# Filing at a Glance

| | |
|---|---|
| Company: | Keystone Health Plan West |
| Product Name: | 1A-DP-15-KHPW |
| State: | Pennsylvania |
| TOI: | HOrg02I Individual Health Organizations - Health Maintenance (HMO) |
| Sub-TOI: | HOrg02I.005D Individual - HMO |
| Filing Type: | Rate - G.I. (Guaranteed Issue) |
| Date Submitted: | 05/14/2015 |
| SERFF Tr Num: | HGHM-130070359 |
| SERFF Status: | Assigned |
| State Tr Num: | HGHM-130070359 |
| State Status: | Received Review in Progress |
| Co Tr Num: | 1A-DP-15-KHPW |
| Implementation Date Requested: | 01/01/2015 |
| Author(s): | Kevin Luu, Frank Haver, Aaron Syster, Craig Cooper, Gregory Amspacher, Jonathan Wood, Patrick Foster |
| Reviewer(s): | Jim Laverty (AH) (primary) |
| Disposition Date: | |
| Disposition Status: | |
| Implementation Date: | |

State Filing Description:

Proposed 36.6% increase on 2016 off-exchange-only individual HMO rates in Western PA.

**State:** *Pennsylvania* **Filing Company:** *Keystone Health Plan West*
**TOI/Sub-TOI:** *HOrg02I Individual Health Organizations - Health Maintenance (HMO)/HOrg02I.005D Individual - HMO*
**Product Name:** *1A-DP-15-KHPW*
**Project Name/Number:** *1A-DP-15-KHPW/1A-DP-15-KHPW*

## General Information

Project Name: 1A-DP-15-KHPW
Project Number: 1A-DP-15-KHPW
Requested Filing Mode: Review & Approval

Explanation for Combination/Other:
Submission Type: New Submission
Overall Rate Impact: 36.6%

Deemer Date:
Submitted By: Aaron Syster

Status of Filing in Domicile:
Date Approved in Domicile:
Domicile Status Comments: Pennsylvania is the state of domicile.

Market Type: Individual
Individual Market Type: Individual
Filing Status Changed: 05/15/2015
State Status Changed: 05/15/2015
Created By: Aaron Syster
Corresponding Filing Tracking Number: HGHM-130062157

PPACA: Non-Grandfathered Immed Mkt Reforms

PPACA Notes: null
Include Exchange Intentions: No

Filing Description:
Please see attached memorandum and cover letter.

## Company and Contact

### Filing Contact Information

Kevin Luu,
1800 Center Street
Camp Hill, PA 17011

kevin.luu@highmark.com
717-302-2203 [Phone]

### Filing Company Information

Keystone Health Plan West
120 5th Avenue Place
Pittsburgh, PA 15222
(717) 302-3971 ext. [Phone]

CoCode: 95048
Group Code: 812
Group Name:
FEIN Number: 25-1522457

State of Domicile: Pennsylvania
Company Type:
State ID Number:

## Filing Fees

Fee Required? No
Retaliatory? No
Fee Explanation:

**State:** Pennsylvania **Filing Company:** Keystone Health Plan West
**TOI/Sub-TOI:** HOrg02I Individual Health Organizations - Health Maintenance (HMO)/HOrg02I.005D Individual - HMO
**Product Name:** 1A-DP-15-KHPW
**Project Name/Number:** 1A-DP-15-KHPW/1A-DP-15-KHPW

## Supporting Document Schedules

| | |
|---|---|
| **Satisfied - Item:** | Non Confidential Information |
| **Comments:** | |
| **Attachment(s):** | 38949_01012016_RedactedAMIndividual.pdf<br>1A-DP-15-KHPW Cover Letter.pdf<br>Part II - KHPW Individual v2.pdf |
| **Item Status:** | |
| **Status Date:** | |

**REDACTED**

# Part III Actuarial Memorandum

## Keystone Health Plan West, Inc.

## Individual Rate Filing

## Effective January 1, 2016

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# I. General Information

**Document Overview**

This document contains the Part III Actuarial Memorandum for Keystone Health Plan West Inc.'s (KHPW) individual block of business rate filing, for products with an effective date of 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 Pennsylvania Insurance Department, the Center for Consumer Information and Insurance Oversight (CCIIO), and their subcontractors to assist in the review of KHPW's rate filing. However, we recognize that this certification may become a public document. KHPW makes no representations or warranties regarding the contents of this letter to third parties. Likewise, third parties are instructed that they are to place no reliance upon this actuarial memorandum would result in the creation of any duty or liability under any theory of law by KHPW.

