

Part II-Description of Requested Rate Increase
Wellmark Blue Cross Blue Shield of Iowa
Individual Health
Effective January 1, 2020

- **Scope and Range of Rate Increase**

Wellmark, Inc has around 54,500 members in individual pre-ACA plans as of April 2019. The requested average rate increase for all of these plans is 12.5%, and will be effective January 1, 2020. The rate increase varies by plan, with a low of 12.4% and a high of 12.6%. Subscriber's actual rate changes will vary depending on the benefit plan selected, age of the members on the policy, and dependent coverage.

- **Financial Experience of the Product**

These pre-ACA plans comprise several various blocks of business, with all blocks of business exhibiting current loss ratios above 80%. It should be noted that the projected Medical Loss Ratio (MLR) meets the minimum requirement of 80% defined in the ACA. If the actual MLR were to fall below this level (such as if actual claim costs turn out to be lower than expected), Wellmark would pay rebates to members in accordance with the ACA MLR requirements.

- **Changes in Medical Service Costs**

Annual trend of about 10% was used to project claims from the experience period into the rating period. This trend assumption includes any change in service costs and utilization. Multi-year trend averages were reviewed to arrive at the assumed trend amounts.

- **Changes in Benefits**

Benefits offered through these products did not change.

- **Administrative Costs and Anticipated Profits**

The main drivers of administrative expenses are employee salaries and benefits, broker and agent commissions, and various governmental taxes and fees. We strive to lower our administrative expenses as a percent of premium, as well as the underlying cost of care, in order to provide the best value to our customers.

For this rate request, risk margin (ie, anticipated profits) is expected to be 3%.

Actuarial Memorandum
Wellmark Blue Cross and Blue Shield of Iowa
Individual Business
Effective January 1, 2020

Purpose

The purpose of this filing is to request a rate increase and document the rates to be revised. The data in this actuarial memorandum describes the methodology and assumptions used to determine this rate request, and may not be appropriate for other purposes.

Summary:

The rate revisions requested are for both grandfathered and transitional (AKA grandmothers) business. Rates in this filing are intended to be effective for the time period from January 1, 2020 through December 31, 2020. These rate revisions will apply to all policies in force under the following categories of Individual Business:

Individual Business Sold Through Direct or Independent Agents

Category of Business	Rate Adjustment
• Post-4/96 Products (sold April 1996 and after)	
Pool III	12.6%
Pool IV	12.6%
Pool V	12.6%
• Basic and Standard Plans	12.4%

Individual Business Sold Exclusively Through Farm Bureau Federation

Category of Business	Rate Adjustment
• Pre-7/96 Products (sold before July 1996)	
Pool I	12.4%
Pool II	12.4%
• Post-7/96 Products (sold July 1996 and after)	
Pool III	12.4%
Pool IV	12.4%
Pool V	12.4%

Policy Experience and Documentation of Proposed Rate Changes

Direct/Independent Post 4/96 Products (sold April 1996 and after):

Methodology for Determining Requested Rate Increases (Pool III, IV, V):

For this business Wellmark has products in three separate blocks of business and independently calculates a needed increase for each block. Many times, and in this filing, these three blocks of business are combined together to increase credibility for determining the needed rate increases. The following steps were followed in determining the requested rate increases:

1. Experience for all policy holders for the 12 months incurred ending 12/31/2018 and paid through 3/31/2019 is reviewed.
2. A completion factor is applied, which adjusts for claims that were incurred but not yet paid during the review period. This completion factor is based on our individual block's experience.
3. Determine an appropriate trend assumption to estimate medical claims payments for the future rating period. We reviewed the following trend scenarios based on historical trend experience:
 - a. 1 year, 2 year and 3 year annualized paid claims trend for Wellmark Inc. Direct/Independent Individual Non-ACA business.
 - b. Non-ACA Members with 48 months of continuous coverage with Wellmark Inc. and their 1 year, 2 year, and 3 year annualized paid claims trend.

The annual paid claims trend assumption used in the rate calculations for this filing was 10.5%, which is supported by the demographically-adjusted annualized paid claims trend experience for members with 48 months of continuous coverage. An aging adjustment of 2.4% was added to this annual trend to account for the demographic component of annual trend, resulting in an overall 13.1% annual paid claims trend assumption.

