| | | | | | |
|---|---|---|---|---|---|
| ***SERFF Tracking #:*** | *QUAC-131112934* | ***State Tracking #:*** | *ACA ON/OFF EXCHANGE* | ***Company Tracking #:*** | |

| | | | |
|---|---|---|---|
| ***State:*** | *Arkansas* | ***Filing Company:*** | *QualChoice Life and Health Insurance Company, Inc.* |
| ***TOI/Sub-TOI:*** | *H16I Individual Health - Major Medical/H16I.005A Individual - Preferred Provider (PPO)* | | |
| ***Product Name:*** | *QCLHIC Individual 2018 Rates* | | |
| ***Project Name/Number:*** | */* | | |

## Rate Information

Rate data applies to filing.

| | |
|---|---|
| **Filing Method:** | Approval |
| **Rate Change Type:** | Increase |
| **Overall Percentage of Last Rate Revision:** | 11.130% |
| **Effective Date of Last Rate Revision:** | 01/01/2017 |
| **Filing Method of Last Filing:** | Approval |

### Company Rate Information

| Company Name: | Company Rate Change: | Overall % Indicated Change: | Overall % Rate Impact: | Written Premium Change for this Program: | Number of Policy Holders Affected for this Program: | Written Premium for this Program: | Maximum % Change (where req'd): | Minimum % Change (where req'd): |
|---|---|---|---|---|---|---|---|---|
| QualChoice Life and Health Insurance Company, Inc. | Increase | 8.780% | 8.780% | $0 | 20,094 | $99,251,946 | 8.800% | 8.240% |

***State:*** *Arkansas* ***Filing Company:*** *QualChoice Life and Health Insurance Company, Inc.*

***TOI/Sub-TOI:*** *H16I Individual Health - Major Medical/H16I.005A Individual - Preferred Provider (PPO)*

***Product Name:*** *QCLHIC Individual 2018 Rates*

***Project Name/Number:*** */*

# Rate Review Detail

## COMPANY:

Company Name: QualChoice Life and Health Insurance Company, Inc.

HHS Issuer Id: 37903

## PRODUCTS:

| Product Name | HIOS Product ID | HIOS Submission ID | Number of Covered Lives |
|---|---|---|---|
| QC Life & Health PPO | 37903AR007 | 37903-998218748877911050 | 20101 |

Trend Factors:

## FORMS:

New Policy Forms: QCLHIC Individual PPO (1-2018)

Affected Forms:

Other Affected Forms:

## REQUESTED RATE CHANGE INFORMATION:

Change Period: Annual

Member Months: 316,727

Benefit Change: None

Percent Change Requested: Min: 8.24 Max: 8.8 Avg: 8.78

## PRIOR RATE:

Total Earned Premium: 99,251,946.20

Total Incurred Claims: 89,743,799.46

Annual $: Min: 2,141.52 Max: 14,574.36 Avg: 4,962.63

## REQUESTED RATE:

Projected Earned Premium: 94,201,334.08

Projected Incurred Claims: 84,902,919.03

Annual $: Min: 2,506.44 Max: 14,836.92 Avg: 5,398.82

| | | | | | |
|---|---|---|---|---|---|
| ***SERFF Tracking #:*** | *QUAC-131112934* | ***State Tracking #:*** | *ACA ON/OFF EXCHANGE* | ***Company Tracking #:*** | |

| | | | |
|---|---|---|---|
| ***State:*** | *Arkansas* | ***Filing Company:*** | *QualChoice Life and Health Insurance Company, Inc.* |
| ***TOI/Sub-TOI:*** | *H16I Individual Health - Major Medical/H16I.005A Individual - Preferred Provider (PPO)* | | |
| ***Product Name:*** | *QCLHIC Individual 2018 Rates* | | |
| ***Project Name/Number:*** | */* | | |

# Supporting Document Schedules

| | |
|---|---|
| **Satisfied - Item:** | Redacted Actuarial Memorandum for Public Disclosure |
| **Comments:** | |
| **Attachment(s):** | QCLHInd_20170714_2018_AR_AM_Redacted.pdf |
| **Item Status:** | |
| **Status Date:** | |

| | |
|---|---|
| **Satisfied - Item:** | Arkansas Plain Language Summary |
| **Comments:** | |
| **Attachment(s):** | QCLHInd_07312017_AR-Specific Plain_Language_Summary.pdf |
| **Item Status:** | |
| **Status Date:** | |

QualChoice Life and Health Insurance Company, Inc.
QCA Health Plan, Inc.
QualChoice Holdings, Inc.

