

CAREFIRST BLUECROSS BLUESHIELD (CF)

PART II – Written Description Justifying the Rate Increase

CareFirst of Maryland, Inc. (CFMI) - MD is requesting an average increase of 15.9% to our BluePreferred PPO product. Underlying this average is a fair amount of variation (-1% to +37%). The primary driver of this variation are changes to our factors related to induced utilization by HSA/metal level to align with the factors used in the HHS risk adjustment model. There are approximately 25,000 members currently enrolled in these products who will be impacted by these rate changes.

The primary drivers of the average rate increase is an annual medical/drug claims trend of 8.7%, the end of the temporary federal reinsurance program and slightly worse than anticipated experience for 2015. Offsetting these is a reduction in administrative costs due to the moratorium on the Health Insurer Fee and higher than anticipated risk adjustment receipts.

These products were first launched on 1-1-14. For the 2015 calendar year, CFMI collected \$129.8 million in premium and paid out \$172.3 million in claims for a loss ratio of 133%. CFMI will receive an estimated \$32.3 million in federal reinsurance receipts and \$21.7 million in risk adjustment receipts, for a post-3Rs loss ratio of 91.1%. The proposed rate increases have been set to bring the post-risk adjustment loss ratio to 82.2%.

CFMI has assumed a trend of 8.7%, an increase of 1.7% from last year's 7.0%. This is consistent with observed trend regressions in the low double digits, combined with an anticipated reduction in utilization from platinum members being uniformly modified into gold plans on 1/1/16.

The benefits for this product have remained the same, except for changes necessary to maintain actuarial value.

As a percent of premium, administrative expenses have stayed steady at 13.7%, and pre-tax contribution to reserve has remained at 2.0%. The IRS has issued a one year moratorium on the Health Insurer Fee, which reduces the premiums by 2.6%.