

## Medica Insurance Company -- 2018 ACA Compliant Individual Rate Filing Observations

Medica's initial average rate increase proposal of 43.5% affects the company's ACA compliant block of business. The rate increase proposals (originally filed on June 19, 2017) vary by plan but averages out to a 43.5% increase weighted by written premium.

On August 4, 2017, the carrier filed an amendment in Iowa (and other states) which assumes that Congress will defund cost-sharing reductions (CSRs) for 2018. Carriers offering ACA compliant plans \*MUST\* increase premiums for all silver level plans (offered on the Exchange) since they are forced to provide significantly reduced levels of member cost-sharing even if cost-sharing reductions are not funded by Congress. Under the ACA (on Exchange), carriers are required to provide the following cost-sharing reductions (CSRs):

FPL	CSR Plan	FPL	CSR Plan	FPL	CSR Plan
133% - 150%	94%	150%-200%	87%	200%-250%	73%

With the August 4<sup>th</sup> amendment, the carrier has estimated that the cost of providing such reduced levels of cost-sharing would require an additional 12.1% in premiums to all silver plans. With the amendment, the revised average rate increase in Iowa is a staggering 56.7%. To the best of our knowledge, this is the largest increase in Iowa history for an actively sold medical insurance plan. Please note that the amendment in Iowa is not unique, i.e., this has occurred in a number of states throughout the country. CSR funding is a complicated issue and has actually been declared unconstitutional by a major court. Other key observations are shown below:

- This is a large block affecting 14,002 covered lives (10,600 policyholders) and over 108-million dollars of total premiums. In reality, this proposal affects the entire ACA compliant market because all carriers (save Medica) exited the individual ACA compliant market in the late spring of 2017. Based upon a survey that the Iowa Insurance Division conducted in May of 2017, the ACA compliant market consists of 72,306 members, i.e., 47,835 \*ON\* Exchange and 24,471 \*OFF\* Exchange. These are snapshots in time and these membership numbers would change weekly if frequent surveys were conducted throughout 2017. For the first time in a number of decades, the Iowa individual market has only one carrier, i.e., a carrier of last resort.
- Based upon a review of the federally required template (Unified Rate Review Template, AKA URRT), the 2018 projected single risk pool premium is nearly **\$1,021 per person; projected average age of 50**). The single risk pool premium is the average premium (for an average plan) for the average demographic (age, tobacco, and geographical location). If only one premium could be offered in the state of Iowa – it would be the single risk pool premium of \$1,021. By comparison, the **2014 average single risk pool premium** for Aetna, Wellmark, Wellmark Health Plan of Iowa, and CoOpportunity Health was just under **\$300 per month**. This means that the single risk pool premium has more than tripled since the advent of the Affordable Care Act in 2014. With more than a tripling of the single risk pool premium rate in such a short period of time, it is evidence that the Affordable Care Act along with its companion regulations, memos, bulletins, guidance, FAQs, instructions, and Executive Orders have annihilated the individual market in Iowa.
- For any medical insurance rate increase proposal, the review involves analyzing the carrier's experience (premiums vs. claims), trend (the growth in the cost of the claims caused by unit cost increases along with utilization increases), and other assumptions to determine if the rate increase proposal is actuarially justified. A technically sophisticated analysis with several different models are utilized to gauge the validity and reasonableness of the proposal. The type of analysis utilized, the formulas and methodology, and overall process have developed over a period of many years and have been reviewed by consulting actuaries for completeness and appropriateness.

