

**Blue Cross and Blue Shield of Alabama
HIOS Issuer ID: 46944**

Part III Actuarial Memorandum and Certification

**Individual Market
Effective January 1, 2019**

July 24, 2018

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**Blue Cross and Blue Shield of Alabama
Part III Actuarial Memorandum and Certification
Individual Market
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Section 1: General Information

This actuarial memorandum and corresponding actuarial certifications are submitted in support of the United States Department of Health and Human Services’ (“HHS”) “Part III Actuarial Memorandum and Certification Instructions” described in the “2019 Unified Rate Review Instructions, Rate Filing Justification: Parts I, II, and III” (as of March 2018). This document provides information related to Part I Unified Rate Review Template (“URRT”) for Blue Cross and Blue Shield of Alabama’s (“BCBSAL”) non-grandfathered, Individual Market health plans for rates effective January 1, 2019.

This memorandum contains data, analysis, and explanations supporting the assumptions and methodology used in the premium rate development for products in the Individual Market. This includes specific support of the inputs and underlying assumptions used to populate the URRT. The contents of the memorandum are intended to demonstrate the reasonableness of the resulting Individual Market premium rates, as well as document that those rates have been developed in compliance with the market rating rules as established under the Affordable Care Act (“ACA”) and in accordance with sound actuarial principles.

This memorandum generally follows the format outlined in the aforementioned HHS instructions.

General Information

Exhibits 1.1 and 1.2 provide identifying information and primary contact information.

Exhibit 1.1: Company Identifying Information	
Company Legal Name:	Blue Cross and Blue Shield of Alabama
State with Regulatory Authority:	Alabama
HIOS Issuer ID:	46944
Market:	Non-Grandfathered Individual
Effective Date:	January 1, 2019

Exhibit 1.2: Primary Company Contact Information	
Name:	Noel Carden
Title:	Vice President and Chief Actuary

Health Benefit Plans

Exhibit 1.3 provides information about the plans to which this Actuarial Memorandum applies. For the remainder of this Memorandum, only Plan Names are referenced.

Exhibit 1.3: Individual Market Plans			
Market	Product ID	Plan ID	Plan Name
Individual	46944AL033	46944AL0330001	Blue HSA Gold
Individual	46944AL037	46944AL0370001	Blue Value Gold
Individual	46944AL040	46944AL0400001	Blue Secure Silver
Individual	46944AL041	46944AL0410001	Blue Value Silver
Individual	46944AL046	46944AL0460001	Blue Saver Bronze
Individual	46944AL047	46944AL0470001	Blue Protect
Individual	46944AL056	46944AL0560001	Blue HSA Bronze
Individual	46944AL065	46944AL0650001	Blue Cross Select Gold
Individual	46944AL066	46944AL0660001	Blue Cross Select Silver

Section 2: Proposed Rate Increase(s)

BCBSAL will continue to offer in 2019 all plans offered in 2018.

BCBSAL proposes an average -0.5% change to rates for the products offered in 2018.

The rate changes vary by plan and range from -3.8% for Blue Secure Silver to 3.9% for Blue Saver Bronze.

The rate changes will also vary by geographic area due to the new proposed geographic area rating factors. See Exhibit 5.6 in "Section 5: Projection Factors" for a comparison of the current and proposed geographic area rating factors.

The main drivers of the proposed rate changes are as follows:

- Projected medical inflation and utilization as indicated in Section 5,
- Anticipated changes in the average morbidity of the covered population as indicated in Section 5.

Other factors affecting the proposed rates:

- The health insurance tax moratorium for calendar year 2019,
- Geographic area rating factors were adjusted as indicated in Section 5,
- Induced Utilization factors across metal levels were adjusted as indicated in Section 15,
- [REDACTED] BCBSAL is decreasing the contribution to surplus and risk margin for this filing.

The cost sharing changes made to these plans are intended to maintain Actuarial Values ("AVs") within the appropriate de minimis ranges and to keep up with changes in the cost and utilization of medical care.

Plan Level Rate Changes

The requested rate change is not the same across all products and plans. The plan level rate changes shown in Exhibit 2.1 reflect the impact of cost sharing changes for each plan, the change in the CSR adjustment factor, and changes in the projected induced utilization across metal levels. See section 15 for a detailed description of the development of the plan adjusted index rates.

Exhibit 2.1: Plan Level Average Rate Changes for 2019			
Plan	Original Effective Date		2019 Average Rate Change
Blue Value Gold	1/1/2014		3.2%
Blue HSA Gold	1/1/2014		-0.5%
Blue Cross Select Gold	1/1/2016		2.9%
Blue Secure Silver	1/1/2014		-3.8%
Blue Value Silver	1/1/2014		-2.3%
Blue Cross Select Silver	1/1/2016		-1.1%
Blue Saver Bronze	1/1/2014		3.9%
Blue HSA Bronze	1/1/2015		3.8%
Blue Protect	1/1/2014		0.8%
Total/Average			-0.5%

The rate changes by plan are based on the average 21 year old premium rates in 2018 and 2019. The average rate change across all plans is calculated by taking the weighted average of 2018 and 2019 rates by plan for a 21 year old, using the May 2018 members by plan and geographic area as weights. Exhibit 2.2 below shows the 21 year old, average rates and rate changes by plan.

Exhibit 2.2: Plan Level Average Rate Changes for 2019			
Plan	2018 Average 21 Year-Old Rate	2019 Average 21 Year-Old Rate	2019 Average Rate Change
Blue Value Gold	\$473.31	\$488.56	3.2%
Blue HSA Gold	\$476.61	\$474.31	-0.5%
Blue Cross Select Gold	\$455.53	\$468.79	2.9%
Blue Secure Silver	\$404.74	\$389.19	-3.8%
Blue Value Silver	\$443.93	\$433.79	-2.3%
Blue Cross Select Silver	\$403.17	\$398.69	-1.1%
Blue Saver Bronze	\$277.15	\$288.06	3.9%
Blue HSA Bronze	\$276.63	\$287.22	3.8%
Blue Protect	\$231.89	\$233.82	0.8%
Average			-0.5%

Section 3: Experience Period Premium and Claims

Experience for the Single Risk Pool during the experience period reported in Worksheet 1, Section I, of URRT, includes all non-grandfathered health plans in the Individual Market.

Experience Period

12 months of calendar year 2017 based on the claim incurred date

Paid Through Date

May 31, 2018

Premiums (net of MLR Rebate) in Experience Period

The reported premium in Section I of Worksheet 1 of [REDACTED]:

1. Reflects premiums earned during the experience period by BCBSAL,
2. Does not reflect any reductions prescribed by HHS when calculating BCBSAL's MLR, such as taxes and assessments,
3. Does not reflect risk adjustment payables or receivables, and
4. Reflects HHS MLR rebates of \$0 as BCBSAL's Individual MLR for 2014, 2015, and 2016 combined was 1.016 (taken from CMS MLR & Rebate Calculation filed 07/31/2017). The 2017 Individual MLR taken from the 2017 Supplemental Health Care Exhibit – Part 1 was 0.821. Consequently, BCBSAL has assumed a 2017 MLR in excess of the minimum 0.800 threshold.

Allowed and Incurred Claims Incurred During the Experience Period

When estimating Incurred but not Paid ("IBNP") for URRT, BCBSAL varied the methodology across four claim classifications. Each methodology, where appropriate, used historical claim data from BCBSAL's Individual non-grandfathered block of business.

(1) Initial Claims (overwhelming majority of URRT incurred claims)

IBNP was estimated by applying completion factors to experience period claims where completion factors were based on the Development (or Lag) Method referenced in paragraphs 2.5 and 3.4.1 of Actuarial Standard of Practice No. 5, "Incurred Health and Disability Claims."

A separate set of completion factors was developed for each incurred month during the experience period for each of the following benefit categories.

- (a) Inpatient Hospital,
- (b) Outpatient Hospital,
- (c) Professional,
- (d) Other Medical, and
- (e) Prescription Drugs.

Allowed claims were developed by combining incurred claims with member cost sharing.

Allowed claims and incurred claims used the same set of completion factors.

(2) Facility Retroactive Settlement Claims (magnitude approximately [REDACTED] of URRT incurred claims)

IBNP was estimated by subtracting actual claims paid from ultimate claims. Ultimate claims were derived by applying member months to an estimated pure premium. (Facility Retroactive Settlement Claims are a result of BCBSAL's network contracting arrangement with participating hospitals.)

(3) Drug Rebates (magnitude approximately [REDACTED] of URRT incurred claims)

IBNP was estimated by subtracting actual rebates paid from ultimate rebates. Ultimate rebates were derived by applying member months to an estimated pure premium.

(4) Capitation Payments (magnitude less than [REDACTED] of URRT incurred claims)

IBNP is \$0.

For Facility Retroactive Settlement Claims, Drug Rebates, and Capitation Payments, allowed claims equal incurred claims.

Regardless of classification, all claims are combined within the six benefit categories listed in Section 2, of Worksheet 1, of the URRT.

The resulting IBNP estimates are neither unusually high nor unusually low relative to historical levels as completion factors were developed as a function of historical completion rates applied to the experience period claims.

As expected, the IBNP estimate is stable given the experience period is calendar year 2017 with claims paid through May 31, 2018, the large size of the block of business, and the historical consistency of the claims processing system.

Exhibit 3.1 shows incurred claims during the experience period by Benefit Category. The total of [REDACTED] equals that of "Incurred Claims in Experience Period," from Section I, of Worksheet 1, of URRT.

Exhibit 3.2 shows allowed claims during the experience period by Benefit Category. The total of [REDACTED] equals that of "Allowed Claims," from Section I, of Worksheet 1, of URRT.

Exhibit 3.3 shows the column heading definitions.

While incurred claims and allowed claims used the same completion factors, the year 2017 completion factor for a benefit category may differ between Exhibit 3.1 and Exhibit 3.2 because:

- (1) For the classification of “Initial Claims,” completion factors were derived and applied separately for each incurred month within 2017. To the extent that incurred claims and allowed claims are distributed differently across months, the overall completion factor will differ between incurred claims and allowed claims, and
- (2) For all other classifications incurred claims and allowed claims are equal. By mixing these claims with claims associated with “Initial Claims” within a benefit category, the overall completion factor will differ for incurred claims and allowed claims.

The benefit category of Prescription Drug has a sizable amount of “Out System” claims. These “Out System” claims are comprised of drug rebates and drug claims adjudicated by the Pharmacy Benefit Manager (PBM).

Exhibit 3.1: Incurred Claims					
Benefit Category	In System	Out System	IBNP	Total	Completion Factor

Exhibit 3.2: Allowed Claims					
Benefit Category	In System	Out System	IBNP	Total	Completion Factor

Exhibit 3.3: Column Heading Definitions	
Heading	Definition
In System	Claims processed through BCBSAL’s claim system
Out System	Claims processed outside of BCBSAL’s claim system
IBNP	2017 Claims incurred but not paid as of 05/31/2018 which is the sum of “Reported but Unpaid,” and “Incurred but not Reported.” IBNP is the total of IBNP from “In System” and “Out System.”
Total	= In System + Out System + IBNP; ultimate claims
Completion Factor	= (In System + Out System) / Total; paid claims as a % of ultimate claims

The Appendix provides the 2017 Supplemental Health Care Exhibits of BCBSAL’s 2017 Annual filing. The data in the Appendix do not equal the experience period data (year 2017) used in the URRT in the development of 2019 rates due to differences in requirements, instructions, and timing. For example, the URRT excludes Grandfathered coverages which are included in the Supplemental Health Care Exhibits.

Section 4: Benefit Categories

Claims in the experience period were assigned to one of the following categories based on indicators (e.g. location of service, type service, claim form UB04/CMS 1500, etc.) associated with the claim data. These assignments mostly follow the definitions given below.

Inpatient Hospital (Utilization Unit: Days)

Includes non-capitated facility services for medical, surgical, maternity, mental health and substance abuse, and other services provided in a facility setting on an inpatient basis and billed by the facility.

Outpatient Hospital (Utilization Unit: Services)

Includes non-capitated facility services for surgery, emergency room, lab, radiology, therapy, observation and other services provided in a facility setting on an outpatient basis and billed by the facility.

Professional (Utilization Unit: Services)

Includes non-capitated primary care, specialist, laboratory, radiology, and other professional services that are billed directly by the provider.

Other Medical (Utilization Unit: Services)

Includes non-capitated ambulance, home health care, therapy, DME, chiropractic, prosthetics, supplies, and other services as well as all out-of-network services.

Capitation (Utilization Unit: Benefit Period)

Includes all services provided under capitated arrangements.

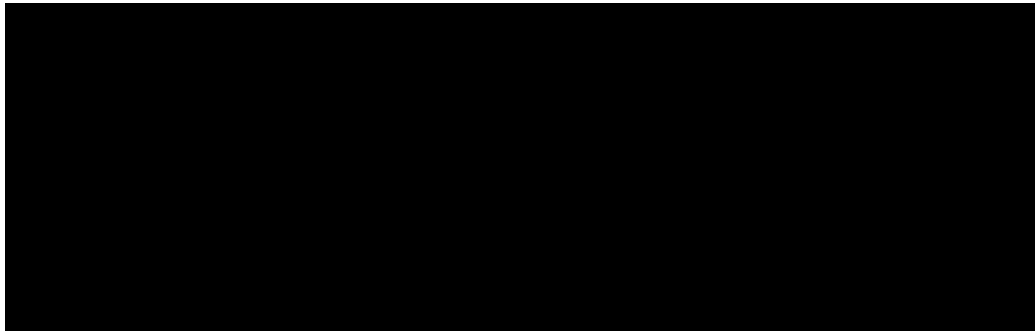
Prescription Drug (Utilization Unit: Prescriptions)

Includes drugs dispensed by a pharmacy. This amount is net of rebates received from PBM.

- Short-Term Limited Duration plans, Association Health Plans, and the non-enforcement of the individual mandate will continue to impact morbidity in 2019. It is expected that those members leaving the ACA Individual market will have lower claims cost than average.



A high level summary of the morbidity factor development is shown in exhibit 5.1.