The results are actuarial projections. Actual experience is likely to differ for a number of reasons, including population changes, claims experience, and random deviations from assumptions.

## I.1 Company Identifying Information:

- Company Legal Name: Keystone Health Plan West, Inc.
- State: The Commonwealth of Pennsylvania has regulatory authority over these policies.
- HIOS Issuer ID: 38949
- Market: Individual
- Effective Date: January 1, 2016

## I.2 Company Contact Information:

- Primary Contact Name: Frank Haver, F.S.A., M.A.A.A.
- Primary Contact Telephone Number: 717-302-3077
- Primary Contact Email Address: Frank.Haver@highmark.com

## II. Proposed Rate Increase(s)

For the plan's rate increase see the 'Cum'tive Rate Change % (over 12 mos prior)' found in Worksheet 2 Row 26 of the URRT.

The primary drivers of the rate increase are the experience of the ACA single risk pool membership is emerging higher than assumed in the prior rate filing, trend, and the change in parameters of the Federal Reinsurance Program.

Please note that the rate development in this filing is contingent upon the continued availability of federal subsidies under the ACA in 2016. If federal subsidies in their current form are not available to eligible residents of Pennsylvania, substantial changes to this filing may be required.

## III. Experience Period Premium and Claims

### III.1 Paid through Date:

Experience Period claims were based on incurred calendar year 2014, paid through January 2015.

### III.2 Premiums (net of MLR Rebate) in Experience Period:

The premiums shown for the experience period were based on calendar year 2014 actual revenues.

Based on preliminary information for calendar year 2014, no MLR rebates are anticipated to be refunded to enrollees. Therefore, we did not include an adjustment for MLR rebates in the 2014 premium amounts.

### III.3 Allowed and Paid Claims Incurred During the Experience Period:

- Historical Experience: The historical experience shown represents KHPW's experience for the experience period of January 1, 2014 through December 31, 2014, with claims paid through January, 2015.

- Claims Incurred During the 12-month Experience Period: Worksheet 1, Section I shows our best estimate of the amount of claims that were incurred during the 12-month experience period for KHPW's individual book-of-business.

- Method for Determining Allowed Claims: For non-capitated claims, the allowed charges are summarized from KHPW's detailed claim-level historical data. For capitated and other off-system claims, historical capitations and experience were tabulated and added to the claims.

## IV. Benefit Categories

Historical cost and utilization data was summarized at the defined benefit categories included in Worksheet 1, Section II of the URRT. This data was used to allocate total claims into its components on the URRT.

## V. Projection Factors

The experience data for KHPW is not credible. Factors of 1.0 have been entered for Pop'l risk Morbidity, Other, Cost, and Util to allow the template to validate.

Please see the Credibility Manual Rate Development section, just below, for a discussion of the projection factors.

## VI. Credibility Manual Rate Development

### VI. 1 Source and Appropriateness of Experience Data Used

KHPW has chosen to use experience from another company within the Highmark family, HM Health Insurance Company (HHIC), to develop a manual rate. The experience period for the manual rates is January 1, 2014 through December 31, 2014, paid through January 31, 2015. While this experience is a reasonable representation of the expected KHPW population, significant adjustments are required.

### VI. 2 Changes in the Morbidity of the Population insured

We applied an adjustment to reflect the anticipated changes in the average morbidity of the covered population (beyond allowable rating factors).

### VI.3 Changes in Benefits

We made the following adjustments to reflect the material expected differences in benefits between the experience period and projection period:

- We reflected adjustments for the following EHB: Change in the pediatric vision capitation.
- We reflected the following newly mandated benefits required under state law, which are not reflected in the experience period claims: None.
- We reflected adjustments for the following non-EHBs: Change in Adult Vision Capitation
- We made an adjustment to reflect the removal of benefits covered in the experience period claims that will not be covered in the projection period: None.

### VI.4 Changes in Demographics

We applied an adjustment for change in rating factor (age, tobacco load and area combined.)

