Part III: Actuarial Memorandum

[Redacted]

Celtic Insurance Company

Annual Individual Health Rate Filing

Alabama

Effective: January 1, 2024

Forms: 53932AL010, 53932AL011

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1. General Information

SCOPE AND PURPOSE

This document contains the Part III Actuarial Memorandum for the individual health rate filing submitted by Celtic Insurance Company (Celtic) in the state of Alabama, effective January 1, 2024. This actuarial memorandum is submitted in conjunction with the Part I Unified Rate Review Template (URRT). This is a renewal rate filing.

The purpose of the actuarial memorandum is to provide certain information related to the submission, including support for the values entered into the Part I URRT, which supports compliance with market rating rules and reasonableness of applicable rates. This information may not be appropriate for other purposes.

This information is intended for use by the Alabama Department of Insurance, the Center for Consumer Information and Insurance Oversight (CCIIO), and their subcontractors to assist in the review of Celtic's individual rate filing. However, we recognize that this certification may become a public document. Milliman makes no representations or warranties regarding the contents of this actuarial memorandum to other users. Likewise, other users should not place reliance upon this actuarial memorandum that would result in the creation of any duty or liability for Milliman or its employees under any theory of law.

The premium rates developed and supported by this Actuarial Memorandum assume that federal cost-sharing reduction (CSR) subsidies will remain unfunded in plan-year 2024. Future modifications in legislation, appropriations and/or court decisions regarding the funding of CSR payments may affect the extent to which the premium rates are neither excessive nor deficient.

As instructed by Celtic, the premium rates developed and supported by this Actuarial Memorandum are based on legislative and regulatory provisions in effect at the time of preparation or otherwise scheduled by law or regulation to take effect in plan-year 2024. Changes to provisions that impact 2024 may affect the extent to which the premium rates are sufficient and neither excessive nor deficient. Celtic reserves the right to file revised rates in the event of changes to the regulatory environment in which they were developed to ensure rates are appropriate.

If subsequent information on regulatory developments or market disruptions becomes available that would materially affect this rate filing submission, we would like to work with the Alabama Department of Insurance to update our pricing assumptions accordingly and resubmit this rate filing.

In addition to the considerations outlined above, material rating impacts could arise from changes to various factors, including but not limited to:

- Risk adjustment program payments and operation
- Limit on age rating factors
- Legal challenges to provisions of the Patient Protection and Affordable Care Act (ACA)
- Open enrollment duration and grace period modifications
- Status and implementation of Medicaid Expansion
- Enrollment of other populations (Medicare, Medicaid, high risk pool)
- Non-QHP coverage options (e.g. association health plans, short-term limited-duration insurance)
- Rules for Health Savings Accounts and Health Reimbursement Arrangements
- Section 1332 Waiver (e.g. state-based reinsurance program)
- Pharmacy (e.g. rules concerning mid-year formulary changes, pharmacy rebates, and treatment of cost sharing)
- Taxes and fees

If there are material deviations in the state-wide average premium (SWAP) for 2024 – for example, based on changes in the number of carriers in the market or carriers' pricing assumptions for 2024 – we would like to work with the Alabama Department of Insurance after the initial submission to update our estimated risk adjustment transfer.

The results are actuarial projections. Actual results will vary from those projected in the filing for a number of reasons, including population changes, claims experience, and random deviations from assumptions.

COMPANY IDENTIFYING INFORMATION

- Company Legal Name: Celtic Insurance Company
- State: The State of Alabama has regulatory authority over these policies.
- HIOS Issuer ID: 53932
- Market: Individual
- Effective Date: January 1, 2024

COMPANY CONTACT INFORMATION

- Primary Contact Name
- Primary Contact Telephone Number
- Primary Contact Email Address

DESCRIPTION OF BENEFITS

These products are issued by Celtic as EPO health policies.

The major provisions of this form for each plan design and product can be found in Appendix 1.1.

RATE GUARANTEES

Rates are guaranteed not to change through December 31, 2024.

RENEWABILITY

Each policy is renewable by paying the applicable renewal premiums unless the policy holder no longer meets the eligibility requirements of the policy or the company decides not to renew all the policies in the state.

