

## Rate Increase Justification

Today's Date: 07/18/2022

Issuer: Local Initiative Health Authority for Los Angeles County, dba LACHP

Rate Change Effective Date: January 1, 2023

Market:

- 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).

There are currently 113,596 members who are subject to the rate increase. Below is a table showing the rate increase by plan and area. The overall rate increase is 2.0%. Rate increases vary by plan due to revisions Covered California has required in the standard benefit plan designs as well as updates to benefit plan modeling. Further, changes in taxes and fees that are applied as fixed PMPMs will impact plans differently on a percentage basis due to varying premium levels.

Plan	2022 Rate			2023 Rate			Rate Change
	Rating Area 15	Rating Area 16	Composite	Rating Area 15	Rating Area 16	Composite	
Platinum	\$518.06	\$561.68	\$540.63	\$529.19	\$573.76	\$552.26	2.2%
Gold	\$574.54	\$496.07	\$477.14	\$465.52	\$504.72	\$485.46	1.7%
Silver	\$437.71	\$474.57	\$454.98	\$444.64	\$482.08	\$462.19	1.6%
Bronze	\$352.18	\$381.84	\$367.74	\$364.20	\$394.87	\$380.29	3.4%
Catastrophic	\$343.33	\$372.24	\$362.13	\$345.33	\$374.41	\$364.23	0.6%

- 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.

Below is a summary of the loss ratio from 2020-2023 by year for this product:

	2020	2021	2022	2023
Claims	\$247,040,528	\$277,429,233	\$396,658,937	\$365,066,298
Quality Improvement	\$3,364,211	\$1,345,850	\$1,254,145	\$2,404,797
Risk Adjustment	\$91,084,170	\$144,272,927	\$156,143,298	\$168,363,505
<b>Adjusted Claims</b>	<b>\$341,488,909</b>	<b>\$423,048,009</b>	<b>\$554,056,381</b>	<b>\$535,834,599</b>
Premium	\$456,678,529	\$526,463,859	\$605,278,750	\$615,725,565
Taxed and Fees	\$16,474,568	\$19,150,435	\$20,814,634	\$20,642,625
Charitable Contributions	\$0	\$0	\$0	\$0
<b>Adjusted Premium</b>	<b>\$440,203,962</b>	<b>\$507,313,424</b>	<b>\$584,464,116</b>	<b>\$595,082,940</b>
<b>MLR</b>	<b>77.6%</b>	<b>83.4%</b>	<b>94.8%</b>	<b>90.0%</b>

Premium revenue in total has increased over the years due to increasing enrollment from year to year however the rate premium rate change in 2020 and 2021 composited to a decrease for this product.

Claim expenses in total have also increased over the years due to increasing enrollment from year to year. Claim expense PMPMs have been relatively flat over the past few years, mostly driven by consistent reimbursement levels with provider groups.

Profit has fluctuated over the years, starting with the beginning of the Affordable Care Act (ACA) in 2014. Most of this fluctuation is driven by the ACA risk adjustment program. LACHP is a large payer into the risk pool. Risk adjustment makes up about a quarter of LACHP's premiums. Some years, risk adjustment ends up being higher than projected, and vice versa. In 2020 and 2021, LACHP had a positive margin. In 2022, we expect that LACHP will break even or have a slightly negative margin.

The proposed rate increase is that which is required to achieve a 2% margin in 2023. This rate increase is projected to reduce the medical loss ratio to 90.0%.

**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.*

Changes in medical service costs are changing the overall rates by -2.2%. This is made up of by the following:

- (-3.8%) The starting allowed costs changed between the 2020 fee for service (FFS) and capitation experience used in the 2022 rate filing and the 2021 experience used in the 2023 rate filing. The 2021 capitation levels decreased compared to 2020, which we expected based on our observation of emerging 2021 capitation levels while developing the 2022 rate filing. In addition, the cost of shared risk settlements for 2021 decreased compared to 2020.
- (+2.7%) The unit cost trends assumed for the 2022 rate filing were very low, given a large, expected decrease in capitation levels between 2020 and 2021. For the 2023 rate filing, we still expect a decrease in capitated costs relative to 2021 levels, but not as low as the capitation unit cost trends implied in the 2022 rate filing.
- (-0.8%) In the 2022 rate filing, we included a one-time adjustment to the utilization trend for inpatient and outpatient FFS to account for COVID-19 suppression in the 2020 base period. This adjustment has been removed for the 2023 rate filing.
- (-0.3%) The 2022 rate filing assumed additional costs for the COVID-19 vaccine in 2022. The 2023 rate filing does not assume a significant difference in any COVID-19 costs in 2023 compared to 2021, including vaccine/boosters and testing.

**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.*

All cost sharing changes are based on Covered California's standard plan designs for the 2023 plan year. The most notable changes were to the Individual-only Silver Plan and Silver Plan 200%-250% FPL to make them leaner. All other changes were minor.

**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.*

Changes in administrative costs and underwriting gain/loss are changing the overall rates by -2.8%. This is made up of by the following:

- (-2.7%) Projected administrative costs and commissions decreased between 2022 and 2023 due to the refinement of LACHP's administrative cost allocations.
- (-0.1%) The MCO tax has been removed for 2023, as it is set to expire after December 2022. All other taxes and fees are consistent with the 2022 rate filing.
- (+0.0%) The projected surplus remains the same between 2022 and 2023 (both 2.0%).