Outline of the Morbidity Factor Development described in the next few pages

- Cohort Analysis Process
- Cohort Analysis Summary
- Cohort Analysis Detailed Description
- 2019 Morbidity vs 2018 Morbidity

Cohort Analysis Process

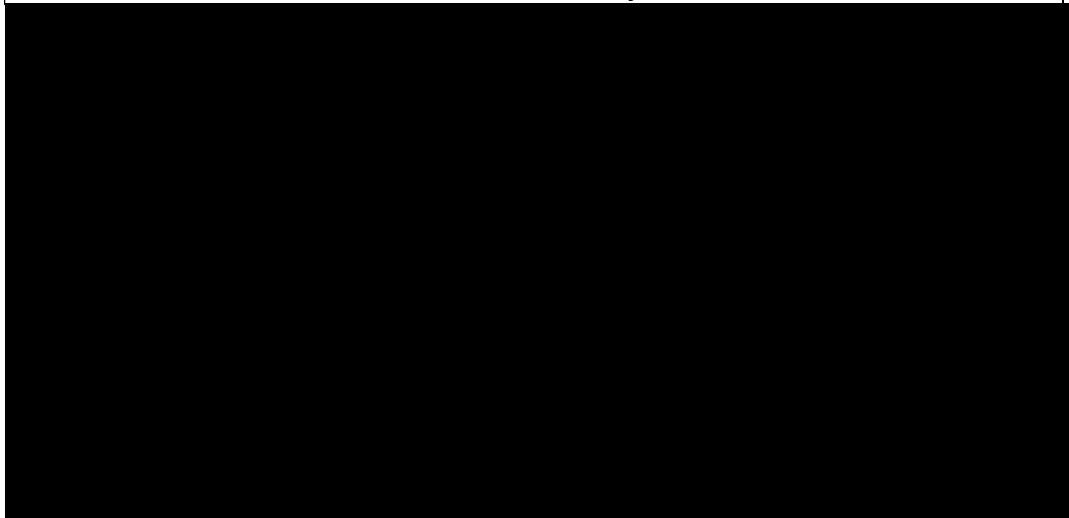
For the cohort analysis, members were assigned into seven cohorts in the following order:



[REDACTED]

These cohorts were selected primarily because BCBSAL assumed that the morbidity for members within each cohort would not change significantly from year to year. BCBSAL did assume slight changes in each cohort's morbidity from year to year. A portion of the assumed change in total morbidity from year to year is due to the change in the member month distribution between the seven cohorts. The projected member month distribution by cohort by year with no regulatory changes can be seen in Exhibit 5.2.

Exhibit 5.2: Distribution of Member Months by Cohort



BCBSAL looked at 2017 allowed PMPMs for each of these seven cohorts and normalized for induced utilization by plan and age. These normalized allowed amounts were used as a proxy for morbidity relativities by cohort.

Cohort Analysis Summary

To determine the changes in the morbidity factors by cohort, BCBSAL segmented the changes into multiple time periods and additional cohorts.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

The 2018 estimated observed morbidity is [REDACTED] based on year to date 2018 normalized claims trend compared to estimated secular trend.

Based on these two approaches, BCBSAL is assuming the 2018 vs 2017 morbidity change is [REDACTED].

Continuing the cohort analysis into 2019 results in a projected morbidity change of slightly above [REDACTED] for 2019 vs. 2018.

Cohort Analysis Detailed Description

This section explains in more detail the assumptions for the segments described in the summary above.

[REDACTED]

This segment was then broken into two additional subsets.

[REDACTED]

[REDACTED]

[REDACTED]

The combination of these two subsets is expected to have a morbidity about equal to the average 2017 morbidity.

[REDACTED]

Enrollment distribution by cohort was available for this subsection of 2018 members, but assumptions were needed to derive the 2018 morbidity factors by cohort. [REDACTED]

[REDACTED] BCBSAL used this as an indicator of the difference in the 2018 morbidity factors by cohort for the two April 2018 populations. However, since only 4 months of estimated claims were available, BCBSAL did not assign full credibility to these allowed amounts and applied credibility factors by cohort. These credibility factors were determined by using a full credibility allowed amount that BCBSAL developed using 2015 ACA Individual claims. Credibility factors were capped at [REDACTED] due to only having 4 months of estimated claims. For the remaining non-credible portion, BCBSAL used the morbidity factors observed in 2017 for each respective cohort. [REDACTED]

[REDACTED]

The combination of these two cohorts results in the April 2018 morbidity being a [REDACTED] than the 2017 average morbidity.

- Total 2018 Morbidity

BCBSAL assumed additional increases in morbidity would occur within some cohorts from April 2018 through the end of 2018. [REDACTED]

The average impact to all cohorts except the [REDACTED] and [REDACTED] populations was about [REDACTED]. The impact to the [REDACTED] cohort was about [REDACTED]. It was assumed that [REDACTED] would have a similar effect and increases were applied to the [REDACTED] morbidity factors. BCBSAL does not expect Special Enrollment Periods to affect the morbidity of the [REDACTED]

BCBSAL also assumed a [REDACTED] impact to morbidity caused by lapses of healthier members throughout the year. [REDACTED]

[REDACTED]

The total 2018 morbidity factors calculated from the cohort analysis shows that the change in morbidity from 2017 to 2018 is [REDACTED].

The 2018 estimated observed morbidity is [REDACTED] based on year to date 2018 normalized claims trend to secular trend.

Based on these two approaches, BCBSAL is assuming the 2018 vs 2017 morbidity change is [REDACTED].

2019 morbidity vs 2018 morbidity

BCBSAL assumes that the morbidity change in 2019 would be [REDACTED] based on a similar cohort analysis before the impact of the regulatory changes.

BCBSAL modeled the impact of the regulatory changes by looking at contract level claims and premiums and made assumptions about who would leave the ACA individual market based on their claim cost level and the potential difference in premium between the ACA Individual market and alternative plans. BCBSAL tested various scenarios, evaluated the range of outcomes, and selected [REDACTED] as a reasonable assumption for the impact of these regulatory changes.

The Population Risk Morbidity Factor used in Worksheet 1 of the URRT is [REDACTED] as shown in Exhibit 5.1.

Changes in Benefits

New and expanded benefits in 2018 and 2019 for the Individual Market include the following:

- additional autism related benefits for children ages 10-18
- removing visit limits on allergy benefits

These benefits were added by BCBSAL to comply with the Affordable Care Act and Mental Health Parity rules and because of market expectations. All benefits covered in the experience period will also be covered in the projection period. The value of these new and expanded benefits can be seen below in Exhibit 5.3 and was derived by researching the cost of each new benefit and incorporating assumptions about utilization.

The overall value for the cost sharing changes (including drug formulary and pharmacy network changes) is calculated below in Exhibit 5.5.

Exhibit 5.5: Allowed Impact of Cost Sharing Changes
[REDACTED]

Changes in Demographics

Demographic changes were estimated using BCBSAL's new proposed geographic area factors, the State Established Age Curve, and other rating factors along with projected member months.

- Area Factor Adjustment:

The rating areas used are the Alabama geographic rating areas listed in Appendix A of the State of Alabama Department of Insurance Bulletin No. 2013-04.

The new proposed rating factors by area were developed using three years of normalized Individual metallic claims data. BCBSAL calculated average allowed PMPMs by area using experience data from [REDACTED]. In order to reflect delivery cost differences only, BCBSAL normalized the data using [REDACTED] to adjust for [REDACTED]. The data was also normalized for [REDACTED].

BCBSAL also considered the following:

- Geographic proximity of rating areas,
- Consistency of the data across [REDACTED], and
- The resulting rate impact for renewing policies from changing the area factors.

Exhibit 5.6 shows BCBSAL’s current and proposed area rating factors.

Exhibit 5.6: Area Factors			
MSA	Rating Area	Current Area Factors	Proposed Area Factors
Anniston-Oxford, AL			
Auburn-Opelika, AL			
Birmingham-Hoover, AL			
Columbus, GA-AL			
Decatur, AL			
Dothan, AL			
Florence-Muscle Shoals, AL			
Gadsden, AL			
Huntsville, AL			
Mobile, AL			
Montgomery, AL			
Tuscaloosa, AL			
Non-MSA Area, AL			

Exhibit 5.7 shows the numerical development of the “2017 Experience Period Average Area Factor” of [REDACTED] which was developed as the weighted average of the “Proposed Area Factor” using the 2017 membership across rating areas as weights.

Exhibit 5.7 also shows the numerical development of the “2019 Projection Period Average Area Factor” of [REDACTED] which was developed as the weighted average of the “Proposed Area Factor” using the projected membership across rating areas as weights.

The projected membership distribution across rating areas is assumed to be identical to that of May 2018.

Exhibit 5.7: Area Factor Adjustment				
MSA	Rating Area	Area Factors	Actual 2017 Enrollment Distribution	Projected 2019 Enrollment Distribution
Anniston-Oxford, AL				
Auburn-Opelika, AL				
Birmingham-Hoover, AL				
Columbus, GA-AL				
Decatur, AL				
Dothan, AL				
Florence-Muscle Shoals, AL				
Gadsden, AL				
Huntsville, AL				
Mobile, AL				
Montgomery, AL				
Tuscaloosa, AL				
Non-MSA Area, AL				
Total				

- Age Factor Adjustment

BCBSAL used the State established 2019 age rating curve, which is equivalent to the 2017 HHS Default Standard Age Curve in calculating both the average experience period age factor and the average projection period age factor. The average projection period age factor was calculated by analyzing historical membership, average age factor and monthly percentage change in average age. This development can be seen in Exhibits 5.8 and 5.9.

In the exhibits, the Monthly Change is the actual change in the total average age factor by month. BCBSAL used the Monthly Change impact in the historical data as a basis for the Monthly Change impact in the projected data. The 2019 projection period average age factor is a weighted average of the projected monthly average age factor and the projected total enrollment by month.

Exhibit 5.8: Historical Average Age Factor Change Analysis

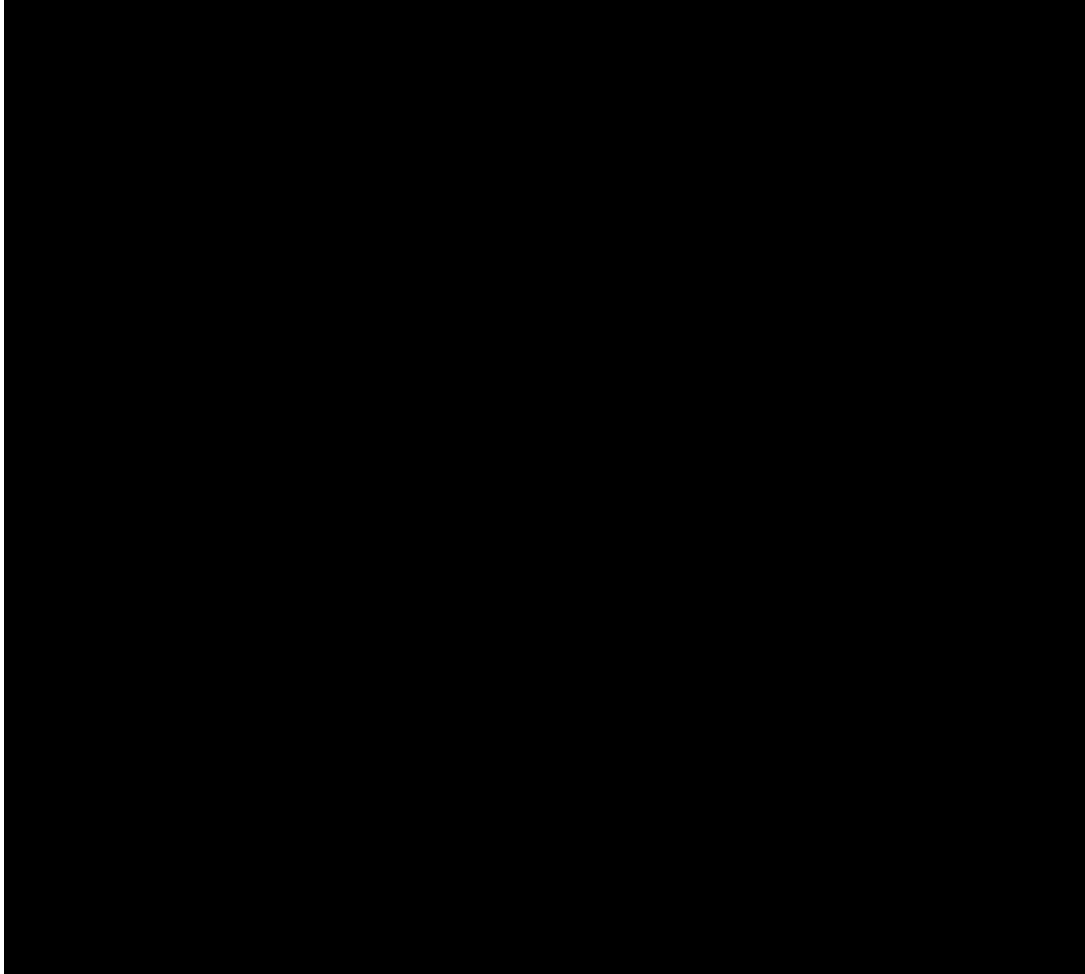
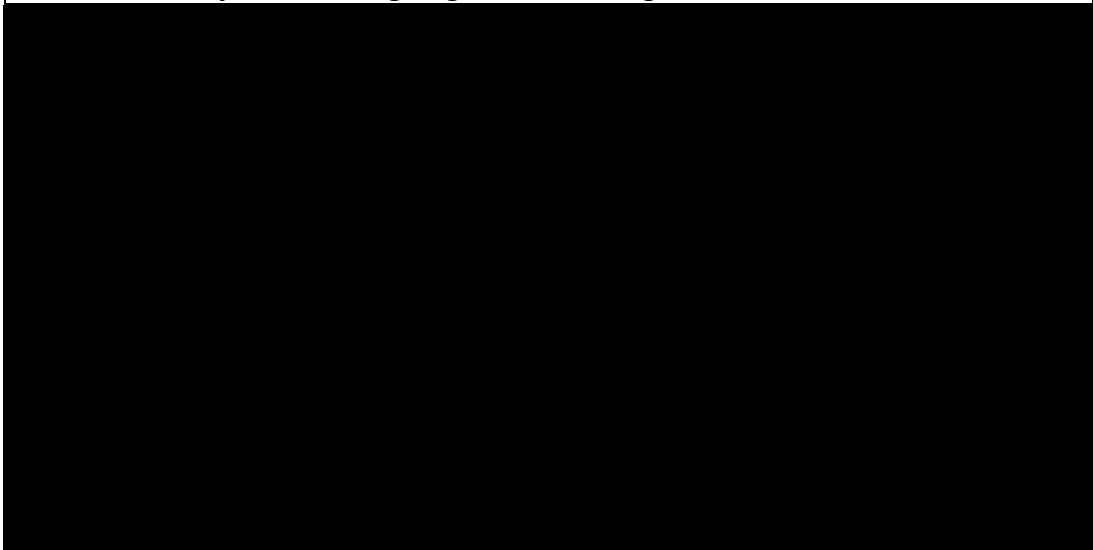
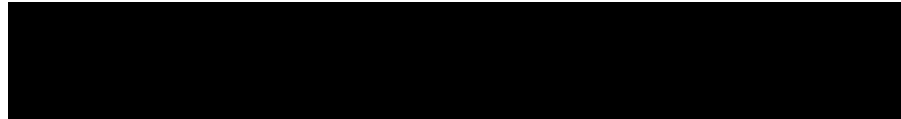