4. Project medical claims (resulting from steps 1 and 2 and applying trend in step 3 from midpoint to midpoint) to simulate the medical claims expected to be paid during the rating period beginning January 1, 2020. A loss ratio is then determined to measure the ratio of projected claims to premiums at current rates.
5. Review and determine expected non-claims expenses, individual reform assessment, premium taxes, and risk margin for the rating period; this total is subtracted from 1 to determine the target loss ratio. Health insurer fees and related taxes that were excluded in past filings were added as they will be effective during the rating period.
6. Compare the projected loss ratio (calculated in step 4) to the target loss ratio (calculated in step 5). A needed premium increase is then calculated by dividing the projected loss ratio by the target loss ratio.
7. Adjust the needed premium increase for the rating period due to the income effects of members aging.

8. The calculated needed premium increase varies by pool. For credibility purposes the pools are being combined and the requested rate increase is the same for all Direct/Independent Post 4/96 business.

Historical and projected medical claims trends are shown in Appendix A and a summary of the calculations outlined above are provided in Appendix B of this memorandum.

Results of Applying the Methodology:

On April 30th, 2019 in Pool III there were 131 policies in this block, down from 158 on April 30th, 2018 and 202 on April 30th, 2017. [REDACTED]
[REDACTED]

On April 30th, 2019 in Pool IV there were 2,851 policies, down from 3,276 on April 30th, 2018 and 3,717 on April 30th, 2017. [REDACTED]
[REDACTED]

On April 30th, 2019 in Pool V there were 12,576 policies, down from 14,931 on April 30th, 2018 and 17,584 on April 30th, 2017. [REDACTED]
[REDACTED]

[REDACTED] The calculated aggregate increase is 12.6%. For credibility and consistent level of increases, the requested increase is the same for Direct/Independent business Pools III, IV, and V.

Direct/Independent Basic and Standard Plans:

Methodology:

Pursuant to Iowa code Chapter 513C.10 (2), rates for the Individual Basic and Standard plans were to be equivalent to 174.11% of the lowest priced plan adjusted to the benefit level of the Basic and Standard plans for all contracts effective prior to January 1, 2002. This ratio is increased to 202.80% for all new contracts effective January 1, 2002. We included a set of rate tables for each scenario.

For Wellmark Blue Cross Blue Shield of Iowa, our lowest priced plans available for sale after April 1, 1996 are the Farm Bureau plans that have effective dates beginning October 1, 2007. This is a medically underwritten group policy sold exclusively to members of the Iowa Farm Bureau Federation.

Rate Tables:

Included are tables listing the rates for each age, sex, and family status category for tobacco users and non-tobacco users separately for the Basic and Standard plans. As stated above, we have included two sets of rate tables – one set priced at 174.11% of the lowest priced plan and one set priced at 202.80% of the lowest priced plan, both adjusted to the benefit level of the Basic and Standard plans.

Farm Bureau Pre and Post 4/96 Products:

Methodology for Determining Requested Rate Increases (Pool I, II, III, IV, V):

Wellmark issues products in five separate blocks of business and independently calculates a needed increase for each block. Many times, and in this filing, these five blocks of business are combined together to increase credibility for determining the needed rate increases. The following steps were followed in determining the requested rate increases:

1. Experience for all policy holders for the 12 months incurred ending 12/31/2018 and paid through 3/31/2019 is reviewed.
2. A completion factor is applied, which adjusts for claims that were incurred but not yet paid during the review period. This completion factor is based on our individual block's experience.
3. Determine an appropriate trend assumption to estimate medical claims payments for the future rating period. We reviewed the following different trend scenarios based on historical trend experience:
 - a. 1 year, 2 year and 3 year annualized paid claims trend for Wellmark Inc. Farm Bureau Individual Non-ACA business combined.
 - b. Non-ACA Members with 48 months of continuous coverage with Wellmark Inc. and their 1 year, 2 year, and 3 year annualized paid claims trend.

The annual paid claims trend assumption used in the rate calculations for this filing was 10.0%, which is supported by the demographically-adjusted annualized paid claims trend experience for members with 48 months of continuous coverage. An aging adjustment of 2.3% was added to this annual trend to account for the demographic component of annual trend, resulting in an overall 12.5% annual paid claims trend assumption.