## GENERAL INFORMATION

Company Identifying Information

| | |
|---|---|
| Company Legal Name: | QualChoice Life and Health Insurance Company, Inc. |
| NAIC Company Code: | 70998 |
| SERFF Customer Filing Number: | 30387 |
| State: | Arkansas |
| HIOS ID: | 37903 |
| Market: | Individual |
| Effective Date: | January 1, 2018 to December 31, 2018 |
| Form Numbers: | QCLHIC Individual PPO (1-2018) |

Company Contact Information

| | |
|---|---|
| Contact Name: | [redacted] |
| Telephone Number: | |
| Email: | |

## 1. PROPOSED RATE INCREASES

### Reasons for Rate Increases

In order to maintain both stability and sustainability, both QCA Heath Plan, Inc. ("QualChoice") and QualChoice Life and Health Insurance Company, Inc. review each line of business' financials to determine what, if any, changes are necessary. To complement the financial review, QualChoice also examines market competitiveness and product position to solidify both long and short-term strategies.

As such, QualChoice reviewed the 2016 and emerging 2017 experience for the individual metallic plans and determined that rate adjustments were necessary.

The principal factors that influence the overall rate adjustment include, but are not limited to:

- Price Inflation – the cost per service is increasing;
- Utilization Trend – the number of and distribution of services utilized by members is increasing plan sponsor costs;
- Change in Morbidity – the anticipated average risk profile of enrolled membership relative to the baseline experience in Calendar Year 2016; and
- Administrative Expenses – QualChoice reviewed the allocation process associated with the operational cost of business for the metallic business;

Please note that the following rate proposal is subject to final market determinations. For example, if any regulatory or market changes are enacted, QualChoice retains the right to reexamine the reasonability of the proposed rates and adjust accordingly. Potential regulatory or market reforms may include, but are not limited to changes in:

- Average risk profile of single risk pool (e.g., modifications to Arkansas Works Program);
- Cost Sharing Reductions (better known as CSR); and

- State or Federal Taxes (e.g., Health Insurer Fee).

## MARKET EXPERIENCE

### 2. EXPERIENCE PERIOD PREMIUM AND CLAIMS

The experience period premium and claims reflect actual base period data of QualChoice members with incurred dates between January 1, 2016 and December 31, 2016, with run-out and incurred but not reported ("IBNR") claim calculations as of April 25, 2017.

Calendar Year 2016 experience for those members who enrolled in a metallic plan is reflected in the Experience section of the Unified Rate Review Template ("URRT"). While emerging experience was reviewed for projection purposes, no 2017 data is shown in the URRT.

Paid Through Date

The experience period paid through date is April 25, 2017.

Premiums (net of MLR Rebate) in Experience Period

The premiums reflected on Worksheet 1 of the URRT are consistent with the 2016 financials.

Allowed and Incurred Claims Incurred During the Experience Period

The Allowed and Incurred Claims are data extracts summarized from the QualChoice internal data warehouse and QualChoice's Pharmacy Benefit Manager and reconciled against applicable financial information. The data extracts represent claims incurred during 2016 and paid as of April 25, 2017.

The Incurred But Not Reported ("IBNR") residual amount was applied to the baseline experience to estimate the ultimate plan liability consistent with the organization's financial expectations. Medical claim data from all fully insured health plans was used to determine credible completion factors.

Please note that pharmacy claim data was tallied separately with no IBNR residual.

The limited capitation payments paid throughout 2016 represent a Patient Centered Medical Home ("PCMH") program. The program is designed to sponsor select Primary Care Physicians to promote wellness. The capitation payment does not replace any fee for service claims and is paid in addition to the fee for service claims.

Any additional information is deemed trade secret and proprietary in nature.

