

Actuarial Memorandum
Wellmark Blue Cross and Blue Shield of Iowa
Individual Business
Effective January 1, 2018

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 grandmothers) business. Rates in this filing are intended to be effective for the time period from January 1, 2018 through December 31, 2018. 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
• Post-4/96 Products (sold April 1996 and after)	
Pool III	9.4%
Pool IV	9.4%
Pool V	9.4%
• Basic and Standard Plans	14.2%

Individual Business Sold Exclusively Through Farm Bureau Federation

Category of Business	Rate Adjustment
• Pre-7/96 Products (sold before July 1996)	
Pool I	14.2%
Pool II	14.2%
• Post-7/96 Products (sold July 1996 and after)	
Pool III	14.2%
Pool IV	14.2%
Pool V	14.2%

Policy Experience and Documentation of Proposed Rate Changes

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, and in this filing, these three 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 3/31/2017 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. Determine an appropriate trend assumption to estimate medical claims payments for the future rating period. We reviewed the following trend scenarios based on historical trend experience:
 - a. 1 year, 2 year and 3 year annualized paid claims trend for all Wellmark Inc. Individual Non-ACA business combined.
 - b. Non-ACA Members with 48 months of continuous coverage with Wellmark Inc. and their 1 year, 2 year, and 3 year annualized paid claims trend.

The annual paid claims trend assumption used in the rate calculations for this filing was 8.0%, which is supported by the demographically-adjusted annualized paid claims trend experience for members with 48 months of continuous coverage. An aging adjustment of 2.3% was added to this annual trend to account for the demographic component of annual trend, resulting in an overall 10.48% annual paid claims trend assumption.

4. Project medical claims (resulting from steps 1 and 2 and applying trend in step 3 from midpoint to midpoint) to simulate the medical claims expected to be paid during the rating period beginning January 1, 2018. A loss ratio is then determined to measure the ratio of projected claims to premiums at current rates.
5. Review and determine expected non-claims expenses, individual reform assessment, premium taxes, risk margin for the rating period and impact of premium leakage from healthier members buying down benefits for the rating period; this total is subtracted from 1 to determine the target loss ratio. Health insurer fees and related taxes that were omitted in past filings were added as they will be effective during the rating period.
6. Compare the projected loss ratio (calculated in step 4) to the target loss ratio (calculated in step 5). A needed premium increase is then calculated by dividing the projected loss ratio by the adjusted target loss ratio.
7. Adjust the needed premium increase for the rating period due to the income effects of members aging.

8. The calculated needed premium increase varies by pool. For credibility purposes the pools are being combined and the requested rate increase is the same for all Direct/Independent 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 B of this memorandum.

Results of Applying the Methodology:

On April 30th, 2017 in Pool III there were 202 policies in this block, down from 239 on April 30th, 2016 and 296 on April 30th, 2015. This reduction in policy count has resulted in fluctuating experience and low credibility. The current loss ratio in the experience period is 102.7%.

On April 30th, 2017 in Pool IV there were 3,717 policies, down from 4,208 on April 30th, 2016 and 4,870 on April 30th, 2015. The current loss ratio in the experience period is 92.3%.

On April 30th, 2017 in Pool V there were 17,584 policies, down from 21,060 on April 30th, 2016 and 26,964 on April 30th, 2015. The current loss ratio in the experience period is 78.6%.

When combining all three blocks, the current loss ratio is 82.0%. The calculated aggregate increase is 9.4%. For credibility and consistent level of increases, the requested increase is the same for all Direct/Independent business Pools III, IV, and V.

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.

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 3/31/2017 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. Determine an appropriate trend assumption to estimate medical claims payments for the future rating period. We reviewed the following different trend scenarios based on historical trend experience:
 - a. 1 year, 2 year and 3 year annualized paid claims trend for all Wellmark Inc. Individual Non-ACA business combined.
 - b. Non-ACA Members with 48 months of continuous coverage with Wellmark Inc. and their 1 year, 2 year, and 3 year annualized paid claims trend.

The annual paid claims trend assumption used in the rate calculations for this filing was 8.0%, which is supported by the demographically-adjusted annualized paid claims trend experience for members with 48 months of continuous coverage. An aging adjustment of 2.3% was added to this annual trend to account for the demographic component of annual trend, resulting in an overall 10.48% annual paid claims trend assumption.

4. Project medical claims (resulting from steps 1 and 2 and applying trend in step 3 from midpoint to midpoint) to simulate the medical claims expected to be paid during the rating period beginning January 1, 2017. A loss ratio is then determined to measure the ratio of projected claims to premiums at current rates.
5. Review and determine expected non-claims expenses, individual reform assessment, premium taxes, risk margin for the rating period and impact of premium leakage from healthier members buying down benefits for the rating period; this total is subtracted from 1 to determine the target loss ratio. Reinsurance fees and health insurer fees and related taxes that were accounted for in past filings were removed as they will not be effective during the rating period.
6. Compare the projected loss ratio (calculated in step 4) to the target loss ratio (calculated in step 5). A needed premium increase is then calculated by dividing the projected loss ratio by the adjusted target loss ratio.
7. Adjust the needed premium increase for the rating period due to the income effects of members aging.

