Health Net state filing number HAO-2016-0086 Data Request

1. What is the average 12 month increase for the EPO plans only?
   Response: The average 12 month increase for the EPO plans only is 23.0%.

2. What is the average 12 month increase for the PPO plans only?
   Response: The average 12 month increase for the PPO plans only is 23.1%.

3. Which PPO policyholders are getting the maximum increases of 56% to 58% (see the "rate changes" tab in the rate review data request workbook)? Did theses policyholders have rate caps in 2016?
   Response: The PPO policyholders getting the maximum increases of 56% to 58% are on our off-Exchange PPO plan designs in rating region 17. Even with this increase, the MLR after risk adjustment is 229% as this region experiences very poor experience due to both Substance Abuse and Non-Substance Abuse related risk. The 2015 MLR was 641% after risk adjustment.

   We do not have specific rate caps in place but have moderated the increases on some plan designs, opting to take substantial profit losses instead of implementing even higher rate increases in order to breakeven.

4. Please describe the rate caps that were put in place in 2016? Are there any rate caps for 2017?
   Response: By rate caps do you mean limits on how much a member's rates will increase independent of community rating rules? ACA rules require premium rates to be rated under a single risk pool and only permit rates to differ by age, area and plan. We do not believe we have the functionality to use rate caps as described above, but we do accept losses on some plan designs rather than require that all plans and regions make the same level of profit.

5. Why do you think we are seeing such a large decrease in membership for each year since 2014?
   Response: Our claims cost are so much higher than other PPO plans, which requires us to set a premium that is uncompetitive, thus leading to member losses. Our In-Network costs are higher than the competition and our Out-of-Network costs are very high.

6. Do you know when the 3rd party certification will be ready?
   Response: We expect the certification to be finalized soon. We are meeting with Milliman on Monday August 22nd to hear the preliminary results of their review.

7. The AV's for the Silver, Gold, and Platinum plans are increasing from 2016 to 2017, yet there is no plan design adjustment in the rate development to recognize that. Why is that?
   Response: The AVs have changed from year to year due to updates to the Actuarial Value Calculator. Our plans are priced as AV x Induced Demand x Normalization Factor. If the AV changes, so does premiums in relation to how much the AVs change.

The Plan Design Adjustment in the Rate Development measures demographics shifts, how the population moves from one plan to the next in the current period versus the demographics period.

8. What was you risk corridor payment for 2014? What do you expect to receive for 2015?
Response: We had no risk corridor payments in 2014 for our Individual business with the CDI as the 2014 pre-tax profit position is a loss of $1 million, which is not sufficiently high enough to generate risk corridor receipts.

	2014
MMs	665,317
Premium pmpm	$349
Risk Adjustment pmpm	$81
Net Premium pmpm	$430
Claims pmpm	$529
CSR pmpm	-$4
Reinsurance pmpm	-$145
Net Claims pmpm	$380
HBR	88.5%
Total Taxes/Fees % of net (risk adj) premium	4.7%
Commissions % of net (risk adj) premium	1.3%
Admin % of net (risk adj) premium	5.9%
PTI % (Before Risk Corridor)	-0.5%
PTI $M (Before Risk Corridor)	-$1

2015 is expected to be 0% as risk corridor claims by insurers far exceed contributions and we do not anticipate 2015 to be funded given that 2014 has been funded at 12.6% as of today.

9. You stated in your trend exhibit that the leveraging component is included in the AV. But the AV's have gone in 2017 up for the Silver, Gold, and Platinum plans and the AV is the same in 2017 as it was in 2016?
Response: 2016 AVs are the the same as 2017 AVs due to (1) standard plan designs created by Covered CA changing in 2017 versus 2016 and (2) the 2017 AV calculator is a different calculator then the one published in 2016 and in particular has an updated CPD table.

