

## Rate Increase Justification

Today's Date: 7/12/2024

Issuer: Local Initiative Health Authority for Los Angeles County, dba LACHP

Rate Change Effective Date: January 1, 2025

Market: Individual

- 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).

There are currently 170,415 members who are subject to the rate increase. Below is a table showing the rate increase by plan and area. The overall rate increase is 6.2%. The tier slopes are updated each year to reflect the changes in benefit designs based on modeling in the Milliman Managed Care Rating Model, including expected induced utilization. We also analyzed risk-adjusted experience data by metal level, risk adjustment by metal level, and profit by metal level. We adjusted our slopes based on this analysis, leading to an increase in bronze and gold relative to platinum, silver and catastrophic. We did not include the impacts of morbidity by metal level in our analysis. Further, changes in taxes and fees that are applied as fixed PMPMs will impact plans differently on a percentage basis due to varying premium levels.

Product	2024 Rate			2025 Rate			Rate Change
	Rating Area 15	Rating Area 16	Composite	Rating Area 15	Rating Area 16	Composite	
Platinum	\$523.29	\$543.04	\$534.13	\$551.50	\$572.32	\$562.93	5.4%
Gold	\$486.48	\$503.35	\$495.67	\$526.84	\$545.11	\$536.79	8.3%
Silver	\$477.74	\$505.42	\$491.43	\$503.11	\$532.26	\$517.53	5.3%
Bronze	\$358.11	\$378.45	\$369.99	\$390.65	\$412.83	\$403.60	9.1%
Catastrophic	\$190.53	\$206.37	\$200.08	\$200.40	\$217.07	\$210.45	5.2%
<b>Total</b>							<b>6.2%</b>

- 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.

Below is a summary of the loss ratio from 2022-2025 by year for this product:

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	2022	2023	2024	2025
Claims	\$340,429,095	\$365,477,505	\$533,690,814	\$608,314,068
Quality Improvement	\$1,069,969	\$1,106,325	\$4,740,646	\$1,277,025
Risk Adjustment	\$181,117,024	\$238,100,492	\$357,303,685	\$398,126,343
RADV	\$3,105,999	\$2,436,986	\$2,825,959	\$4,076,933
CSR			-\$11,907,509	-\$12,345,647
<b>Adjusted Claims</b>	<b>\$525,722,087</b>	<b>\$607,121,308</b>	<b>\$886,653,594</b>	<b>\$999,448,722</b>
On-Exchange Premium	\$601,865,552	\$695,990,070	\$996,875,464	\$1,126,216,026
Off-Exchange Premium	\$462,936	\$485,987	\$696,085	\$786,399
Premium	\$602,328,489	\$696,476,056	\$997,571,549	\$1,127,002,425
Taxes and Fees	\$20,989,866	\$23,345,181	\$33,452,755	\$29,353,360
Charitable Contributions	\$0	\$0	\$0	\$0
<b>Adjusted Premium</b>	<b>\$581,338,622</b>	<b>\$673,130,876</b>	<b>\$964,118,794</b>	<b>\$1,097,649,065</b>
<b>MLR</b>	<b>90.4%</b>	<b>90.2%</b>	<b>92.0%</b>	<b>91.1%</b>

LACHP has experienced lower risk scores in recent experience, resulting in relatively low claims and high risk adjustment.

Premium PMPMs increased in 2023, 2024 and 2025. Total premium revenue increased due to premium PMPM increases and increased enrollment.

Claim expenses in total have also increased over the years due to increasing enrollment from year to year. Claim expense PMPMs were relatively flat between 2022 and 2024, mostly driven by consistent reimbursement levels with provider groups. In 2025 projected claims increased mostly due to cost trend.

Profit has fluctuated over the years, starting with the beginning of the Affordable Care Act (ACA) in 2014. Most of this fluctuation is driven by the ACA risk adjustment program. LACHP is a large payer into the risk pool. Risk adjustment currently makes up about a third of LACHP's premiums. In 2022 and 2023, actual (or currently estimated) risk adjustment is higher than projected. In 2021 and 2022, LACHP had a positive margin and we expect that LACHP will have a positive margin in 2023 and 2024 as well.

The proposed rate increase is that which is required to achieve a 2.5% margin in 2025. This rate increase results in a medical loss ratio of 91.1%.

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.*

Changes in medical service costs are changing the overall rates by -0.4%. This is made up of by the following:

- (-5.0%) The starting allowed costs changed between the 2022 fee for service (FFS) and capitation experience used in the 2024 rate filing and the 2023 experience used in the 2025 rate filing. The 2023 capitation levels decreased compared to 2022, driven by lower risk scores than expected.
- (+4.0%) The rates increased by 4.0% due to another year of the unit cost trend being applied.
- (+0.6%) The rates increased by 0.6% due to another year of the utilization trend being applied.

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.*

All cost sharing changes are based on Covered California's standard plan designs for the 2025 plan year. The most notable changes were to the bronze and silver plans. All other changes were minor.. The combined impact of changes in benefits and the change in membership mix by benefit plan increased the rates by 0.8%.

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.*

Changes in administrative costs and underwriting gain/loss are changing the overall rates by +0.3%. This is made up of by the following:

- (-0.3%) Projected administrative costs and commissions decreased slightly between 2024 and 2025.
- (+0.6%) The projected surplus increased slightly between 2024 and 2025.