- Two reviews are conducted to confirm the carrier’s proposal. An internal review is conducted by the Insurance Division’s (IID) actuary and another review is independently conducted by a consulting actuary (of our choosing) on a contracted basis. The dual review system has been in place for 9-years. Along with the key observations noted here, we will also post the consulting actuary’s redacted report on our website.
- Key observations from the IID review: The un-trended past loss ratio for calendar year 2016 in Iowa is nearly 115%; this includes payment and/or receipt for risk adjustment and reinsurance. The analogous figure for their U.S. block is nearly 113%. In Iowa then, a 115% loss ratio means that for every \$1 in premium received, the company has paid out over \$1.15 in claims. For 2017, the loss ratio through June 30 is lower (90%), however, that figure will likely rise to over 100% as consumer cost-sharing becomes less and less throughout the year. Historically, carrier loss ratios increase steadily throughout the year because of that factor. Consequently, we do not tend to rely as much on partial-year experience. With only 18-months of experience to review, this creates an additional complexity due to the lack of data points.
- IID trend models justify a trend rate of at least 15% based upon a review of the PMPM claims and adjusted loss ratios. Within some of our trend models, the resulting trend indications are greater than 20%. These figures represent not only the change in unit costs of medical procedures, new technology, and drug costs, but also costs driven up due to increasing utilization. Even if the cost of drugs and medical procedures did not increase from 2017 to 2018, if people utilize and access such care more often, costs will increase due to utilization alone. Medica’s estimate for the medical trend is around 8.3% due to unit cost increases and increasing utilization. Finally, these figures are also adjusted upwards to account for Medica’s estimate that the risk pool in 2018 will be sicker than it was in 2017 by a factor of 6.3% (morbidity). Medica’s estimate for trend and morbidity appear to be reasonable based upon a review of the NovaRest report as well as the observation that the compounded effect of Medica’s trend components are consistent with the Insurance Division’s trend models.

Since we cannot require any carrier to operate with loss ratios that are currently being reported (nearly 115% for 2016), the carrier must increase rates so that future losses are avoided. With the current loss ratios and the growth of claims increasing at such a high rate, the IID’s projected loss ratio for calendar 2018 is approximately 81 to 83 percent \*after\* the 56.7% increase is applied. If the proposed increase is too aggressive which causes the loss ratio to dip below 80%, affected Iowans will receive a rebate under Federal law. NovaRest’s projected loss ratio (just under 80%) is lower than what the IID projected, however, it still within the margin of error. It must be noted, however, that in a competitive insurance market, rates can only be raised to a level that buyers are willing to pay. This market has collapsed and is expected to only be sustained in 2018 with \$422,000,000 in tax credit subsidies. NovaRest and the IID project total market premiums in the range of \$525,000,000 to \$550,000,000 depending on enrollment. Regardless, it appears that up to 80% of the premium that would be received by Medica is federal tax dollars, not premium paid by willing participants in the market.

- While not necessarily part of a traditional actuarial rate review, Medica has posted an underwriting loss of nearly \$2-million-dollars for calendar year 2016. This information was retrieved from the ‘2016 Supplemental Health Care Exhibit (SHCE)’ contained within their Annual Statement to the Iowa Insurance Division. However, within the context of Medica being the carrier of last resort (if the Iowa Stopgap Measure is disapproved), Medica’s proposed rates \*MUST\* be able to absorb all of the losses that underlie the entire Iowa individual market. Below is a summary of the 2016 underwriting losses extracted from the SHCE for carriers with individual market experience, i.e., pre-ACA (grandfathered and transitional business) and ACA compliant.

Wellmark Inc	(29,366,444)	American Natl Life Ins Co Of TX	(312,368)
Aetna Hlth of IA Inc	(11,963,309)	Avera Hlth Plans Inc	(281,234)
United Hlthcare of Midlands Inc	(3,724,492)	Gundersen Hlth Plan Inc	(267,230)
Medica Ins Co	(1,979,914)	State Farm Mut Auto Ins Co	(258,150)
Wellmark Hlth Plan of IA Inc	(1,689,203)	UnitedHealthcare Life Ins Co	(181,825)
Golden Rule Ins Co	(1,009,004)	UnitedHealthcare Ins Co	(150,891)
		Total of all 2016 Individual Market Losses	(51,184,064)

