

Rate Increase Justification

Today's Date: 8/18/2022

Issuer: Blue Shield of California

Rate Change Effective Date: 1/1/2023

Market: Individual & 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).*

Blue Shield of California provides healthcare services for over 790,000 individuals eligible for Individual Family Plans offered both On and Off-Exchange. Blue Shield is requesting a 9.6% premium increase for its individual policies sold through Covered CA and Off-Exchange sold directly to consumers effective January 1, 2023. Blue Shield IFP members would receive premium increases ranging from -9.0% to +15.7% depending on their geographic location and metal tier.

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.*

Although Blue Shield's financial experience has met or exceeded expectations in the past, a premium increase is necessary to cover increased expenses expected in 2023. The uncertainty of COVID-19 related services, a bounce back and return to normal pre-COVID utilization patterns, medical and prescription drug cost inflation, changes to the risk transfer formula and an increase to our underwriting gain assumption contributed to the premium increase. The financial experience of the product has contributed 4.3% to the total rate increase.

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.*

Blue Shield has experienced a significant increase in medical service costs due to direct COVID-19 services and a return to pre-pandemic utilization levels as more members return to the doctor and stop deferring care that was previously postponed. This change in medical and pharmacy trends has contributed 4.0% to the total rate increase.

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.*

The change in benefits has contributed -0.3% to the total rate increase. The applicable benefit changes are driven by changes made to Covered CA's standard benefit designs that will be offered in 2023. Covered CA based on federal actuarial value de minimus ranges had to increase specific benefit plan copays, deductibles and out of pocket maximums in order to remain in compliance. These changes will require members to pay more out of pocket in cost shares.

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.*

Blue Shield has been able to mitigate a portion of the rate increase by pricing in lower admin expenses for our 2023 premium rates. The biggest portion of our admin spend continues to be fixed expenses that allow our company to provide exceptional service to our members. Additional admin components include specific costs for broker commissions and health care quality improvement expenses. The reduction in admin expenses has kept the rate increase 0.8% lower than anticipated. Blue Shield has decided to increase its underwriting gain assumption given the increase in overall market morbidity and financial performance volatility. The change to our underwriting gain assumption is contributing 1.8% to the total rate increase.

California Plain-Language Rate Filing Description

Company Name: California Physicians' Service dba Blue Shield of California
 SERFF Tracking Number: BCCA-13333777

1) Justification for any unreasonable rate increases
(Include all information as to why the rate increase is justified. Attach supporting documentation.)

2) Actual Allowed Costs by Aggregate Benefit Category for the most recently completed calendar year in PMPM:

Service Category	Allowed Cost PMPM	Cost as % of Medicare
Hospital Inpatient	\$173.66	211.0%
Hospital Outpatient (including ER)	\$166.52	350.0%
Physician/Other Professional Services	\$150.10	110.0%
Prescription Drug	\$134.50	56.0%
Laboratory (other than inpatient)	\$13.18	110.0%
Radiology (other than inpatient)	\$9.08	110.0%
Capitation (professional)	\$25.52	
Capitation (institutional)	\$7.52	
Capitation (other)	\$15.97	
Other (describe here)	\$28.62	

3) Overall annual medical trend assumptions for all benefits
 6.0%

4) Amount of Projected Medical Allowed Trend, by Aggregate Benefit Category, Attributable to Use of Services, Price Inflation, Fees and Risk

Service Category	Trend attributable to:	Trend attributable to:	Trend attributable to:
	Use of Services	Price Inflation	Fees and Risk
Hospital Inpatient	2.3%	3.0%	0.0%
Hospital Outpatient (including ER)	3.0%	3.0%	0.0%
Physician/Other Professional Services	4.7%	1.5%	0.0%
Prescription Drug	3.7%	5.9%	0.0%
Laboratory (other than inpatient)	-10.0%	0.7%	0.0%
Radiology (other than inpatient)	-10.0%	0.7%	0.0%
Capitation (professional)	0.0%	7.3%	0.0%
Capitation (institutional)	0.0%	7.3%	0.0%
Capitation (other)	0.0%	7.3%	0.0%
Other (describe here)	-10.0%	0.7%	0.0%

5) Other Information
Place any needed comments in a separate document.

