respectively, independent of age to reflect increased morbidity. We do not project additional Off Exchange re-enrollee's PLRS increase independent of age.

We project new enrollees' PLRS decreasing from the previous year's new enrollees' PLRS, but leveling closer to the previous year's PLRS each successive year. We also increase PLRS to reflect a movement towards leaner plans. Our model's metal level PLRS reflects actual 2014 and 2015 data and the different morbidity levels in each metal including plan selection bias (i.e., Gold members are healthier than Platinum members). However, a Platinum member moving to Gold would not necessarily exhibit the Gold-level morbidity. Movement is expected to be somewhat anti-selective (healthier Platinum members more likely move to a leaner metal plan than unhealthier members), but we project a decrease in Platinum enrollment with fewer available carriers and plans, suggesting the leaner plan movement is not just due to anti-selective behavior.

We project a [REDACTED] 2015 to 2017 Kentucky morbidity [REDACTED] based on the 2015 to 2017 change in PLRS net of ARF and AV. Exhibit 3 shows the estimated 2015 and 2017 morbidity projections.

The URRT includes a population risk morbidity adjustment equal to [REDACTED] as a result of the adjustment described above since we assume that CKY will see claims decrease by the same amount as the statewide morbidity change.

Changes in Benefits

We adjust CKY's 2017 index rate by the difference in CKY's projected 2017 plan design behavior factors relative to CKY's 2015 plan design behavior factors. The impact on the average utilization of services due to differences in average cost sharing requirements developed in the 2017 projections versus the 2015 experience period was reflected in the 2017 rate development.

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.

EHBs are consistent between the 2015 experience period and the 2017 projection period, except a child hearing aid benefit has been added as an EHB.

Changes in Demographics

We assume CKY's 2017 individual enrollment will have the product type and metal level as provided by CKY and shown in Table 2. Within each product and metal, we assume CKY's 2017 individual enrollment distribution by age, gender, and tobacco status will mirror the demographics underlying CKY's emerging 2016 enrollment.

Our rate projection is based on 2015 experience, and reflects the average demographics and geographic mix of the 2015 enrollees. Our development of the 2017 Index Rate reflects the anticipated differences in the demographic and geographic mix of the population, as compared to the 2015 experience period.

CareSource Kentucky Co.
Individual Comprehensive Medical Business
Rate Filing Justification
Part III - Actuarial Memorandum and Certification

Other Adjustments

CKY has negotiated 2017 Kentucky provider discount levels as a percent of Medicare that are different than the percent of Medicare reimbursement levels underlying the 2015 experience. We adjust CKY's 2017 index rate for the difference between the provider reimbursement levels as a percent of Medicare. CKY has also negotiated improved pharmacy contracting terms in 2017 relative to 2015. We adjust 2017 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 2015 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 raises the allowed amount PMPM from 2015 to 2017 and reflects higher utilization in 2017 due to the richer benefit plan design mix in 2017.

Table 3 displays these adjustments.

Table 3 CareSource Kentucky Individual ACA Plans Development of Other Adjustment Factor	
Demographic / Tobacco Mix Change	█
Provider Reimbursement / Pharmacy Change	█
Covered Benefit Changes	█
Plan Mix and its Impact on Utilization	█
Resulting Other Factor Change	█

Note: factors are rounded.

Trend Factors

We trend CKY's Kentucky 2015 experience forward to 2017 using an aggregate annual 5.4% trend (annual utilization and charge trends of approximately 1.0 and 4.3%, 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.

Table 4 CareSource Kentucky Individual ACA Plans 2015 to 2017 Annual Trend			
Service Category	Utilization Trend	Cost Trend	Total Trend
Inpatient Hospital	█	█	█
Outpatient Hospital	█	█	█
Professional	█	█	█
Other Medical	█	█	█
Capitation	█	█	█
Prescription Drug	█	█	█
Total	█	█	█

Note: factors are rounded.

**CareSource Kentucky Co.
Individual Comprehensive Medical Business
Rate Filing Justification
Part III - Actuarial Memorandum and Certification**

VI. CREDIBILITY MANUAL RATE DEVELOPMENT

We determine CKY's 2015 individual experience of 57,060 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 2015 ACA-compliant experience includes claims for 57,060 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 5 provides the experience paid to allowed factors for CKY's individual ACA metal level plans.

Table 5 CareSource Kentucky Individual ACA Plans Average Experience Paid to Allowed Factor Support				
Metal Level	Member Months	Paid Claims PMPM	Allowed Claims PMPM	Paid-to-Allowed Ratio
Gold				
Silver				
Bronze				
Catastrophic				
Total				

The projected paid and allowed claims reflect the member month weighted average by metal level from Worksheet 2, Section IV of the URRT. 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.

