Actuarial Memorandum
Wellmark Blue Cross and Blue Shield of Iowa
Individual Business
Effective January 1, 2016

Purpose

The purpose of this filing is to request a rate increase; document the rates to be revised; and demonstrate that anticipated expenses for these products, using the new rates, meet Iowa's minimum loss ratio requirements. The data in this actuarial memorandum describes the methodology and assumptions used to determine this rate request, and may not be appropriate for other purposes.

Summary:

The rate revisions requested are for both grandfathered and transitional (AKA grandmothered) business. Rates in this filing are intended to be effective for the time period from January 1, 2016 through December 31, 2016. These rate revisions will apply to all policies in force under the following categories of Individual Business:

Individual Business Sold Through Direct or Independent Agents

Category of Business	Rate Adjustment
• Pre-4/96 Products (sold before April 1996)	
Old and New Alliance Select	21.7%
Blue Value	0.0%
• Post-4/96 Products (sold April 1996 and after)	
Pool III	0.0%
Pool IV	0.0%
Pool V	21.7%
• Group Conversion	
Age Rated CMM	21.7%
Blue Transitions	26.5%
• Basic and Standard Plans	18.9%

Individual Business Sold Exclusively Through Farm Bureau Federation

Category of Business	Rate Adjustment
• Pre-7/96 Products (sold before July 1996)	
Pool I	18.9%
Pool II	18.9%
• Post-7/96 Products (sold July 1996 and after)	
Pool III	18.9%
Pool IV	18.9%
Pool V	18.9%

Policy Experience and Documentation of Proposed Rate Changes

Direct/Independent Pre 4/96 Products (sold prior to April 1996):

Individual CMM Pre 4/96 Alliance Select - Old and New

On April 30th, 2015 there were 12 members in these Pre 96 products. The current loss ratio for 12 months ending February 28th, 2015 is 165.45%. The calculated rate increase for this block of business is 113.0%. Due to the low policy count and credibility, Wellmark has decided to request the same increase of 21.7% for this block of business as Post 4/96 Pool V business. A summary of the calculation for this rate request is provided in Appendix C of this memorandum.

Blue Value

On April 30th, 2015 there were 3 members in this plan. The current loss ratio for 12 months ending February 28th, 2015 is 0.0%. This loss ratio is significantly lower than the target loss ratio; however the claims for these plans are very volatile. Due to the low credibility of these plans, Wellmark is not requesting a rate increase.

Direct/Independent Post 4/96 Products (sold April 1996 and after):

Methodology for Determining Requested Rate Increases (Pool III, IV, V):

For this business Wellmark has products in three separate blocks of business and independently calculates a needed increase for each block. Many times, these three blocks of business are combined together to increase credibility for determining the needed rate increases. For this filing, Wellmark has decided not to combine these pools due to significant differences in the calculated rate increases by pool. The following steps were followed in determining the requested rate increases:

1. Experience for all policy holders for the 12 months ending 3/31/2015 is reviewed.

2. A completion factor is applied, which adjusts for claims that were incurred but not yet paid during the review period. This completion factor is based on our individual block's experience.

3. Adjust claims experience for anticipated member movement due to the impact of ACA-related changes that took effect on January 1, 2014. Many members chose to switch from their existing plans to ACA plans either with Wellmark or other carriers. Member retention data in existing plans through March 2015 was used to project member retention through the end of the rating period, December 2016. Since the experience period is 12 months ending 3/31/15, much of the member movement is already reflected in the experience; therefore, the impact due to member movement is much less in this filing than the previous two years' filings.

4. Determine an appropriate trend assumption to estimate medical claims payments for the future rating period. Considerations for this assumption follow:

a. Review different trend scenarios based on historical trend experience.
b. Consider the impacts of adverse selection, durational effect of underwriting, closed blocks of business.
c. The annual trend assumptions are calculated using 3 year average demographically adjusted trends through 2014, with an adjustment for expected aging.

5. Project medical claims (resulting from steps 1, 2 and 3 and applying trend in step 4 from midpoint to midpoint) to simulate the medical claims expected to be paid during the rating period beginning January 1, 2016. A loss ratio is then determined to measure the ratio of projected claims to premiums at current rates.

6. Review and determine expected non-claims expenses, reinsurance fee, health insurer fee and related taxes, individual reform assessment, premium taxes, and risk margin for the rating period; this total is subtracted from 1 to determine the target loss ratio.