## 3. Benefit Categories

The following table outlines the various benefit categories:

| Service Category | Description of Service |
|---|---|
| Inpatient Hospital | Includes, but is not limited to, services for medical, surgical, maternity, skilled nursing, and other services provided in an inpatient facility setting |
| Outpatient Hospital | Includes, but is not limited to, services for surgery, emergency room, lab, radiology, therapy, observation provided in an outpatient facility setting |
| Professional | Includes, but is not limited to, primary care, specialist, therapy, and the professional charges associated with laboratory and radiology services |
| Other Medical | Includes, but is not limited to, home health care, supplies, other services |
| Capitation | Includes any services under a capitated arrangement |
| Pharmacy | Includes drugs by a retail or a mail order pharmacy and contractual rebates received from drug manufacturers |

## 4. Projection Factors

As the base period of historical data reflects 2016 experience, projection factors are necessary to properly account for the anticipated risk of the 2018 projection period. Please note that given the regulatory uncertainty of the product, a range of actuarially sound assumptions were developed to better understand the broad spectrum of risk and results.

Changes in Morbidity of the Population Insured

While the base period reflects actual experience, the underlying population underwent material morbidity changes throughout the year. The primary reason for the material morbidity change is the health status of the continually newly enrolled participants of the Arkansas Works Program (formerly known as the Private Option).

Any additional information is deemed trade secret and proprietary in nature.

Changes in Benefits

Any additional information is deemed trade secret and proprietary in nature.

Changes in Demographics

Any additional information is deemed trade secret and proprietary in nature.

Other Adjustments

Any additional information is deemed trade secret and proprietary in nature.

Trend Factors (Cost/Utilization)

*Unit Cost/Utilization Trend Factors*

In order to project the volume and service cost of health care benefits that are anticipated to be utilized by members in 2018, both utilization and unit cost trends have been applied to the historical experience.

Utilization trend represents the change in volume of services received by members over a period of time. Unit cost trend represents a combination of the inflationary pressure and the mixture of services received.

Any additional information is deemed trade secret and proprietary in nature.

## 5. CREDIBILITY MANUAL RATE DEVELOPMENT

The consolidated experience of QCA Health Plan Inc. and QualChoice Life and Health Insurance Company, Inc. was reflected in the manual to best represent the overall morbidity of the single risk pool.

Source and Appropriateness of Data Used

Consistent with the production of the URRT, the manual rate medical and pharmacy data are extractions from an internal QualChoice data warehouse and QualChoice's Pharmacy Benefit Manager respectively. The data reflects the total cost of health care for all members enrolled in individual metallic and Catastrophic plans.

Throughout the manual rate's base period, QualChoice only operated in Arkansas. Thus, the manual rate's base period data is state-specific.

The manual rate's base period is January 1, 2016 to December 31, 2016.

Adjustments Made to the Data

While the manual base period data is a good representation of projected claim patterns, it does not capture the ultimate morbidity of the projected individual metallic and Catastrophic population. Therefore, an adjustment is necessary to reflect the expected ultimate morbidity.

Any additional information is deemed trade secret and proprietary in nature.

Inclusion of Capitation Payments

The anticipated cost for capitation services in 2018 is $5.00 per enrollee per month in accordance with the Arkansas Insurance Department's Rule 108. These costs are, like in 2015 through 2017, associated with the PCMH program. The capitation payment does not replace any fee for service claims and is paid in addition to the fee for service claims.

## 6. CREDIBILITY OF EXPERIENCE

Any additional information is deemed trade secret and proprietary in nature.

## 7. PAID TO ALLOWED RATIO

QualChoice retained the consulting services of Wakely Consulting Group ("Wakely") to develop actuarial pricing values for each of the 2018 benefit offerings.

With respect to 2018 projected cost sharing reduction payments, as made by the federal government and shown on Worksheet 2 of the URRT, the assumptions are based on actual 2016 experience where applicable. For those plans that do not have sufficient experience, an assumption was made based on general business reasoning.

Any additional information is deemed trade secret and proprietary in nature.

## 8. RISK ADJUSTMENT AND REINSURANCE

For 2016, the State of Arkansas' single risk pool includes a wide spectrum of populations. The populations included in the single risk pool are:

- Arkansas Works Program (formerly known as, Private Option)
- State Partnership Marketplace (i.e., "On Exchange")
- Commercial members in metallic plans outside of the Marketplace (i.e., "Off Exchange")

Please note that the population in the single risk pool for 2016 is not assumed to be consistent with the anticipated population of 2018.