California Plain-Language Spreadsheet

Company Name: California Physicians' Service dba Blue Shield of California

SERFF Tracking Number: BCCA-133333777

	From	To
After Rate Change	01/2023	12/2023
Prior to Rate Change	01/2022	12/2022

For the expense period on which the rates are based, premium attributed to (in percentage):

Plan Contract Form Numbers (Product Type)	Marketing Names (Product Name)	Enrollee Months Prior to Rate Change	Enrollee Months After Rate Change	Premium PMPM Prior to Rate Change	Premium PMPM After Rate Change	Medical Costs Prior to Rate Change	Medical Costs After Rate Change	*Administrative Costs Prior to Rate Change	*Administrative Costs After Rate Change	Taxes and Fees Prior to Rate Change	Taxes and Fees After Rate Change	After-tax Profit/Margin Prior to Rate Change	After-tax Profit/Margin After Rate Change
PPO	Platinum 90 PPO	286,755	246,959	\$940.95	\$1,071.93	50.5%	47.9%	12.6%	10.7%	2.4%	3.3%	34.5%	38.2%
PPO	Gold 80 PPO	911,661	814,498	\$721.91	\$804.50	80.4%	80.6%	12.6%	10.7%	2.4%	3.3%	4.5%	5.4%
PPO	Silver 70 PPO	2,211,626	1,878,984	\$728.28	\$775.83	84.9%	87.1%	12.6%	10.7%	2.4%	3.3%	0.1%	-1.1%
PPO	Bronze 60 PPO	1,273,938	992,225	\$569.56	\$619.88	82.6%	84.0%	12.6%	10.7%	2.4%	3.3%	2.4%	2.1%
PPO	Bronze 60 HSA PPO	664,510	582,442	\$579.70	\$647.72	89.9%	90.4%	12.6%	10.7%	2.4%	3.3%	-4.9%	-4.4%
PPO	Minimum Coverage PPO	29,333	19,175	\$312.34	\$337.05	4.4%	33.0%	12.6%	10.6%	2.4%	3.3%	80.6%	53.1%
PPO	Silver 70 Off Exchange PPO	697,212	654,918	\$589.24	\$650.94	84.6%	83.8%	12.6%	10.7%	2.4%	3.3%	0.4%	2.3%
PPO	Silver 2600 HSA PPO	79,148	93,852	\$554.42	\$642.15	73.6%	85.0%	12.6%	10.7%	2.4%	3.3%	11.4%	1.1%
PPO	Silver 1750 PPO	784,297	725,394	\$554.56	\$617.99	83.3%	84.4%	12.6%	10.7%	2.4%	3.3%	1.7%	1.7%
HMO	Blue Shield Platinum HMO	35,088	66,767	\$580.07	\$590.57	-77.4%	-38.0%	12.6%	10.7%	2.4%	3.3%	162.3%	124.1%
HMO	Blue Shield Gold HMO	172,619	286,986	\$510.77	\$561.86	78.8%	75.1%	12.6%	10.7%	2.4%	3.3%	6.2%	11.0%
HMO	Blue Shield Silver HMO	1,520,589	986,402	\$575.48	\$591.41	90.2%	92.7%	12.6%	10.7%	2.4%	3.3%	-5.2%	-6.6%
HMO	Silver 70 Off Exchange HMO Trio	187,556	151,689	\$428.35	\$435.03	106.9%	105.0%	12.6%	10.7%	2.4%	3.3%	-21.9%	-19.0%
HMO	Bronze 7500 Trio HMO	14,250	30,217	\$410.41	\$312.17	90.0%	125.0%	12.6%	10.6%	2.4%	3.3%	-5.0%	-38.9%

***Administrative expenses, i.e., non-claims costs other than taxes and regulatory fees, includes the following:**

(i) Cost containment and quality improvement expenses - § 158.150 and § 158.151.

(ii) Loss adjustment expenses not classified as a cost containment expense.

(iii) Direct sales salaries, workforce salaries and benefits.

(iv) Agent and brokers fees and commissions.

(v) General and administrative expenses.

(vi) Community benefit expenditures.

(vii) Beginning with the 2022 MLR reporting year, prescription drug rebates and other price concessions that are received and retained by an entity providing pharmacy benefit management services to the issuer and are associated with administering the issuer's prescription drug benefits.