APPLICABILITY

The rates will apply to new and renewing business.

GENERAL MARKETING METHOD

These products will be sold through agents, direct mailings, the internet, and the Federally-facilitated Exchange.

ESTIMATED AVERAGE ANNUAL PREMIUM

The estimated average annual premium per policy in calendar year 2024 is

DISTRIBUTION OF BUSINESS

See Appendix 1.2 for the expected age and geographic distributions for these products.

RATE TABLES

See Appendix 1.3 for allowable rating factors. Appendix 1.4 also includes an example of how rating factors will be applied. For family coverage, rates for children are charged to no more than the three oldest covered children under age 21 consistent with the ACA.

2. Proposed Rate Changes

The rate changes for each product offered in the single risk pool by Celtic in the State of Alabama are reflected in Worksheet 2, Section I of the Part I URRT.

REASONS FOR RATE INCREASE(S):

The rate projections for 2024 have been updated from the previous year's projections to reflect the most recent information available.

The following provides a narrative description of the significant factors driving the proposed rate change for 2024. This breakdown is intended only for explanatory purposes and is distinct from the development of rates, as described in the subsequent sections of this memorandum.

3. Single Risk Pool

The 2024 rate development is based on the single risk pool set by the State of Alabama, which was established according to the requirements in 45 CFR Part 156.80. The single risk pool is defined as the non-grandfathered individual business in Alabama.

The single risk pool for the projection period does not include members who are eligible to remain enrolled in transitional plans.

4. Experience and Current Period Premium, Claims, and Enrollment

Not applicable. This product has no 2022 experience.

5. Benefit Categories

The algorithm used to assign the experience and manual data utilization and cost information is summarized as follows:

INPATIENT HOSPITAL

Inpatient hospital includes non-capitated facility services for medical, surgical, maternity, mental health and substance abuse, skilled nursing, and other services provided in an inpatient facility setting and billed by the facility.

OUTPATIENT HOSPITAL

Outpatient hospital includes non-capitated facility services for surgery, emergency room, lab, radiology, therapy, observation, and other services provided in an outpatient facility setting and billed by the facility.

PROFESSIONAL

Professional includes non-capitated primary care, specialist, therapy, the professional component of laboratory and radiology, and other professional services other than hospital based professionals whose payments are included in facility fees.

OTHER MEDICAL

Other medical includes non-capitated ambulance, home health care, DME, prosthetics, supplies, vision exams, dental services, and other services. The measurement units for utilization used in this category are a mix of visits, cases, procedures, etc.

CAPITATION

Capitation includes all services provided under one or more capitated arrangements.

PRESCRIPTION DRUG

Prescription drug includes drugs dispensed by a pharmacy and is net of rebates.

6. Trend Factors

Not applicable. This is a filing based on manual rate projections. Please see Section 8, "Manual Rate Adjustments", for details regarding the development of the Manual EHB Allowed Claims PMPM, which is on a 2024 calendar year basis.

7. Adjustments to Trended EHB Allowed Claims PMPM

Not applicable. This is a filing based on manual rate projections. Please see Section 8, “Manual Rate Adjustments”, for details regarding the development of the Manual EHB Allowed Claims PMPM, which is on a 2024 calendar year basis.

8. Manual Rate Adjustments

SOURCE AND APPROPRIATENESS OF EXPERIENCE DATA USED

Manual Experience Basis

Manual Morbidity Basis

ADJUSTMENTS MADE TO THE DATA

The following adjustments were made to calibrate the pricing model to the expected population:

See Appendix 8.1 for a demonstration of these adjustments. The adjustments, which are discussed above, are appropriate and necessary to reflect the anticipated population, region, provider network, and benefits anticipated for the 2024 single risk pool.

INCLUSION OF CAPITATION PAYMENTS

9. Credibility of Experience

Celtic does not have calendar year 2022 experience on which to base rate development. 0% credibility was assigned to experience.

10. Establishing the Index Rate

Celtic did not offer products in 2022, so the Index Rate for the Experience Period does not apply.

