August 30, 2016

Justification of Rate Increase Individual Market

Scope and Range of the Rate Increase
Blue Cross and Blue Shield of North Carolina (BCBSNC) is requesting an average rate increase of 24.3% 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. Some members may see large changes in their premium based on gaining or losing eligibility for government-provided premium tax credits.

Nearly 330,000 individuals across North Carolina were enrolled in ACA-qualified coverage through BCBSNC as of March 2016. This filing will continue to offer coverage to individuals in all 100 counties.

Financial Experience of the Product
We realized a financial loss of $282 million on our Individual ACA products in 2015.

This loss was driven by claims and operating expenses that greatly exceeded the amount of premium we received. In 2015, BCBSNC was responsible for more than $1.7 billion in medical and prescription drug claims for members on these products. BCBSNC spent $240 million in operating expenses, and paid $120 million in taxes and fees. This is compared to approximately $1.8 billion in revenue received.

Changes in Medical Service Costs
Increasing medical costs are the primary driver of our rate increase. Factors expected to contribute to higher costs in 2017 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 thousands of dollars per pill
- New mandated benefits and coverage requirements are being added to all policies
- Expiration of the Federal Transitional Reinsurance Program, which has worked to reduce premiums for individuals on these products since 2014

BCBSNC 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.

In an effort to reduce premium costs for our members, we have made changes to our prescription drug formulary. These changes may affect the availability of, or cost-sharing required for, certain higher-cost prescription drugs in favor of lower-cost alternatives. All prescription drugs available through our formulary meet strict efficacy and safety requirements.
Administrative Costs and Anticipated Profits

BCBSNC will increase resources to better address call volume and demand in response to our higher-than-anticipated call volume in 2016, and in preparation for a large number of new subscribers in 2017. While this important investment is needed to provide the quality customer service experience our customers expect, this unexpected influx of new members may put a strain on the customer service experience.

Due to high levels of uncertainty and volatility in the Individual market, we are requesting a slight increase to our profit and risk margin in 2017.

The waiver of the Federal Health Insurance Tax for 2017 has worked to reduce premiums for our members.

Federal Minimum 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 with 2015 and 2016, we expect to meet or exceed these requirements in 2017.