

Rate Increase Justification

Today's Date: July 27, 2022

Issuer: Health Net Life Insurance Company

Rate Change Effective Date: January 1, 2022

Market: Individual

- 1. Scope and range of the rate increase** — Health Net Life Insurance Company (HNL) offered three products (Ambetter PPO, Ambetter EPO, and PPO) during plan year 2021. Premium rates effective January 1, 2022 reflect an overall 4.1% annual increase for those renewing plans. Annual rate changes range from -0.1% to 11.2%, varying between the Ambetter PPO, Ambetter EPO, and PPO products, and regional rating areas. Variations are driven by underlying cost differences between the PPO and EPO networks and regional cost trends. Approximately 60,000 individuals are impacted by the rate change.
- 2. Financial experience of the product** — HNL's Individual products incurred \$370,478,338 in paid claims costs and a risk transfer receivable of \$21,337,786 from the federal risk adjustment program in 2020. HNL collected \$441,546,744 in premium revenue, resulting in a loss ratio of 79.1% inclusive of risk transfer payments for 2020.
- 3. Changes in Medical Service Costs** — Medical service costs are projected to increase at an annualized rate of 5.7% due to medical inflation and increased utilization of health care services. Medical service costs are also expected to increase as suppressed levels of care in 2020 due to the COVID-19 pandemic begin to rebound in 2021 and 2022. Other factors related to expected changes in the demographics of HNL's population and overall population health also contribute towards the expected increase in medical costs.
- 4. Changes in benefits** — Over 97% of HNL's 2021 population were enrolled in plans based on the standard benefit plan designs defined by the state based exchange, Covered California. Updates to these standard benefit plan designs include cost-sharing updates, which is expected to increase claims costs by 0.4%.
- 5. Administrative costs and anticipated margins** — HNCA anticipates administrative costs to increase by \$1.63 per member per month compared to what was assumed for 2021 rates. The target profit margin for 2022 is 1.0% of premium, compared to the 1.0% target loss reflected in 2021 rates.