EXHIBIT A

BCBSM 2015 Small Group Rate Filing

Actuarial Memorandum

June 6, 2014

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Executive Summary

In support of the Part I Unified Rate Review Template (URRT) for the 2015 Blue Cross Blue Shield of Michigan (BCBSM) small group market rate submission, we submit this Part III Actuarial Memorandum, which includes a corresponding actuarial certification, as required by the Affordable Care Act (ACA). The memorandum provides documentation for the values entered into the Part I URRT, which supports compliance with the market rating rules and reasonableness of applicable rate increases. As requested within the Part III instructions, the actuarial memorandum also provides actuarial certifications related to:

- The methodology used to calculate the Actuarial Value (AV) Metal Value for each plan offered;
- The appropriateness of the essential health benefit portion of premium upon which advanced payment of premium tax credits (APTCs) are based; and
- The index rate is developed in accordance with federal regulations and the index rate along with allowable modifiers are used in the development of plan specific premium rates

The information contained within the memorandum provides the documentation and analysis required as outlined in the Part III Actuarial Memorandum instructions provided in Bulletin 2014-06-INS (Bulletin), issued by the Department of Insurance and Financial Services (DIFS) on March 26, 2014.

This memorandum is intended solely for the purpose stated above. It is not intended for and should not be used or relied on for any other purpose.

Section 1: General Information

Company Information

- Company Legal Name: Blue Cross Blue Shield of Michigan
- State: Michigan
- HIOS Issuer ID: 15560
- NAIC Number: 54291

Company Contact Information

- Primary Contact Name: Xuan Wu
- Primary Contact Title: Director, Group Pricing
- Primary Contact Telephone Number: (313) 448-5932
- Primary Contact Email Address: xwu@bcbsm.com

General Filing Information

- Market: This filing covers products that will be offered in the small group market.
- Review Requested: Rate Change
- Brief Description of Benefits: The products included in this filing provide comprehensive medical benefits subject to cost-sharing provisions relating to deductible, coinsurance, and co-payments. All Essential Health Benefits (EHBs) are covered as described in the state benchmark plan and no EHB substitutions were made (as they are not allowed per guidance from the State of Michigan). Appendix Exhibit D.1 provides an outline of the benefits under all products in this filing and the corresponding HIOS identifiers. Please refer to the benefit template and schedule pages for additional details.
- Effective Date: For policies issued from January 1, 2015 through December 31, 2015
- Prior Filing Information:
    - Original 2014 Filing
        - Effective Date: For policies issued or renewed from January 1, 2014 through December 31, 2014
        - SERFF Tracking Number: BBMI-129034772
        - Binder Number: BBMI-MI14-125001338
    - Addition of new plans
        - Effective Date: For policies issued from July 1, 2014 through December 31, 2014
        - SERFF Tracking Number: BBMI-129501603
        - Binder Number: BBMI-MI14-125008385

DIFS Checklist

- As required by the State of Michigan, attached in Appendix Exhibit A is the checklist of items required for the Actuarial Memorandum in support of the URRT

Section 2: Proposed Rate Change(s)

BCBSM is filing a rate change of 2.7% for 2015 for all small group products that were offered in 2014. In addition, we are introducing 4 new plans in 2015. Significant drivers of the rate change include:

- Favorable emerging experience for the overall single risk pool.
- Medical inflation and increased utilization as described in Section 5 of this memorandum.
- Anticipated changes in taxes and fees assessed on all issuers in 2015 as summarized in Section 10 of this memorandum.
- Lower than anticipated improvement of the ACA compliant market level risk pool in 2014 and 2015 due to the market being allowed to extend pre-ACA non-grandfathered plans into 2016.

Additional detail around the assumptions utilized in the rate development process is included in the following sections of this memorandum.

Although the rates for each product were based on the projected experience for the single risk pool as outlined in Section 12 of this memorandum, the rate changes vary slightly by product and plan due to the following:

- Plan adjustments to certain products with regards to how medical and prescription drug copays accumulate towards the overall out-of-pocket maximums
    - These adjustments also led to slight modifications to other cost sharing features on some plans to ensure the plans met Actuarial Value metal level requirements.
- Minor updates to our pricing benefit relativity model which are regularly made to account for changes in benefit design and plan structures.

Exhibit 2.1 shows the rate changes by product compared to the rates from the most recent small group filing (BBMI-129501603). For illustrative purposes, the rates for the products we began offering in the 3rd quarter of 2014 have been adjusted back to 1st quarter 2014 using the filed rate difference between January and July 1 rates.