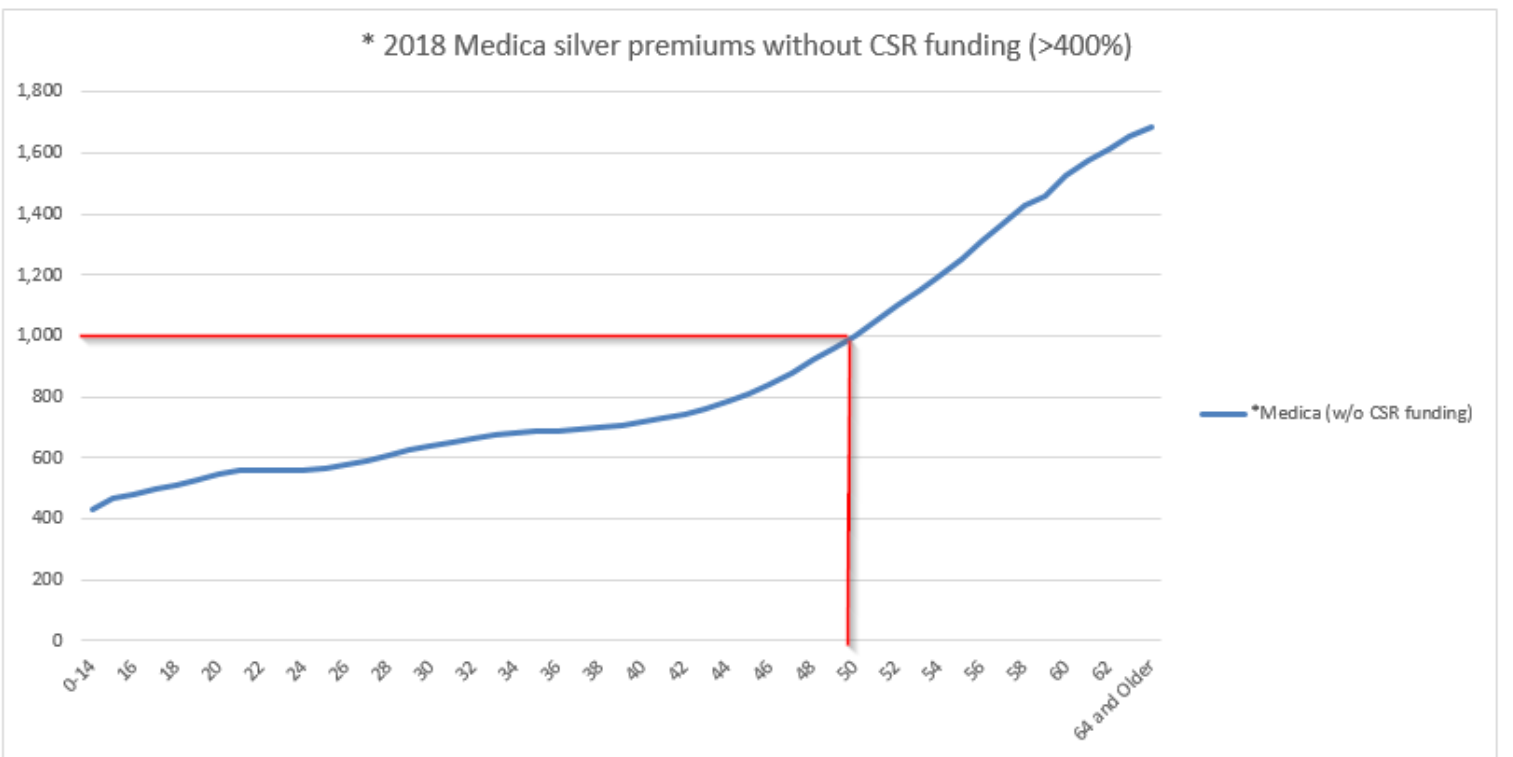
Finally, we would like to illustrate the stark reality that Iowa consumers will face if these premiums are approved. To be clear, Medica is not the problem here. Medica is trying to operate in an ACA world where there is no Federal reinsurance and risk adjustment available to them (for high cost members), and where no other insurance company is willing to operate in. This is noteworthy to be sure, but the reality is that unsubsidized people (>400% FPL) face demoralizing and unaffordable premiums. We've posted similar versions of these exhibits before and the results speak for themselves.

**Iowa City - ACA (Two 55-year olds) Note: Assumes CSR defunding which increases 2018 ACA premiums**

Region 6__2018 (Iowa City)								
Age	Income	% FPL	2nd Low Silver	Max % Inc. ACA	Max Monthly Payment	Max Annual Payment	Annual APTC	% of Income
55	32,317.60	199%	2,724.08	6.38%	171.82	2,061.86	30,627.10	6.38%
55	64,797.60	399%	2,724.08	9.69%	523.24	6,278.89	26,410.07	9.69%
55	66,746.40	411%	2,724.08	NA	2,724.08	32,688.96	0.00	48.97%