7. Compare the projected loss ratio (calculated in step 5) to the target loss ratio (calculated in step 6). A needed premium increase is then calculated by dividing the projected loss ratio by the adjusted target loss ratio.

8. Adjust the needed premium increase for the rating period due to the income effects of members aging. Adjust for premium leakage from healthier members buying down benefits in Pool 5. There is no buy-down assumptions for Pools 3 and 4 due to no rate increase.

9. The calculated needed premium increase varies significantly by pool. The requested rate increases by pool are outlined below.

Historical and projected medical claims trends are shown in Appendix A and a summary of the calculations outlined above are provided in Appendix B of this memorandum.

Results of Applying the Methodology:

On April 30th, 2015 in Pool III there were 296 policies in this block, down from 394 on May 31st, 2014 and 686 on May 31st, 2013. This reduction in policy count has resulted in fluctuating experience and low credibility. Premiums for this block are currently capped as a result of rate restrictions in Iowa Code §513C.5 and Iowa Administrative Code 191-75.6(1). The current loss ratio in the experience period is 80.7%.

On April 30th, 2015 in Pool IV there were 4,870 policies, down from 5,899 on May 31st, 2014 and 7,720 on May 31st, 2013. The current loss ratio in the experience period is 81.4%.

On April 30th, 2015 in Pool V there were 26,964 policies, down from 33,533 on May 31st, 2014 and 38,238 on May 31st, 2013. The current loss ratio in the experience period is 88.7%.

When combining Pools III and IV, the current loss ratio is 81.3% and the calculated combined increase is 0.9%. The calculated rate increase for Pool V is 21.7%. Due to the significant differential between these two calculated rate increases, Wellmark decided not to combine Pool V with Pools III and IV. There is no requested increase for Pool III and IV, while the requested increase for Pool V is the calculated increase of 21.7%.

Direct/Independent Group Conversion Products:

Age Rated CMM

On April 30th, 2015 there were 2 policies enrolled in this group conversion product. The current loss ratio in the experience period is 238.7%. The calculated rate increase for this block of business is 103.5%. Due to the low policy count and credibility, Wellmark has decided to request the same increase of 21.7% to this block of business as Post 4/96 Pool V business. A summary of the calculation for this rate request is provided in Appendix C of this memorandum.

Blue Transitions

Wellmark issued these group conversion products in a separate block of business and independently calculates a needed increase. As of April 30th, 2015 there were 324 policies on Blue Transition Plans. The current loss ratio in the experience period is 146.3%. An experience-rating methodology was used to determine the needed increase for this block of business. After including a corporate subsidy to this block of business the needed rate increase is 26.8%. Due to the low policy count and credibility, Wellmark has decided to request the same increase of 26.5% to this block of business as Wellmark Individual ACA compliant business. A summary of the calculation for this rate request is provided in Appendix C of this memorandum.

Direct/Independent Basic and Standard Plans:

Methodology:

Pursuant to Iowa code Chapter 513C.10 (2), rates for the Individual Basic and Standard plans were to be equivalent to 174.11% of the lowest priced plan adjusted to the benefit level of the Basic and Standard plans for all contracts effective prior to January 1, 2002. This ratio is increased to 202.80% for all new contracts effective January 1, 2002. We included a set of rate tables for each scenario.

For Wellmark Blue Cross Blue Shield of Iowa, our lowest priced plans available for sale after April 1, 1996 are the Farm Bureau plans that have effective dates beginning October 1, 2007. This is a medically underwritten group policy sold exclusively to members of the Iowa Farm Bureau Federation. We are not changing rates for the optional maternity rider.

Rate Tables:

Included are tables listing the rates for each age, sex, and family status category for tobacco users and non-tobacco users separately for the Basic and Standard plans. As stated above, we have included two sets of rate tables – one set priced at 174.11% of the lowest priced plan and one set priced at 202.80% of the lowest priced plan, both adjusted to the benefit level of the Basic and Standard plans.

Farm Bureau Pre and Post 4/96 Products:

Methodology for Determining Requested Rate Increases (Pool I, II, III, IV, V):

Wellmark issues products in five separate blocks of business and independently calculates a needed increase for each block. Many times, and in this filing, these five blocks of business are combined together to increase credibility for determining the needed rate increases. The following steps were followed in determining the requested rate increases:

1. Experience for all policy holders for the 12 months ending 3/31/2015 is reviewed.

2. A completion factor is applied, which adjusts for claims that were incurred but not yet paid during the review period. This completion factor is based on our individual block's experience.