4. Project medical claims (resulting from steps 1 and 2 and applying trend in step 3 from midpoint to midpoint) to simulate the medical claims expected to be paid during the rating period beginning January 1, 2020. A loss ratio is then determined to measure the ratio of projected claims to premiums at current rates.
5. Review and determine expected non-claims expenses, individual reform assessment, premium taxes, and risk margin for the rating period; this total is subtracted from 1 to determine the target loss ratio. Health insurer fees and related taxes that were excluded in past filings were added as they will be effective during the rating period.
6. Compare the projected loss ratio (calculated in step 4) to the target loss ratio (calculated in step 5). A needed premium increase is then calculated by dividing the projected loss ratio by the target loss ratio.
7. Adjust the needed premium increase for the rating period due to the income effects of members aging.

8. The calculated needed premium increase varies by pool. For credibility purposes the pools are being combined and the requested rate increase is the same for all Farm Bureau Pre and Post 4/96 business.

Historical and projected medical claims trends are shown in Appendix A and a summary of the calculations outlined above are provided in Appendix C of this memorandum.

Results of Applying the Methodology:

On April 30th, 2019 in Pool I there was 1 policy, remaining stable from 1 policy on April 30th, 2018 and 1 policy on April 30th, 2017. [REDACTED]
[REDACTED]

On April 30th, 2019 in Pool II there were 4 policies, remaining stable from 4 on April 30th, 2018 and 5 on April 30th, 2017. [REDACTED]
[REDACTED]

On April 30th, 2019 in Pool III there were 172 policies, down from 213 on April 30th, 2018 and 243 on April 30th, 2017. [REDACTED]

On April 30th, 2019 in Pool IV there were 3,537 policies, down from 4,003 on April 30th, 2018 and 4,494 on April 30th, 2017. [REDACTED]
[REDACTED]

On April 30th, 2019 in Pool V there were 9,065 policies, down from 10,527 on April 30th, 2018 and 11,982 on April 30th, 2017. [REDACTED]
[REDACTED]

[REDACTED] The calculated aggregate increase is 12.4%. For credibility and consistent level of increases, the requested increase is the same for Farm Bureau business Pools I, II, III, IV, and V.

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 are not inadequate, excessive, unfairly discriminatory or unreasonable in relation to the benefits provided.

Signed:

[REDACTED]
[REDACTED]

Dated:

[REDACTED]

Appendix A

Medical Trends (Direct/Independent and Farm Bureau Business)

For this filing, Wellmark reviewed historical trend experience in aggregate and for members with 48 months of continuous coverage. Ultimately, the trend assumptions used in the rate calculations were derived from the annualized demographically-adjusted paid claims trends for members with 48 months of continuous coverage. The tables below show the annualized trends for the last four years of experience.

Direct/Independent – Members with 48 Continuous Months of Exposure

12 Month Time Period	Demo Adj Paid Claims PMPM	Annual Trend	2 Year Annualized	3 Year Annualized
2015				
2016				
2017				
2018				

Farm Bureau – Members with 48 Continuous Months of Exposure

12 Month Time Period	Demo Adj Paid Claims PMPM	Annual Trend	2 Year Annualized	3 Year Annualized
2015				
2016				
2017				
2018				

All pools are combined due to lack of credibility in each of the pools in this filing.

Appendix B

Details of Rate Calculation (Direct/Independent Post 4/96 Business)

The table below provides the derivations resulting from key steps outlined in the methodology for determining requested rate increases for the Post 4/96 business. The corresponding steps are noted in **bold** font.

	Pool III	Pool IV	Pool V	Total
1. Current Loss Ratio for 12 months ending 12/31/2018 (Result from Step 2 of the methodology)	██████	██████	██████	██████
2. Projected Loss ratio for 2020 rating period (Result from Step 4 of the methodology)	██████	██████	██████	██████
3. Target Loss Ratio for rating period beginning 1/1/2020 (Result from Step 5 of methodology)	██████	██████	██████	██████
4. Calculate Rate Increase Needed [Line 2 divided by Line 3 minus 1] (Result from Step 6 of the methodology)	██████	██████	██████	██████
5. Age Adjustment [Divide (1 + Line 4) by (1 + 2.4%) for aging] (Result of Step 7 of the methodology)	██████	██████	██████	██████
6. Requested rate increase (Result from Step 8 of methodology)	12.6%	12.6%	12.6%	12.6% ²

- 1) This loss ratio is intended for filing purposes only and not suitable for other comparisons. For instance, the minimum medical loss ratio (MLR) requirement of 80% in the individual market is defined with different criteria and therefore not comparable to the Target Loss Ratios in this filing. Other plans in the individual market are also included in the MLR requirements.
- 2) For credibility purposes the same rate increase is requested for all Direct/Independent Post 4/96 business.