Exhibit 2.1: Rate Changes by Product

Product ID		Single Risk Pool Overall Rate Change	Impact of Benefit Design Changes	Impact of Benefit Model Update	Total Annual Rate Change	Total Cumulative Rate Change
		Annual (1Q to 1Q)	Annual (1Q to 1Q)	Annual (1Q to 1Q)	Annual (1Q to 1Q)	Annual Change for All Renewal Months
		(A)	(B)	(C)	(1+A) x (1+B) x (1+C) -1	
Base Plans	15560MI036	3.1%	-0.1%	0.1%	3.1%	3.3%
	15560MI040	3.1%	-3.2%	0.0%	-0.3%	0.0%
	15560MI038	3.1%	-0.3%	0.1%	2.9%	3.1%
	15560MI037	3.1%	-1.5%	-0.1%	1.5%	1.7%
	15560MI039	3.1%	0.0%	0.0%	3.1%	3.3%
	15560MI083	N/A	N/A	N/A	N/A	N/A
Elective Abortion	15560MI052	3.1%	-0.1%	0.1%	3.1%	3.3%
	15560MI064	3.1%	-3.2%	0.0%	-0.3%	0.0%
	15560MI058	3.1%	-0.3%	0.1%	2.9%	3.1%
	15560MI055	3.1%	-1.5%	-0.1%	1.5%	1.7%
	15560MI061	3.1%	0.0%	0.0%	3.1%	3.3%
	15560MI085	N/A	N/A	N/A	N/A	N/A
Without Contraceptives	15560MI051	3.1%	-0.1%	0.1%	3.1%	3.3%
	15560MI063	3.1%	-3.2%	0.0%	-0.3%	0.0%
	15560MI057	3.1%	-0.3%	0.1%	2.9%	3.1%
	15560MI054	3.1%	-1.5%	-0.1%	1.5%	1.7%
	15560MI060	3.1%	0.0%	0.0%	3.1%	3.3%
	15560MI084	N/A	N/A	N/A	N/A	N/A

As required by the DIFS checklist, we have also included the annual expected premium along with membership and contract projections.

Projected Average Annual 2015 Premium per Member with proposed increase	$5,176
Projected Average Annual 2015 Premium per Member without proposed increase	$5,039
Number of Policy Holders	96,387
Covered Lives	208,728

Section 3: Experience Period Premium and Claims

The underlying data used to establish 2015 rates reflects the experience of groups that currently meet the State of Michigan definition of a small group with the following adjustments as required by the ACA:

- We removed the experience of members that were in complementary or Medicare primary products.
- We removed the experience of members that we identified as sole proprietors.

Throughout the remainder of the document, small group will now be defined as the current State of Michigan definition of small group with the two adjustments stated above. We also included all groups cost and membership for the experience period, regardless of their renewal month.

- Dates of Service for the Experience Period Used to Develop Rates: January 1, 2013 through December 31, 2013
- Paid through date: March 31, 2014
- Premiums (net of Medical Loss Ratio (MLR) Rebate) in Experience Period: BCBSM met the MLR threshold for 2013 and did not pay any MLR rebates. The premium shown in the URRT is the applicable medical and prescription drug premium for the 2013 experience period.

<u>Allowed and Incurred Claims Incurred During the Experience Period</u>

Allowed claims for the experience period were derived by taking actual paid claims and adding actual member cost sharing amounts (deductibles, coinsurance and co-pays) as well as any coordination of benefits. These amounts were taken directly from our claims payments systems. All medical claims were processed by the NASCO system and all prescription drug claims were processed by Express Scripts with a direct feed to BCBSM.

The amounts were adjusted for any reported hospital settlements as well as actual rebates for prescription drugs as reported by Express Scripts. These two items are passed onto our customers as reductions to claims costs which lower premium charges.

BCBSM intends to participate in the Autism Coverage Reimbursement Program established by PA 101 of 2012 for our small group business. Therefore, we removed claims for eligible services from the experience period data so that the costs for these services will not be passed on to our small group members.

