

August 3, 2017

Justification of Rate Increase Individual Market

Scope and Range of the Rate Increase

Blue Cross and Blue Shield of North Carolina (Blue Cross NC) requests an average rate increase of 14.1% for individuals enrolled on ACA-qualified products. The actual increase experienced by an individual will vary depending on factors such as their age, geographic location, and benefit plan. Government-provided premium tax credits should offset the impact for many of our customers; however, others will experience the impact if they are not eligible for subsidies.

Over 502,000 individuals across North Carolina enrolled in ACA-qualified coverage through Blue Cross NC as of March 2017. This filing continues to offer coverage to individuals in all 100 counties.

Financial Experience of the Product

We realized a financial loss of \$38 million on our Individual ACA products in 2016.

This loss was driven by claims and operating expenses that exceeded the amount of premium we received. In 2016, Blue Cross NC was responsible for more than \$1.5 billion in medical and prescription drug claims for members on these products. Blue Cross NC spent \$260 million in operating expenses, and paid \$120 million in taxes and fees. This is compared to approximately \$1.8 billion in revenue received.

Elimination of Federal Cost Sharing Reduction Funding

The primary driver of our rate increase is the lack of Federal funding for Cost Sharing Reduction (CSR) payments. These Federal payments allowed Blue Cross NC to offer benefits reducing out-of-pocket costs such as deductibles for low income individuals, making their health care more affordable. Without these payments, Blue Cross NC will need to raise premiums to fulfill our legal obligation to continue offering these benefits to qualified individuals.

If we were to receive timely commitment from the Federal government, we would request no increase to our current rates.

Changes in Medical Service Costs

Increasing medical costs also contribute to our rate increase. Factors contributing to higher costs in 2018 include:

- Each year, many healthcare providers and prescription drug manufacturers raise the prices they charge for services
- Several new, high-cost prescription drugs will be introduced, some of which will cost hundreds of thousands of dollars per year
- New mandated benefits and coverage requirements are being added to all policies

Blue Cross NC is committed to providing affordable access to quality health care. In recent years, we have implemented dozens of programs to reduce the cost of health care and the premiums our members pay without sacrificing quality.

Changes in Benefits

To comply with Federal regulations, we will be enhancing several benefits for all ACA-qualified policies. These enhancements will increase premium costs for all members.

Administrative Costs and Anticipated Profits

Administrative costs are expected to decrease in 2018, helping to reduce premiums. However, the reintroduction of the Federal Health Insurance Tax, which was not collected in 2017, increases premiums for all members by 3%.

We are not requesting a change to our profit and risk margin in 2018.

Federal Medical Loss Ratio (MLR) requirements state that we must spend at least 80% of all premium dollars collected on health care for our members, or on programs that improve the quality of their health care. As in prior years, Blue Cross NC expects to meet or exceed these requirements in 2018.