### VI.5 Trend Factors (cost/utilization)

The development of the CY 2016 rates reflects an assumption for trend.

## VII. Credibility of Experience

The experience from KHPW's individual book of business in 2014 in not credible due to low enrollment. KHPW has chosen to treat the credibility manual rates as 100% credible.

## VIII. Paid to Allowed Ratio

KHPW is only offering one Gold plan in 2016. The factor in the URRT represents the factor for this plan.

## IX. Risk Adjustment and Reinsurance

### IX.1 Projected Risk Adjustments PMPM:

Using KHPW's 2014 claim diagnoses, we are able to project the average risk score and combined rating factors to estimate the risk adjustment. The actual calculation of the risk transfer followed the risk transfer methodology as prescribed.

### IX.2 Projected ACA Reinsurance Recoveries Net of Reinsurance:

KHPW applied the prescribed 2016 reinsurance parameters of a $90,000 attachment point and 50% coinsurance on claims cap at $250,000 to estimate the recoverable claims through the reinsurance program.

## X. Non-Benefit Expenses and Profit & Risk

### X.1 Administrative Expense Load:

The proposed rates reflect internal administrative costs. This cost was developed based on standard expense allocation methods.

### X.2 Profit (or Contribution to Surplus) & Risk Margin:

The proposed rates include the risk or contribution to surplus margin.

### X.3 Taxes and Fees:

The following fees were added: Patient Centered Outcomes Research Fee.

## XI. Projected Loss Ratio

The anticipated medical loss ratio is calculated consistently with the federally prescribed MLR methodology.

## XII. Single Risk Pool

As described above the base experience used includes all KHPW individual members in accordance with the Single Risk Pool regulations. The projected membership and their corresponding premiums and claims only include those members who will be enrolled in a fully ACA-compliant plan in 2016.

## XIII. Index Rate

The index rates as shown on Worksheet 1 of the URRT are simply the average allowed claims for the Essential Health Benefits for the experience and projected populations, respectively, for KHPW.

## XIV. Market Adjusted Index Rate

The Market Adjusted Index Rate is the Index Rate further adjusted for risk adjustment, reinsurance, and the exchange fee.

## XV. Plan Adjusted Index Rates

A Plan Adjusted Index Rate is developed by taking the Market Adjusted Index Rate and adding a plan's actuarial value, relative benefit richness, relative network, any non EHB benefits, and retention.

## XVI. Calibration

### XVI.1 Age Curve Calibration:

An age calibration is calculated using KHPW's average age factor of the projected population. Since no member will pay the rates at this age factor, we calibrated the average age factor by dividing by the closest age factor on the HHS age curve which also represents the nearest age for the age calibration.

### XV.2 Geographic Factor Calibration:

A geographic calibration is also calculated by dividing the KHPW geographic factor of the projected population into 1.

## XVII. Consumer Adjusted Premium Rate Development

The plan adjusted index rate represents the rate for a non-smoker average age and average geographic member. Consumer adjusted premium rate is obtained by multiplying by the

combined age and geographic calibration factors for the calibrated age/non-smoker in a 1.0 geographical area. The standard HHS Age Curve along with the filed tobacco factors and geography factors can be used to calculate any rate found in the QHP rate template.

## XVIII. AV Metal Values

The AV Metal Values included in Worksheet 2 of the Part I Unified Rate Review Template were based entirely on the Federal AV Calculator. No adjustments were needed for any benefits from those values produced by the AV calculator.

## XIX. AV Pricing Values

The AV pricing value is comprised of the allowable modifiers such as 1) provider network/utilization management, 2) actuarial value and cost-sharing design of the plan, 3) the addition of non-EHB, 4) administrative cost, excluding Exchange user fees, and 5) the expected impact of the catastrophic plans. The utilization due to differences in cost sharing is based on the factors adopted by the risk adjustment methodology. No differences due to health status are in these adjustments.

## XX. Membership Projections

Membership projections are from KHPW's forecast for 2016. These projections reflect expected changes in market share due to an expected increase in market competition.

## XXI. Terminated Products

KHPW will not be terminating any plans.

## XXII. Plan Type

The Plan type listed in Worksheet 2, Section I of the Part I Unified Rate Review Template describes KHPW's plan adequately. No differences are needed.

