

Part II: Written Description Justifying the Rate Increase

SCOPE AND RANGE OF THE RATE INCREASE

Avera Health Plans Inc. (Avera) is requesting a rate increase for the Avera Benefit Solutions small group product for Iowa with an effective date of January 1, 2018.

The requested rate increase impacts approximately 150 members. The rate increase being requested for the Avera Benefit Solutions product is 14.7% averaged across all members. Rate changes vary by plan due to changes in cost sharing parameters (e.g. deductible, coinsurance, copays). Rate changes also vary by age due to changes in the mandated federal age curve.

FINANCIAL EXPERIENCE

Avera's financial experience for its non-Grandfathered ACA-compliant Avera Benefit Solutions product is not credible for Iowa due to low membership in 2016. However, Avera's loss ratio has been higher than its target across all its non-grandfathered ACA compliant business as shown below:

- Premium = \$8,029,677; Incurred Claims = \$7,776,253; Loss Ratio = 96.8%

Loss Ratio means incurred claims divided by premium and does not refer to the Medical Loss Ratio used for Minimum Loss Ratio calculations. Incurred claims have exceeded the target loss ratio for 2016. The rate increase is needed to begin moving the actual loss ratio towards the 2018 target loss ratio of 88.7%.

CHANGES IN MEDICAL SERVICE COSTS AND TREND ASSUMPTIONS

The projection of claims from the experience period to the effective period assumes 7.6% annual trend. This assumption is based on analysis of regional and national trends and actuarial judgment.

CHANGES IN BENEFITS

No changes to covered benefits are being made. Cost sharing parameters (e.g. deductible, coinsurance, copays) are changing for some plans.

ADMINISTRATIVE COSTS AND ANTICIPATED PROFITS

Avera is targeting a loss ratio of 88.7% for its small group block of business in 2018. This loss ratio allows 11.3% for total health plan administrative costs, taxes, fees, and anticipated profits.

Unified Rate Review v4.2

Company Legal Name: **Avera Health Plans, Inc.** State: **IA**
 HIOS Issuer ID: **74980** Market: **Small Group**
 Effective Date of Rate Change(s): **1/1/2018**

Market Level Calculations (Same for all Plans)

Section I: Experience period data	Experience Period:	12/31/2016	to	12/31/2016
Experience Period:	Aggregate Amount	\$347.31	PMPM	100.00%
Premiums (net of MLR Rebate) in Experience Period:	Incurred Claims in Experience Period	269.64	% of Prem	77.64%
Allowed Claims:	Index Rate of Experience Period	354.92		102.19%
Experience Period Member Months		\$354.92		
		4,857		

Section II: Allowed Claims, PMPM basis

Benefit Category	Experience Period		12/31/2018		1/1/2018 to 12/31/2018		Mid-point to Mid-point, Experience to Projection:		24 months	
	Utilization	Average	Utilization	Average	Utilization	Average	Utilization	Average	Utilization	Average
Inpatient Hospital	1,000	234.29	1,000	234.29	1,000	234.29	1,000	234.29	1,000	234.29
Outpatient Hospital	1,000	1,553.45	1,000	1,553.45	1,000	1,553.45	1,000	1,553.45	1,000	1,553.45
Professional Services	1,000	13,688.20	1,000	13,688.20	1,000	13,688.20	1,000	13,688.20	1,000	13,688.20
Other Medical Services	1,000	308.14	1,000	308.14	1,000	308.14	1,000	308.14	1,000	308.14
Capitalation	1,000	0.00	1,000	0.00	1,000	0.00	1,000	0.00	1,000	0.00
Prescription Drug	1,000	9,180.64	1,000	9,180.64	1,000	9,180.64	1,000	9,180.64	1,000	9,180.64
Total		\$354.92		\$354.92		\$354.92		\$354.92		\$354.92

Section III: Projected Experience:

Benefit Category	Experience Period		12/31/2018		1/1/2018 to 12/31/2018		Mid-point to Mid-point, Experience to Projection:		24 months	
	Utilization	Average	Utilization	Average	Utilization	Average	Utilization	Average	Utilization	Average
Inpatient Hospital	1,000	234.29	1,000	234.29	1,000	234.29	1,000	234.29	1,000	234.29
Outpatient Hospital	1,000	1,553.45	1,000	1,553.45	1,000	1,553.45	1,000	1,553.45	1,000	1,553.45
Professional Services	1,000	13,688.20	1,000	13,688.20	1,000	13,688.20	1,000	13,688.20	1,000	13,688.20
Other Medical Services	1,000	308.14	1,000	308.14	1,000	308.14	1,000	308.14	1,000	308.14
Capitalation	1,000	0.00	1,000	0.00	1,000	0.00	1,000	0.00	1,000	0.00
Prescription Drug	1,000	9,180.64	1,000	9,180.64	1,000	9,180.64	1,000	9,180.64	1,000	9,180.64
Total		\$354.92		\$354.92		\$354.92		\$354.92		\$354.92

Projected Allowed Claims PMPM (w/applied credibility if applicable)
 Paid to Allowed Average Factor in Projection Period
 Projected Incurred Claims, before ACA rein & Risk Adj't, PMPM
 Projected Risk Adjustments PMPM
 Projected ACA reinsurance recoveries, net of rein prem, PMPM
 Projected Incurred Claims
 Administrative Expense Load
 Profit & Risk Load
 Taxes & Fees
 Single Risk Pool Gross Premium Avg. Rate, PMPM
 Index Rate for Projection Period
 % Increase over Experience Period
 % Increase, annualized:
 Projected Member Months

Projected Allowed Claims PMPM (w/applied credibility if applicable)	\$491.48	100.00%
Paid to Allowed Average Factor in Projection Period	0.702	
Projected Incurred Claims, before ACA rein & Risk Adj't, PMPM	\$344.85	\$620.736
Projected Risk Adjustments PMPM	0.14	(249)
Projected ACA reinsurance recoveries, net of rein prem, PMPM	\$344.99	\$620.985
Projected Incurred Claims	0.00	0
Administrative Expense Load	\$344.99	\$620.985
Profit & Risk Load	37.14	66.852
Taxes & Fees	13.16	23.683
Single Risk Pool Gross Premium Avg. Rate, PMPM	26.41	47.542
Index Rate for Projection Period	\$421.70	\$759.061
% Increase over Experience Period	\$504.99	
% Increase, annualized:	21.42%	
Projected Member Months	10.19%	
Projected Period Totals		1,960

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Part III Actuarial Memorandum

**Avera Health Plans, Inc.
Iowa Small Group Rate Filing
Effective January 1, 2018**

Prepared for:
Avera Health Plans, Inc.

Prepared by:



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EXHIBIT 1. GENERAL INFORMATION

DOCUMENT OVERVIEW

This document contains the Part III Actuarial Memorandum for Avera Health Plans, Inc. (AHP)'s small group block of business, effective January 1, 2018. This Actuarial Memorandum is submitted in conjunction with the Part I Unified Rate Review Template (URRT).

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 URRT, 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 State of Iowa's Insurance Division, the Center for Consumer Information and Insurance Oversight (CCIIO), and their subcontractors to assist in the review of AHP's small group rate filing. However, we recognize this certification may become a public document. [REDACTED]

COMPANY IDENTIFYING INFORMATION

Company Legal Name: Avera Health Plans, Inc.
State: The State of Iowa has regulatory authority over these policies.
HIOS Issuer ID: 60536
Market: Small Group
Effective Date: January 1, 2018

COMPANY CONTACT INFORMATION

DESCRIPTION OF BENEFITS

These products provide comprehensive medical benefits for services received within the provider network. These products have various cost sharing designs which are a combination of deductibles, coinsurance, and copayments that vary for in-network services. Pharmacy cost sharing for some plans reflects a six-tier (preventive, preferred generic, non-preferred generic, preferred brand, non-preferred brand, and specialty) copay or coinsurance structure. For other plans, the deductible and coinsurance apply to pharmacy costs instead of the six-tier copay structure.

Avera Benefit Solutions is a PPO product with Gold, Silver, and Bronze benefit plan options that provide coverage for inpatient, outpatient, prescription drugs, and miscellaneous services subject to deductible,

Milliman Actuarial Memorandum

coinsurance, and copays. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

EXHIBIT 2. PROPOSED RATE INCREASE(S)

RATE INCREASES BY PLAN

[redacted] Appendix A [redacted] summarizes proposed rate increases by rating region and plan effective January 1, 2018.

