

Rate Increase Justification

Today's Date: July 11, 2022

Issuer: County of Santa Clara dba Valley Health Plan

Rate Change Effective Date: January 1, 2023

Market: Individual

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).*

This document contains the Rate Increase Justification for County of Santa Clara dba Valley Health Plan (VHP)'s individual market plans, effective January 1, 2023.

This justification is intended to comply with the requirements of Covered California. This justification may not be appropriate for purposes or scopes beyond those described above and, therefore, should not be used for other purposes.

The rate increase requested for VHP's individual market plans impacts approximately 21,500 members. The composite requested rate increase from January 2022 to January 2023 is 6.0% across all members. Requested rate changes vary by plan and area. In particular, the Silver premium rate is 1.2% lower due to VHP lowering the premium load on the Silver plans to compensate VHP for the non-funding of cost-sharing reduction (CSR) payments.

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, VHP collected \$145.8 million in premium and incurred \$127.1 million in net claim expenses after federal risk adjustment transfer payments, resulting in an 87% loss ratio for its individual market plans. VHP's administrative expenses in 2021 were approximately 11% of premium and taxes and fees were approximately 3% of premium, resulting in a loss of approximately 1% for VHP.

VHP's requested rate increase for 2023 is projected to result in a financially solvent block of business.

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.*

The 2023 rate development reflects VHP's expectations regarding increases in contractual reimbursement and changes in utilization of medical services and prescription drugs.

VHP's experience was used as the basis for developing the 2023 rates. The rates reflect differences between the membership demographic/area mix in the experience period and the projected 2023 demographic/area mix, VHP's estimates of risk adjustment transfer payments in 2023, projected COVID vaccination costs in 2023, and an increase in anticipated morbidity to reflect the sunseting of the American Rescue Plan (ARP) Act.

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.*

Effective January 1, 2023, the Covered California standard benefit plan designs have changed. Major benefit changes include changes to medical and drug deductibles, out-of-pocket maximums, inpatient facility copay / coinsurance, inpatient physician coinsurance, PCP copays, specialist copays, skilled nursing copay / coinsurance, and drug copays.

In aggregate, the benefit changes have a neutral impact on the rate increase.

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.*

VHP anticipates changes in administrative expenses and commission arrangements. The projected general administrative expenses as a percentage of premium will decrease from 9.0% to 8.3% of premium. The increase in broker commissions reflects VHP's projected enrollment and commission rates.

VHP's anticipated margin as a percentage of premium remain unchanged at 3.0% in 2023.