For the 2016 experience period risk adjustment, QualChoice used the metal transfer amounts we received from CMS.

Projected Risk Adjustment

With respect to 2016, as shown on the CMS Summary Report on Transitional Reinsurance Payments and Permanent Risk Adjustment Transfers for the 2016 Benefit Year from June 30, 2017, QCA Health Plan, Inc. will collect a $2.9M receivable and QualChoice Life and Health Insurance Company, Inc. will collect a $6.2M receivable.

Any additional information is deemed trade secret and proprietary in nature.

## 9. NON-BENEFIT EXPENSES AND PROFIT & RISK

As part of the general cost of business operations, administrative expenses, taxes, fees, and surplus contribution is a necessary consideration for premium development. The following sections outline key provisions included in the non-benefit load considerations.

Administrative Expense Load

General administrative costs represent the cost of business and the provision of benefits to members.

Common groupings of administrative costs include:

- Sales and Marketing – marketing materials, salaries for sales and marketing staff, enrollment packages;
- Direct Administration – customer service, billing, enrollment, medical management, and claim administration; and
- Indirect Administration – salaries and expenses related to corporate services, finance, accounting, and actuarial departments.

Any additional information is deemed trade secret and proprietary in nature.

Profit (or Contribution to Surplus) & Risk Margin

Any additional information is deemed trade secret and proprietary in nature.

Taxes and Fees

Taxes, licenses and fees are the amounts paid to government entities. Examples of fees include, but are not limited to, premium tax with offsets, real estate taxes, payroll taxes, and other fees imposed by government related to normal business operations.

Any additional information is deemed trade secret and proprietary in nature.

## PROJECTED LOSS RATIO

Any additional information is deemed trade secret and proprietary in nature.

## APPLICATION OF MARKET REFORM RATING RULES

### 10. SINGLE RISK POOL

The single risk pool for the experience period reflects all covered lives for all individual metallic, and Private Option policies.

Any additional information is deemed trade secret and proprietary in nature.

### 11. INDEX RATE

The Index Rate reflects the total allowed claim expense per member per month, as extracted from QualChoice's internal data warehouse and QualChoice's Pharmacy Benefit Manager. The Index Rate of the base period includes only those services compliant with the Essential Health Benefits ("EHB"); no other non-EHB services were included.

Please note that the Index Rate reflects no cost sharing and represents the allowable costs associated with provision of the EHBs to members in the single risk pool.

Any additional information is deemed trade secret and proprietary in nature.

## MARKET ADJUSTED INDEX RATE

The Market Adjusted Index Rate was derived from the Index Rate with recognition of risk adjustment and the marketplace user fee allocation.

Consistent with the aforementioned documentation, the collections associated with the risk adjustment is based on the experience of 2016 and changes to the 2018 risk adjustment formula and QualChoice metallic population.

Any additional information is deemed trade secret and proprietary in nature.

## PLAN ADJUSTED INDEX RATES

Plan Adjusted Index Rates were derived from the Market Adjusted Index Rate. The average metallic level actuarial value was determined from the assumed projected distribution of members and ultimate pricing of the products. The Pricing Actuarial Values, as discussed in greater detail in later sections of this memorandum, are based on Wakely's proprietary pricing model, and not the CCIIO Actuarial Value Calculator.

The Plan Adjusted Index Rate was adjusted to reflect consideration for administrative expense, margin.

Any additional information is deemed trade secret and proprietary in nature.

## CALIBRATION

### *Age Curve Calibration*

The average age is based on the distribution of members reflected in the manual rate, as previously discussed, and the standard federal age slope. The calculation of the average age and age curve calibration is compliant with the rating rules, as defined by 45 CFR §147.102.

### *Geographic Factor Calibration*

Any additional information is deemed trade secret and proprietary in nature.

### *Tobacco Calibration*

There is also an adjustment to remove the tobacco load in the Plan Adjusted Index Rate so that non-tobacco users are not charged a premium for tobacco related claims incurred by tobacco users. .

