Rate Increase Justification

Today's Date: 7/15/2022

Issuer: Sharp Health Plan

Rate Change Effective Date: January 1, 2023

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 2023 are 6.8% higher than the filed 2022 rates. The rate increases range from 5.5% to 9.9% depending on the selected plan and will impact approximately 41,900 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 and updates to benefit plan modeling. Further, changes in taxes and fees that are applied as fixed PMPMs will impact plans slightly differently due to varying premium levels. Finally, risk margin was reduced on select plans.

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, $205,521,522 in premium revenues were collected for the individual product. Including risk adjustment transfers, total revenue for 2021 is estimated to be $216,532,899. Estimated 2021 incurred claims totaled $194,047,686. The resulting loss ratio, calculated as the ratio of incurred claims to total revenue, is 89.6%, 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 2023. The resulting projected loss ratio is 85.6%, which reflects an underlying target risk margin of 0.0%.

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 7.2% 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. 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 2023 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 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. The 2023 Platinum and Bronze plans did not change relative to 2022, while the cost sharing for the Gold, Silver, and Catastrophic plans increased, meaning that the plan covers less of the total costs under the Gold, Silver, and Catastrophic plans, generally leading to a reduction in the rate increase for these plans. 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.*

   Anticipated 2023 administrative costs have increased slightly relative to 2022. The increase in administrative costs is driven primarily by anticipated increases in commission costs due to an increase in the assumed usage of insurance brokers. The total administrative load of 10.4% is not changing from that included in the current rates; however, the administrative expenses loaded into premium rates will increase due to increasing premium rates.

   The overall target risk margin assumed in 2023 is 0.0%, reflecting a decrease from 2022.