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HIOS Part II Preliminary Justification – Written Explanation of Rate Increase
Maine Community Health Options (d/b/a Community Health Options)
Individual Rate Filing for Maine
January through December 2017

1. SCOPE AND RANGE OF RATE INCREASE

The purpose of this memorandum is to request a rate increase for Maine Community Health Options (CHO) (d/b/a Community Health Options) individual products in Maine with effective dates of January 1, 2017 through December 31, 2017.

This justification is intended to comply with the requirements of Section 2794 of the Public Health Service Act as added by Section 1003 of the Patient Protection and Affordable Care Act. This justification may not be appropriate for purposes or scopes beyond those described above and, therefore, should not be used for other purposes.

This letter specifically addresses the rate increase requested, which impacts roughly 58,000 members that CHO has enrolled in the individual market in 2016. The rate increase being requested is 22.8% in aggregate. The requested rate increase varies by plan with a minimum increase of 17.1% and a maximum increase of 44.9%.

The driver of the large rate increase in the individual market is the 2015 claims experience relative to the level that was anticipated in the premium rates. In addition, the elimination of the Federal Transitional Reinsurance Program in 2017 requires that the rate level be increased to remove the credits received under that program. Had the experience materialized at a level consistent with that assumed in the 2016 premiums, the 2017 average rate increase would have likely been less than 10%; however, the removal of the Transitional Reinsurance Program benefit would have brought the increase over 10%. The remainder of this Part II addresses the specific items required by the instructions.

2. FINANCIAL EXPERIENCE

CHO entered the individual market for new sales effective January 1, 2014. As reported in its 2015 NAIC Annual Statement. CHO reported a net loss of $74.016 million in total. This loss includes a Premium Deficiency Reserve of $43.073 million which represents expected 2016 statutory losses. The Exhibit of Premiums, Enrollment and Utilization (a) for Maine indicated incurred claims of $306.044 million on premiums of $287.198 million for CHO's individual Maine business.

3. CHANGES IN MEDICAL SERVICE COSTS AND TREND ASSUMPTIONS

The main driver of the proposed rate increase is the adverse experience compared to that anticipated in the original rate development. The rate adjustment due to the adverse 2015 experience is 16.7%.

Medical trend is assumed to be 7.2% for 2017; the trend development is documented in a December 15, 2015 report to Edward Vozzo, the CFO of CHO. This report was shared with the Maine Bureau of Insurance and CMS and accepted by them as a reasonable foundation for medical trend for CHO.

CHO is changing its Pharmacy Benefit Manager (PBM) in July 2016. I have estimated that the change in the pharmacy contracting terms will result in a reduction of 1.24% in total claims in 2017 compared to what they would have otherwise been. This analysis is documented in a March 28, 2016 letter to Edward Vozzo, CFO of Maine Community Health Options. This reduction is less than the level proposed by advisors to Express Scripts, the new PBM.

CHO is also re-negotiating its contracts with most hospitals across Maine. Using information provided by CHO about contract terms that have been negotiated for 2015 and 2017, I have estimated that total allowed amounts will be approximately 1.9% lower under the new terms than they would have been under the terms of the 2015 contracts.

Further, the elimination of the Federal Transitional Reinsurance Program in 2017 requires CHO to remove that reinsurance benefit credit from its rates. The effect of the elimination of this program is a 5.1% increase in the rates between 2016 and 2017.

4. CHANGES IN BENEFITS

CHO is expecting an average decrease in overall rate levels of 7.6% due to benefit richness changes in 2017. Plan designs were changed to continue to meet metallic actuarial value levels. Several other adjustments were made, including changing some cost sharing from copayments to coinsurance and making more services subject to the plan deductibles.

5. ADMINISTRATIVE COSTS AND ANTICIPATED PROFITS

CHO allocates all of its expenses to plans using a constant percent of premium. The load for administrative expenses decreased as a percent of premium (-1.4%). CHO also increased its contribution to surplus charge from 1.0% of premium to 4.0% of premium. The combined effect of these items is an increase in rates of 1.7%.

6. ADDITIONAL CAVEATS

This narrative and the attached filing are intended to support CHO's Individual Rate Filing in the state of Maine. It should not be distributed, in whole or in part, to any external party, other than the State of Maine or the Centers for Medicare and Medicaid Services (CMS), without prior written permission. In any event, this information is not intended to benefit any third party. This information may not be appropriate, and should not be used, for other purposes.

Differences between projections and actual amounts depend on the extent to which future experience conforms to the assumptions made for this analysis. It is certain actual experience will not conform exactly to the assumptions used in this analysis. Actual amounts will differ from projected amounts to the extent actual experience deviates from expected experience.

In preparing this written explanation of the rate increase, I have relied on information provided to me by CHO. To the extent that it is incomplete or inaccurate, the contents of this document may be materially affected.

I am a Principal and Consulting Actuary with the firm of Milliman, Inc. I am a member of the American Academy of Actuaries, and I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. This filing is prepared on behalf of CHO.

Respectfully Submitted,

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