Appendix C

Details of Rate Calculation (Farm Bureau Business)

The table below provides the derivations resulting from key steps outlined in the methodology for determining requested rate increases for Farm Bureau business. The corresponding steps are noted in **bold** font.

	Pool I	Pool II	Pool III	Pool IV	Pool V	Total
1. Current Loss Ratio for 12 months ending 12/31/2018 (Result from Step 2 of the methodology)	██████	██████	██████	██████	██████	██████
2. Projected Loss ratio for 2020 rating period (Result from Step 4 of the methodology)	██████	██████	██████	██████	██████	██████
3. Target Loss Ratio for rating period beginning 1/1/2020 (Result from Step 5 of methodology)	██████	██████	██████	██████	██████	██████
4. Calculate Rate Increase Needed [Line 3 divided by Line 4 minus 1] (Result from Step 6 of the methodology)	██████	██████	██████	██████	██████	██████
5. Age Adjustment [Divide (1 + Line 4) by (1 + 2.3%) for aging] (Result of Step 7 of the methodology)	██████	██████	██████	██████	██████	██████
6. Requested rate increase (Result from Step 8 of methodology)	12.4%	12.4%	12.4%	12.4%	12.4%	12.4% ²

- 1) This loss ratio is intended for filing purposes only and not suitable for other comparisons. For instance, the minimum medical loss ratio (MLR) requirement of 80% in the individual market is defined with different criteria and therefore not comparable to the Target Loss Ratios in this filing. Other plans in the individual market (ACA business) are also included in the MLR requirements.
- 2) For credibility and consistent level of increases, this requested increase is the same as all other increases for all Farm Bureau business.

Appendix D

Appendix D is included with this filing as additional background for informational purposes. Wellmark is not requesting review and approval of this information. It is provided only as further explanation of factors, other than base rates, that may affect members' premiums.

Individual Changes in Premium

Wellmark has filed a request for approval of an increase to the base rates used to determine premiums, as required under Iowa law. However, other factors not subject to review and approval may affect an individual's premium. These factors include changes in coverage, including but not limited to changes in benefits, payment obligations (such as deductible, coinsurance and copayments), the number of covered family members, members' ages, changes in tobacco user status, or other factors that require adjustments to the total premium.

Demographics:

Individual health premiums are attained age rated, meaning rates are adjusted periodically as a person gets older. The amount of change can vary, depending on the current age of the individual and the period of time since the last demographic adjustment occurred. For instance, the change can be low (less than 2%) in situations where the adjustment occurs annually. Other policies, however, have rates that may make this adjustment only once every five years. In these situations, the amount of change between consecutive age bands can be significantly more (as much as 37%) than if the adjustment were made annually.

Rate Summary Worksheet

Per the instructions, health insurance issuers proposing rate increases above the threshold fill in only those cells that are highlighted in GREY.
The other cells are auto-populated.

OMB-0938-1141

A. Base Period Data

Start Period: 01/01/2018

End Period: 12/31/2018

Service Categories	Member Months	Total Allowed	Net Claims	Cost Sharing	Cost Sharing PMPM	Net PMPM	Allowed PMPM
Inpatient	744,579	\$ 48,845,804.38	\$ 45,545,407.41	\$ 3,300,396.98	\$ 4.43	\$ 61.17	\$ 65.60
Outpatient	744,579	\$ 92,716,465.43	\$ 72,430,323.73	\$ 20,286,141.70	\$ 27.25	\$ 97.28	\$ 124.52
Professional	744,579	\$ 100,684,069.40	\$ 76,762,606.12	\$ 23,921,463.28	\$ 32.13	\$ 103.10	\$ 135.22
Prescription Drugs	744,579	\$ 49,510,571.78	\$ 41,819,164.71	\$ 7,691,407.07	\$ 10.33	\$ 56.16	\$ 66.49
Other	744,579	\$ 24,987,384.58	\$ 20,564,020.59	\$ 4,423,363.99	\$ 5.94	\$ 27.62	\$ 33.56
Capitation	744,579	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Total	744,579	\$ 316,744,295.58	\$ 257,121,522.56	\$ 59,622,773.02	\$ 80.08	\$ 345.32	\$ 425.40