## XXIII. Warning Alerts

The following validation warnings occurred when finalizing the URRT workbook:

**Section III - Experience Period Plan Adjusted Index Rate and Total Premium do not tie to Worksheet1**: Worksheet2 represesents the index rate filed for 2014. Worksheet1 shows actual earned premium for 2014.

**Section III - Experience Period Total Incurred Claims Payable with Issuer Funds and the Incurred Claims PMPM do not match Worksheet1**: Worksheet2 removes reinsurance and risk adjustment from paid claims as required by the instructions. The cell it points to in Worksheet1 does not as required by the instructions.

## XXIV. Actuarial Certification

I, Kevin Q. Luu, am a member of the American Academy of Actuaries and meet its qualification standards for actuaries issuing statements of actuarial opinions in the United States. This filing is prepared to accompany KHPW's rate filing for the individual combined market on and off the Pennsylvania Exchange.

I hereby certify that the projected index rate is, to the best of my knowledge and understanding:

- 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.

I certify that 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. The allowable modifiers used to generate plan-level rates were:

- The actuarial value and cost-sharing design of the plan.
- The plan's provider network, delivery system characteristics, and utilization management practices.
- The benefits provided under the plan that are in addition to the essential health benefits. These estimated benefits were pooled with similar benefits within the single risk pool and the claims experience from those benefits was utilized to determine rate variations.
- Administrative costs, excluding Exchange user fees.
- With respect to catastrophic plans, the expected impact of the specific eligibility categories for those plans.

I certify that the per cent 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.

I certify that the benefits included in KHPW's plans are substantially equivalent to the Essential Health Benefits (EHBs) in the Commonwealth of Pennsylvania's benchmark plans. I certify that any benefit substitutions are:

- Actuarially equivalent to the benefits being replaced,
- Are made within only the same essential health benefit category,

- Are based on a standardized plan population,
- Are determined regardless of cost-sharing,
- Are not prescription drug benefits, and
- Are based on an analysis performed in accordance with generally accepted actuarial principles and methodologies.

I certify that the AV Calculator was used to determine the AV Metal Values shown in Worksheet 2 of the Part I Unified Rate Review Template for all plans. The AV Metal Values included in Worksheet 2 of the Part I Unified Rate Review Template were based on the Federal AV Calculator.

I certify that the geographic rating reflect only differences in the costs of delivery (which can include unit cost and provider practice pattern differences) and do not include differences for population morbidity by geographic area.

The Part I Unified Rate Review Template does not demonstrate the process used by KHPW to develop the rates. Rather, it represents 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.

Signed: Kevin D Lum

Title: Actuarial Manager, Individual Markets

Date: May 14, 2015

1550 Liberty Ridge Drive, Suite 200
Wayne, PA 19087-5572
**Tel** + 610 687.5644
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www.milliman.com

# ACTUARIAL MEMORANDUM

## Keystone Health Plan West

## Individual Rate Filing- January 1, 2016

I, John P. Burke, am a member of the American Academy of Actuaries and meet its qualification standards for preparing individual rate filings. As a consulting actuary, I was requested by Keystone Health Plan West ("KHPW") to review the development of the market-wide base rate for the individual market off the Pennsylvania Exchange. The confidential material presented in this filing was prepared for the specific purpose of submitting the rating formula for the Pennsylvania Insurance Department and may not be appropriate for other purposes. This filing represents premium rates for individuals sold or renewed effective January 1, 2016. The rates are guaranteed until December 31, 2016.

To the best of my knowledge and judgment, the following are true with respect to this filing:

1. Premium rates are established in accordance with generally accepted actuarial principles and the applicable Actuarial Standards of Practice. They are not excessive, inadequate, or unfairly discriminatory. Rates are reasonable in relationship to the benefits provided. However, it is certain that actual experience will not conform exactly to the assumptions used in this analysis. To the extent that actual experience is different from the assumptions used in developing the rates, the actual results will also deviate from the projected amounts.

2. In compliance with all applicable Pennsylvania and Federal Statutes and Regulations (45 CFR 156.80(d)(1)).

3. The rating factors and rating methodology are reasonable and consistent with KHPW's business plan at the time of the filing.