To adjust amounts taken from the claims system for claims incurred in the experience period but paid after the paid through date, we adjusted the uncompleted incurred claim cost by the completion factors shown in Exhibit 3.1 below. Claims were completed using our internal reserving models, utilizing the following methodology:

- For each type-of-service, a lag triangle was created (IP Hospital, OP Facility, Professional and Drug) based on a four-year monthly history of claims and membership.
- A completion factor methodology was used to develop incurred claims estimates for all incurred months except for the two most recent months of incurred claims. For the most recent two months of incurred claims, trended per member per month (PMPM) claims were generally relied upon to estimate expected completed claims.
- Claims inventory levels are monitored and adjustments to payment rates were made as needed.
- Seasonal factors accounting for working days and benefit changes were used to adjust trends and expected PMPMs.
- The claims used to develop the completion factors were based on the small group pool. The incurral factor development includes the experience of sole proprietors and members with complementary Medicare coverage. By using the current small group definition, we were able to leverage factors and analysis already completed by our internal trend team for normal reserving functions. We do not expect claims from these members to have a material impact on claims incurral factors utilized in our analysis.

Exhibit 3.1: Experience Allowed Claims Cost Development

	Benefit Category				
	Inpatient Hospital	**Outpatient Hospital**	**Professional**	**Prescription Drug**	**Total**
Experience Period Data					
Experience Period Membership					252,665
Utilization per 1,000	69.96	1,853.77	18,002.90	8,200.28	
IBNR	1.014	1.014	1.013	1.001	
Completed Utilization per 1,000	70.92	1,879.28	18,237.34	8,204.52	
Cost per Service	$13,436.83	$566.92	$76.38	$98.56	
Experience Period Allowed Claims PMPM	**$79.41**	**$88.78**	**$116.09**	**$67.39**	**$351.67**
Experience Period Index Rate					*$351.63*

Section 4: Benefit Categories

The following describes what was included within the different benefit categories required by the URRT:

- Facility – Includes non-capitated facility services for medical, surgical, maternity, mental health and substance abuse, skilled nursing, and others services provided in an inpatient or outpatient facility setting and billed by the facility.
- Professional - Includes non-capitated primary care, specialist, therapy, the professional component of laboratory and radiology, and other professional services, other than hospital based professionals whose payments are included in facility fees. It also includes non-capitated ambulance, home-healthcare, DME, prosthetics, supplies, pediatric vision and other services.
- Prescription Drug (Rx) – Includes drugs dispensed by a pharmacy and processed by pharmacy benefit manager.

The claims were classified into the different benefit categories based on a multitude of attributes, but included the following common fields: Claims Source (Source), Place of Service (POS), Procedure codes (CPT/HCPCS), Diagnosis codes (ICD9/ICD10), Revenue Codes, and Type of Claims (medical, dental, vision, Rx, etc). As new procedure codes are added and as we migrate to ICD10 diagnosis code framework, the methodology and/or business logic to define the benefit categories will change accordingly.

Section 5: Projection Factors

For each of the benefit categories within the URRT, the following adjustments were made at an overall pool level to project 2013 allowed PMPM costs to 2015. These adjustments were applied to the allowed PMPM costs outlined in Section 3.

Projected Changes in Benefits

Pediatric vision is not a covered service for the BCBSM plans during the experience period in the small group market. Therefore, $0.30 PMPM was added to the allowed claims PMPM to account for this required coverage in 2015 to meet EHB requirements. Exhibit 5.1 demonstrates the development of the projected 2015 allowed PMPM cost for the pediatric vision benefit.

Exhibit 5.1

Pediatric Vision Plan Design	
Frequency	12/12/12 (exam/lenses/frames)
VSP Network	Choice
Copay	$0/$0 (exam/materials)
2013 Plan PMPM Cost for Pediatric Vision	$1.01
2013 to 2015 Annualized Vision Trend	3.5%
Projected 2015 Plan PMPM Cost	$1.08
Projected % Members Less Than Age 19	27%
PMPM (for all members)	$0.30

Pediatric dental is also not a covered service for the current BCBSM small group plans, however, the EHB requirement will be met through our offering of a standalone dental product. Thus, no added cost for pediatric dental was included in the allowed PMPM.

An adjustment was needed in the drug line of business to account for mandating prescription drug coverage. About 10% of our current membership does not have drug coverage with BCBSM in the experience period. We assumed the same allowed claims PMPM for these members as those that currently have drug coverage through BCBSM.

Outside of these adjustments, the current BCBSM small group plans met the other EHB requirements and there are no additional benefits required by the State of Michigan.