Our plan pricing is AV x Induced Demand x Normalization factor. AV is from the AV calculator and is calculated by Covered CA for their standard plans. The standard plans offered each year change according to Covered CA's design objectives. The AV of those plans also changes as the AV calculator is updated annually, so that even for the same plan design, the 2017 AV will be different from the 2016 AV. It is this difference for the same plan design that we assign as leverage. Leveraging does increase AV as the fixed cost components of a plan are worth more to a member than in the prior year as these fixed costs do not increase, but health care costs do.

10. Why is the actual allowed trend for 2015/2014 (6.8%) and 2016/2015 (6.6%) relatively modest given that the experience for 2015 and 2016 is relatively high?
Response: These trends are the assumed trends (not the actual) and are set on a risk neutral level. We set trends at risk neutral as risk adjustment is also assumed to be risk neutral, thus there is no anti-selection in trend and risk adjustment transfer (in)/out.

Actual trends are very high, even setting aside the Substance Abuse claims as demonstrated by the table below.

		Medical Claims (non-Substance Abuse)		Pharmacy Claims	
Year/Month	Members	Paid	Yr over Yr Paid Trend	Paid	Yr over Yr Paid Trend
2015/01	35,653	554.19	19.3%	83.04	116.0%
2015/02	35,927	508.01	9.7%	81.51	90.5%
2015/03	38,239	559.37	20.9%	87.32	81.3%
2015/04	37,546	502.14	16.5%	96.67	62.8%
2015/05	37,214	515.94	17.6%	94.02	64.2%
2015/06	37,004	540.70	14.0%	106.01	70.7%
2015/07	36,912	509.75	10.5%	116.58	85.4%
2015/08	36,929	469.44	3.1%	108.74	82.8%
2015/09	36,810	545.60	21.9%	108.93	71.3%
2015/10	36,508	593.12	30.4%	107.49	47.9%
2015/11	36,548	521.78	28.0%	103.60	48.4%
2015/12	36,188	532.99	12.3%	118.15	35.1%
2016/01	29,735	678.59	22.4%	93.30	12.4%
2016/02	30,134	636.28	25.2%	98.73	21.1%
2016/03	28,596	718.43	28.4%	117.54	34.6%
2016/04	27,950	742.75	47.9%	109.84	13.6%
2016/05	27,567	710.53	37.7%	122.48	30.3%
2016/06	27,101	704.17	30.2%	124.75	17.7%

11. Why are you projecting a core trend of 7.9% for 2017/2016 when recent experience is showing 6.6%?
    Response: The 7.9% trend is the assumed rating trend in 2017/2016 with utilization. 6.6% trend is the trend used in the 2016 filing. We did not interpret it as actual experience trend. We can modify the Data Request with this information. We apologize for the misunderstanding.

    Experience trend with Substance Abuse for 2015 versus 2014 is very high with overall trend at 103%, with Medical (non-SA) at 17.1%.

		Medical Claims (non-Substance Abuse)		Substance Abuse Claims		Pharmacy Claims		Total Incurred Claims	
Year/Month	Members	Paid	Yr over Yr Paid Trend	Paid	Yr over Yr Paid Trend	Paid	Yr over Yr Paid Trend	Paid	Yr over Yr Paid Trend
2015/01	35,653	554.19	19.3%	102.75	777.4%	83.04	116.0%	740.03	43.8%
2015/02	35,927	508.01	9.7%	156.75	1089.4%	81.51	90.5%	746.33	43.8%
2015/03	38,239	559.37	20.9%	314.81	1400.3%	87.32	81.3%	961.57	80.8%
2015/04	37,546	502.14	16.5%	291.79	1500.5%	96.67	62.8%	890.68	75.1%
2015/05	37,214	515.94	17.6%	270.38	1219.0%	94.02	64.2%	880.42	70.5%
2015/06	37,004	540.70	14.0%	280.03	1180.8%	106.01	70.7%	926.82	66.0%
2015/07	36,912	509.75	10.5%	389.75	1532.1%	116.58	85.4%	1,016.15	85.3%
2015/08	36,929	469.44	3.1%	463.59	2113.8%	108.74	82.8%	1,041.85	94.4%
2015/09	36,810	545.60	21.9%	626.69	2471.4%	108.93	71.3%	1,281.30	139.2%
2015/10	36,508	593.12	30.4%	1,003.15	2785.1%	107.49	47.9%	1,703.85	203.0%
2015/11	36,548	521.78	28.0%	935.35	1644.5%	103.60	48.4%	1,560.81	194.0%
2015/12	36,188	532.99	12.3%	826.04	1345.9%	118.15	35.1%	1,477.25	138.6%
CY 2014	638,521	452.14		28.09		62.33		542.55	
CY 2015	441,478	529.38	17.1%	471.12	1577.4%	101.01	62.1%	1,101.58	103.0%