John P. Burke
Fellow, Society of Actuaries
Member, American Academy of Actuaries
May 13, 2015

KEYSTONE HEALTH PLAN WEST
A HIGHMARK COMPANY

May 14, 2015

Mr. Peter Camacci, Director
Bureau of Life, Accident & Health Insurance
Office of Insurance Product Regulation and Market Enforcement
Commonwealth of Pennsylvania
Insurance Department
1311 Strawberry Square
Harrisburg, PA 17120

Re: Keystone Health Plan West, Inc. Filing # 1A-DP-15-KHPW
2016 Individual Market Off-Exchange HMO Rates

**This constitutes Notice pursuant to Section 707 of the Pennsylvania Right-to-Know Law that the attached Keystone Health Plan West, Inc. 2016 Individual Market Rates contains Trade Secret and Confidential Proprietary Information. Therefore, KHPW must, prior to the release of any portion of this Filing, be notified of any request by a third party for access to this Filing, and the Trade Secret and/or Confidential Proprietary Information identified by KHPW should be redacted before release.**

Dear Mr. Camacci:

This Filing includes the KHPW Individual Market rates and the supporting rate development for policies with effective dates on or after January 2016.

**Request for Confidentiality**

Please note that the rates and the supporting rate development contained in this Filing are competitively sensitive, are not in the public domain, and constitute business confidential proprietary/trade secret information that would cause harm to the competitive position of KHPW if disclosed to the public.

Public disclosure of any information contained in this Filing would allow KHPW competitors to better understand or discover its confidential and proprietary rating, pricing and/or marketing practices, would undermine competition in the Individual market and could have negative consequences for the operation of KHPW's business. Therefore, KHPW asserts that this Filing, in its entirety, constitutes Trade Secret and Confidential Proprietary Information and should not be disclosed.

It is our understanding that the Department does not intend to publish the confidential & proprietary information contained in this Filing or to otherwise permit this Filing and its information, other than final approved rates, to be disclosed or released.

Furthermore and pursuant to the Pennsylvania Right-to-Know Law ("RTKL"), KHPW must be notified prior to release of information contained in this Filing and be given the opportunity to respond to requests for such information. Should the Department receive such request or require the release of information contained in this Filing for its own purposes, KHPW asserts its right to release a redacted version of the Filing. In accordance with the RTKL, please contact the KHPW RTKL representative identified below prior to release of any information contained in this Filing:

Lisa Martinelli, Esq.
KHPW RTKL Representative
Chief Privacy Officer
Highmark Health
120 Fifth Avenue, Suite 1814
Pittsburgh, PA 15222

Furthermore, it should be noted that KHPW is equally concerned that even if this information is released in aggregate form, it still may be easy to identify the carrier that submitted it.

Please note that the rate development in this filing is contingent upon the continued availability of federal subsidies under the ACA in 2016. If federal subsidies in their current form are not available to eligible residents of Pennsylvania, substantial changes to this filing may be required.

Should you have any questions regarding the attached Filing, please feel free to contact me at (717) 302-2143 or via e-mail at: jeffrey.scheib@highmark.com.

Sincerely,

Jeffrey Scheib, ASA, MAAA
Vice President, Actuarial Services
Highmark, Inc.

cc: William Sarniak
Greg Devine, Esq.
Tija Hilton-Phillips, Esq.
Frank Haver

## Part II of the Preliminary Justification

## Keystone Health Plan West – Individual Market

### Scope and Range:

Keystone Health Plan West (KHPW) is requesting an average rate increase of 36.6% for the 2016 ACA-qualifying individual products with effective dates from January 1, 2016 to December 31, 2016. This is projected to affect 222 members.

Relative to 2015 pricing, the rate increase is mostly due to the higher actual 2014 experience and expected morbidity of the projected enrolled population. For the first time, the base period claims reflects the experience from the ACA enrolled population as well as the enrollment of consumers who were previously uninsured or covered under employer group health plans. In addition, the other contributing factors include the result of trend on this claims basis and the change in the federal transitional reinsurance program parameters.

### Historical Financial Experience:

KHPW incurred a substantial underwriting loss in its Individual ACA programs in 2014. This loss is net of the expected risk adjustment and federal reinsurance programs.

### Change in Medical Service Costs:

The projected average cost of medical care for the projected population is expected to increase due to higher morbidity and age relative to the assumptions used in the 2015 rate filing. The increase will emerge in utilization and average cost per service, and is spread across all types of services.