CareSource Kentucky Co.
Individual Comprehensive Medical Business
Rate Filing Justification
Part III - Actuarial Memorandum and Certification

We price 2017 plans using an internal Milliman cost relativity model based on Milliman's commercial *Health Cost Guidelines (HCG's)* 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 \$6.85 PMPM in 2015 net reinsurance recoverables for individual ACA members and pay \$67.69 PMPM in 2015 risk adjustment transfers for individual ACA members.

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 projects a \$78.11 risk adjustment transfer payment as described earlier by assuming coding improves with its new vendor, and assuming statewide premiums increase 10% annually. The risk adjustment payment include the \$0.13 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 2017, 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 2017.

X. NON-BENEFIT EXPENSES AND PROFIT AND RISK

Exhibit 4 displays the total expenses, profit and taxes and fees. (Exhibit 4 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 [REDACTED] PMPM, as shown in Table 6. 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 2017 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 6 may not tie to PMPMs within URRT Worksheet 1, Section III due to rounding within URRT Worksheet 1.

CareSource Kentucky Co.
Individual Comprehensive Medical Business
Rate Filing Justification
Part III - Actuarial Memorandum and Certification

Table 6
CareSource
Kentucky Individual ACA Plans
Projected 2017 Administrative Expenses

	Administrative Expense	
	PMPM	% of Premium
General Admin	██████	██████
Commission	██████	██████
Commercial Reinsurance Recoveries	██████	██████
Commercial Reinsurance Premiums	██████	██████
Total Administrative Expense Load	██████	██████

Note: values are rounded.

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

We build in ██████ 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 2017 market and federal MLR requirements in the target. Exhibits 5 and 6 demonstrate the reconciliation of the pre-tax and post-tax profit margin. This is similar to ██████. Exhibit 6 demonstrates the development of the Federal Income Tax PMPM and ██████ after-tax contribution to surplus (Exhibit 5 and 6 values may not tie to URRT Worksheet 1, Section III values due to rounding within URRT Worksheet 1).

Taxes and Fees

Table 7 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 \$0.13 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 7 may not tie to PMPMs within URRT Worksheet 1, Section III due to rounding within URRT Worksheet 1.

Table 7
CareSource
Kentucky Individual ACA Plans
Summary of Taxes and Fees

Description	Taxes and Fees	
	PMPM	% of Premium
State Premium Tax	██████	██████
Comparative Effectiveness Research Fee	██████	██████
Exchange Fee	██████	██████
GAP Assessment	██████	██████
Health Insurer Fee	██████	██████
Federal Income Tax	██████	██████
Total Taxes and Fees	██████	██████

Note: values are rounded.

CareSource Kentucky Co.
Individual Comprehensive Medical Business
Rate Filing Justification
Part III - Actuarial Memorandum and Certification

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 [REDACTED] as shown in Exhibit 7 (Exhibit 7 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 2015 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 the same as experience period total allowed claims PMPM since CKY did not cover 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 2017 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 2017 projected index rate from the 2015 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 2017 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, 2017 through December 31, 2017. 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, 2017 through December 31, 2017 is [REDACTED] 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). We project exchange fees as 1.5% of premium (Section 10. Non-Benefit Expenses and Profit & Risk), reinsurance recoveries net of contribution as \$0.00 PMPM, and a risk adjustment transfer payment of \$78.11 PMPM (Section 9. Risk Adjustment & Reinsurance). Table 8 displays the development of the market-adjusted index rate.

**CareSource Kentucky Co.
Individual Comprehensive Medical Business
Rate Filing Justification
Part III - Actuarial Memorandum and Certification**

Table 8 CareSource Kentucky Individual ACA Plans Market Adjusted Index Rate Development	
2017 Index Rate PMPM	██████████
Market Adjustments (Paid Basis)	
Net Risk Adjustment	██████████
Net Transitional Reinsurance	██████████
Exchange Fee	██████████
Total Market Adjustments (Paid Basis)	██████████
Paid to Allowed Ratio	██████████
Total Market Adjustments (Allowed Basis)	██████████
Market-Adjusted Index Rate PMPM	██████████

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 2015 HCGs. Relativities between plans were based on the differences in cost and utilization for varying levels of cost-sharing. Appendix B displays this development.

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 make an adjustment for Product 45636KY001 which includes the Non-EHB routine eye examinations benefit and Product 45636KY002 which includes Non-EHB benefits adult dental, eyewear, and routine eye examinations.

**CareSource Kentucky Co.
Individual Comprehensive Medical Business
Rate Filing Justification
Part III - Actuarial Memorandum and Certification**

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 8 displays the development of the tobacco adjustment factor. The AV and Cost Sharing factors include a [REDACTED] to reflect non-tobacco factors only.