Exhibit 5.9: Projected Average Age Factor Changes

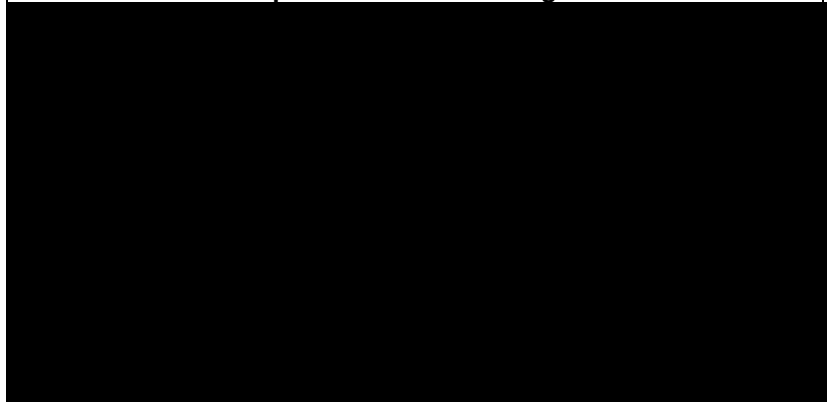




- Tobacco Factor Adjustment

The experience period tobacco factor [REDACTED] was developed using 2017 enrollment by tobacco usage status and exchange status. The latter split of 2017 enrollment was used to see if the distribution of tobacco and non-tobacco users varies by that characteristic. Exhibit 5.10 provides detailed information concerning the development of the 2017 average tobacco factor.

Exhibit 5.10: 2017 Experience Period Average Tobacco Factor



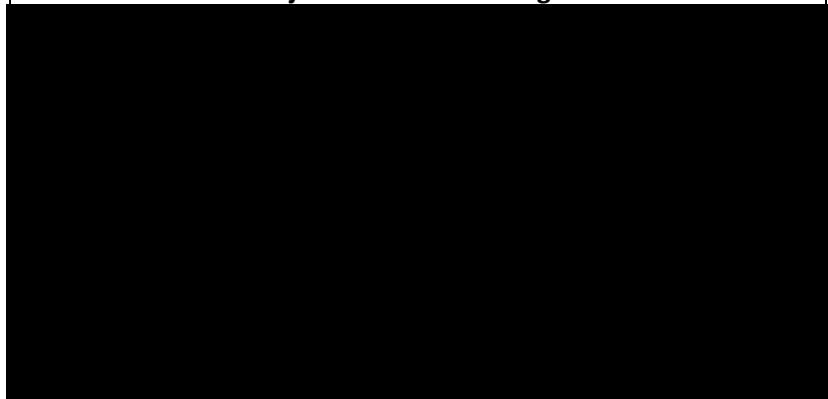
BCBSAL used experience data showing the average percentage of tobacco users by year for On Exchange vs. Off Exchange to make assumptions about this distribution for 2019. Results are shown in Exhibit 5.11.

Exhibit 5.11: Percentage of Tobacco Users



The projection period tobacco factor [REDACTED] was developed by combining the assumptions above for percentage of tobacco users and BCBSAL’s projected 2019 enrollment by on exchange and off exchange. The numerical development for the 2019 projected average tobacco factor can be found in Exhibit 5.12.

Exhibit 5.12: 2019 Projection Period Average Tobacco Factor



The calculation for the adjustment was done by dividing the 2019 average tobacco factor by the 2017 average tobacco factor (shown below).



Other Adjustments

BCBSAL did not make any other adjustments in addition to the benefit and demographic adjustments described above.

The development of the “Other” experience period to projection period adjustment factor found in BCBSAL’s Individual URRT Worksheet 1 for all non-capitation benefit categories is summarized in Exhibit 5.13.

Exhibit 5.13: Other Adjustments	
Description	Adjustment
Impact of new and expanded benefits	
Impact of increased cost sharing	
Area factor adjustment	
CMS average age factor adjustment	
Tobacco user adjustment	
Other adjustments	
Total Other Factor	

Trend Factors (Cost/Utilization)

BCBSAL cost and utilization projection trends by benefit category are determined by examining experience trends, and incorporating knowledge of provider reimbursement arrangements, utilization patterns by benefit category, and any pending changes of reimbursement or utilization. [REDACTED]

[REDACTED] These time periods were chosen to reflect recent observed trends, pending changes to reimbursements, and longer term trends appropriately in the 24 month composite trends used in Worksheet I of the URRT. Trends were selected using actuarial judgement with considerations for changes in demographics, benefits, seasonality, and one-time events. The composite annualized trend is [REDACTED]. Please note that this [REDACTED] trend does not incorporate the benefit mix adjustments developed in Exhibit 5.15.

Exhibit 5.14 Underlying Trend Factor Development	
Benefit Category	
Inpatient	
Outpatient	
Professional	
Other Medical	
Capitation	
Prescription Drug	
Composite Trend	

Per the 2019 Unified Rate Review Instructions, BCBSAL adjusted the underlying utilization trends above to reflect the change in allowed cost due to the expected shift in distribution of

members by benefit plan between the experience period and the projection period. The allowed PMPMs used were derived from the Milliman Managed Care Rating Model, which was calibrated to BCBSAL's Individual experience. Exhibit 5.15 shows this adjustment for benefit mix.

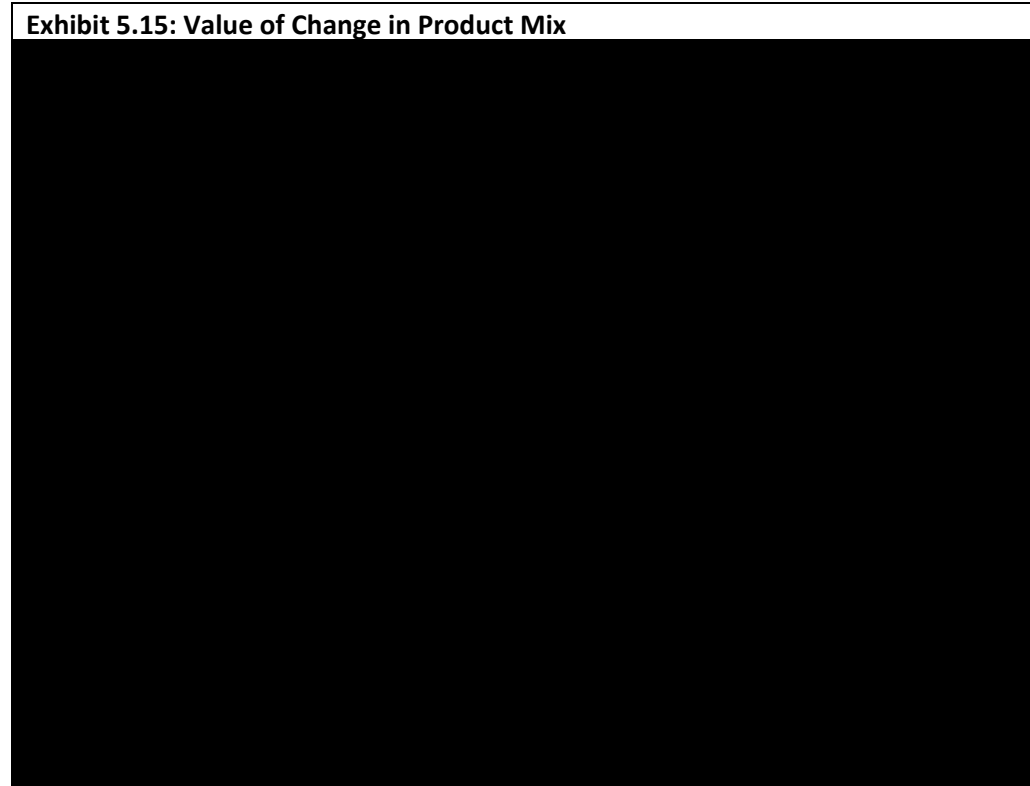
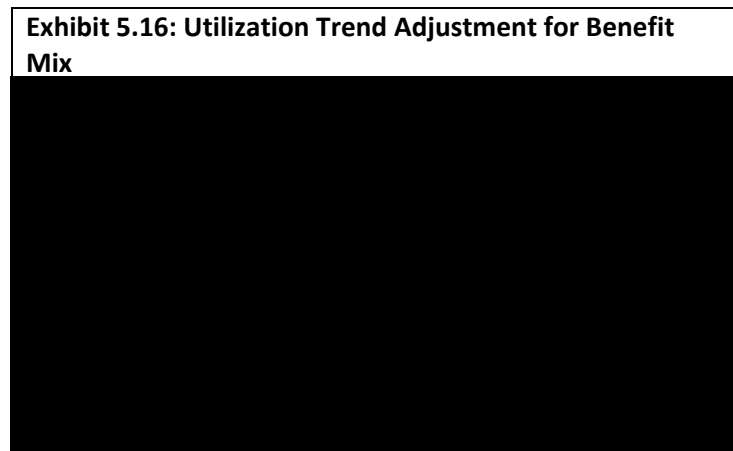
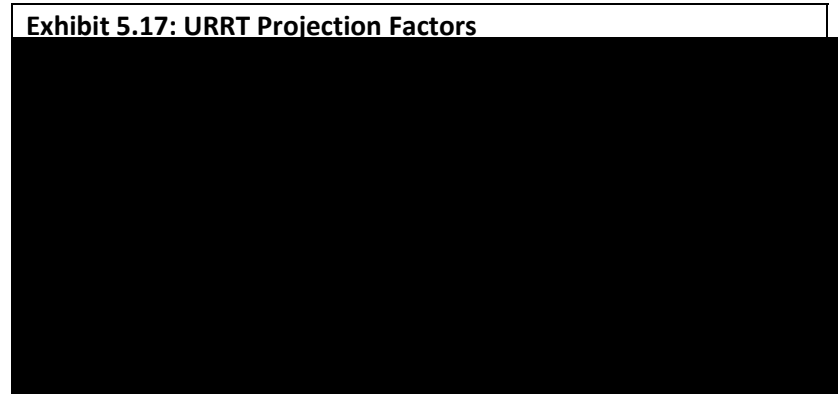


Exhibit 5.16 shows the benefit mix adjusted annualized trend factors by benefit category. This exhibit combines information from Exhibits 5.14 and 5.15.



The Projection Factors are combined in Exhibit 5.17 as shown in Worksheet I of the Individual Market URRT:



Section 6: Credibility Manual Rate Development

No manual rate was needed as BCBSAL's experience period claims are deemed fully credible as discussed in Section 7: Credibility of Experience.

Section 7: Credibility of Experience

BCBSAL has assigned full credibility to the Base Period Experience in the Individual URRT as this experience is comprised of [REDACTED] member months in 2017 which is equivalent to [REDACTED] [REDACTED] life years.

This assignment of full credibility is consistent relative to:

- (1) Actuarial Standards of Practice #25, specifically section 3.4, "Professional Judgment," states, "...in some situations, an acceptable procedure for blending the subject experience with the relevant experience may be based on the actuary assigning full, partial, or zero credibility to the subject experience without using a rigorous mathematical model," and
- (2) MLR standard of 75,000 life years for full credibility as stated in 45 CFR Part 158, §158.232(b)(2).

Section 8: Paid to Allowed Ratio

Formulaically, the Paid to Allowed Ratio is derived as follows:

$$\frac{\text{Paid}}{\text{Allowed}} = \frac{\sum_{Plan} \text{Member Months} \times \text{Allowed PMPM} \times \text{Paid-to-Allowed Ratio}}{\sum_{Plan} \text{Member Months} \times \text{Allowed PMPM}}$$

Intuitively, the quotient’s numerator is an implicit measure of incurred claims and the quotient’s denominator is an implicit measure of allowed claims where both the incurred and allowed claims are adjusted for drug rebates, facility retroactive settlement claims, and capitation payments. This amount was determined to be a negative adjustment with a magnitude of [REDACTED] of projected paid.

Mechanically, the calculation of BCBSAL’s “Paid to Allowed Ratio” is shown in exhibit 8.1.

Exhibit 8.1: Paid to Allowed Ratio					
	A	B	C	D = A x B x C	E = A x B
Plan Name	Projected Member Months	Projected 2019 Allowed PMPM¹	Projected 2019 Paid to Allowed Ratio²	Projected Paid Amount (Numerator)	Projected Allowed Amount (Denominator)
[REDACTED]					

¹Projected 2019 allowed PMPM calculations can be found below in exhibit 8.3.

²Projected 2019 paid to allowed ratio calculations can be found below in exhibit 8.2.



Projected Paid to Allowed Ratios by Plan in 2019

Exhibit 8.2 shows the development of the each plan’s projected 2019 paid to allowed ratio as listed in column C of Exhibit 8.1.