### Change in Benefits:

No additional benefits were added for coverage. Likewise, no benefits were removed. However, some cost sharing parameters were changed in order to maintain compliance with Federal AV requirements. Additionally, some out of pocket maximum parameters were changed to keep up with the rising cost of health care. These out of pocket maximum changes also aided in mitigating the rate increase.

### Administrative Costs and Anticipated Operating Results:

Overall, administrative costs as a percentage of premium is 0.7% higher in 2016 than 2015. The anticipated operating results are not excessive or unreasonable. In accordance with regulations, the projected medical loss ratio is over 80%.

June 24, 2015

Kevin Luu, ASA, MAAA
Keystone Health Plan West
120 5th Avenue Place
Pittsburgh, PA 15222

RE: Proposed 36.6% increase for 2016 off exchange Individual HMO rates in Western PA (1A-DP-15-KHPW);
Pennsylvania Insurance Department ID #: HGHM-130070359

Dear Mr. Luu:

The Pennsylvania Insurance Department has received and conducted a review of the above captioned filing. In order to complete the review, we are requesting the following information. To facilitate a timely review, we request this information be provided within 14 days of the date of this letter. If you have any questions or difficulties in providing the information within this time frame, please call me.

1. Please be advised that any time the URRT is changed in SERFF, the URRT in HIOS must also be updated. Please acknowledge your understanding of this requirement.

2. Please provide an actuarial narrative regarding the rate impact on this filing of a court decision that ends federal subsidies in Pennsylvania during 2016.

3. Please complete the Company Rate Information page in SERFF under the Rate/Rule Schedule tab.

4. What is the basis for the trend selection of 8% (4.9% cost and 3% utilization) as shown on page 4 of the actuarial memo? Please provide support.

5. Please show quantitatively, including an Excel spreadsheet with formulas, the derivation of the $108.22 'Projected Risk Adjustments PMPM' found in Section III, Worksheet 1 of the URRT.

6. Please explain the -8.7% profit and risk load.

7. Please describe quantitatively, including an Excel spreadsheet with formulas, the derivation of the 98.2% medical loss ratio (MLR).

8. In order to verify that only allowed adjustments were made to the index rate we need you to translate your process into the one described in the 2016 URRT Instructions. Each element should be as accurate as possible without any element being a balancing adjustment. If a balancing adjustment is needed please show it as a separate item. Please provide the development (in Excel, with formulas) of the age 21 non-tobacco rate in the

SERFF Rates Table Template for all plans, starting with the index rate on the URRT Worksheet 1 and reflecting all applicable factors, including the following (as appropriate):

a. Risk Adjustment;
b. Reinsurance;
c. Exchange User Fee;
d. AV and cost sharing;
e. Utilization changes due to benefit richness;
f. Adjustment for tobacco load;
g. Provider network adjustment;
h. Benefits in addition to EHBs;
i. Non-benefit expenses including administrative costs, margin, taxes and fees;
j. Adjustment for eligibility for catastrophic plans (on catastrophic plans only);
k. Age calibration; and
l. Geographic calibration.

9. The projected 2014 incurred claims pmpm from the 2014 actuarial memo was $269.45 while the actual 2014 incurred claims pmpm from the 2016 URRT was $605.96. The actual 2014 incurred claims were 125% higher than anticipated in the initial 2014 pricing.

Based on these numbers it appears that the overwhelming reason for the 2015 and 2016 rate increases is that 2014 premiums were inadequate to fund the 2014 actual claim levels. Please comment on the initial mispricing and provide an explanation as to what is driving claims higher than initially expected (increase in utilization, increase in average cost per service, increased cost of new specialty pharmacy drugs, etc.).

10. Please certify that you are in compliance with 2016 Unified Rate Review Instructions (Rate Filing Justification: Parts I, II, and III version 2/21/15).

Please be advised that there may be additional questions based on the responses to the above. Should you have any questions regarding this correspondence, please contact me at jlaverty@pa.gov or by telephone at (717) 787-2117.

Sincerely,

James Laverty ASA, MAAA
Actuarial Review Division
Bureau of Accident & Health Insurance

TO: Jim Laverty, ASA, MAAA
Actuarial Review Division
Pennsylvania Insurance Department

FROM: Kevin Luu, ASA, MAAA
Actuarial Manager
Highmark, Inc.

