

## MAINE INDIVIDUAL SECTION B - 2017 INDEX RATE DEVELOPMENT: NARRATIVE

This exhibit summarizes the adjustments made to Aetna's Maine Individual and Small Group 2015 experience results to develop the 2017 Individual premium rates for the Maine market. Adjustments with further support are noted with an asterisk(\*).

- Experience
  - Base Experience - With only 2,523 member months during calendar year 2015, Aetna's Maine Individual results are only 10.3% credible.
  - Manual Rate - Credibility was achieved by using Small Group experience as a proxy, with certain adjustments outlined below.
- Index Rate of Experience Period
  - These PMPM rates reflect 2015 Allowed Claims less any non-EHB impact divided by member months.
  - 100% of Individual benefits are considered EHBs; however, Small Group benefits include an adult vision exam; therefore claims are reduced by 0.998 to develop the Experience Index Rate PMPM.
- Population Risk Adjustment\*
  - Reflects the expected difference in risk between the 2015 experience period and the 2017 projection period. See supporting exhibit.
  - ~~While Individual population risk is not expected to change,~~ An adjustment has been applied to Small Group results. This adjustment reflects the difference in Allowed Charges between groups with one or two enrolled subscribers versus **the total Aetna small group population larger groups**. Allowed Charges have been normalized for large claims.
  - **Due to elements detailed in the supporting exhibit and Supplemental Actuarial Memorandum, an additional morbidity adjustment of 250 basis points has been included.**
- Benefit Mandate/EHB Benchmark Change
  - No new benefit mandates nor changes to the EHB Benchmark were noted as having a material impact to claims.
- Area Shift\*
  - This adjustment recognizes the impact of changes to the distribution of the covered population across counties, as well as changes to the area factors between the experience and projection periods.
  - See supporting exhibit.
- Network Adjustment
  - This adjustment applies to the experience period Small Group PPO claims only, converting them from actual PPO results to expected Whole Health network configuration.
- Demographic Adjustment\*
  - This adjustment recognizes the impact of changes in the covered population distribution over time.
  - See supporting exhibit.
- Benefit Mix Change
  - This adjustment addresses the combined impact of 1) benefit changes to achieve 2017 Actuarial Value compliance, 2) new plan offerings, 3) benefit modeling updates, and 4) expected member distributions.
- Total Other Adjustments
  - Total impact to the experience period results to reflect changes in assumptions for the projection period.
- Allowed Trend Adjustment
  - See Section A and the Supplemental Actuarial Memorandum for the development of projected trend.
  - The number of months of trend is developed as:
    - Experience Period: 1/1/15 – 12/31/15, midpoint is 7/1/15
    - Projection Period: 1/1/17 – 12/31/17, midpoint is 7/1/17
    - There are 24 months between 7/1/15 to 7/1/17

- Total Allowed Trend
  - Reflects a 7.3% annual allowed trend rate carried over 24 months
- Projected Allowed PMPM (URRT Index Rate)
  - Experience Period results adjusted for differing assumptions in the projection period and 24 months of trend
- Expected Paid to Allowed Ratio\*
  - The weighted average Paid to Allowed Ratio based on projected membership distribution by plan offering
  - See supporting exhibit
- Incurred Claims, before Risk Adjustment
  - The expected 2017 Incurred Claims before the expected impact of the Federal Risk Adjustment program.
- Federal Risk Adjustment projection
  - An adjustment to reflect expected +Payer/-Receiver status for the Federal Risk Adjustment program, netted for the 2017 Risk Adjustment Program fee of \$0.13 PMPM.
  - The 2017 Aetna Individual population is expected to be a better average risk relative to the overall Maine Individual market by \$19.00 PMPM, or approximately 5% of premium. This assumption is based on Aetna's national results in Individual markets utilizing Aetna Whole Health networks.
- Projected Incurred Claims
  - The expected 2017 Incurred Claims after adjustment for the Federal Risk program.
- Total Expenses
  - The expected expense structure for 2017, excluding the Risk Adjustment Program Fee, which is accounted for in the net program results under the Incurred Claims section.
  - See the ME Supplemental Actuarial Memorandum for further details.
- Single Risk Pool Total Average Premium PMPM
  - Incurred Claims + Expense PMPM
  - Weighted by projected membership across all plan offerings, geographies, and ages
- Tobacco Calibration Factor\*
  - The expected overall impact of utilizing a 20% tobacco surcharge for smokers.
  - See supporting exhibit.
- Plan Adjusted Index Rate
  - The average premium PMPM reflective of a 1.0 value for tobacco adjustments.
- Age Calibration Factor\*
  - The adjustment to bring the average age of the premium PMPM from 49 to 21 (1.0).
  - See supporting exhibit.
- Area Calibration Factor\*
  - The adjustment to bring the average area factor inherent in the premium PMPM to 1.0.
  - See supporting exhibit.
- Consumer Adjusted Premium Rate
  - The 2017 Individual calibrated plan adjusted index rate reflective of a value of 1.0 for Tobacco Use, Area, and Age.
  - Weighted by projected membership across all plan offerings