[redacted]

REASON FOR RATE INCREASES

A rate change is needed to account for medical trend as well as revisions to the following pricing assumptions:

[redacted]

An illustration of the impacts of these changes is shown in Table 2.1. [redacted]

Table 2.1 Avera Health Plans, Inc. Explanation of Composite Rate Increase		
Aggregate Change	Rate Impact	Annotation
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]

*Includes changes in benefits and projected membership.
Note: factors are rounded.

EXHIBIT 3. EXPERIENCE PREMIUM AND CLAIMS

The experience reported on Worksheet 1, Section I of the URRT shows AHP's earned premium and incurred and paid claims for the period of January 1, 2016 through December 31, 2016, with claims paid through February 28, 2017.

PREMIUMS (NET OF MLR REBATE) IN EXPERIENCE PERIOD

The earned premium reported in Worksheet 1 of the URRT reflects the sum of non-grandfathered small group (i.e., groups with 50 or fewer employees) member level premium for the experience period (calendar year 2016).

Earned premium shown in URRT Worksheet 1 is gross of federal risk adjustment transfers.

METHOD FOR DETERMINING ALLOWED CLAIMS

The following table summarizes the allowed claims, incurred claims, and earned premium as listed in Worksheet 1, Section I of the Part I URRT.

Table 3.1
Avera Health Plans, Inc.
Experience Claims and Premium

	Allowed Claims	Incurred Claims	Earned Premium
Paid			
Incurred but not Paid			
Total Incurred (URRT Worksheet 1)			

Allowed claims are determined by combining the paid claims with the member cost sharing. AHP processes all medical claims internally. Pharmacy claims (approximately of ACA Iowa claims) are processed by a separate external vendor.

We add an estimate of incurred but not paid (IBNP) claims to the processed amount to arrive at a final estimate of total claims.

Consideration is given for liabilities calculated using a claim cost or loss ratio method for recent incurral months prior to the valuation date that have less data available (e.g., 1 - 3 months). We use the same IBNP as a percentage of claims for allowed and incurred claims. No estimate of incurred but not reported claims was added to the prescription drug claims.

EXHIBIT 4. BENEFIT CATEGORIES

We assigned the experience and manual data utilization and cost information to benefit categories as shown in Worksheet 1, Section II of the URRT based on place and type of service using a detailed claims mapping algorithm summarized as follows:

INPATIENT HOSPITAL

Includes non-capitated facility services for medical, surgical, maternity, mental health and substance abuse, skilled nursing, and other services provided in an inpatient facility setting and billed by the facility.

OUTPATIENT HOSPITAL

Includes non-capitated facility services for surgery, emergency room, lab, radiology, therapy, observation and other services provided in an outpatient facility setting and billed by the facility.

PROFESSIONAL

Includes non-capitated primary care, specialist, therapy, the professional component of laboratory and radiology, and other professional services, other than hospital-based professionals whose payments are included in facility fees.

OTHER MEDICAL

Includes non-capitated ambulance, home health care, DME, prosthetics, supplies, vision exams, dental services, and other services. The measurement units for utilization used in this category are a mix of visits, cases, procedures, etc.

CAPITATION

Not applicable.

PRESCRIPTION DRUG

Includes drugs dispensed by a pharmacy.

EXHIBIT 5. PROJECTION FACTORS

[REDACTED] Exhibit 6
describes how the manual rate was developed.

EXHIBIT 6. CREDIBILITY MANUAL RATE DEVELOPMENT

SOURCE AND APPROPRIATENESS OF EXPERIENCE DATA USED IN MANUAL RATE DEVELOPMENT

Source: The credibility manual rate utilization and unit costs shown in Worksheet 1, Section II of the URRT are based on the [REDACTED]

Appropriateness: [REDACTED] provides a consistent basis for the determination of claim costs.

ADJUSTMENTS MADE TO THE DATA

This section includes a description of each factor used to adjust the experience of the manual rates and supporting information related to the development of those factors.