Exhibit 8.2: Projected 2019 Paid to Allowed Ratios by Plan					
	A	B	C	D	E = A x B x C x D
Plan Name	2017 (Actual) Paid to Allowed Ratio	Estimated Impact of Leveraging	Estimated Impact of Cost Sharing Changes	Increase for Higher Expected Morbidity	Projected 2019 Paid to Allowed Ratio
Blue Value Gold					
Blue HSA Gold					
Blue Cross Select Gold					
Blue Secure Silver					
Blue Value Silver					
Blue Cross Select Silver					
Blue Saver Bronze					
Blue HSA Bronze					
Blue Protect					

The increase due to leveraging (column B), the impact of cost sharing changes (column C), and the impact due to change in morbidity (column D) were derived from the Milliman Managed Care Rating Model, which was calibrated to BCBSAL’s Individual experience.

The experience for some plans shows a higher observed Paid to Allowed Ratio than the AV Metal Value.

Projected Allowed PMPMs by Plan in 2019

Exhibit 8.3 shows the development of the each plan’s projected 2019 allowed PMPM as listed in column B of Exhibit 8.1.

Exhibit 8.3: Projected 2019 Allowed PMPMs by Plan					
	A	B	C	D	E = A x B x C x D
Plan Name	2017 (Actual) Allowed PMPM	2-Year Trend Factor	Estimated Impact of Cost Sharing Changes	Change for Higher Expected Morbidity	Projected 2019 Allowed PMPM
Blue Value Gold					
Blue HSA Gold					
Blue Cross Select Gold					
Blue Secure Silver					
Blue Value Silver					
Blue Cross Select Silver					
Blue Saver Bronze					
Blue HSA Bronze					
Blue Protect					

2017 allowed PMPMs were adjusted for trend, cost sharing changes, and morbidity in order to project to a 2019 allowed PMPM basis. The trend factor (column B) applies two years of the composite trend factor developed in Section 5 in Exhibit 5.14. The impact of cost sharing changes (column C) was derived from the Milliman Managed Care Rating Model, which was calibrated to BCBSAL’s Individual experience. The impact due to change in morbidity (column D) was developed in Section 5 in Exhibit 5.1.

The trend and morbidity projections do not affect the relativities between the allowed amounts and since the allowed relativities are used in both the numerator and the denominator of the equation, the trend and morbidity assumptions do not affect the projected paid to allowed ratio calculation, but are provided for illustrative purposes.

2017 actual paid to allowed ratios (in Exhibit 8.2) and allowed PMPMs (in Exhibit 8.3) by plan do not include data for capitated benefits, drug rebates, and facility retroactive claims. These items are reflected in the total, shown in the “Adjustment for Drug Rebates and Other” in Exhibit 8.1.

Section 9: Risk Adjustment and Reinsurance

Experience Period Risk Adjustment

The risk adjustment transfer for the 2017 BCBSAL Individual and Catastrophic Markets combined is listed in Exhibit 9.1. This payment was published by CMS on 7/09/2018, including [REDACTED] in risk adjustment transfers and [REDACTED] in default risk adjustment allocation amount.

Exhibit 9.1: 2017 Risk Adjustment Transfer		
Member Months	Transfer Payment	Transfer on PMPM Basis
[REDACTED]	[REDACTED]	[REDACTED]

The risk adjustment user fee for 2017 was \$1.56 PMPY (published in the HHS Notice of Benefit and Payment Parameters for 2017). Per URRT instructions the final risk adjustment transfer should be net of risk adjustment user fees, so the final risk adjustment transfer for the experience period was [REDACTED] PMPM [REDACTED].

Projected Risk Adjustments PMPM

BCBSAL expects a nominal recovery of [REDACTED] PMPM in 2019 from the risk adjustment program, based on the following:

- BCBSAL assumes our 2019 Individual Market share will be similar to 2018.
- BCBSAL assumes a statewide average premium similar to BCBSAL’s average premium, dampened by 14% for administrative costs.
- BCBSAL assumes the 2019 risk score difference from the state average will be similar to 2015 and 2016, but slightly lower. 2017 risk adjustment payments were not used in setting risk adjustment differences from competitors in 2019.
 - [REDACTED] of the [REDACTED] risk adjustment transfer for 2017 was the result of a prior competitor with 2016 members who had cross-over year discharge dates.
 - [REDACTED] of transfers was a default payment from a competitor that did not submit data to the EDGE server.
- Risk adjustment transfers will be altered for high-cost enrollees in 2019. Individual Market issuers will be reimbursed for 60% of paid claims in excess of \$1 million for any such enrollees, while all Individual Market issuers nationwide will be assessed a small uniform percent of premium. BCBSAL expects to pay out slightly more than what will be reimbursed nationwide for large claimants, due to the lower cost of healthcare services in Alabama relative to national averages.

Per URRT instructions the final risk adjustment transfer should be net of risk adjustment user fees, which will only be assessed on billable member months. Because BCBSAL has few non-billable members, adjusting for such members has no impact on the PMPM user fee once rounded to the nearest penny. The risk adjustment user fee for 2019 is \$1.80 PMPY (published in the HHS Notice of Benefit and Payment Parameters for 2019). BCBSAL estimates the overall impact of risk adjustment to be [REDACTED] PMPM for 2019. This reflects a [REDACTED] PMPM risk adjustment transfer and a reduction of \$0.15 PMPM for the risk adjustment user fee [REDACTED].

In the development of the market adjusted index rate, the expected risk adjustment transfer will be applied to the index rate on an allowed claims basis. To calculate the [REDACTED] PMPM, the net risk adjustment transfer estimate [REDACTED] PMPM was divided by the paid to allowed ratio [REDACTED].

Section 10: Non-Benefit Expenses and Contribution to Surplus & Risk

BCBSAL evaluated administrative expenses for all lines of business as well as the Individual ACA line of business. Administrative expenses were reviewed on a per capita basis and on a percent of premium basis for prior time periods. The administrative expense assumption was developed from this analysis and converted to a percent of premium. Considerations for the 2019 administrative expense assumption include, but are not limited to:

- Administrative expenses for the corporation, and historical changes,
- Administrative expenses by line of business, and expenses allocated to the Individual line of business, and
- Ongoing maintenance, requirements, and future improvements in health plan administration (for the Individual ACA market), and medical management programs applicable to the Individual market.



BCBSAL does not vary non-benefit expense components by plan.

Exhibit 10.1 shows the non-benefit expense components for 2019. Assumptions for 2018 are listed for reference only.

Exhibit 10.1: Components of Total URRT Retention	
Component	Retention Factors
Administrative Expenses	
Contribution to Surplus & Risk Margin	
Taxes and Fees (from Exhibit 10.2)	
Total URRT Retention	

URRT retention components are rounded to four decimal places (or two decimal places for a number expressed as a percentage).

Exhibit 10.2 shows the taxes and fees components for 2019. The taxes and fees components for 2018 are listed for reference only.

Exhibit 10.2: Components of Taxes and Fees	
Component	Retention Factors
State Premium Tax	
Health Insurer Fee	
PCORI Fee	
Exchange User Fee	
Total Taxes and Fees	

Totals for taxes and fees are rounded to four decimal places (or two decimal places for a number expressed as a percentage).

Taxes and Fees (expressed as a percent of premium):

State Taxes – state premium tax established by state law as 1.60% percent of premium.

- State Premium Tax 1.600%

ACA Taxes and Fees – applicable to the Individual Market as defined by the ACA

- Health Insurer Fee 0.000%

The “Tax Cuts and Jobs Act” (signed into law 12/22/2017) imposed a one-year moratorium on the collection of ACA’s Health Insurer Fee which would have otherwise been assessed during calendar year 2019.

- Patient-Centered Outcomes Research Institute (PCORI) Fee 0.000%

The ACA established the PCORI fee to be \$0.00 PMPY for policy years ending after 09/30/2019.

Consequently, no provision for the PCORI fee is necessary for the development of the rates associated with this filing.

- Exchange User Fee [REDACTED]

Exchange User Fee established as 3.5% of Exchange premium in the HHS Notice of Benefit and Payment Parameters for 2019. Assumption calculated as 3.5% of premium for Exchange enrollees spread evenly across all non-grandfathered Individual products, projecting [REDACTED] of 2019 non-grandfathered Individual premium associated with Exchange enrollment based on BCBSAL’s projected 2019 membership and premium rates.

Section 11: Projected Loss Ratio

The projected ACA loss ratio for BCBSAL’s 2019 Individual Market excluding grandfathered products is calculated below consistent with the federally prescribed MLR methodology of 45 CFR Part 158, §158.221.

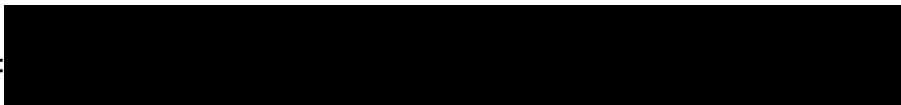
$$MLR = \frac{i + q - s + (n - r)}{p - (t + f)} + c$$

Exhibit 11.1 lists the variables, definitions, the values taken from BCBSAL’s projections for its 2019 Individual Market excluding grandfathered products, and the MLR Result.

Exhibit 11.1 reflects the adjustments made for the 2019 unfunded CSR.

Exhibit 11.1: MLR Variables, Definitions, Values, and MLR Result		
Variable	Definition	Estimated Value
i	Incurred claims	
q	Expenditures on quality improving activities	
s	Transitional reinsurance receipts	
n	Risk corridor and risk adjustment related payments	
r	Risk corridor and risk adjustment related receipts	
n - r	Net federal risk adjustment transfers	
p	Earned premiums	
t	Federal and State taxes and assessments	
f	Licensing & regulatory fees, incl. transitional reins. contributions	
t + f	Taxes & Fees, incl. transitional reins. contributions	
c	Credibility adjustment	
MLR Result¹		

¹MLR Result =



Section 12: Single Risk Pool

In developing rates for the Individual Market for 2019, BCBSAL established the Single Risk Pool consistent with the requirements of 45 CFR 156.80.

Accordingly, BCBSAL established an Index Rate based on total combined claims costs for providing EHB's within the Single Risk Pool of the Individual Market.

The Single Risk Pool includes all non-grandfathered plans on and off Exchange. BCBSAL has no transitional policies in the Individual Market.

BCBSAL adjusted its Index Rate on a market-wide basis for the following:

(The following adjustments are discussed in greater detail in Section 9: Risk Adjustment and Reinsurance and Section 10: Non-Benefit Expenses and Profit & Risk.)

- Risk adjustment
- Exchange user fees

BCBSAL adjusted its Index Rate at the plan level for:

(The following adjustments are discussed in greater detail in Section 15: Plan Adjusted Index Rates.)

- Actuarial value and cost-sharing design – includes:
 - Paid to allowed adjustment factor,
 - Expected utilization differences due to differences in cost sharing labeled in Exhibit 15.1 as induced utilization, and
 - CSR adjustment factor to fund the CSR program in 2019.
- Provider network
- Adjustment for distribution and administrative costs excluding exchange user fees
- Impact of the specific eligibility categories of the catastrophic plan

Section 13: Index Rate

Information contained in the section may not calculate exactly to the final results indicated due to rounding.

Experience Period Index Rate

Exhibit 13.1 provides details around the development of BCBSAL’s 2017 Individual ACA Index Rate.

Exhibit 13.1: Calculation of Experience Period Index Rate						
	A	B	C	D = B / C * 12000	E = A / B	F = D * E / 12000
Benefit Category	Allowed Claims	Utilization	Member Months	Utilization/1000	Cost/Service	Allowed PMPM
Inpatient Hospital						
Outpatient Hospital						
Professional						
Other Medical						
Capitation						
Prescription Drug						
Total						

The Index Rate equals the allowed claims PMPM from the experience period less non-EHB claims [REDACTED]

Index Rate = [REDACTED]

Projection Period Index Rate

BCBSAL applied the Projection Factors in Exhibit 13.2 (as described in Section 5: Projection Factors) to the experience period allowed costs PMPM for EHB’s to develop the projection period allowed cost PMPM.

Exhibit 13.2: Calculation of Projection Period Index Rate						
	A	B	C	D	E	F = A x B x C x (D^2) x (E^2)
Benefit Category	Experience Period Allowed PMPM	Population Morbidity	Other	Unit Cost Trend	Utilization Trend	Projection Period Allowed PMPM
Inpatient Hospital						
Outpatient Hospital						
Professional						
Other Medical						
Capitation						
Prescription Drug						
Total						

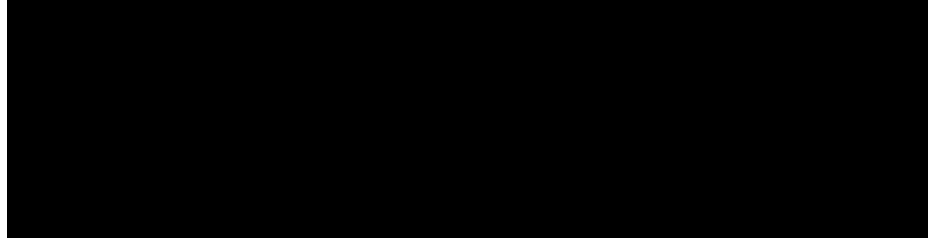
The Cost and Utilization Trend factors are each applied for the 24 months from the mid-point of the experience period to the mid-point of the projection period. For example, the Projection Period PMPM for Prescription Drug is calculated as follows:



Allowed Claims PMPM for the Projection Period is [redacted], the sum of the Projection Period PMPMs by benefit category shown in Exhibit 13.2. There will be no non-EHBs covered in the Individual Market during 2019, therefore the Index Rate for the Projection Period is also [redacted].

Section 14: Market Adjusted Index Rate

Exhibit 14.1: Calculation of Market Adjusted Index Rate
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The Market Adjusted Index Rate is calculated using the index rate, adding the projected risk adjustment value and adding the exchange user fee adjustment. The risk adjustment transfer is added because the risk adjustment user fee is larger than the expected risk adjustment recovery. The projected risk adjustment PMPM and exchange user fee PMPM are adjusted from the amounts used in Worksheet I of the URRT to be on an allowed basis. The allowed projected risk adjustment PMPM was developed in Section 9.

The exchange user fee PMPM adjustment in the Market Adjusted Index Rate calculation is on an allowed PMPM basis. The exchange user fee on an incurred basis is [REDACTED] of premium. Exhibit 14.2 provides the detailed development of the exchange user fee PMPM on an allowed basis.