3. Adjust claims experience for anticipated member movement due to the impact of ACA-related changes that took effect on January 1, 2014. Many members chose to switch from their existing plans to ACA plans either with Wellmark or other carriers. Member retention data in existing plans through March 2015 was used to project member retention through the end of the rating period, December 2016. Since the experience period is 12 months ending 3/31/15, much of the member movement is already reflected in the experience; therefore, the impact due to member movement is much less in this filing than the previous two years' filings.

4. Determine an appropriate trend assumption to estimate medical claims payments for the future rating period. Considerations for this assumption follow:

    a. Review different trend scenarios based on historical trend experience.
    b. Consider the impacts of adverse selection, durational effect of underwriting, closed blocks of business.
    c. The annual trend assumptions are calculated using 3 year average demographically adjusted trends through 2014, with an adjustment for expected aging.

5. Project medical claims (resulting from steps 1, 2 and 3 and applying trend in step 4 from midpoint to midpoint) to simulate the medical claims expected to be paid during the rating period beginning January 1, 2015. A loss ratio is then determined to measure the ratio of projected claims to premiums at current rates.

6. Review and determine expected non-claims expenses, reinsurance fee, health insurer fee and related taxes, individual reform assessment, premium taxes, and risk margin for the rating period; this total is subtracted from 1 to determine the target loss ratio.

7. Compare the projected loss ratio (calculated in step 5) to the target loss ratio (calculated in step 6). A needed premium increase is then calculated by dividing the projected loss ratio by the adjusted target loss ratio.

8. Adjust the needed premium increase for the rating period due to the income effects of members aging. Adjust for premium leakage from healthier members buying down benefits.

9. The calculated needed premium increase is 18.9%. The requested rate increase is the same for all Farm Bureau Pre and Post 4/96 business.

Historical and projected medical claims trends are shown in Appendix A and a summary of the calculations outlined above are provided in Appendix D of this memorandum.

Results of Applying the Methodology:

On April 30th, 2015 in Pool I there were 3 policies, down from 7 on May 31st, 2014 and 11 on May 31st, 2013. The current loss ratio in the experience period is 181.8%.

On April 30th, 2015 in Pool II there were 10 policies, down from 13 on May 31st, 2014 and 54 on May 31st, 2013. The current loss ratio in the experience period is 79.8%.

On April 30th, 2015 in Pool III there were 491 policies, down from 668 on May 31st, 2014 and 1,391 on May 31st, 2013. The current loss ratio in the experience period is 103.6%.

On April 30th, 2015 in Pool IV there were 5,729 policies, down from 6,466 on May 31st, 2014 and 7,581 on May 31st, 2013. The current loss ratio in the experience period is 92.6%.

On April 30th, 2015 in Pool V there were 16,743 policies, down from 19,930 on May 31st, 2014 and 21,694 on May 31st, 2013. The current loss ratio in the experience period is 87.8%.

When combining all Farm Bureau business, the current loss ratio is 90.3%. The calculated aggregate increase is 18.9%. For credibility and consistent level of increases, the requested increase is the same for all Farm Bureau business Pools I, II, III, IV, and V.

Appendix A

Medical Trends (Direct/Independent and Farm Bureau Business)

For this filing, Wellmark varied medical trend assumptions by pool, which are listed in the second table below. These trend assumptions were derived from a review of past experience for Independent/Direct and Farm Bureau Individual business. Due to the closed block nature of this business and the significant movement to ACA compliant plans in 2014, Wellmark calculated historical trends net of changes in demographics. Multiple trend scenarios were considered and are included in the table below:

Scenario	Pools III and IV	Pool V
3 Year Average, Incurred Period Ending 12/31/13	7.3%	6.9%
3 Year Average, Incurred Period Ending 12/31/14	4.4%	7.8%
12 Month Trend, Incurred Period Ending 12/31/14	3.4%	9.7%
Chosen Trend Assumption for this Filing, before aging	**4.4%**	**7.8%**

Direct/Independent Business and Farm Bureau Business experience were combined for purposes of calculating trends. Only Pools III, IV and V were analyzed due to lack of credibility in the other pools in this filing.