CHANGES IN THE MORBIDITY OF THE POPULATION INSURED

[REDACTED]

CHANGES IN BENEFITS

We reflect anticipated changes in the average utilization of services due to differences in average cost sharing requirements between the manual rate and the projection period. [REDACTED]

CHANGES IN DEMOGRAPHICS AND GEOGRAPHIC ADJUSTMENTS

We adjust the projection to reflect AHP's expected demographic and geographic profile in the projection period [REDACTED]

OTHER ADJUSTMENTS

We adjust the manual rate to recognize the anticipated changes in claims experience between the manual rate and the projected period for changes in tobacco use mix and changes to provider reimbursement. [REDACTED]

TREND (COST / UTILIZATION)

This development of the 2018 rates reflects an annual trend rate of [REDACTED]

INCLUSION OF CAPITATION PAYMENTS

There are no capitation payments assumed in the projection period.

EXHIBIT 7. CREDIBILITY OF EXPERIENCE



EXHIBIT 8. PAID TO ALLOWED RATIO

The following table provides support for the average paid to allowed ratio by plan metal level.

Table 8.1 Avera Health Plans, Inc. Average Paid to Allowed Factor Support				
Metal Level	Member Months	Paid Claims PMPM	Allowed Claims PMPM	Paid-to-Allowed Ratio
Gold				
Silver				
Bronze				
Total				

Note: May be slightly different from URRT, worksheet 1 due to rounding.

The projected paid and allowed claims reflect the member month weighted average by metal level from Worksheet 2, Section IV of the URRT. The total paid-to-allowed ratio is consistent with Worksheet 1, Section III of the URRT. The average AV metal value is based on AVs calculated using the federal AV calculator, weighted on projected allowable cost by metal level.

EXHIBIT 9. RISK ADJUSTMENT AND REINSURANCE

EXPERIENCE PERIOD RISK ADJUSTMENTS PMPM

[REDACTED]

PROJECTED RISK ADJUSTMENTS PMPM

We project risk adjustment transfers

[REDACTED]

[REDACTED]

The anticipated risk transfer payments, including \$0.14 PMPM risk adjustment user fees, are applied to the Index Rate as a market level adjustment. The overall impact of projected net risk adjustment transfers is a premium increase, as demonstrated in Exhibit 14.

EXPERIENCE PERIOD ACA REINSURANCE RECOVERIES NET OF REINSURANCE PREMIUM

[REDACTED]

PROJECTED ACA REINSURANCE RECOVERIES NET OF REINSURANCE PREMIUM

The federal transitional reinsurance program is a temporary program that ended in 2016. As a result, we do not project any federal transitional reinsurance contributions for 2018.

¹ http://us.milliman.com/uploadedFiles/insight/2016/2250HDP_20160622.pdf

EXHIBIT 10. NON-BENEFIT EXPENSES AND PROFIT & RISK

Non-benefit expenses and the profit and risk load are applied uniformly to all plans as a single percent of premium.

ADMINISTRATIVE EXPENSE LOAD

Administrative expenses were provided by AHP and are summarized in Table 10.1 below. The values entered in Worksheet 1, Section III of the URRT illustrate this in total and as a percent of premium. PMPMs within Table 10.1 may not tie to PMPMs within URRT Worksheet 1, Section III due to rounding within URRT Worksheet 1, Section III.

PROFIT AND RISK LOAD

The profit and risk load is shown in Table 10.1 below. The profit and risk load was determined as an aggregate value for the single-risk pool based on AHP's goals for 2018. The profit and risk load is illustrated in URRT Worksheet 1, Section III. PMPMs within Table 10.1 may not tie to PMPMs within URRT Worksheet 1, Section III due to rounding within URRT Worksheet 1, Section III.

TAXES AND FEES

Table 10.1 displays the projected taxes and fees that may be subtracted from premiums when calculating AHP's loss ratio for MLR purposes, in addition to the risk adjustment user fee which is not included in this section per HHS's instructions. The total value is displayed in Worksheet 1, Section III of the URRT. PMPMs within Table 10.1 may not tie to PMPMs within URRT Worksheet 1, Section III due to rounding within URRT Worksheet 1, Section III.

Risk adjustment user fees are not included in this Exhibit, consistent with HHS's instructions.

