

Part II: Written Justification of Rate Increase
AultCare Insurance Company
Individual Rate Filing
Effective: January 1, 2019
Form: INDIVIDUAL ACA Certificate 2019

AultCare is requesting a total 8.4% rate increase for its individual block of business, effective January 1, 2019. This increase will affect all of AultCare's members who purchase an individual Qualified health Plan (QHP) in 2019, although the increase varies by plan.

While the overall increase is less than 15%, AultCare is requesting an increase of greater than 15% on the following plans:

- Bronze 5000 without pediatric dental
- Bronze 5000 with pediatric dental
- Bronze 6000 without pediatric dental
- Bronze 6000 with pediatric dental
- Bronze 6550 without pediatric dental
- Bronze 6550 with pediatric dental

There are numerous drivers of the rate increase.

- The first driver is the termination of the individual mandate. The Tax Cut & Jobs Act, which was passed into law on December 22, 2017, sets the penalty for the ACA's individual mandate to zero starting with the 2019 tax year. Therefore, the mandate essentially goes away in the 2019 benefit year. It is expected that healthy individuals, especially those not eligible for subsidies, will drop their coverage to avoid paying premiums for coverage they don't consider to be necessary, thereby deteriorating the morbidity of the ACA risk pool that remains.
- The second driver is medical trend, the increase in health care costs over time. It is comprised of two components: the increase in the average cost of services and the increase in the utilization of those services. Average cost increases occur as care providers and their suppliers raise their prices. Utilization increases occur as members use more services. Additionally, simple services can be replaced with more complex services over time, which is known as mix intensity trend. As an example, a relatively low-cost X-ray may be replaced by a relatively high-cost MRI scan. Replacing a service with a more intense service causes the total cost of medical services to increase.
- The third driver is the expansion of Association Health Plans and reduced restrictions on Short-Term Limited-Duration Health Plans. On January 4, 2018, the Department of Labor (DoL) published a proposed rule that seeks to expand the availability of, and flexibility afforded to, association health plans (AHPs), and

on February 20, 2018, the Departments of Treasury, Labor, and Health and Human Services (HHS) released a proposed regulation that would allow the maximum length of short-term, limited-duration (STLD) insurance policies to be increased to 364 days. Both of these developments are expected to draw healthier members out of the ACA marketplace, thereby deteriorating the morbidity of the ACA risk pool that remains.

- The fourth driver is larger than expected variance between AultCare standard and limited network plans. AultCare offers plans with both a broad and limited network. The broad network rates are loaded with a surcharge factor to account for the increased costs. In 2017, the broad network plans performed significantly worse than the narrow network counterparts. AultCare has increased the broad network surcharge to account for this.

AultCare has made limited benefit changes in order to comply with federal AV requirements. These changes do not result in a significant increase or decrease in rates. The increase may vary slightly between plan designs, as the impact of medical trend affects how soon the member reaches their out-of-pocket maximum differently for each plan design.

According to AultCare's financial statements, in 2017 AultCare's individual QHP line of business earned \$26.6 million in premiums, with \$25.6 million of expenses (\$21.6 million in claims and the remainder in administrative costs).