Since the trends calculated above do not include the effect of aging on claims trend (demo adjusted), an adjustment was made to reflect the anticipated increase in claims due to the aging of the block. Wellmark projected an average increase in income due to aging of 2.25% of premium. This assumption was converted to a percent of claims by applying the target loss ratio for each pool. The trend assumption was then adjusted for the aging impact as follows:

Pool	Trend before Aging	Aging Adjustment	Total Annual Trend
Direct/Independent Pool III	4.4%	2.6%	**7.1%**
Direct/Independent Pool IV	4.4%	2.7%	**7.2%**
Direct/Independent Pool V	7.8%	2.8%	**10.8%**
Farm Bureau Pool I	4.4%	2.5%	**7.0%**
Farm Bureau Pool II	4.4%	2.5%	**7.0%**
Farm Bureau Pool III	4.4%	2.5%	**7.1%**
Farm Bureau Pool IV	4.4%	2.7%	**7.2%**
Farm Bureau Pool V	7.8%	2.7%	**10.7%**

Farm Bureau Pools I and II use the same trend before aging as Farm Bureau Pools III and IV. A trend assumption of 10.0% was used for Pre 96, Blue Transitions and Group Conversion Products.

Appendix B

Details of Rate Calculation (Direct/Independent Post 4/96 Business)

The table below provides the derivations resulting from key steps outlined in the methodology for determining requested rate increases for the Post 4/96 business. The corresponding steps are noted in **bold** font.

	Pool III	Pool IV	Pool V	Total
1. Current Loss Ratio for 12 months ending 3/31/2015 (**Result from Step 2 of the methodology)**	80.7%	81.4%	88.7%	86.9%
2. Current Loss Ratio adjusted for member movement (**Result from Step 3 of the methodology**)	80.9%	81.3%	88.5%	86.7%
3. Projected Loss ratio for 2016 rating period (**Result from Step 5 of the methodology**)	85.7%	86.7%	100.0%	96.5%
4. Target Loss Ratio for rating period beginning 1/1/2016 (**Result from Step 6 of methodology**)	87.5%	83.6%	81.7%	82.2%[1]
5. Calculate Rate Increase Needed [Line 3 divided by Line 4 minus 1] (**Result from Step 7 of the methodology)**	-2.1%	3.6%	22.4%	17.5%
6. Age Adjustment and Premium Leakage for Pool V [Divide (1 + Line 5) by (1 + 2.25%) for aging and multiply by (1 + 1.6%) for premium leakage] **(Result of Step 8 of the methodology)**	-4.2%	1.4%	21.7%	16.3%
7. Requested rate increase **(Result from Step 9 of methodology)**	**0.0%**[2]	**0.0%**[2]	**21.7%**	

1) This loss ratio is intended for filing purposes only and not suitable for other comparisons. For instance, the minimum medical loss ratio (MLR) requirement of 80% in the individual market is defined with different criteria and therefore not comparable to the Target Loss Ratios in this filing. Other plans in the individual market (ACA business) are also included in the MLR requirements.
2) For credibility purposes and due to the size of the calculated increase, there is no requested increase for Pool III and Pool IV Post 4/96 business.

Appendix C

<u>Details of Rate Calculation (Pre 4/96, Age-Rated Group Conversion & Blue Transitions)</u>

<u>Pre 4/96 Alliance Select - Old and New</u>

The table below outlines the details of the experience-rating methodology used to calculate the needed rate increase for Pre 4/96 Plans. The requested rate increase for these plans is 21.7%.

Pre 4/96	
1. Paid Claims PMPM (3/1/2014-2/28/2015):	$1,509.26
2. Completion Factor:	÷ .9018
3. Completed Paid Claims PMPM:	$1,673.53
4. Trend to Rating Period (10.0% Annual):	× 1.1909
5. Projected Paid Claims in Rating Period (1/1/16-12/31/16):	$1,993.06
6. Administrative Costs PMPM:	+ $190.69
7. **Needed Premium PMPM:**	**$2,183.74**
8. Income at Present Rates PMPM:	- $1,014.59
9. Age Impact PMPM:	- $22.83
10. **Needed Increase to reach Needed Premium PMPM (113.0%):**	**$1,146.33**

<u>Age-Rated Group Conversion</u>

The table below outlines the details of the experience-rating methodology used to calculate the needed rate increase for Age-Rated Group Conversion Plans. The requested rate increase for these plans is 21.7%.

