Rate Increase Justification

Today's Date: August 22, 2022

Issuer: Blue Shield of California (HIOS ID: 70285)

Rate Change Effective Date: 1/1/2023

Market: Individual

1. **Scope and range of the rate increase —** *Provide the number of individuals impacted by the rate increase. Explain any variation in the increase among affected individuals (e.g., describe how any changes to the rating structure impact premium).*

   Premium rate changes for Affordable Care Act compliant Individual Market health insurance plans for the 2023 plan year include an average annual rate increase of 3.5 percent. This 3.5 percent reflects an average DPPO increase of 4.4 percent (varying by region, ranging from 0% to 15%) impacting approximately 31,000 renewing California Individual members in the first quarter of 2023. The approximately 23,000 renewing California Individual members on DHMO plans will receive a rate pass for the 2023 plan year.

2. **Financial experience of the product —** *Describe the overall financial experience of the product, including historical summary-level information on historical premium revenue, claims expenses, and profit. Discuss how the rate increase will affect the projected financial experience of the product.*

   Blue Shield introduced Family Dental Plans for HMO and PPO in 2021.

   For DHMO, 2021 experience is favorable with a 60% loss ratio on 9K members. Since we gave a rate pass in 2022, but expect dental expenses to trend, the projected 2022 loss ratio is 62%. DHMO is receiving rate pass for 2023 driven by favorable 2021 experience. The 2023 proposed rate pass yields a projected loss ratio of 62% for 2023. However, we are still projecting a profit loss at -10.3% driven by administrative costs.

   For DPPO, 2021 experience is unfavorable with an 89% loss ratio on 16K members. Since we gave a rate pass in 2022, but expect dental expenses to trend, the projected 2022 loss ratio is 93%. DPPO is receiving an average rate increase of 4.4% for 2023 driven by unfavorable 2021 experience. The 2023 proposed rate increase should help mitigate the loss on these plans and bring the loss ratio down to 89%. But, it is not expected to yield any profit in 2023 with loss estimated at -8.7%.

3. **Changes in Medical Service Costs —** *Describe how changes in medical service costs are contributing to the overall rate increase. Discuss cost and utilization changes as well as any other relevant factors that are impacting overall service costs.*

   The experience of our family dental plans was used to project future claims costs and premiums. The experience period of January 1, 2021 through December 31, 2021 paid as of January 31, 2022 was used as the basis of our projections for claims costs. The estimates include an assumption for trend, but do not consider any potential changes in contracting, behavior, morbidity, regulations, or other factors such as COVID-19 pandemic which may change future claim patterns. The experience period of January 1, 2021 through December 31, 2021 was used as the basis of our projections for membership and premium costs.

DHMO is receiving rate pass driven by favorable 2021 experience and recognition of more provider control by BSC.

DPPO is receiving an average rate increase of 4.4%, with increases ranging from 0%-15% at the regional level

- 2021 experience performing unfavorably
- Although baseline experience supports a higher rate action, we applied a minimal 4.4% rate increase because of the following reasons:
    - Product is new (launched in 2021) and our baseline experience is not fully credible
    - PPO utilization for 2021 might be temporarily higher due to COVID
- Competitive analysis also suggests our rates are underpriced in several regions, leading us to vary 2023 rate increases at the regional level
- 2023 average rate is reasonable in comparison to our long-standing off-exchange plan with similar benefits

4. **Changes in benefits —** *Describe any changes in benefits and explain how benefit changes affect the rate increase. Issuers should explain whether the applicable benefit changes are required by law.*

There are no changes to benefits in 2023 relative to 2022

5. **Administrative costs and anticipated margins —** *Identify the main drivers of changes in administrative costs. Discuss how changes in anticipated administrative costs and underwriting gain/loss are impacting the rate increase.*

Administrative cost increases include broker commissions (5.4% in 2022 to 7.5% in 2023), exchange fee (0.2% in 2022 to 2.3% in 2023) and fixed administrative costs (DPPO increased from 12% in 2022 to 19% in 2023).

While administrative costs increased, we lowered our target margin to offset this increase such that the rate impact was offset.