

Rate Increase Justification

Today's Date: 7/6/2026

Issuer: Sharp Health Plan

Rate Change Effective Date: January 1, 2027

Market: Individual and Family Plans

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 2027 are 11.7% higher than the filed 2026 rates based on current membership and premium. The rate increases range from 4.8% to 14.6% depending on the selected plan and will impact approximately 46,000 individuals if they renew their coverage. Rate increases vary by plan due to revisions Covered California has required to be made to the standard benefit plan designs, updates to benefit plan modeling, changes to SHP's commission schedule, and different provider reimbursement levels. Further, changes in 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 2025, \$288,813,455 in premium revenues were collected for the individual product. Including risk adjustment transfers, total revenue for 2025 is estimated to be \$275,935,205. Estimated 2025 incurred claims totaled \$231,934,248. The resulting loss ratio, calculated as the ratio of incurred claims to total revenue, is 84.1%, 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.

The proposed rate increase will align revenues with expected costs in 2027. The resulting projected loss ratio is 84.7%, which reflects an underlying target risk margin of 2.0%.

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.*

Projected medical service costs have increased 10.4% relative to the projected costs in the prior filing. There are several factors that contribute to this 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.

- Increases in the price of healthcare services. Increases in the price of healthcare services, or inflation, occur when reimbursement rates negotiated with providers and pharmaceutical stakeholders increase. SHP expects reimbursement rates to increase for its delegated and contracted providers. Changes in prescription drug ingredient costs also contribute to the increase.
- Changes in service and/or drug mix. Changes in service and/or drug mix cause increases to medical and pharmacy service costs due to more intense, and therefore more expensive, services and/or drugs being utilized.
- New state and federal legislation and regulation. Recently passed state and federal legislation and regulation are expected to contribute to an overall increase in medical service cost levels.

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 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, including increased deductibles, out of pocket maximums (OOPM), and copays. All plans have OOPM increases. The impact of these cost sharing changes varies by plan and averages approximately -1.6%, with the largest decreases on Platinum and Bronze plans.

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.*

Total anticipated 2027 administrative costs (including commissions and taxes/fees) as a percentage of premium have decreased relative to 2026 filed rates. This is driven by a reduction in the SHP administrative load and a reduction in the overall commission fees.

The overall target risk margin assumed in 2027 is 2.0%, reflecting a slight increase from 2026.