8. The calculated needed premium increase varies by pool. For credibility purposes the pools are being combined and 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 C of this memorandum.

Results of Applying the Methodology:

On April 30th, 2017 in Pool I there was 1 policy, remaining stable from 1 policy on April 30th, 2016 and down from 3 policies on April 30th, 2015. The current loss ratio in the experience period is 152.2%.

On April 30th, 2017 in Pool II there were 5 policies, down from 6 on April 30th, 2016 and 10 on April 30th, 2015. The current loss ratio in the experience period is 152.0%.

On April 30th, 2017 in Pool III there were 243 policies, down from 311 on April 30th, 2016 and 491 on April 30th, 2015. The current loss ratio in the experience period is 109.3%.

On April 30th, 2017 in Pool IV there were 4,494 policies, down from 4,965 on April 30th, 2016 and 5,729 on April 30th, 2015. The current loss ratio in the experience period is 88.1%.

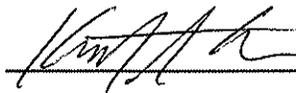
On April 30th, 2017 in Pool V there were 11,982 policies, down from 13,910 on April 30th, 2016 and 16,743 on April 30th, 2015. The current loss ratio in the experience period is 84.7%.

When combining all Farm Bureau business, the current loss ratio is 86.8%. The calculated aggregate increase is 14.2%. 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.

Certification

I hereby certify to the best of my knowledge and belief that this submission conforms to generally accepted actuarial principles, standards and guidelines and is in compliance with all applicable laws and regulations in the state of Iowa. I further certify that the rates are not inadequate, excessive, unfairly discriminatory or unreasonable in relation to the benefits provided.

Signed:



Katherine Evans, FSA, MAAA
Team Leader Actuarial, Wellmark Blue Cross and Blue Shield

Dated:

6/19/17

Medical Trends (Direct/Independent and Farm Bureau Business)

For this filing, Wellmark reviewed historical trend experience in aggregate and for members with 48 months of continuous coverage. Ultimately, the trend assumptions used in the rate calculations were derived from the annualized paid claims trends for members with 48 months of continuous coverage. The tables below show the annualized trends for the last four years of experience for Direct/Independent and Farm Bureau business combined.

All Business

12 Month Time Period	Demo Adj Paid Claims PMPM	Annual Trend	2 Year Annualized	3 Year Annualized
2013	\$277.09			
2014	\$292.89	5.7%		
2015	\$318.81	8.8%	7.3%	
2016	\$341.06	7.0%	7.9%	7.2%

48 Cont. Months

12 Month Time Period	Demo Adj Paid Claims PMPM	Annual Trend	2 Year Annualized	3 Year Annualized
2013	\$251.10			
2014	\$265.10	5.6%		
2015	\$297.94	12.4%	8.9%	
2016	\$322.42	8.2%	10.3%	8.7%

Direct/Independent Business and Farm Bureau Business experience were combined for purposes of calculating trends. All pools are combined due to lack of credibility in each of the pools in this filing. The trends above led to the underlying trend assumption of 8.0% for all pools.

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 3/31/2017 (Result from Step 2 of the methodology)	102.7%	92.3%	78.6%	82.0%
2. Projected Loss ratio for 2018 rating period (Result from Step 4 of the methodology)	114.9%	103.1%	87.5%	91.4%
3. Target Loss Ratio for rating period beginning 1/1/2018 (Result from Step 5 of methodology)	87.0%	83.5%	81.0%	81.7% ¹
4. Calculate Rate Increase Needed [Line 2 divided by Line 3 minus 1] (Result from Step 6 of the methodology)	32.0%	23.5%	8.1%	11.9%
5. Age Adjustment [Divide (1 + Line 4) by (1 + 2.3%) for aging] (Result of Step 7 of the methodology)	29.0%	20.7%	5.6%	9.4%
6. Requested rate increase (Result from Step 8 of methodology)	9.4%	9.4%	9.4%	9.4% 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 purposes the same rate increase is requested for all Direct/Independent Post 4/96 business.

Appendix C

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 3/31/2017 (Result from Step 2 of the methodology)	152.2%	152.0%	109.3%	88.1%	84.7%	86.8%
2. Projected Loss ratio for 2018 rating period (Result from Step 4 of the methodology)	169.1%	167.4%	120.8%	99.2%	94.1%	96.7%
3. Target Loss Ratio for rating period beginning 1/1/2018 (Result from Step 5 of methodology)	89.7%	89.1%	86.9%	83.8%	82.0%	82.8% ¹
4. Calculate Rate Increase Needed [Line 3 divided by Line 4 minus 1] (Result from Step 6 of the methodology)	88.5%	87.9%	39.0%	18.4%	14.8%	16.8%
5. Age Adjustment [Divide (1 + Line 4) by (1 + 2.3%) for aging] (Result of Step 7 of the methodology)	84.3%	83.7%	35.9%	15.7%	12.2%	14.2%
6. Requested rate increase (Result from Step 8 of methodology)	14.2%	14.2%	14.2%	14.2%	14.2%	14.2% 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 D

Appendix D 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.

Demographics:

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.