The Index Rate for the Projection Period (calendar year 2024) is reflected in Worksheet 1, Section II of the URRT. It was developed following the specifications of 45 CFR part 156.80(d)(1). The Index Rate for the Projection Period represents the estimated total combined projected allowed claims PMPM for EHBs for calendar year 2024 and has not been adjusted for payments and charges under the risk adjustment program or for Exchange user fees. The total allowed claims include benefits in excess of EHBs (coverage for adult vision and dental).

The Index Rate for the Projection Period will remain unchanged until a renewal filing effective January 1, 2025.

The development of the Index Rate for the Projection Period is shown in Worksheet 1, Section II. This reflects:

- The projection period of calendar year 2024
- The anticipated claim level of the projection period with respect to trend, benefits, and demographics
- The experience of all policies expected to be in the single risk pool (with necessary adjustments)

Appendix 10.1 demonstrates the calculation of the Projected Index Rate by blending the Experience Period Index Rate with the Credibility Manual Index Rate, as applicable. The next two sections further describe the steps taken to develop the Market-Wide Adjusted Index Rate and Plan Adjusted Index Rates.

11. Development of the Market-Wide Adjusted Index Rate

The Index Rate for the Projection Period is adjusted to arrive at the Market-Wide Adjusted Index Rate based on the following two adjustments, as outlined in 45 CFR 156.80(d)(1):

- Adjustment for the Risk Adjustment Program
- Exchange user fee adjustment

Since the Index Rate is on an allowed claims basis, the market-level adjustments are applied on an allowed basis. Similar to the Index Rate, the Market-Wide Adjusted Index Rate reflects the average demographic characteristics of the single risk pool. The Market-Wide Adjusted Index Rate is not calibrated. Appendix 11.1 shows the development of the Market-Wide Adjusted Index Rate.

REINSURANCE

No state or federal reinsurance recoveries are expected in the projection period. As such, no reinsurance was entered in the field for projected reinsurance on URRT Worksheet 1, Section II.

RISK ADJUSTMENT PAYMENT/CHARGE

The Projected Risk Adjustment Transfer PMPM is shown on Worksheet 1, Section II on an allowed basis.

The state transfer calculation portion of the total risk adjustment transfer is based on the risk adjustment transfer formula, as provided in the Federal Register Volume 78 Number 47, and displayed below.

$$T_i = \left[\frac{PLRS_i \times IDF_i \times GCF_i}{\sum_i (s_i \times PLRS_i \times IDF_i \times GCF_i)} - \frac{AV_i \times ARF_i \times IDF_i \times GCF_i}{\sum_i (s_i \times AV_i \times ARF_i \times IDF_i \times GCF_i)}\right] \bar{P}_s$$

Where:

$\bar{P}_s$ = state average premium;

$PLRS_i$ = plan *i*'s plan liability risk score;

AV_i = plan *i*'s metal level AV;

ARF_i = plan *i*'s allowable rating factor;

IDF_i = plan *i*'s induced demand factor;

GCF_i = plan *i*'s geographic cost factor;

s_i = plan *i*'s share of state enrollment as measured in member months;

and the denominator is summed across all plans in the risk pool in the market in the state.

We project the portfolio average for each factor in the risk adjustment transfer formula using a combination of (i) the state's actual historical risk adjustment factors adjusted to the projected population and (ii) adjustments for market and risk adjustment program changes. The resulting aggregate payment or receivable is then proportionally allocated to all plans in the portfolio.

For the purpose of our modeling, each of these factors was assumed as follows.

$\bar{P}$: The state average premium was assumed to be

Note: For the 2024 benefit year, CMS approved a 50% reduction to risk transfers in Alabama's individual marketplace. Appendix 11.2 demonstrates the application of this reduction to the estimated risk transfer through a 0.50 multiplicative adjustment to the state average premium component of the transfer formula.

PLRS: The statewide average risk score is

HHS-HCC model and coefficient changes from 2022 through 2024 were considered in the development of the projected risk adjustment transfer. The demographic, plan mix, and morbidity assumptions supporting the projected statewide and Celtic risk score projections are consistent with the demographic, plan mix, and morbidity assumptions used to project claims costs.

IDF: The statewide average IDF is projected based on the average IDF of the single risk pool in 2022, as reported by HHS.