Any additional information is deemed trade secret and proprietary in nature.

CONSUMER ADJUSTED PREMIUM RATE DEVELOPMENT

The Consumer Adjusted Premium Rate is the Plan Adjusted Index Rate calibrated, with all allowable rating factors applied, to the standard federal age curve, the aforementioned geographic factors, and the tobacco factor.

For an illustrative example of a premium calculation for a 21 year old member, please refer to Attachment 1.

## 12. AV METAL VALUES

The Actuarial Value ("AV") for metallic validation, as required by 45 CFR Part 156, §156.135 was produced by the official CCIIO AV Calculator.

No adjustments were made to the CCIIO AV Calculator to determine the final metallic level.

## 13. AV PRICING VALUES

QualChoice relied on Wakely's proprietary pricing model to calculate the final actuarial values reflected in the 2018 premiums.

Furthermore, the fixed reference plan covers all prescribed EHBs, and only EHBs at no cost sharing. Premium rates by metallic level reflect difference in actual pricing actuarial values, utilization, network discounts (as applicable). There are no administrative differences that affect the premium, since all administrative costs were set as a percentage of premium.

## 14. MEMBERSHIP PROJECTIONS

The 2018 enrollment projection is based on QualChoice management's expectations of future retention and growth.

Any additional information is deemed trade secret and proprietary in nature.

## 15. TERMINATED PRODUCTS/PLANS

Any additional information is deemed trade secret and proprietary in nature.

## 16. PLAN TYPE

The plan type options reflected in the URRT adequately represent products in the projection period. Therefore, this is not applicable.

### 17. Warning Alerts

Any additional information is deemed trade secret and proprietary in nature.

## MISCELLANEOUS INSTRUCTIONS

### 18. Reliance

The certifying actuary relied on various colleagues of QualChoice to determine reasonable assumptions, data, and strategy.

### 19. Actuarial Certification

I, [redacted], am [redacted] of [redacted]. I am [redacted] in the Society of Actuaries and Member of the American Academy of Actuaries in good standing. I meet the qualification standards established by the American Academy of Actuaries and comply with the applicable Actuarial Standards of Practice.

With respect to the projected index rate, I hereby certify the following statements:

- The projected index rate was calculated within compliance of all applicable State Statutes, Federal Statutes, and Regulations 45 CFR 156.80 and 45 CFR 147.102;
- The projected index rate calculations conform to all applicable Actuarial Standards of Practice;
- The projected index rate is reasonable for the projected population and covered benefits;
- The projected index rate is neither excessive nor deficient;
- The index rate and only the allowable modifiers as described in 45 CFR 156.80(d)(1) and 45 CFR 156.80(d)(2) were used to generate plan level rates;
- The percent of total premium that represents Essential Health Benefits included on Worksheet 2, Sections III and IV, of the URRT was calculated in accordance of applicable Actuarial Standards of Practice;
- The final 2018 AV Calculator, as released on April 13, 2017, was used to calculate the AV Metal Values reflected in Worksheet 2 of the Part 1 URRT for all plans;
- The geographic rating factors reflect only differences in the costs of delivery and do not include differences for population morbidity by geographic area; and
- The filing was prepared in good faith and based upon all Actuarial Standards of Practice as defined by the Actuarial Standards Board.

The Part I Unified Rate Review Template does not demonstrate the process used to develop the rates. Rather, it represents information required by Federal regulation to be provided in support of the review of rate increases, for certification of qualified health plans for state based marketplaces and for certification that the index rate is developed in accordance with Federal regulation and used consistently and only adjusted by the allowable modifiers.

The results are actuarial projections. Actual experience is likely to differ from these projections for a number of reasons, including population changes, claims experience, and random deviations from assumptions. It is certain that actual experience will not conform exactly to all of the assumptions underlying the analysis.