Exhibit 14.2: Calculation of Exchange User Fee (Allowed Basis)		
Description	Abbreviation	Calculation

Description	Abbreviation	Calculation
[REDACTED]		



Section 15: Plan Adjusted Index Rates

The Plan Adjusted Index Rates were developed from the Market Adjusted Index Rate using the following adjustment factors:

- Actuarial value and cost-sharing design – includes:
 - Paid to allowed adjustment factor,
 - Expected utilization differences due to differences in cost sharing labeled below in Exhibit 15.1 as induced utilization, and
 - CSR adjustment factor to fund the CSR program in 2019.
- Provider Network
- Adjustment for distribution and administrative costs excluding exchange user fees
- Impact of specific eligibility categories for the catastrophic plan

Exhibit 15.1 provides details for the plan-specific plan adjusted index rate calculations. The development of the values in this exhibit can be found throughout Section 15. Unrounded values were used to calculate the Plan Adjusted Index Rates.

Exhibit 15.1: Calculation of Plan Adjusted Index Rates									
	A	B	C	D	E	F	G	H	$I = \frac{B \times C \times D \times E \times F \times G}{(1 - H)}$
Plan Name	Projected Member Months	Market Adjusted Index Rate	Induced Utilization Adjustment Factor	Paid to Allowed Adjustment Factor	Provider Network	Catastrophic Factor	CSR Adjustment Factor	Admin Costs (% of Premium)	Plan Adjusted Index Rates
Blue Value Gold									
Blue HSA Gold									
Blue Cross Select Gold									
Blue Secure Silver									
Blue Value Silver									
Blue Cross Select Silver									
Blue Saver Bronze									
Blue HSA Bronze									
Blue Protect									

Induced Utilization Adjustment Factor

Induced utilization factors were developed using 2015, 2016, and 2017 claims experience normalized for risk, area, network, and large claims. This demonstrates the expected utilization differences due to cost-sharing factors alone, independent of health status. Exhibit 15.2 shows

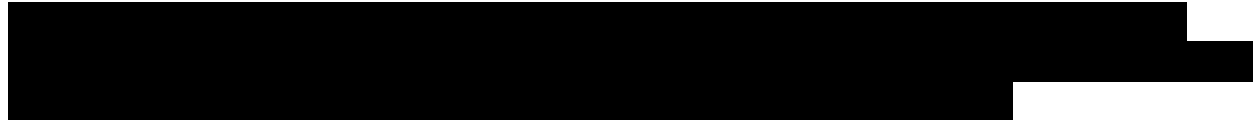


Exhibit 15.2: 2017 Large Claim Adjusted Allowed PMPM

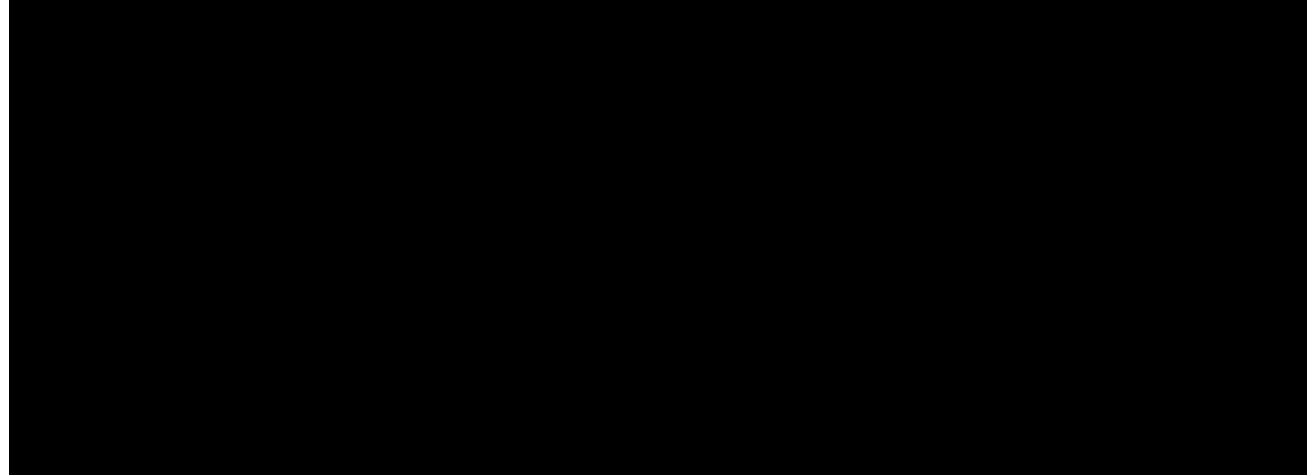
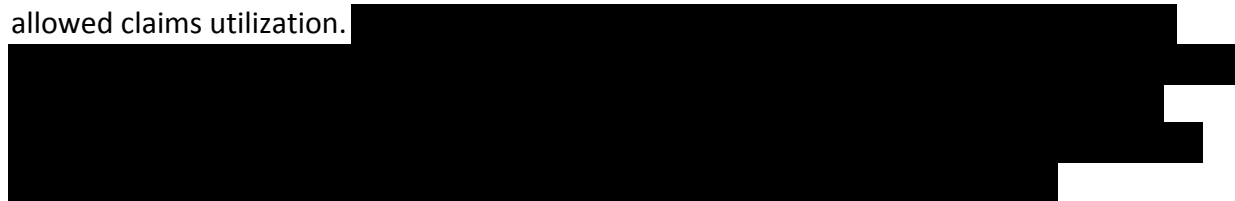


Exhibit 15.3 combines several normalization factors together into one factor to normalize the allowed claims utilization.



15.3: Factors Incorporated Into Normalization Factor

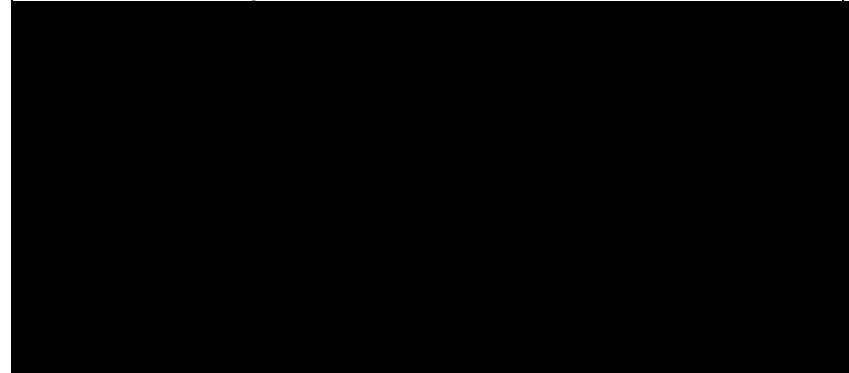
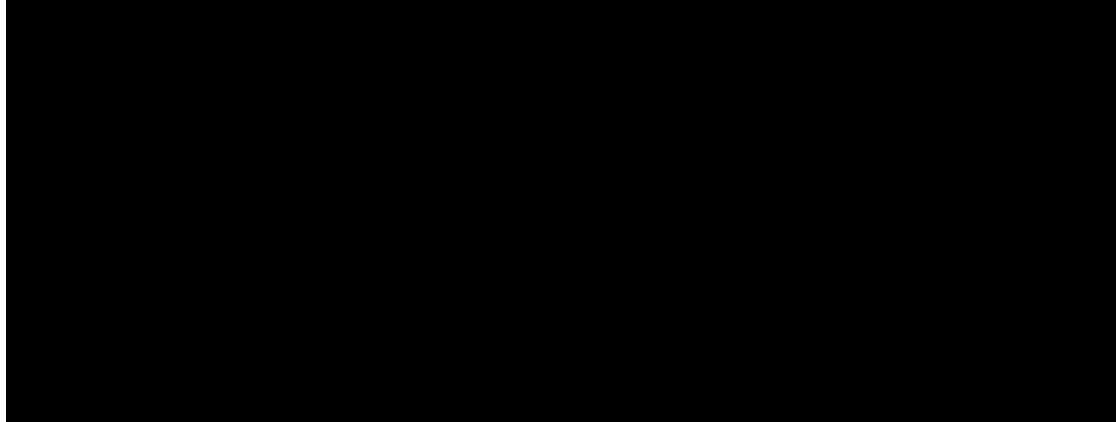


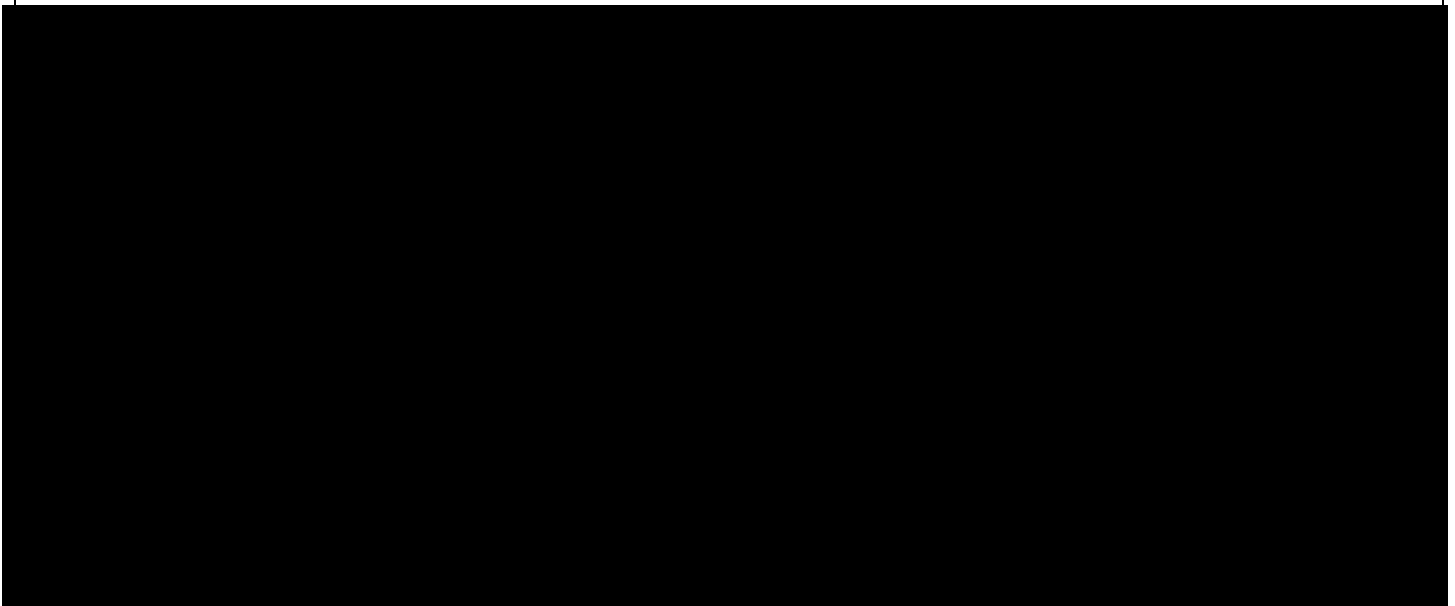
Exhibit 15.4 normalizes the allowed claims from Exhibit 15.2 for the factors seen in Exhibit 15.3 and shows the experience period Induced Utilization Factors relative to the silver metal level.

15.4: Normalized Projected Allowed PMPM and Induced Utilization



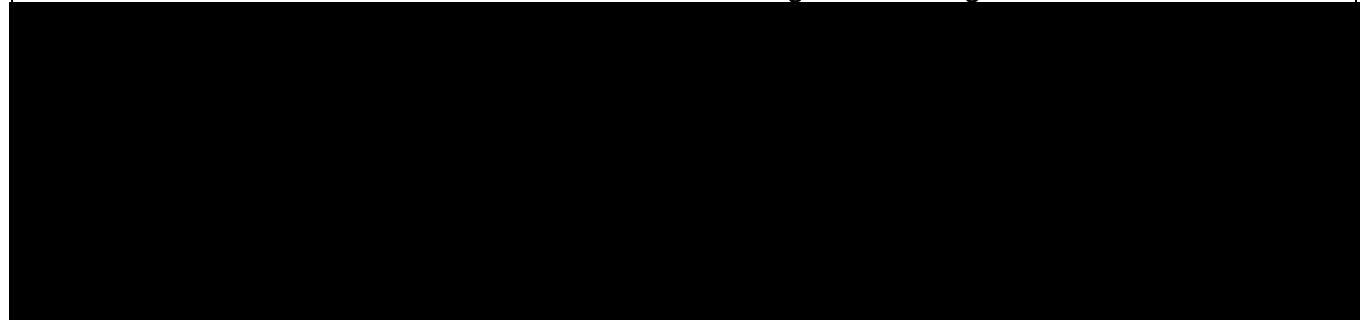
The same process as above was also followed to calculate [REDACTED] Induced Utilization Factors. The final Induced Utilization Factors were calculated from [REDACTED] [REDACTED] Induced Utilization Factors, as seen in Exhibit 15.5. Unrounded values were used to calculate the weighted averages.

