Rate Increase Justification

Today's Date: 7/15/2022

Issuer: Sharp Health Plan

Rate Change Effective Date: January 1, 2023

Market: Small Group (SG) Non-Grandfathered (NGF)

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).*

   On average, the proposed rates for 1Q2023 are 3.4% higher than 1Q2022 rates. The annual rate changes vary from 0.6% to 9.4% depending on the selected plan. These rate changes will impact approximately 24,000 members if they renew their coverage.

   Rate increases for the Covered California Small Business (CCSB) plans vary by plan due to revisions Covered California has required to be made to the standard benefit plan designs and updates to benefit plan modeling. Similarly, rate increases for Off-Exchange Non-Mirrored plans vary by plan due to revisions needed for all plans to remain compliant with the 2023 federal Actuarial Value Calculator (AVC). Further, changes in admin, taxes, and fees that are applied as fixed PMPMs will impact plans slightly differently due to varying premium levels.

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.*

   In 2021, $135,600,787 in premium revenues were collected for the Small Group NGF product. Including risk adjustment transfers, total revenue for 2021 is estimated to be $132,824,560. Estimated 2021 incurred claims totaled $105,795,907. The resulting loss ratio, calculated as the ratio of incurred claims to total revenue, is 79.7%, which represents the portion of revenue used to pay for claim expenses. The remainder is the portion of revenue used for administrative expenses, taxes and fees, and profit or risk margin. With the allowable adjustments in federal MLR reporting, the adjusted MLR is expected to be above the 80% minimum requirement.

   The proposed rate increase will align revenues with expected costs in the 1Q2023 projection period. The resulting projected loss ratio is 82.5%, which reflects an underlying target risk margin of 0.5%.

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.*

   Projected medical service costs have increased 4.4% relative to the projected costs in the 1Q2022 SG NGF filing. There are several factors that contribute to the increase in the medical service costs, which in turn drives an increase to the premium rates. These factors include:

- Increases in utilization of healthcare services. Utilization increases occur when more people use services, or if the same people use more services. Specifically, Sharp Health Plan (SHP) has observed an increase in the utilization of behavioral health services and expects this increased utilization to continue into 2023.
- Increases in the price of healthcare services. Increases in the price of healthcare services, or inflation, occurs when reimbursement rates negotiated with providers and pharmaceutical stakeholders increase. SHP expects reimbursement rates to increase for its delegated and contracted providers.
- Changes in service mix. Changes in service mix cause increases to medical service costs due to more intense, and therefore more expensive, services being utilized.
- New legislation. Generally, federal and state legislation can lead to increases in medical service costs for a variety of reasons. The 1Q2023 rates reflect additional costs due to California Senate Bill No. 510, which requires issuers to fully cover the cost of COVID-19 testing and vaccinations.

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.*

Covered California sets the plan designs for CCSB plans to be offered through their state-based exchange. Issuers participating in the exchange are required to offer these standard plan designs. While there are no changes in covered benefits, there are changes to the cost sharing amounts in the standard plan designs. Only the 2023 Silver plans changed relative to 2022 plan designs, where the cost sharing on these plans increased, meaning the plan covers less of the total costs, leading to a reduction in the rate increase on these plans.

In addition, while there are no benefit changes on the Off-Exchange Non-Mirrored plans, over half of the plans required similar cost sharing changes to remain compliant with the 2023 AVC.

The impact of these cost sharing changes varies by plan.

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.*

The general administrative costs included in rates have increased slightly from $31.28 PMPM in 1Q2022 to $32.24 PMPM in 1Q2023 to account for inflation and the rising costs associated with administering the SG benefits. The assumed commission loads applied as a percentage of premium have remained unchanged, but due to an increase in premiums, the equivalent PMPM load has increased.

The overall target risk margin assumed in 1Q2023 is 0.5%, unchanged from 1Q2022.