

Part II

Piedmont Community HealthCare, Inc.'s (PCHC) explanation of rate increase

Scope and Range of Rate Increase

Piedmont Community HealthCare, Inc. (PCHC) is requesting an overall average rate increase of 19.0% across all plans for the Individual PPO ACA product effective January 1, 2017. The proposed average 2017 rate increase which averages 19.0% consists of the following benefit plans and is based on projected membership in 2017 averaging 2,541 monthly members.

- Gold Preferred 950/35/60 - 16.4%
- Gold Preferred 1250/35/50 - 16.0%
- Silver Preferred 2900/40/60 - 17.6%
- Silver Preferred 3800/40/60 - 18.4%
- Bronze 5250 - 21.2%
- Bronze 6200 - 20.5%
- Bronze HSA 5000 - 21.5%
- Bronze HSA 6000 - 21.6%
- Silver Basic 2450 - 20.2%
- Catastrophic 7150 - -6.9%
- Silver Standard 3500/30/65 – (New in 2017)
- Bronze Standard 6650 – (New in 2017)
- Overall Weighted Average: 19.0%

Financial Experience of Product

Reported at year end 2015 for the experience period 1/1/15 through 12/31/2015, PCHC reported a pure estimated Medical Loss Ratio (MLR) of 89.4% in the first year of Health Care Reform for the Individual ACA program. This MLR, which is defined as the ratio of incurred claims to premium dollars received, consisted of medical care costs of \$10.6 million (unadjusted for reinsurance recoveries) and premium of \$11.9 million. When adjusting for the impact of the reinsurance recovery program for the 2015 experience period, the MLR yields approximately 82.9%; however, it is important to note that the reinsurance program will be eliminated in 2017.

Change in Medical Cost Services

2015 was the first year of experience for PCHC's Individual PPO plans. Comparing the actual experience to the underlying manual rate used in pricing, there is a significant difference in the utilization of services between the two populations. Overall, in the ACA block, we are seeing a large number of high dollar claimants, more use of specialty drugs and overall higher service utilization.

With medical and prescription drug trends anticipated to range from 7% to 8% per year through 2016 and 2017 (before the impact of deductible leveraging and any induced utilization), this increase in overall medical and pharmacy care costs offsets the approved average increase of approximately 5.2% overall in premium rates for 2016 further impacting the MLR.

Change in Benefits

A detailed description of the change in benefits by plan can be found in the Part III actuarial memorandum. From a high level, the 2017 benefit changes were designed to keep the applicable plans compliant with the Actuarial Value Calculator and offset some impacts of fixed dollar cost sharing leveraging.

Administrative Cost and Anticipated Profit

Overall, administrative costs are expected to be slightly lower from 2016 to 2017 on a PMPM basis. PCHC is requesting a 2.25% profit for 2017. This is the first time PCHC has requested a profit in the PPO Individual ACA market.