B. Claim Projections**B1. Adjustment to the Current Rate**

Start Period: 01/01/2019

End Period: 12/31/2019

Service Categories	Overall Medical Trend	Projected Allowed PMPM	Net Claims	Cost Sharing
Inpatient	1.1282	\$ 74.01	\$ 69.01	0.0676
Outpatient	1.1282	\$ 140.49	\$ 109.75	0.2188
Professional	1.1282	\$ 152.56	\$ 116.31	0.2376
Prescription Drugs	1.1282	\$ 75.02	\$ 63.37	0.1553
Other	1.1282	\$ 37.86	\$ 31.16	0.1770
Capitation	1.1282	\$ 0.00	\$ 0.00	0.0000
Total		\$ 479.94	\$ 389.60	0.19

B2. Claims Projection for Future Rate

Start Period: 01/01/2020

End Period: 12/31/2020

Service Categories	Overall Medical Trend	Projected Allowed PMPM	Net Claims	Cost Sharing
Inpatient	1.1282	\$ 83.50	\$ 77.86	0.0676
Outpatient	1.1282	\$ 158.50	\$ 123.82	0.2188
Professional	1.1282	\$ 172.12	\$ 131.22	0.2376
Prescription Drugs	1.1282	\$ 84.64	\$ 71.49	0.1553
Other	1.1282	\$ 42.72	\$ 35.15	0.1770
Capitation	1.1282	\$ 0.00	\$ 0.00	0.0000
Total		\$ 541.47	\$ 439.54	0.19

B3. Medical Trend Breakout

Factor	Impact
Utilization	80.0000%
Unit Cost	20.0000%
Other Factors	0.0000%

C. Components of Current and Future Rates

	Future Rate		Prior Estimate of Current Rate		Difference	
	PMPM	%	PMPM	%	PMPM	%
1. Projected Net Claims	\$ 439.54	85.72%	\$ 402.02	88.20%	\$ 37.53	65.87%
2. Administrative Costs	\$ 57.85	11.28%	\$ 40.11	8.80%	\$ 17.74	31.13%
3. Underwriting Gain/Loss	\$ 15.38	3.00%	\$ 13.67	3.00%	\$ 1.71	3.00%
4. Total Rate	\$ 512.78	100.00%	\$ 455.80	100.00%	\$ 56.98	100.00%
5. Overall Rate Increase		12.50%				

D. Components of Rate Increase

	Impact on Rate	Percent
Claims Components		
1. Inpatient	\$ 8.85	23.57%
2. Outpatient	\$ 14.07	37.49%
3. Professional	\$ 14.91	39.73%
4. Prescription Drugs	\$ 8.12	21.65%
5. Other	\$ 3.99	10.64%
6. Capitation	\$ 0.00	0.00%
7. Cost Share	\$ 0.00	0.00%
8. Correction of Prior Net Claims Estimate	\$ (12.42)	-33.09%
9. Total	\$ 37.53	100.00%

Claims Restatement for Current Rate Period

8.a. Prior Net Claims Estimate for Current Rate Period	\$ 402.02
8.b. Re-Estimate of Net Claims PMPM for Current Rate Period	\$ 389.60

E. List of Annual Average Rate Changes Requested and Implemented in the Past Three Calendar Years

Calendar Year	New Form	Requested	Implemented
2019	N	8.1000%	8.1000%
2018	N	12.2000%	12.2000%
2017	N	5.9000%	5.9000%

F. Range and Scope of Proposed Increase

Number of Covered Individuals	Threshold Rate Increase
54,152	12.5000%

	Range of Rate Increase
Minimum % Increase	12.4000%
Maximum % Increase	12.6000%

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