The average IDF for Celtic is projected by applying the induced demand factors from the market reform rule published in the March 11, 2013 Federal Register, page 15433, Table 11 to Celtic's projected population. The formula recognizes the following IDF factors by metallic tier: Bronze 1.00, Silver 1.03, Gold 1.08 and Platinum 1.15.

AV: The statewide average actuarial value (AV) is projected based on the average metal level AV of the single risk pool in 2022, as reported by HHS.

The average AV for Celtic is projected by applying the metal level AV factors from the market reform rule published in the March 11, 2013 Federal Register, page 15433, Table 9 to Celtic's projected population. The formula recognizes the following AV values by metallic tier: Bronze 0.60, Silver 0.70, Gold 0.80, and Platinum 0.90.

ARF: As stated in the March 11, 2013 Federal Register, page 15433, the allowable rating factor (ARF) adjustment accounts only for age rating.

The statewide average ARF is projected based on the average ARF of the single risk pool in 2022, as reported by HHS.

The average ARF for Celtic is projected by applying the Alabama state-specific age rating factors to Celtic's projected population. An equal distribution across ages within each age band was assumed.

GCF: The average GCF for Celtic relative to the statewide average was modeled based on historical GCFs by rating area, any anticipated changes in these GCFs over time, and Celtic's projected enrollment by rating area.

The total transfer is calculated as the sum of the state transfer calculation described above and a net transfer for 2024 attributable to the high cost risk pooling program. We modeled this as the combination of a receivable, based on the attachment point and coinsurance from the 2024 Notice of Benefit and Payment Parameters (NBPP), and an assessment, based as a percentage of premium.

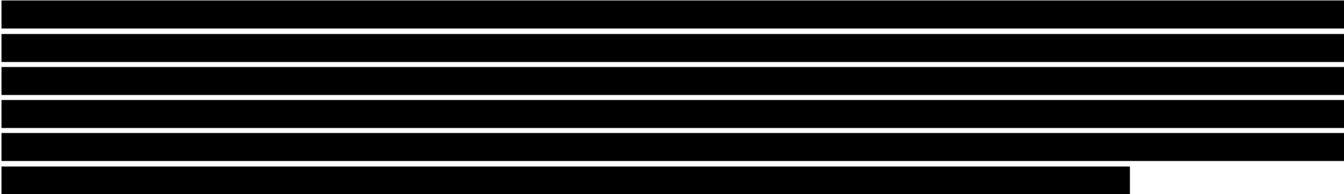
Outliers were reflected in our calculations to the extent that outliers are reflected in historical risk scores used as the starting point of the 2024 risk transfer projection and via the calculation of the net high cost risk pooling receivable or payment. Otherwise, there were no "potential outlier assumptions" that would have an impact on transfers.

The projected transfer amount assumes no impact under the Risk Adjustment Data Validation (RADV) process.

The risk adjustment transfer amounts shown on Worksheet 1 of the URRT are the actual PMPM amounts expected in the projection period on an allowed basis. The risk adjustment transfer amount applied to the Index Rate in the development of the Market-Wide Adjusted Index Rate is on an allowed claims basis, as the Index Rate is on an allowed claims basis.

The demographic, plan mix, and morbidity assumptions supporting the risk transfer projection are consistent with the demographic, plan mix, and morbidity assumptions used to project claims costs.

EXCHANGE USER FEES



12. Plan Adjusted Index Rate

The Plan Adjusted Index Rates are included in Worksheet 2, Section III of the URRT. The Plan Adjusted Index Rates are the Market-Wide Adjusted Index Rate adjusted for only the following allowable adjustments, where applicable, as outlined in 45 CFR 156.80(d)(2):

- The actuarial value and cost-sharing design of the plan
- The plan's provider network, delivery system characteristics, and utilization management adjustment practices.
- Benefits provided under the plan that are in addition to the EHBs.
- Administrative costs, excluding the Exchange user fees (which are already accounted for in the Market-Wide Adjusted Index Rate).

There are no catastrophic plans being offered, so there is no eligibility adjustment made for catastrophic plan enrollment.