Exhibit 15.5: Induced Utilization Factors



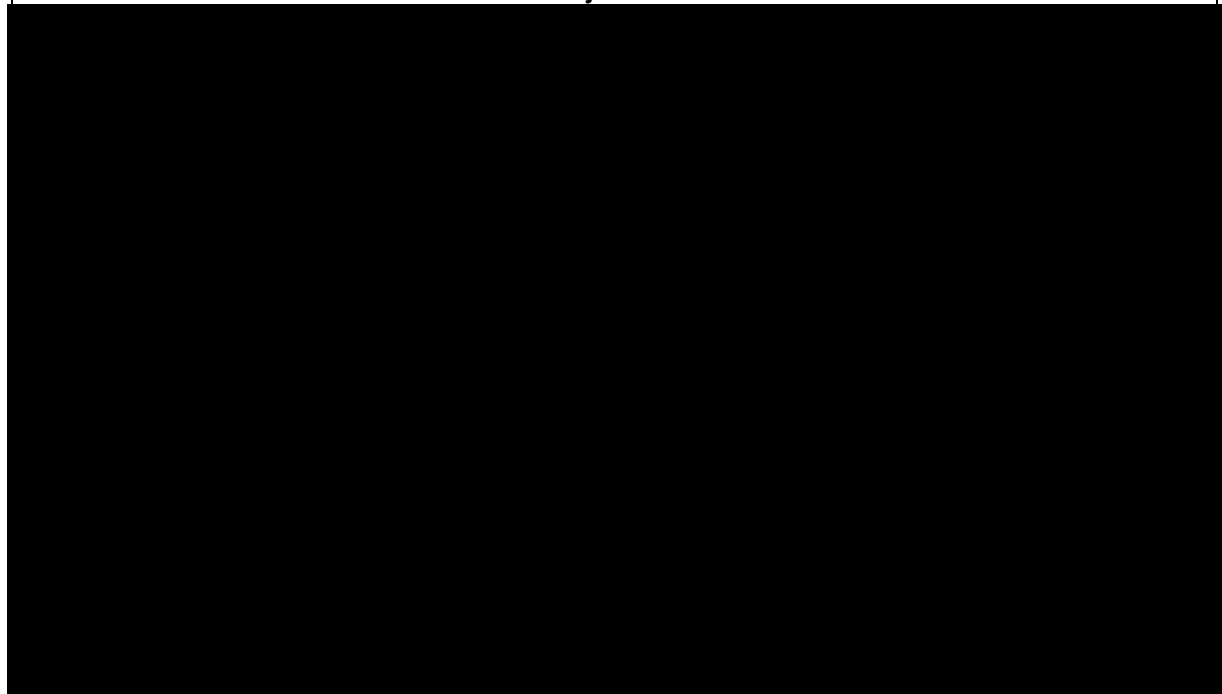
The Induced Utilization factors shown in Exhibit 15.5 were then used to calibrate the Milliman Managed Care Rating Model outputs, which are shown in Exhibit 15.6.

Exhibit 15.6: Induced Utilization Calibration for Milliman Managed Care Rating Model



In order to get the Induced Utilization Adjustment Factors by plan within each metal level, BCBSAL applied the Induced Utilization Calibration Factors to the 2019 uncalibrated modeled allowed relativities by plan to calculate the calibrated modeled allowed relativities. BCBSAL used the Bronze Induced Utilization Calibration Factor to calibrate the Catastrophic plan (Blue Protect) since the Catastrophic plan had [REDACTED] average members and was therefore not fully credible. Each plan's calibrated modeled allowed relativity was then divided by the member weighted total calibrated modeled allowed relativity to derive the Induced Utilization Adjustment Factors, which were the factors used in calculating the Plan Adjusted Index Rates. Unrounded values were used in this calculation, which can be seen in Exhibit 15.7.

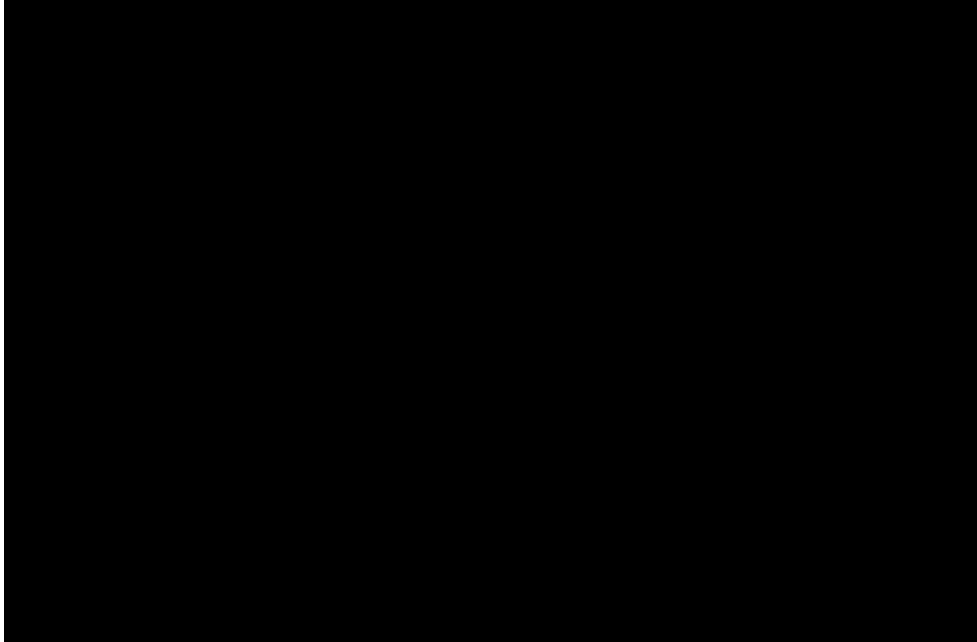
Exhibit 15.7: Calibrated Induced Utilization Adjustment Factors



Paid to Allowed Adjustment Factor

The paid to allowed adjustment factor is the modeled paid to allowed factor by plan multiplied by the 2019 projected paid to allowed ratio calculated in Section 8 relative to the total modeled paid to allowed ratio. This calculation can be seen in Exhibit 15.8. Unrounded values were used in the calculations.

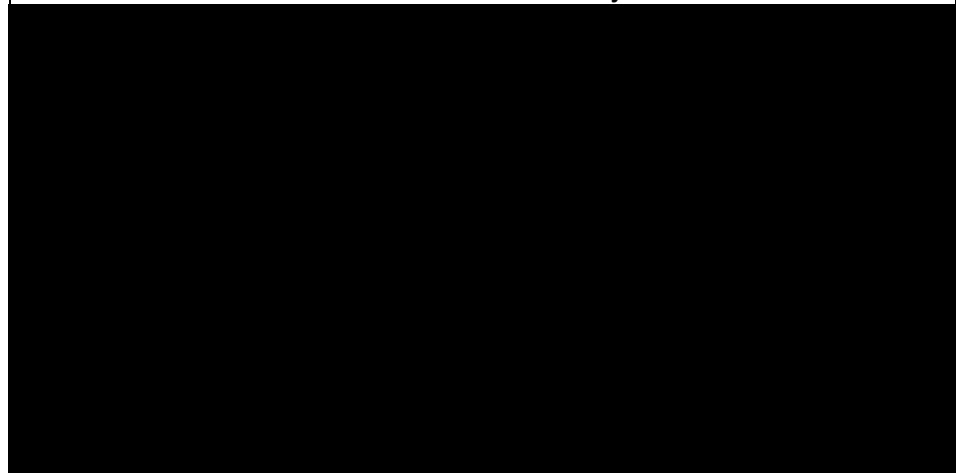
Exhibit 15.8: Paid to Allowed Adjustment Factors



Provider Network Adjustment

The total provider network factor for each plan is the product of any applicable plan level adjustments. Development of the plan specific provider network adjustment factors is provided in Exhibit 15.9.

Exhibit 15.9: Calculation of Provider Network Adjustments



The calculated provider network factor was then adjusted so that the member month and allowed weighted average provider network factor is 1.0000. Exhibit 15.10 shows the calculation. The [REDACTED] in column C was calculated by weighting the provider network factors in column C by member months (column A) and allowed relativities (column B).

Exhibit 15.10: Calculation of Adjusted Provider Network Adjustments		
[REDACTED]	[REDACTED]	[REDACTED]

Catastrophic Factor

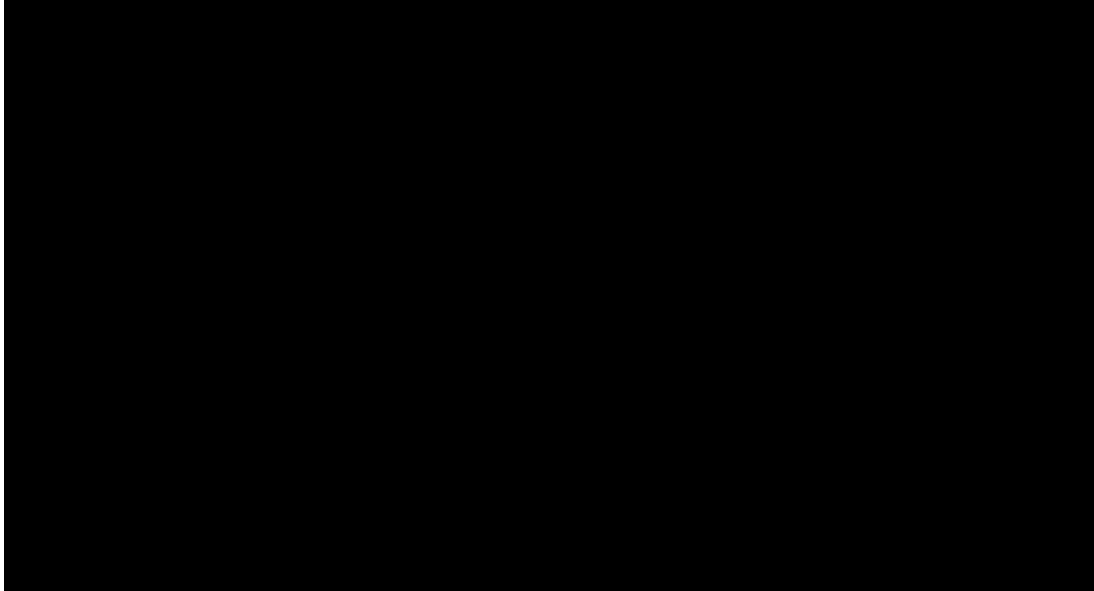
Using the Milliman Managed Care Rating Model, BCBSAL modeled the Catastrophic plan benefits using standard demographic assumptions and then modeled the benefits using expected demographics for the Catastrophic plan. The modeled incurred PMPM using expected demographics for the Catastrophic plan was [REDACTED] lower than the modeled incurred PMPM using standard demographics.

CMS age factors only account for a [REDACTED] reduction to premium between the standard demographics and the expected catastrophic demographics. The catastrophic factor is used to account for the additional premium decrease needed to reflect the full [REDACTED] difference between the two populations.

[REDACTED]

The calculated catastrophic factor was then adjusted so that the member month and allowed weighted average catastrophic factor is 1.0000. Exhibit 15.11 shows the calculation. The [REDACTED] was calculated by weighting the catastrophic factors in column C by member months (column A) and allowed relativities (column B).

Exhibit 15.11: Calculation of Adjusted Catastrophic Factor Adjustments



CSR Adjustment Factor

Given the federal government will not fund the CSR program in 2019, BCBSAL has made provisions in the development of its Plan Adjusted Index Rates.

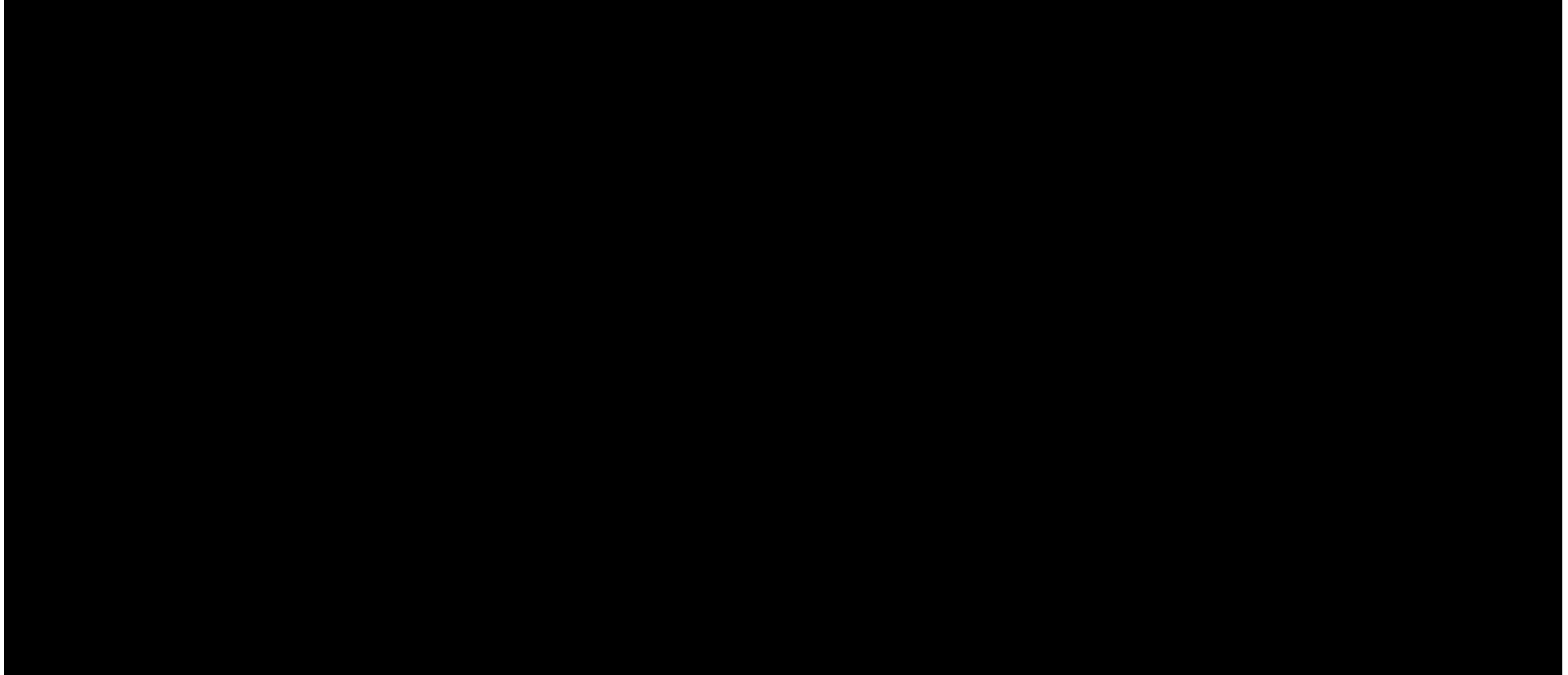
Blue Secure Silver and Blue HSA Gold are only sold off exchange and would have had no CSR amounts in 2019. Consequently, the CSR adjustment factor for these two plans is 1.0000.

Most of what would have been the 2019 CSR amounts would have been related to 200% - 250% FPL, 150% - 200% FPL, and 100% - 150% FPL CSR variations of the QHP silver plans (Blue Value Silver and Blue Cross Select Silver).