**Iowa City - ACA (Two 28-year old parents with twins age 4) Note: Assumes CSR defunding which increases 2018 ACA premiums**

Region 6__2018 (Iowa City)								
Age	Income	% FPL	2nd Low Silver	Max % Inc. ACA	Max Monthly Payment	Max Annual Payment	Annual APTC	% of Income
28	98,154.00	399%	2,262.33	9.69%	792.59	9,511.12	17,636.84	9.69%
28	101,106.00	411%	2,262.33	NA	2,262.33	27,147.96	0.00	26.85%



\* Medica Average of Regions 2 (DSM) and 6 (Iowa City) for Plan IDs 93078IA0020003 and 93078IA0030003

<b>AGE</b>	Medica 2018 Silver Plan *.20003 Low cost Region 2 (DSM)	Medica 2018 Silver Plan *.30003 Low cost Region 2 (DSM)	Medica 2018 Silver Plan *.20003 High cost Region 6 (IA City)	Medica 2018 Silver Plan *. 30003 High cost Region 6 (IA City)	Average of 2 sample Medica Silver Plans
0-14	436.34	392.68	467.24	420.50	429.19
15	475.12	427.59	508.78	457.88	467.34
16	489.95	440.94	524.66	472.17	481.93
17	504.78	454.28	540.54	486.46	496.52
18	520.75	468.65	557.64	501.85	512.22
19	536.72	483.03	574.74	517.24	527.93
20	553.26	497.91	592.45	533.18	544.20
21	570.39	513.32	610.79	549.68	561.05
22	570.38	513.31	610.78	549.67	561.04
23	570.38	513.31	610.78	549.67	561.04
24	570.38	513.31	610.78	549.67	561.04
25	572.66	515.37	613.22	551.87	563.28
26	584.06	525.63	625.44	562.86	574.50
27	597.75	537.95	640.09	576.06	587.96
28	620.00	557.97	663.91	597.49	609.84
29	638.25	574.40	683.46	615.08	627.80
30	647.38	582.61	693.23	623.88	636.78
31	661.06	594.93	707.89	637.07	650.24
32	674.75	607.25	722.55	650.26	663.70
33	683.31	614.95	731.71	658.51	672.12
34	692.44	623.16	741.48	667.30	681.10
35	697.00	627.27	746.37	671.70	685.59
36	701.56	631.37	751.26	676.10	690.07
37	706.12	635.48	756.14	680.49	694.56
38	710.69	639.59	761.03	684.89	699.05
39	719.81	647.80	770.80	693.69	708.03
40	728.94	656.01	780.57	702.48	717.00
41	742.63	668.33	795.23	715.67	730.47
42	755.75	680.14	809.28	728.32	743.37
43	774.00	696.56	828.82	745.90	761.32
44	796.81	717.10	853.26	767.89	783.77
45	823.62	741.22	881.96	793.73	810.13
46	855.56	769.97	916.17	824.51	841.55
47	891.50	802.31	954.64	859.14	876.90
48	932.56	839.27	998.62	898.71	917.29
49	973.06	875.71	1,041.99	937.74	957.13
50	1,018.69	916.78	1,090.85	981.71	1,002.01
51	1,063.75	957.33	1,139.10	1,025.14	1,046.33
52	1,113.37	1,001.99	1,192.24	1,072.96	1,095.14
53	1,163.57	1,047.16	1,245.98	1,121.33	1,144.51
54	1,217.75	1,095.92	1,304.01	1,173.55	1,197.81
55	1,271.94	1,144.69	1,362.03	1,225.77	1,251.11
56	1,330.69	1,197.56	1,424.94	1,282.38	1,308.89
57	1,390.00	1,250.94	1,488.46	1,339.55	1,367.24
58	1,453.32	1,307.92	1,556.26	1,400.56	1,429.52
59	1,484.69	1,336.15	1,589.85	1,430.80	1,460.37
60	1,548.00	1,393.13	1,657.65	1,491.81	1,522.65
61	1,602.75	1,442.41	1,716.28	1,544.58	1,576.51
62	1,638.69	1,474.75	1,754.76	1,579.21	1,611.85
63	1,683.75	1,515.30	1,803.01	1,622.63	1,656.17
64 and Older	1,711.13	1,539.94	1,832.33	1,649.02	1,683.11