Administrative costs and other benefits (non-EHB) common to all plans are added to the Market-Wide Adjusted Index Rate. Then, factors for actuarial value and cost-sharing and non-EHBs by plan are applied to reach the Plan Adjusted Index Rate for each plan.

The development and values of the Plan Adjusted Index Rates are shown in Appendix 12.1.

The Plan Adjusted Index Rates reflect the average demographic characteristics of the single risk pool and are not calibrated.

ADMINISTRATIVE EXPENSE LOAD

The administrative expenses are allocated proportionally by plan on a constant percentage of premium basis. A breakdown of administrative expenses can be found in Appendix 12.2.

TAXES AND FEES

The taxes and fees which may be subtracted from premiums for purposes of calculating the MLR are listed in Appendix 12.2.

For 2024, the Risk Adjustment User Fee is included as part of Taxes and Fees on line 3.7 on Worksheet 2 of the URRT.

See Section 11, “Development of the Market-Wide Adjusted Index Rate”, for discussion on how the Exchange user fee is calculated and applied to the Market-Wide Adjusted Index Rate.

PROFIT (OR CONTRIBUTION TO SURPLUS) & RISK MARGIN

This load was applied proportionally to all products and plans and can be found in Appendix 12.2.

13. Calibration

The Plan Adjusted Index Rates are calibrated for plans within the single risk pool to correspond to an age rating factor of 1.0, a geographic rating factor of 1.0, and a tobacco use rating factor of 1.0. The intent of the calibration factors is to reset the Plan Adjusted Index Rates so that applying the age factor, geographic rating area factor, and tobacco use factor will result in the appropriate consumer adjusted premium rate. The calibration factors for each of the age, geographic, and tobacco use factors are shown in Appendix 13.1. Note that each of the calibration factors has one value that is applied uniformly and does not vary by plan.

AGE CURVE CALIBRATION

Appendix 13.1 demonstrates the calibration of the Plan Adjusted Index Rates for age. The distribution of members by age is in Appendix 1.2 and the age factors are in Appendix 1.3.

GEOGRAPHIC FACTOR CALIBRATION

TOBACCO USE RATING FACTOR CALIBRATION

CALIBRATION ADJUSTMENTS ARE APPLIED UNIFORMLY TO ALL PLANS

The calibration adjustment does not vary by plan as is evident in Appendix 13.1. The member-level adjustments as described in 45 CFR 147.102 are applied uniformly to all plans in the single risk pool, and these adjustments do not vary by plan.

Appendix 1.4 lists the steps to calculate final premium rates and shows the calculation for an example policy with family coverage.

14. Consumer Adjusted Premium Rate Development

Each Plan Adjusted Index Rate is divided by the overall calibration factor to determine the corresponding Calibrated Plan Adjusted Index Rate.

The following allowable rating factors, as specified by 45 CFR Part 147.102, are applied to the Calibrated Plan Adjusted Index Rate to determine the rate that is charged to the health insurance purchaser:

- Age
  - The Alabama state-specific age factors were used.
- Rating Area
  - The area factors are listed in Appendix 1.3. The methodology for developing geographic factors is included in Section 13, "Calibration".
- Tobacco status
  - [redacted]
- For family coverage, rates for children are charged to no more than the three oldest covered children under age 21.

Appendix 1.3 lists the allowable rating factors and Appendix 1.4 has an example calculation of a family's rates.

15. Projected Loss Ratio

The projected medical loss ratio (MLR) is [redacted]. The projected MLR is based on the prescribed calculation from 45 CFR 158, but solely reflects the projection year single risk pool experience, rather than the three-year combined period that is used for determining MLR rebates. There was no credibility adjustment applied to the projected MLR. Including a credibility adjustment would only increase the projected MLR, which already satisfies the MLR requirement. See Appendix 15.1 for the calculation for the projected federal medical loss ratio.

16. AV Metal Values

The AV Metal Values included in Worksheet 2 of the Part I URRT were calculated using the Final 2024 Federal AV Calculator for the plan provisions that fit within the calculator parameters and making appropriate adjustments to the AV identified by the calculator for plan design features that are not compatible with the parameters of the AV Calculator.