At a minimum, the following Actuarial Standards of Practice ("ASOPs") are applicable:

- ASOP No. 5, *Incurred Health and Disability Claims*
- ASOP No. 8, *Regulatory Filings for Health Plan Entities*
- ASOP No. 12, *Risk Classification*
- ASOP No. 23, *Data Quality*
- ASOP No. 25, *Credibility Procedures Applicable to Accident and Health, Group Term Life, and Property Casualty Coverages*
- ASOP No. 26, *Compliance with Statutory and Regulatory Requirements for the Actuarial Certification of Small Employer Health Benefit Plans*
- ASOP No. 41, *Actuarial Communications*
- ASOP No. 50, *Determining Minimum Value and Actuarial Value under the Affordable Care Act*

[redacted]

**Appendix 1: Illustrative Premium of 21 Year Old in** [redacted]

Any additional information is deemed trade secret and proprietary in nature.

**Rate Filing Justification Part II (Plain Language Summary)**

Pursuant to 45 CFR 154.215, health insurance issuers are required to file Rate Filing Justifications. Part II of the Rate Filing Justification for rate increases and new submissions must contain a written description that includes a simple and brief narrative describing the data and assumptions that were used to develop the proposed rates. The Part II template below must be filled out and uploaded as an Adobe PDF file under the Consumer Disclosure Form section of the Supporting Documentation tab.

---

| | |
|---|---|
| Name of Company | QualChoice Life and Health Insurance Company, |
| SERFF tracking number | QUAC-131112934 |
| Submission Date | 7/31/2017 |
| Product Name | Individual Major Medical PPO |
| Market Type | (•) Individual ( ) Small Group |
| Rate Filing Type | (•) Rate Increase ( ) New Filing |

**Scope and Range of the Increase:**

The 8.80% increase is requested because:

Price Inflation - the cost per service is increasing;
Utilization Trend - the number of and distribution of services utilized by members is increasing plan sponsor costs;
Change in Morbidity - the anticipated average risk profile of enrolled membership relative to the baseline experience in Calendar Year 2016; and
Administrative Expenses

This filing will impact:

# of Arkansas policyholder's 20,094 # of Arkansas covered lives 20,101

The average, minimum and maximum rate changes increases are:

- Average Rate Change: The average premium change, by percentage, across all policy holders if the filing is approved 8.80 %
- Minimum Rate Change: The smallest premium increase (or largest decrease), by percentage, that any one policy holder would experience if the filing is approved 8.24%
- Maximum Rate Change: The largest premium increase, by percentage, that any one policy holder would experience if the filing is approved 8.80 %

Individuals within the group may vary from the aggregate of the above increase components as a result of:

Changes to the cost-sharing structure of their plan.

**Financial Experience of Product**

The overall financial experience of the product includes:

A historical review of 2016 financials and emerging 2017 experience indicates a rate adjustment is necessary.

The rate increase will affect the projected financial experience of the product by:

Ensuring the overall financial sustainability of the product and QualChoice.

**Components of Increase**

The request is made up of the following components:

*Trend Increases* – 37.6 % of the 8.8 % total filed increase

1. Medical Utilization Changes –Defined as the increase in total plan claim costs not attributable to changes in the unit cost of underlying services, or renegotiation of provider contracts. Examples include changes in the mix of services utilized, or an increase/decrease in the frequency of service utilization.

   This component is 22.4 % of the 8.8 % total filed increase.

2. Medical Price Changes – Defined as the increase in total plan claim costs attributable to changes in the unit cost of underlying services, or renegotiation of provider contracts.

   This component is 15.2 % of the 8.8 % total filed increase.

*Other Increases* – 80.7 % of the 8.8 % total filed increase

1. Medical Benefit Changes Required by Law – Defined as any new mandated plan benefit changes, as mandated by either State or Federal Regulation.

   This component is 0 % of the 8.8 % total filed increase.

2. Medical Benefit Changes Not Required by Law – Defined as changes in plan benefit design made by the company, which are not required by either State or Federal Regulation.

   This component is 0 % of the 8.8 % total filed increase.

3. Changes to Administration Costs – Defined as increases in the costs of providing insurance coverage. Examples include claims payment expenses, distribution costs, taxes, and general business expenses such as rent, salaries, and overhead.

   This component is 52 % of the 8.8 % total filed increase.

4. Changes to Profit Margin – Defined as increases to company surplus or changes as an additional margin to cover the risk of the company.

   This component is -5.8 % of the 8.8 % total filed increase.

5. Other – Defined as:

   Morbidity and risk adjustment changes.

   This component is 16.2 % of the 8.8 % total filed increase.