

Written Description Justifying the Rate Change
Part II

BlueCross BlueShield of SC
Rate Revision (effective 1/1/2016) for Business BlueEssentials
ACA Qualifying Health Plans issued in 2014 and 2015

Scope and range of rate increase:

Depending on the plan selected, about 23,000 subscribers to one of twenty-one Business BlueEssentials ACA-compliant Small Group health plans issued in 2014 and 2015 will see a change in premiums effective at renewal beginning January 1st, 2016.

Reasons for rate increase:

Significant factors driving the proposed rate changes include, but are not limited to, the following:

- Medical inflation
- Changes in utilization of medical services
- Changes in deductibles, copays, and out-of-pocket maximums
- New taxes and fees imposed on the issuer

Financial experience:

If the Federally prescribed MLR is below 80%, a rebate will be paid in accordance with 45 CFR Part 158. The rate change effective January 1, 2016 will be implemented in order to mitigate the effect of rising claims costs.

Changes in Medical Service Costs:

There are concerns that trends - utilization, in particular - will increase as unemployment remains lower, the recently insured market expands, and average morbidity levels increase after a period of sacrificed care.

Further, anticipated pressure on hospital and physician cost trends will come from (1) continuing hospital acquisition of physician practices in SC; and (2) shifting of provider based billing to the more expensive facilities.

Changes in benefits:

Changes to deductibles, copayments, and out-of-pocket maximums to some Business BlueEssentials products were implemented such that the metallic levels of those products were not affected.

Administrative costs and anticipated profits:

While administrative costs were set at a flat-dollar amount based on internal cost and budget estimates, some Federally mandated fees have increased as a percentage of premium.

In the normal course of business, we must cover increases in compensation and other operating costs. Additionally, we anticipate ongoing increased administrative costs due to the new regulatory requirements of the ACA. We are reacting very aggressively to these anticipated administrative cost increases by focusing intensely on our current administrative processes and practices, identifying potential areas for cost reduction in the new regulatory environment.

Our profit load includes a margin for contingencies. In the new regulatory environment, the uncertainty related to future mandated benefits, pricing regulations, and market changes require a consistent contingency margin. The corporate goal is to maintain an appropriate level of administrative costs and contingency margin as a percentage of premium.