[redacted]

Please refer to Appendix 16.1 for screenshots documenting the outcomes of the AV Calculator for each plan.

17. Membership Projections

[redacted]

[redacted]

18. Terminated Plans and Products

A list of the plans being terminated and the plans to which these are being mapped is included in the appendices as Appendix 18.1.

19. Plan Type

20. Effective Rate Review Information

No additional information has been requested by the state.

21. Reliance

In the preparation of this filing, I relied upon data provided under the direction
I performed general reasonableness checks, but I have not audited the data and have relied upon its accuracy. To the extent that the underlying data is inaccurate, this filing may also be inaccurate. Actual results will vary from those projected in the filing. This is due to random fluctuations, unexpected large claims, changes in population, and other such factors.

See Appendix 21.1 for a listing of items received for the rate development.

22. Actuarial Certification

I, [redacted], am a member of the American Academy of Actuaries in good standing and meet its qualification standards for actuaries issuing statements of actuarial opinion in the United States promulgated by the American Academy of Actuaries, and have the education and experience necessary to perform the work. This filing is prepared on behalf of Celtic Insurance Company (the "Company") to comply with applicable State and Federal Statutes for individual rate filings.

I am affiliated with Milliman, Inc. ("Milliman"), an independent actuarial consulting firm that is not affiliated with, nor a subsidiary of, nor in any way owned or controlled by a health plan, health insurer, or a trade association of health plans or insurers.

I certify the rates were developed in accordance with the appropriate Actuarial Standards of Practice (ASOPs) and the profession's Code of Professional Conduct. While other ASOPs apply, particular emphasis was placed on the following:

- ASOP No. 5, Incurred Health and Disability Claims
- ASOP No. 8, Regulatory Filings for Health Benefits, Accident and Health Insurance, and Entities Providing Health Benefits
- ASOP No. 12, Risk Classification
- ASOP No. 23, Data Quality
- ASOP No. 25, Credibility Procedures
- ASOP No. 26, Compliance with Statutory and Regulatory Requirements for the Actuarial Certification of Small Employer Health Benefit Plans
- ASOP No. 41, Actuarial Communications
- ASOP No. 42, Health and Disability Actuarial Assets and Liabilities Other Than Liabilities for Incurred Claims
- ASOP No. 45, The Use of Health Status Based Risk Adjustment Methodologies
- ASOP No. 50, Determining Minimum Value and Actuarial Value under the Affordable Care Act
- ASOP No. 56, Modeling

I certify that to the best of my knowledge and judgment:

1. The Index Rate for the Projection Period 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
    d. Neither excessive nor deficient based on my best estimates of the 2024 individual market.
2. The Index Rate and only the allowable modifiers as described in 45 CFR 156.80(d)(1) and 45 CFR 156.80(d)(2) were used to generate plan-level rates.
3. The geographic rating factors used reflect only differences in the cost of delivery (which can include unit cost and provider practice pattern differences) and do not include differences for population morbidity by geographic area.
4. The CMS Actuarial Value Calculator, with appropriate adjustments, was used to determine the AV Metal Values shown in Worksheet 2, Section I of the URRT for all plans.

The URRT does not demonstrate the process used to develop proposed premium rates. The URRT supports my certification of items 1 and 2 above and provides information in support of rate review for qualified health plans, as required by Federal regulation. I am not providing an actuarial opinion regarding the appropriateness of using the URRT to develop proposed premium rates.

The 2024 plan year premium rates in this actuarial memorandum are contingent upon the status of the state and federal ACA statutes and regulations including applicable legislation, regulatory guidance, court decisions, and otherwise. Changes to these provisions have the potential to greatly impact required 2024 plan year premium rates as described in this Actuarial Memorandum and the alignment of these premium rates with incurred costs. Such changes may include, but are not limited to

changes to permissible or mandated covered benefits and benefit designs, changes to eligibility for and determination of APTCs, and changes to the funding status of cost sharing reduction plans.

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

Signed:

Name: [redacted]

Title: **Consulting Actuary**

Date: **June 30, 2023**

THE FOLLOWING APPENDICES HAVE BEEN REDACTED: 1.1 - 21.1