A small amount of what would have been the 2019 CSR amounts are related to the limited cost sharing and no cost sharing CSR variation plans for eligible American Indians and Alaska Natives for all exchange plans. These CSR amounts are projected to be [REDACTED] of incurred claims based on 2017 experience. The CSR Adjustment Factor for exchange plans other than Blue Value Silver and Blue Cross Select Silver is [REDACTED] (Blue Value Gold, Blue Cross Select Gold, Blue Saver Bronze, Blue HSA Bronze, and Blue Protect).

Exhibits 15.12 and 15.13 show the development of the CSR Adjustment Factor for Blue Value Silver and Blue Cross Select Silver.

Exhibit 15.12: Calculation of QHP Silver CSR Adjustment Factor



[REDACTED]

[REDACTED]

The projected 2019 average members by plan variation were developed from actual enrollment through May 2018, historical changes in enrollment by plan variation, and expected changes in enrollment by plan variation.

Exhibit 15.13 shows the development for the CSR Adjustment Factor for the QHP silver plans (Blue Value Silver and Blue Cross Select Silver). The values shown in lines (a) and (b) of Exhibit 15.13 have been taken from Exhibit 15.12. What would have been the 2019 CSR amounts is projected to be [REDACTED] of the projected QHP silver plan paid amounts with CSR funding as shown in line (c). This projected [REDACTED] impact has been combined with the projected [REDACTED] impact for the limited cost sharing and no cost sharing CSR variation plans for eligible American Indians and Alaska Natives as shown in row (d) to develop the QHP Silver Plan CSR Adjustment Factor of [REDACTED] as shown in row (e).

Exhibit 15.13: Calculation of QHP Silver Plans CSR Adjustment Factor

[REDACTED]

Benefits in Additions to EHBs Adjustment

There are no non-EHB benefits covered on any Individual Market plans.

Adjustment for Distribution and Administrative Costs

This adjustment includes the administrative costs, taxes, fees, and contributions to surplus listed in Section 10, excluding Exchange User Fees. The adjustment is provided as a percent of premium.

Adjustment for Distribution and Administrative costs =
URRT Retention Factor - Exchange User Fee =

[REDACTED]

Section 16: Calibration

The Plan Adjusted Index Rates were calibrated for age and area factors.

Age Calibration:

The plan adjusted index rates were calibrated by a projected average age factor (using the State Established 2019 Age Curve) of [REDACTED]. This factor is different from the 2019 projected average age factor because it is adjusted to account for the distribution of members expected to pay no premium due to the cap of three child dependents under age 21. Monthly adjusted average age factors were calculated by applying a factor of zero for the members over the child dependent cap. These were compared to the monthly average age factors calculated in Exhibit 5.8 of Section 5. The average percent difference between the two factors was [REDACTED], which can be seen in Exhibit 16.1. This difference was applied to the projected average age factors in Exhibit 5.9 of Section 5 to calculate the average age factors adjusted for members expected to pay no premium due to the child dependent cap. This calculation is shown in Exhibit 16.2. The 2019 Projection Period Average Age Calibration Factor of [REDACTED] was then derived by calculating a member weighted average of the monthly 2019 adjusted average age factors.

Exhibit 16.1: Historical Adjusted Average Age Factors

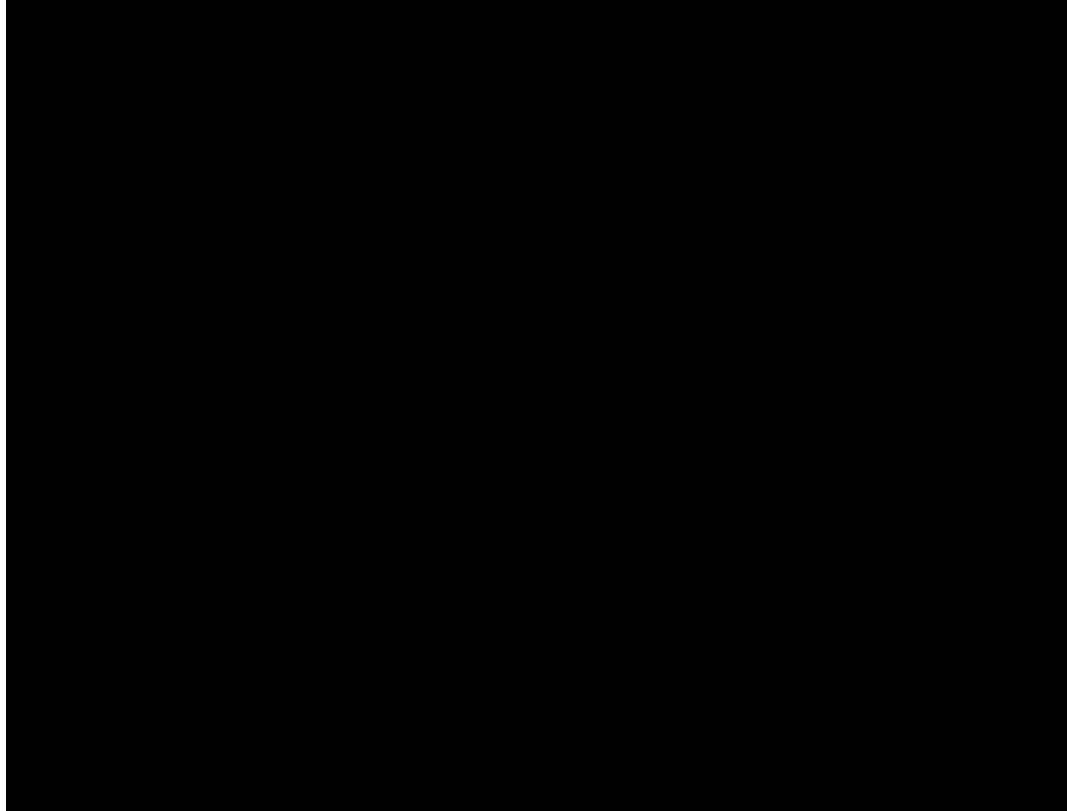
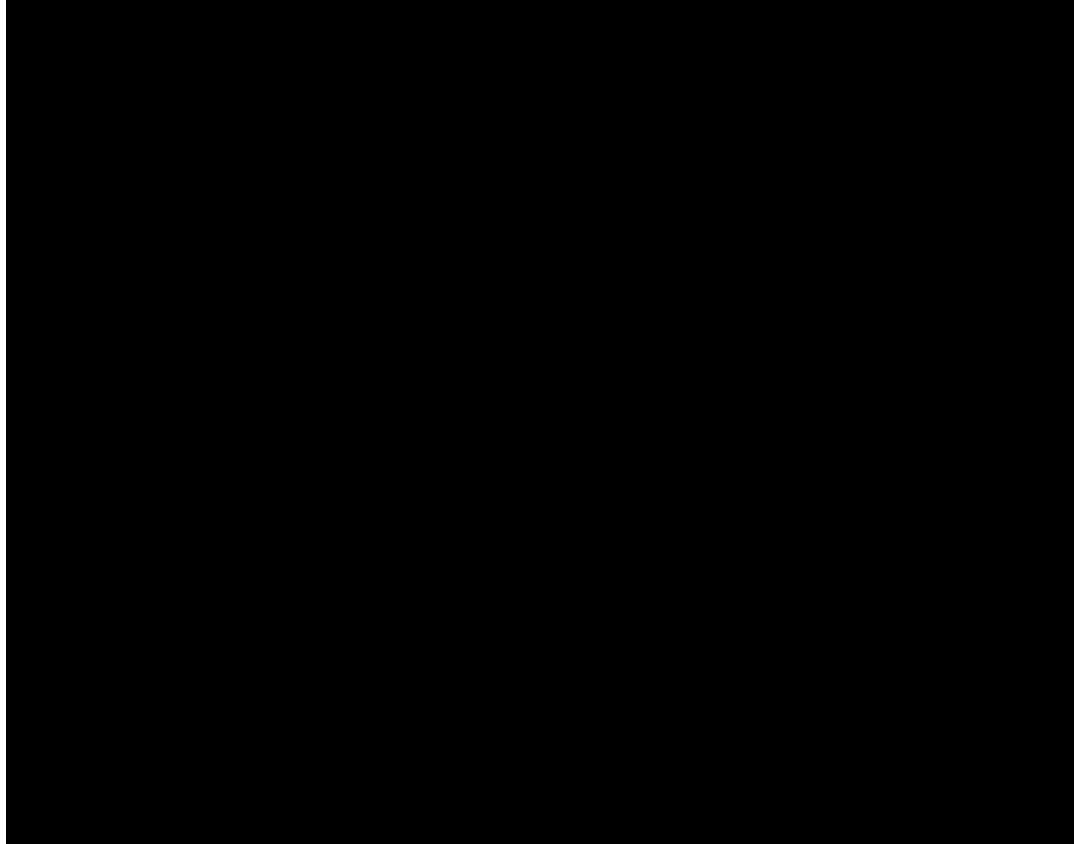


Exhibit 16.2: Projected Adjusted Average Age Factors



The approximate weighted average age for the Individual Market, rounded to a whole number, associated with the projected Single Risk Pool is [REDACTED]

Area Calibration:

The plan adjusted index rates were also calibrated for the projected average geographic area factor of [REDACTED]. The details of the development of BCBSAL's projected Individual 2019 average area factor of [REDACTED] are show in Exhibit 5.7 in Section 5.

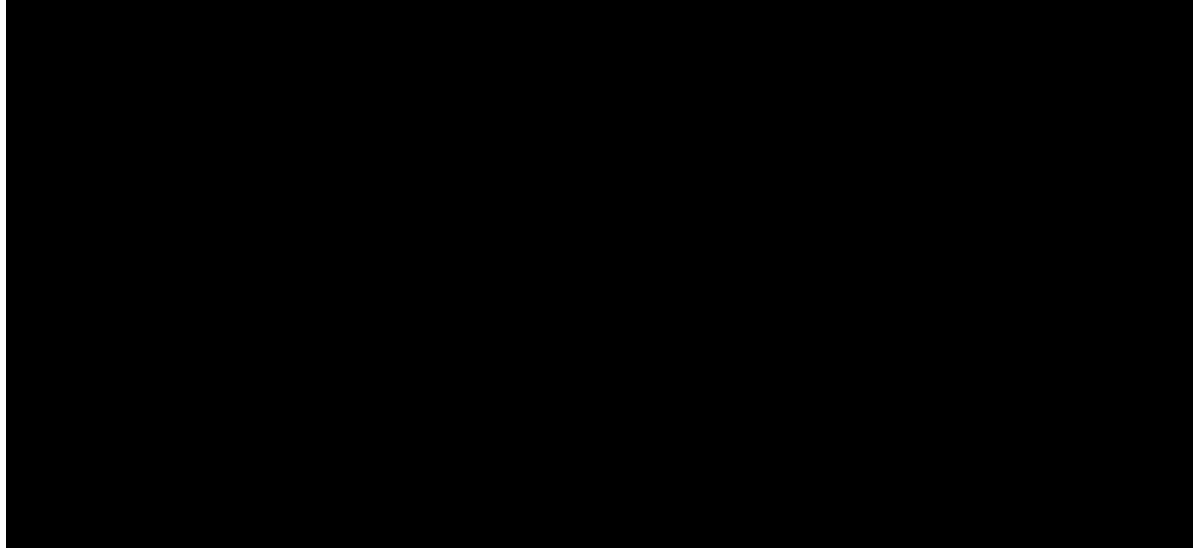
Tobacco Calibration

The plan adjusted index rates were also calibrated for the projected average tobacco factor of [REDACTED]. The details of the development of BCBSAL's projected Individual 2019 average tobacco factor of [REDACTED] are shown in Exhibits 5.10 – 5.12 in Section 5.

Calibrated Plan Adjusted Index Rates

The calibrated plan adjusted index rate is the plan adjusted index rate divided by the product of the age curve calibration, area calibration, and tobacco calibration factors. Exhibit 16.3 shows the calculation of the calibrated plan adjusted index rates, which equal the 21 year old, rating area 3 (i.e., Birmingham – MSA which has an area factor of 1.000) premium rates for each plan.

Exhibit 16.3: Calculation of Calibrated Plan Adjusted Index Rates



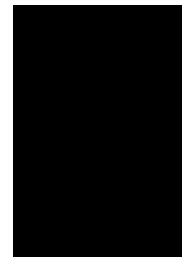
Section 17: Consumer Adjusted Premium Rate Development

The Consumer Adjusted Premium Rate is calculated by applying the appropriate area factor, age factor, and tobacco factor to the Calibrated Plan Adjusted Index Rate for a particular plan. The Calibrated Plan Adjusted Index Rates can be found in Section 16.

Below is an example of how to calculate the Consumer Adjusted Premium Rate

- 40 year-old
- Huntsville MSA
- Blue Secure Silver
- Non-smoker

Blue Secure Silver Calibrated Plan Adjusted Index Rate
 x Huntsville MSA factor
 x 40 year-old age factor
x Non-tobacco factor
 Consumer Adjusted Premium Rate



Applicable Rating Factors

Area Premium Factors: The rating areas used are the Alabama geographic rating areas listed in the State of Alabama Department of Insurance Bulletin No. 2013-04, attached in the Appendix of this memorandum. Area premium factors are shown in Exhibit 17.1

Exhibit 17.1: Rating Area Premium Factors		
MSA	Rating Area	Factor
Anniston-Oxford, AL		
Auburn-Opelika, AL		
Birmingham-Hoover, AL		
Columbus, GA-AL		
Decatur, AL		
Dothan, AL		
Florence-Muscle Shoals, AL		
Gadsden, AL		
Huntsville, AL		
Mobile, AL		
Montgomery, AL		
Tuscaloosa, AL		
Non-MSA Area, AL		

Age Premium Factors: HHS changed the default standard age curve in 2018. BCBSAL is using the age rating curve established in the State of Alabama Department of Insurance Bulletin No. 2018-02 "Age Curve for the Individual and Small Group Health Insurance Market" for the 2019 plan year, which is equivalent to the 2017 HHS Default Standard Age Curve. Exhibit 17.2 shows the 2019 age premium factors.

