

**Actuarial Memorandum**  
 Wellmark Blue Cross and Blue Shield of Iowa  
 Pre-ACA Compliant Small Employer Business  
 Form Number: Wellmark IA Grp  
 Effective July 1, 2017

Purpose

The purpose of this rate filing is to provide the director the small employer base rate increase for review to satisfy SB 43, Section 18.

General Information

This filing pertains to all Wellmark Blue Cross and Blue Shield of Iowa’s (“Wellmark”) new and in-force pre-ACA compliant (grandfathered and transitional non-grandfathered) small employer business with effective or renewal dates of 7/1, 8/1, and 9/1; which encompasses all classes as well as all products (Form Number “Wellmark IA Grp”). It is possible to transfer a small employer grandfathered plan from one carrier to another under limited circumstances, which is what Wellmark is calling “new pre-ACA compliant small employer business”. The recommended base rate increase is a 12-month rate increase. However, as was outlined in a letter from Wellmark to the Iowa Insurance Division on March 23, 2016, Wellmark is allowing transitional small employers that changed their plan year to January 1 to keep their 2016 renewal premiums until 12/31/2017. These premiums will not be adjusted for changes in rating characteristics, such as risk, age, or family composition.

Rate Increase Summary

	<i>Quarterly</i>	<i>Annual</i>
	<i>Effective Period</i>	<i>Base Rate Increase</i>
	1 <sup>st</sup> Qtr 2016	6.0%
	2 <sup>nd</sup> Qtr 2016	6.0%
<i>Prior Annual Increase:</i>	3 <sup>rd</sup> Qtr 2016	6.0%
	4 <sup>th</sup> Qtr 2016	6.4%
	1 <sup>st</sup> Qtr 2017	6.0%
	2 <sup>nd</sup> Qtr 2017	6.0%
<b><i>Recommended Annual Increase:</i></b>	<b>3<sup>rd</sup> Qtr 2017</b>	<b>7.0%</b>

The attached exhibits provide a history of the earned premiums and incurred claims as well as documentation sufficient to actuarially justify the recommended increase.

Methodology for Requested Rate Increase

In general, Wellmark has followed the seven steps listed below in order to determine the rate increase. These steps were followed in determining the analysis in Exhibits 4 - 9.

**Step 1:** Pull 12 months of historical data. This provides the base experience from which to project future claims costs. For this filing, Wellmark used 12 months of claims incurred from January 1, 2016 through December 31, 2016 with a completion factor applied.

**Step 2:** Pull historical income and membership data for small employers by effective month. This allows us to see how much of the membership is in each quarterly base rate period to be able to project future income for the entire block of small employers.

**Step 3:** Assign the base experience from step 1 to each effective month by applying the appropriate loss ratio to the incomes for each effective month determined in step 2. (Claims and income for each effective month need to be evaluated due to small employers having premium changes at different times throughout the year.) This experience is shown in Exhibit 4.

**Step 4:** Determine annual trend levels for each quarter by looking at historical trends and accounting for any future trend impacts. Due to fluctuations in trend, Wellmark models different trend scenarios when projecting expected experience. Wellmark's model used 6.0% along with plus and minus 2.0% for the different trend scenarios as shown in Exhibit 5.

**Step 5:** Evaluate historical actual renewal premium increases compared to base rate increases and project forward. These amounts are shown in Exhibit 7.

**Step 6:** Project future claims costs and premiums by trending forward each effective month's base experience claims costs using the trend scenarios in step 4, and apply the actual renewal premium increases described in step 5. These amounts are shown in Exhibits 6 and 8 respectively.

**Step 7:** Look at different trend scenarios to determine the base rate increase needed. Based on the different trend scenarios and wanting to get to rate stability and less variable loss ratios, Wellmark determined that a 7.0% base rate change is needed.

#### Results of Applying the Methodology

All pre-ACA compliant small employers with effective or renewal dates of 7/1, 8/1, and 9/1 will experience a 7.0% base rate change for 2017. This base rate increase along with changes in other rating factors will result in an aggregate 7.00% premium change for pre-ACA compliant plans.

Base Rate	+7.00%
Risk Level	+0.00%
Demographic Factor	+0.00%
Plan Value	+0.00%
Size Factor	+0.00%
<u>Area Factor</u>	<u>+0.00%</u>
Total	+7.00%

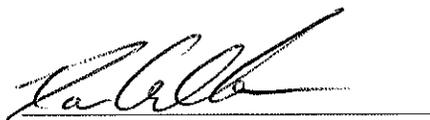
The projected incurred claims loss ratio for all of the pre-ACA compliant small employer business combined for 2017 is 84.3%. These loss ratios, when applying the Minimum Loss Ratio (MLR) Formula and allowed adjustments, will comply with the MLR requirements set forth in the Patient Protection and Affordable Care Act.

Summary of Attached Exhibits

- Exhibit 1: Contract and Member Count History
- Exhibit 2: Historical Income and Incurred Claims
- Exhibit 3: Base Rates
- Exhibit 4: Base Period Experience
- Exhibit 5: Trend Scenarios and Target Loss Ratio Development
- Exhibit 6: Incurred Claims Projections
- Exhibit 7: Historical and Projected Base Rate and Actual Premium Increases
- Exhibit 8: Income Projections
- Exhibit 9: Summary of Projected Experience

Actuarial 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 should not be inadequate, excessive, unfairly discriminatory or unreasonable in relation to the benefits provided.



Dan Callahan, FSA, MAAA  
Senior Actuary  
Wellmark Blue Cross and Blue Shield of Iowa

February 14, 2017

Date