

Federated Mutual Insurance Company –Small Group Plans

Rate request filing ID # FEMC-130532688 - This document is prepared by the insurance company submitting the rate filing as a consumer tool to help explain the rate filing. It is not intended to describe or include all factors or information considered in the review process. For more information, see the filing at <http://www.insurance.pa.gov/Consumers/ACARelatedFilings/>

Overview

Requested average rate change:	33.3%
Range of requested rate change:	19.6% to 34.9%
Effective date:	January 1, 2017
People impacted:	4,542
Available in:	All rating areas

Key information

Jan. 2015-Dec. 2015 financial experience

Premiums	\$9,817,624
Claims	\$10,825,263
Administrative expenses	\$1,419,427
Company made (before taxes)	-\$2,427,066

How it plans to spend your premium

This is how the insurance company plans to spend the premium it collects in 2017:

Claims:	81.9%
Administrative:	11.0%
Taxes & fees:	3.9%
Profit:	3.2%

The company expects its annual medical costs to increase **8%**.

Explanation of requested rate change

Scope and range of the rate increase

The average rate increase for the small employer health insurance product included in this filing is 33.3%. The increase varies between 19.6% and 34.9% across plans enrolled as of January 2016. These rate increases are calculated using the methodology required by the State of Pennsylvania. The increase for members within a plan will also vary, since other factors within the filing are changing. The main drivers of the rate increase include:

- Projected increases in medical utilization and cost (commonly referred to as “trend”).
- An increase in anticipated risk adjustment transfer payments. Under healthcare reform, the government operates a risk adjustment program that transfers premium dollars from plans with healthier than average members to plans with relatively less healthy members. When 2016 premium rates were set, very little information on how this program would affect Federated was available. Now that more information is available, Federated expects that it will have to pay more money into the program than was expected when 2016 rates were set.

The rate increase varies by plan because of changes in deductibles and other cost sharing values required under federal rules, and also based on updated analysis of the relative cost of each plan design. It will also vary because Federated is revising the rating factors for each geographical rating area in Pennsylvania, and by renewal date. Federated has already revised rates upward for groups sold or renewing in the last half of 2016.

The increases above include the impact of this increase on the groups sold or renewed in the first half of 2016 which are still on a lower rate level. There are a total of 4,542 covered lives in Pennsylvania that will be affected by the rate increase as of January 2016.

Financial experience of the product

Federated's 2015 historical claim experience for Affordable Care Act (ACA) plans in Pennsylvania has been worse than expected in pricing, and risk adjustment transfer payments are expected to be higher than originally expected, resulting in significant losses.

At the time that original 2016 rates were developed, Federated expected the health status of its population would be similar to the statewide average. Federated's current expectation for 2016 and 2017 is that its members in Pennsylvania will be healthy relative to the statewide average, resulting in transfer payments into the risk adjustment pool. However, any estimates of risk adjustment for 2015, 2016, and 2017 are still subject to significant uncertainty, particularly for insurers with small market share like Federated.

Historical experience suggests that a rate increase is needed in 2017 to cover the costs of the population anticipated to be enrolled. The rate increase is expected to improve the projected financial experience of the product.

Changes in medical service costs

Federated expects there to be an annual increase of 8% in medical cost and utilization on claim cost after member cost sharing (7% on allowed cost before member cost sharing) between 2015 and 2017. This is based on a review of industry trends and Federated's historical experience. Costs for prescription drugs and outpatient services are expected to increase at a higher rate, while costs for inpatient and professional services are expected to increase at a lower rate.

Changes in benefits

There are minor differences in cost sharing between the plans offered in 2016 and the plans that will be offered in 2017 (in order to comply with federal actuarial value requirements), but there are no material differences in covered benefits. The changes in cost sharing design have a small impact on the overall rate increase, but do contribute to differences in the increase that applies to each benefit plan.

Administrative costs and anticipated profits

As a percentage of premium, administrative costs are expected to decrease from 2016 to 2017, driven by the expiration of the federal reinsurance program and the suspension of the Health Insurer Tax for the 2017 payment year.