12. How did you calculate the projected income tax of (68.33), pre-tax margin of (188.79), and post-tax margin of (120.45)? See the "retention" tab in the rate review data request workbook.
    Response: The income tax is calculated as:

    Income Tax = (After-Tax Profit + Ins Fee)/(1-Corporate Tax Rate) x Corporate Tax Rate
    = (-15.0% + 0.0%) / (1 - 36.2%) x 36.2%
    = -8.5%

    Income tax is expressed as a % of Risk Adjusted Revenue (Premium Net of Risk Adjustment), therefore the dollar amount is -$68.33 = -8.5% x $805.71.

    Post-tax margin is the profit level needed to result in our proposed rate increases. Applied to risk-adjusted revenue, this equates to -$120.45 = -15.0% x $805.71.

    Pre-tax margin is calculated as the post-tax margin + income tax = -$120.45 + -$68.33 = -$188.79.

13. Were there any changes made to the metal tier sloping from 2016 to 2017? If so, please show evidence that they should be modified.

Response: Covered CA did change the standard plans and those plans have new AVS for 2017 which we used. Otherwise, there were no changes to metal tier sloping from 2016 to 2017. The premium differences between plans due to benefits is calculated as AV x Induced Demand x Normalization Factor. Induced Demand remains the same, which determines the slope.

14. For regions 15 and 17-19, is the Bronze PPO only offered along with Silver, Gold, and Platinum HMOs?
Response: That is correct. Bronze PPO is offered in those regions. So is Platinum through Silver HMO.

15. Regarding the "morbidity – reweighting claims to current" adjustment in the rate development, did you normalize the CY 2015 Total HCC's used in the calculation for induced demand, AV, etc.? Also, you are assuming a net reduction in Gold plan membership and net gain in Platinum plan membership from 2015 to 2017 in your calculation. We looked at the actual membership changes by metal tier from 2015 to 2016 and found that there was a reduction in both Platinum and Gold membership and a gain in Silver plan membership. Can you please comment?

Response: This adjustment calculated as the claims cost of the renewing ACA market weighted by the expected member months in the rating period, rather than the experience member months. Implicitly, we are saying that sicker members stayed enrolled from 2015 to 2016. We calculated the reweighting after other claims adjustments to 2015 experience and it is computed at the region level. However the chart below, which is aggregated at the metal level, demonstrates how much claims costs increase when we switch from experience period member months to rating period member months.

	Cy 2015 Claims PMPM		2015 Avg Members	2017 Avg Members	2015 % of Book	2017 % of Book
Platinum	4,683.12		4,830	3,370	13%	16%
Gold	950.80		5,115	1,776	14%	9%
Silver	960.10		8,134	4,668	22%	23%
Bronze	263.50		15,265	8,838	42%	43%
Catastrophic	105.84		3,358	1,775	9%	9%
			36,703	20,428	100%	100%
Wgt by 2015	1,080.91					
Wgt by 2017	1,197.84					

In the rate development this morbidity adjustment is performed after other claims adjustments relating to Substance Abuse, hence why claims PMPM on Line L is $904 rather than $1,197. There is normalization for plan/age/area demographic shifts in Line (U) through (X).

16. Regarding the rate development, did you adjust 2015 claims to reflect the fact that Region 16 was eliminated in 2016 for the off exchange plans?

    Response: Yes, the expected membership in Region 16 is 0 in the rating period, hence Region 16 claims experience in 2015 is given 0 weight and eliminated from the 2017 development of the base rate/change.