Exhibit 17.2: Age Premium Factors			
Age	2018	Age	2018
0-14	0.635	40	1.278
15	0.635	41	1.302
16	0.635	42	1.325
17	0.635	43	1.357
18	0.635	44	1.397
19	0.635	45	1.444
20	0.635	46	1.500
21	1.000	47	1.563
22	1.000	48	1.635
23	1.000	49	1.706
24	1.000	50	1.786
25	1.004	51	1.865
26	1.024	52	1.952
27	1.048	53	2.040
28	1.087	54	2.135
29	1.119	55	2.230
30	1.135	56	2.333
31	1.159	57	2.437
32	1.183	58	2.548
33	1.198	59	2.603
34	1.214	60	2.714
35	1.222	61	2.810
36	1.230	62	2.873
37	1.238	63	2.952
38	1.246	64 and older	3.000
39	1.262		

Tobacco use Premium Factor: BCBSAL will apply a rating factor of [REDACTED] for tobacco users.

Family premiums will equal the sum of individual Consumer Adjusted Premium Rates calculated using the appropriate Calibrated Plan Adjusted Index Rates and the rating factors above, with the total premium charged to a family for child dependents under age 21 capped at the sum of the individual Consumer Adjusted Premium Rates for the three oldest child dependents under age 21.

Section 18: AV Metal Values

The distinction of whether the AV Metal Values included in Worksheet 2 of the URRT were entirely based on the AV Calculator, or whether an acceptable alternative methodology was used to generate the AV Metal Value of one or more plans is provided below in Exhibit 18.1.

Exhibit 18.1: Individual Market – AV Metal Values				
Plan Name ^{1, 2}	Metal Level	AV Metal Value	Entirely Based On AV Calculator ³	AV Calculator Screenshot

¹ Cost sharing reduction plan variations are not included in Exhibit 18.1 as such variations are not separate plans

² Catastrophic plan is not included in Exhibit 18.1 as the use of the AV Calculator was not required

³ Plans for which AV Metal Value was not entirely based on AV Calculator (“No”), required details of the alternative methodology used are described in BCBSAL’s filed document titled, “Blue Cross and Blue Shield of Alabama, 2019 Actuarial Certification of Actuarial Values, Small Group and Individual Markets”

Section 19: AV Pricing Values

The AV Pricing Values by plan reflect the permitted adjustments to the Market Adjusted Index Rate to calculate the Plan Adjusted Index Rates:

- Induced Utilization
- Paid to Allowed Ratio
- Provider Network adjustment
- Impact of specific eligibility categories for the catastrophic plan
- Adjustment for distribution and administrative costs excluding exchange user fees
- Impact of no funding for the CSR plans in 2019

The development of each of the allowable adjustments to the Market Adjusted Index Rate by plan was shown in Section 15.

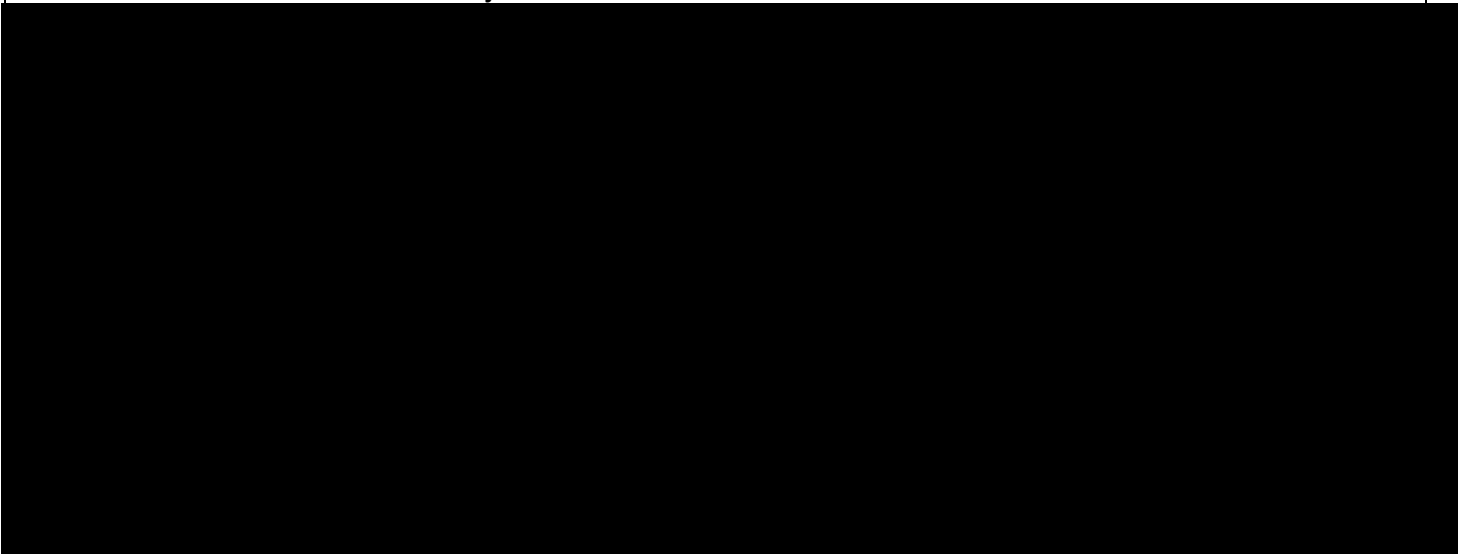
Exhibit 19.1 shows the development of BCBSAL's 2019 AV Pricing Values by plan.

Exhibit 19.1: Calculation of AV Pricing Values



Section 20: Membership Projections

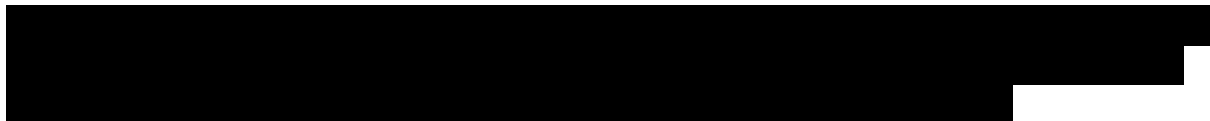
Exhibit 20.1: 2019 Member Month Projections



Development of Membership Projections

Membership projections (as shown in Exhibit 20.1) were developed using actual enrollment through May 2018 and modeling monthly enrollment through December 2019, considering new enrollment rates and termination rates.

Membership projections were modeled separately for On Exchange and Off Exchange.



Section 21: Terminated Plans and Products

No plans have been terminated prior to January 1, 2019 that have experience included in the Single Risk Pool during the experience period.

Blue Cross Select Gold, a Multi-State Plan and Blue Cross Select Silver, a Multi-State Plan were renamed Blue Cross Select Gold and Blue Cross Select Silver respectively in 2018. These plans have new HIOS Product and Plan IDs, but for the purpose of rate review they are the same plans as the plans offered in 2017 and are not considered terminated plans.

Section 22: Plan Type

All health plans fit the definition of Preferred Provider Organization (“PPO”).

Healthcare.gov defines PPO as, “A type of health plan that contracts with medical providers, such as hospitals and doctors, to create a network of participating providers. You pay less if you use providers that belong to the plan’s network. You can use doctors, hospitals, and providers outside of the network for an additional cost.”

Section 23: Warning Alerts

This section of the Actuarial Memorandum discusses warning alerts appearing in column A of Worksheet 2 of the URRT. The explanations for the warning alerts are given in Exhibit 23.1.

Exhibit 23.1: Warning Alerts			
	Value		
Item Row of Worksheet #2	Worksheet #1	Worksheet #2	Explanation
Projected Total Premium-Row 83	██████████	██████████	There is an adjustment made to the plan adjusted index rates to account for the assumption that the federal government will not fund the CSR program in 2019. This adjustment is not included in the calculation of the single risk pool gross premium.

Section 24: Reliance

In the course of premium rate development, the following sources or entities – external to BCBSAL – were referenced or considered in establishing rating assumptions and analysis that support the data in the URRT and resulting final premium rates. All information and analysis considered from the sources or entities were deemed reasonable for their intended purposes.

- Milliman Health Cost Guidelines, Managed Care Rating and Rx Rating Models, health and prescription drug pricing models leased by BCBSAL and adjusted to BCBSAL experience when appropriate.
- Prime Therapeutics, BCBSAL's Pharmacy Benefit Manager (PBM), provided input on drug pricing.
- CMS Risk Adjustment transfer reports for 2014 - 2017 were used to help develop risk adjustment transfer assumptions in the projection period.
- BCS Insurance Company, BCBSAL's stop loss reinsurer, provided large claims experience reports that were used to help develop risk adjustment transfer assumptions in the projection period.
- State of Alabama Bulletins No. 2013-04 and 2018-02, regarding geographic rating areas and age curve rating factors respectively.
- HHS Notice of Benefit and Payment Parameters for 2017 and 2019.
- "Tax Cuts and Jobs Act" signed into law December 22, 2017.

Section 25: Actuarial Certification

I, Noel Carden, am Vice President and Chief Actuary for Blue Cross and Blue Shield of Alabama. I am a member of the American Academy of Actuaries and am qualified to provide this Actuarial Certification which certifies:

- (1) The projected Index Rate is (a) in compliance with all applicable State and Federal Statutes and Regulations 45 CFR §156.80 and §147.102, (b) developed in compliance with the applicable Actuarial Standards of Practice, (c) reasonable in relation to the benefits provided and the population anticipated to be covered, and (d) neither excessive nor deficient,
- (2) The Index Rate and only the allowable modifiers as described in 45 CFR §156.80(d)(1) and §156.80(d)(2) were used to generate plan level rates. A plan level adjustment to QHP plans for CSR funding was considered an allowable modifier under §156.80(d)(2)(i),
- (3) The percent of total premium that represents essential health benefits included in Worksheet 2, Sections III and IV of the Part I Unified Rate Review Template was calculated in accordance with Actuarial Standards of Practice,
- (4) The Actuarial Value Calculator was used to determine the AV Metal Values shown in Worksheet 2, Section I of the Part I Unified Rate Review Template for all plans except those specified in the certification. For plans where an alternate methodology was used to calculate the AV Metal Value, the Actuarial Certification submitted in May 2018 with the corresponding QHP form filing and required by 45 CFR §156.135 provides the necessary documentation and signature, and
- (5) The geographic rating factors reflect only differences in the costs of delivery, and do not include differences for population morbidity by geographic area.

This memorandum and accompanying articles simultaneously satisfy the filing requirements of the ACA, and the filing requirements of the State of Alabama. Additionally, the premium rates supported by this memorandum assume that the federal government will not fund the CSR program in 2019. If certainty of funding of the CSR program is provided, the premium rates will need an adjustment.

All analyses were either completed by me, or were performed under my direction and review.

Signed,



Noel Carden, FSA, MAAA
Vice President and Chief Actuary
Blue Cross and Blue Shield of Alabama

Appendix



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BULLETIN NO. 2013-04

TO: Insurers writing health insurance in Alabama

FROM: Jim L. Ridling *JLR*
Commissioner of Insurance

DATE: April 2, 2013

RE: Federal premium rate reforms – rating areas

EFFECTIVE: January 1, 2014

Federal premium rate reform requirements regarding age, tobacco use, and geographic rating areas in the individual and small group markets apply in policy or plan years beginning on or after January 1, 2014. 45 C.F.R. § 147.102 (published February 27, 2013).

Health insurance issuers offering individual and small group coverage in Alabama are advised that the rating area "default" referenced in 45 C.F.R. § 147.102(b)(2) applies in Alabama. There will be 13 rating areas in Alabama consisting of the state's 12 metropolitan statistical areas and one rating area comprising all non-metropolitan statistical areas. The appendix lists the rating areas by number and county name.

JLR/JFM/bc

Attachment

Appendix A

Alabama Geographic Rating Areas (Small and Individual Markets)

Rating Area ID (for federal systems)	County Name	3 Digit Zip Code (if applicable)
Rating Area 1	Calhoun	
Rating Area 2	Lee	
Rating Area 3	Bibb	
Rating Area 3	Blount	
Rating Area 3	Chilton	
Rating Area 3	Jefferson	
Rating Area 3	St. Clair	
Rating Area 3	Shelby	
Rating Area 3	Walker	
Rating Area 4	Russell	
Rating Area 5	Lawrence	
Rating Area 5	Morgan	
Rating Area 6	Geneva	
Rating Area 6	Henry	
Rating Area 6	Houston	
Rating Area 7	Colbert	
Rating Area 7	Lauderdale	
Rating Area 8	Etowah	
Rating Area 9	Limestone	
Rating Area 9	Madison	
Rating Area 10	Mobile	
Rating Area 11	Autauga	
Rating Area 11	Elmore	
Rating Area 11	Lowndes	
Rating Area 11	Montgomery	
Rating Area 12	Greene	
Rating Area 12	Hale	
Rating Area 12	Tuscaloosa	
Rating Area 13	Baldwin	
Rating Area 13	Barbour	
Rating Area 13	Bullock	
Rating Area 13	Butler	
Rating Area 13	Chambers	
Rating Area 13	Cherokee	
Rating Area 13	Choctaw	
Rating Area 13	Clarke	
Rating Area 13	Clay	
Rating Area 13	Cleburne	
Rating Area 13	Coffee	

Rating Area 13	Conecuh	
Rating Area 13	Coosa	
Rating Area 13	Covington	
Rating Area 13	Crenshaw	
Rating Area 13	Cullman	
Rating Area 13	Dale	
Rating Area 13	Dallas	
Rating Area 13	DeKalb	
Rating Area 13	Escambia	
Rating Area 13	Fayette	
Rating Area 13	Franklin	
Rating Area 13	Jackson	
Rating Area 13	Lamar	
Rating Area 13	Macon	
Rating Area 13	Marion	
Rating Area 13	Morengo	
Rating Area 13	Marshall	
Rating Area 13	Monroe	
Rating Area 13	Perry	
Rating Area 13	Pickens	
Rating Area 13	Pike	
Rating Area 13	Randolph	
Rating Area 13	Sumter	
Rating Area 13	Talladega	
Rating Area 13	Tallapoosa	
Rating Area 13	Washington	
Rating Area 13	Wilcox	
Rating Area 13	Winston	