DATE: July 15, 2015

SUBJECT: KHPW's 2016 Individual Market Rate Filing (1A-DP-15-KHPW)
SERFF Tracking Number: HGHM-130070359

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Below are Keystone Health Plan West, Inc.'s ("KHPW's") responses to your objection letter dated June 24, 2015. We have included the questions along with the responses for your convenience.

1. Please be advised that any time the URRT is changed in SERFF, the URRT in HIOS must also be updated. Please acknowledge your understanding of this requirement.

**Response:**
**KHPW acknowledges this requirement.**

2. Please provide an actuarial narrative regarding the rate impact on this filing of a court decision that ends federal subsidies in Pennsylvania during 2016.

**Response:**
**Given the Supreme Court's recent decision in favor of the federal government's position on subsidies, KHPW considers this question to be no longer applicable.**

3. Please complete the Company Rate Information page in SERFF under the Rate/Rule Schedule tab.

**Response:**
**The Company Rate Information section under the Rate/Rule Schedule in SERFF has been completed via a Post-Submission Update. Please note that the 'Number of Policy Holders Affected for this Program' was set equal to the projected average members for 2016, consistent with Exhibit I of the rate filing. Also, the 'Written Premium for this Program' was set equal to the estimated earned premium at the average prior rate, consistent with the Rate Review Detail section in SERFF.**

4. What is the basis for the trend selection of [redacted] as shown on page 4 of the actuarial memo? Please provide support.

**Response:**
[redacted]

[redacted]

5. Please show quantitatively, including an Excel spreadsheet with formulas, the derivation of the [redacted] 'Projected Risk Adjustments PMPM' found in Section III, Worksheet 1 of the URRT.

**Response:**
[redacted]

6. Please explain the [redacted] profit and risk load.

**Response:**
**As it is described in the response to [redacted], the [redacted] experience was used as a starting point to develop the KHPW rates. Thus, the "Profit/Risk Load" category was used to [redacted].**

7. Please describe quantitatively, including an Excel spreadsheet with formulas, the derivation of the [redacted] medical loss ratio (MLR).

**Response:**
**Attachment II demonstrates the derivation of the [redacted] medical loss ratio (MLR). The expected paid claims after risk adjuster and reinsurance is [redacted]. This represents the numerator in our MLR calculation. The denominator we used was [redacted]. This value is the Single Risk Pool Gross Premium Avg. Rate PMPM of [redacted]**

8. In order to verify that only allowed adjustments were made to the index rate we need you to translate your process into the one described in the 2016 URRT Instructions. Each element should be as accurate as possible without any element being a balancing adjustment. If a balancing adjustment is needed please show it as a separate item. Please provide the development (in Excel, with formulas) of the age 21 non-tobacco rate in the SERFF Rates Table Template for all plans, starting with the index rate on the URRT Worksheet 1 and reflecting all applicable factors, including the following (as appropriate):
a. Risk Adjustment;
b. Reinsurance;
c. Exchange User Fee;
d. AV and cost sharing;
e. Utilization changes due to benefit richness;
f. Adjustment for tobacco load;
g. Provider network adjustment;
h. Benefits in addition to EHBs;
i. Non-benefit expenses including administrative costs, margin, taxes and fees;
j. Adjustment for eligibility for catastrophic plans (on catastrophic plans only);
k. Age calibration; and

l. Geographic calibration.

**Response:**
**Per the June 26, 2015 'Note to Filer' in SERFF, KHPW is disregarding this question as it was not intended to be included in the initial objection letter.**

9. The projected 2014 incurred claims pmpm from the 2014 actuarial memo was [redacted] while the actual 2014 incurred claims pmpm from the 2016 URRT was [redacted]. The actual 2014 incurred claims were [redacted] than anticipated in the initial 2014 pricing.

[redacted]

**Response:**
[redacted]

10. Please certify that you are in compliance with 2016 Unified Rate Review Instructions (Rate Filing Justification: Parts I, II, and III version 2/21/15).

**Response:**
**KHPW certifies that, to the best of its knowledge and understanding, this filing is in compliance with the 2016 Unified Rate Review Instructions as of 2/21/15.**