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 [REDACTED]. 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 2016 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 9 displays the development of the age calibration factor.

CKY applies geographic rating factors to its plans as shown in Table 9. 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 2016 pricing. Exhibit 10 displays the development of the geographic calibration factor.

Table 9 CareSource Kentucky Individual ACA Plans Geographic Factors	
Rating Area	Factor
Rating Area 3	[REDACTED]
Rating Area 4	[REDACTED]
Rating Area 5	[REDACTED]
Rating Area 6	[REDACTED]
Rating Area 7	[REDACTED]
Rating Area 8	[REDACTED]

The 2017 geographic factors will differ significantly from 2016 geographic factors because CareSource changed their plan offerings from one HIOS ID per rating area to all rating areas. (See Exhibit 11 for details).

CareSource Kentucky Co.
Individual Comprehensive Medical Business
Rate Filing Justification
Part III - Actuarial Memorandum and Certification

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 1.09 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 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.

XX. MEMBERSHIP PROJECTIONS

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

Methodology to Project Cost Sharing Reduction (CSR) Eligibles: We estimate CSR eligibles based on the actual 2016 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 10.

**CareSource Kentucky Co.
Individual Comprehensive Medical Business
Rate Filing Justification
Part III - Actuarial Memorandum and Certification**

Table 10 CareSource Assumed Member Distribution Across Silver Metal Tier	
Plan Name	Assumed Member Distribution
Silver 94%	██████
Silver 87%	██████
Silver 73%	██████
Silver 70%	██████

XXI. TERMINATED PRODUCTS

Exhibit 11 outlines the 2016 plans that were terminated prior to January 1, 2017, which 2017 plan they mapped to, and the plans that renewed for 2017.

No 2015 plans were terminated prior to January 1, 2016; all plans either renewed or were new.

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:

Warning Alert on Line 57: Total Premium (TP) on Worksheet 2 of the URRT. The Plan Adjusted Index Rates reported on Worksheet 2 are the 2015 filed Plan Adjusted Index Rates, which do not incorporate the 2015 HHS risk adjustment transfer payment built into premium reported on Worksheet 1. In addition, the 2015 Plan Adjusted Index Rates were based on a projection of demographic mix while the premiums are based on the actual mix experienced in 2015.

Warning Alert on Line 68: Total Incurred Claims, payable with issuer funds on Worksheet 2 of the URRT. This warning is triggered because "Allowed Claims which are not the Issuer's Obligation" includes risk adjustment payments which are not included in the worksheet 1 "Incurred Claims in the Experience period".

Warning Alert on Line 73: Incurred Claims PMPM on Worksheet 2 of the URRT. This warning is triggered because these values are simply the values causing the warning above 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.

CareSource Kentucky Co.
Individual Comprehensive Medical Business
Rate Filing Justification
Part III - Actuarial Memorandum and Certification

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.

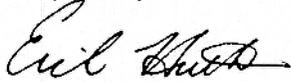
The Part I Unified Rate Review Template (URRT) does not demonstrate the process used to develop proposed premium rates. It is representative of information required by Federal regulation to be provided in support of the review of rate increases, for certification of qualified health plans for federally 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 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.

CareSource Kentucky Co.
Individual Comprehensive Medical Business
Rate Filing Justification
Part III - Actuarial Memorandum and Certification

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 Huth, FSA, MAAA
Consulting Actuary
Milliman, Inc.

ECH/cm

Attachments



RELIANCE LETTER

April 20, 2016

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

RE: CareSource Kentucky Co.'s 2017 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 2017 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 2017 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 2016 plans CareSource intends to renew or terminate,
 2. Benefit plans and networks CareSource offers in 2017,
 3. The rating regions in each state in which CareSource offers products in 2017,
 4. HIOS Product Names, Product IDs, and Plan Names for each 2017 benefit plan,
 5. Historical 2015 and 2016 claim experience and membership for CareSource's products and plans,
 6. Estimates of CareSource's 2015 risk adjustment transfer payments, federal reinsurance recoveries, and cost-sharing subsidy receipts,
 7. Confirmation that the cost relativity associated with each rating area provided by CareSource does not include the impact of morbidity,
 8. Projected administrative expenses and target profit margin,
 9. Projected 2017 enrollment by county and plan,
-

Mr. Erik Huth
April 20, 2016

10. Description of contractual provider reimbursement arrangements, including actual 2015 and projected 2017 provider discounts by service category,
11. Other information provided by CareSource in various meetings, phone calls, emails, and other correspondence,
12. Assurance that CareSource has completed the plan benefit template and has found no meaningful discrepancies in Actuarial Value calculations.

April 20, 2016

Date


Signature