Age-Rated Group Conversion	
1. Paid Claims PMPM (3/1/2014-2/28/2015):	$1,885.15
2. Completion Factor:	÷ .9330
3. Completed Paid Claims PMPM:	$2,020.57
4. Trend to Rating Period (10.0% Annual):	× 1.1909
5. Projected Paid Claims in Rating Period (1/1/16-12/31/16):	$2,406.36
6. Target Loss Ratio	÷ 125%
7. **Needed Premium PMPM:**	**$1,925.09**
8. Income at Present Rates PMPM:	- $935.70
9. Age Impact PMPM:	- $21.05
10. **Needed Increase to reach Needed Premium PMPM (103.5%):**	**$968.34**

Blue Transitions

The table below outlines the details of the experience-rating methodology used to calculate the needed rate increase for Blue Transitions Plans. The requested rate increase for these plans is 26.5%.

Blue Transitions	
1. Paid Claims PMPM (3/1/2014-2/28/2015):	$878.67
2. Completion Factor:	÷ .9330
3. Completed Paid Claims PMPM:	$941.80
4. Trend to Rating Period (10.0% Annual):	× 1.1909
5. Projected Paid Claims in Rating Period (1/1/16-12/31/16):	$1,121.61
6. Administrative Costs PMPM:	+ $86.04
7. **Needed Premium PMPM:**	**$1,207.65**
8. Income at Present Rates PMPM:	- $670.57
9. Service Fee PMPM:	- $7.72
10. Group Subsidy PMPM:	- $334.69
11. Age Impact PMPM:	- $15.09
12. Needed Increase to reach Needed Premium PMPM (26.8%):	**$179.58**

Appendix D

Details of Rate Calculation (Farm Bureau Business)

The table below provides the derivations resulting from key steps outlined in the methodology for determining requested rate increases for Farm Bureau business. The corresponding steps are noted in **bold** font.

	Pool I	Pool II	Pool III	Pool IV	Pool V	Total
1. Current Loss Ratio for 12 months ending 3/31/2015 (**Result from Step 2 of the methodology)**	181.8%	79.8%	103.6%	92.6%	87.8%	90.3%
2. Current Loss Ratio adjusted for member movement (**Result from Step 3 of the methodology**)	229.2%	79.8%	103.6%	92.6%	87.5%	89.8%
3. Projected Loss ratio for 2016 rating period (**Result from Step 5 of the methodology**)	177.6%	83.6%	110.0%	98.5%	99.1%	99.3%
4. Target Loss Ratio for rating period beginning 1/1/2016 (**Result from Step 6 of methodology**)	91.4%	89.1%	88.0%	84.2%	82.5%	83.3%[1]
5. Calculate Rate Increase Needed [Line 3 divided by Line 4 minus 1] (**Result from Step 7 of the methodology)**	94.3%	-6.2%	25.0%	17.0%	20.1%	19.3%
6. Age Adjustment and Premium Leakage [Divide (1 + Line 5) by (1 + 2.25%) for aging and multiply by (1 + 1.9%) for premium leakage] **(Result of Step 8 of the methodology)**	93.7%	-6.5%	24.6%	16.6%	19.7%	18.9%
7. Requested rate increase **(Result from Step 9 of methodology)**	**18.9%**	**18.9%**	**18.9%**	**18.9%**	**18.9%**	**18.9%[2]**

1) This loss ratio is intended for filing purposes only and not suitable for other comparisons. For instance, the minimum medical loss ratio (MLR) requirement of 80% in the individual market is defined with different criteria and therefore not comparable to the Target Loss Ratios in this filing. Other plans in the individual market (ACA business) are also included in the MLR requirements.
2) For credibility and consistent level of increases, this requested increase is the same as all other increases for all Farm Bureau business.

Appendix E

Appendix E is included with this filing as additional background for informational purposes. Wellmark is not requesting review and approval of this information. It is provided only as further explanation of factors, other than base rates, that may affect members' premiums.

Individual Changes in Premium

Wellmark has filed a request for approval of an increase to the base rates used to determine premiums, as required under Iowa law. However, other factors not subject to review and approval may affect an individual's premium. These factors include changes in coverage, including but not limited to changes in benefits, payment obligations (such as deductible, coinsurance and copayments), the number of covered family members, members' ages, changes in tobacco user status, or other factors that require adjustments to the total premium.

<u>Demographics:</u>

Individual health premiums are attained age rated, meaning rates are adjusted periodically as a person gets older. The amount of change can vary, depending on the current age of the individual and the period of time since the last demographic adjustment occurred. For instance, the change can be low (less than 2%) in situations where the adjustment occurs annually. Other policies, however, have rates that may make this adjustment only once every five years. In these situations, the amount of change between consecutive age bands can be significantly more (as much as 37%) than if the adjustment were made annually.