BCBSM is closing all of its products offered in the experience period and moving its members to ACA compliant plans on each group's plan year as it renews on or after January 1, 2014. Each group will be moved to the plan most comparable to its current benefits. The groups will then be mapped to a 2015 plan on their renewal on or after January 1, 2015. Some 2015 plans are the same as 2014 while others have minor cost sharing changes. The change in cost sharing

from the experience period (2013) to the projected period (2015) is projected to have a -0.4% impact on the allowed PMPM cost due to a decrease in benefit richness.

Projected Changes in the Morbidity of the Population Insured

Exhibit 5.2 demonstrates the projected risk change for BCBSM small group. BCBSM has historically attracted the higher risk members to our pool due to stricter rating regulations applicable to BCBSM than to other issuers in the small group market. This has been confirmed by analyzing MLR reporting, competitor rate filings, and other marketplace analytics and information.

We project that BCBSM's starting risk relative to the total Small Group market has not changed from 2012 to 2013 and are maintaining the 1.035 relative risk level assumed in the 2014 ACA filing (BBMI-129034772). However, this was based on the assumption all members in the Small Group market would roll into ACA compliant plans throughout 2014. Given that carriers in the Small Group market are allowed to extend pre-ACA non-grandfathered plans through 2016, the expected 2015 ACA compliant pool will be smaller than projected in last year's filing, BCBSM's market share at a continued higher risk level will now be a larger portion of the ACA compliant risk pool as BCBSM has decided not to extend pre-ACA non-grandfathered plan offerings past 2014. Therefore, BCBSM's risk relative level compared to the *higher* expected market average is projected to decrease from 1.035 to 1.025.

In 2014, sole proprietors were no longer offered group coverage. BCBSM's risk pool is expected to improve by 1.0% due to the removal of sole proprietors. The 1.0% risk pool improvement was already accounted for in our 2014 rate filing.

As stated in the 2014 filing (BBMI-129034772), the impact on risk profile of smaller size groups dropping coverage is expected to offset the impact of low income members dropping. In total, we continue to expect a net zero risk impact due to group dropping for BCBSM and the total market in 2014 and 2015.

Due to the enactment of the ACA, all carriers, including BCBSM, are governed by the same regulatory rating requirements. As a result, BCBSM expects its competitive position within the small group pool to continue to improve over time. However, due to other small group carriers extending pre-ACA non-grandfathered plans into 2016, we expect this improvement will be slower than we originally projected. In the 2014 rate filing (BBMI-129034772), we expected to improve 1% by 2014. This assumption was based on all members in the market enrolling in ACA plans on their 2014 plan year anniversary. We now only expect our risk profile compared to the market average to improve 0.5% in 2014 and an additional 0.5% in 2015.

Exhibit 5.2: Projected Risk Pool Change

Membership and Risk Pool Change

Risk Pool Impacts	BCBSM Small Group		Total Small Group Market Risk Score
	Estimated Risk Score	Risk Pool Change	
2013	**1.025**	**N/A**	**1.00**
Sole Prop Drop		-1.0%	
Other Group Drop		0.0%	
Total Small Group Drop		-1.0%	
Market Movement		-0.5%	
2014	**1.010**	**-1.5%**	**1.00**
Total Small Group Drop		0.0%	
Market Movement		-0.5%	
2015	**1.005**	**-0.5%**	**1.00**
Risk Pool Change Excluding Sole Prop. -->		**-1.0%**	

The numbers above do not reflect any impact of demographic changes to the pool as described in the next section.

Projected Changes in the Demographics

For the risk pool changes described above, we expect the BCBSM small group pool to become slightly younger. The average age of BCBSM small group pool is projected to change slightly from 34.5 to 34.1. Using the prescribed 3:1 age factor curve, the aggregate age factor reduces by 1.4%. We are projecting no change in area risk from 2013 to 2015.

Exhibit 5.3: Projected Demographic Change

Demographic Change

BCBSM Small Group	2013*	2015	Change
Average Age	34.5	34.1	
Average Age Factor	1.384	1.365	-1.4%
Average Area Factor	0.997	0.997	0.0%
Demo Neutral Risk Score	1.015	1.005	-1.0%

*excludes sole proprietors

Trend from 2013 to 2015

The following key considerations were taken into account in the trend projection factor development:

- The entire BCBSM non-Medicare eligible book of business experience was used to measure historical and project future trend. This included all commercial lines of business, including individual, small group, and large group. For group, this included both self-insured and fully-insured customers.
- Adjustments were made in the base trend development for changes in demographics, benefit mix and large claims during the experience period to derive small group underlying experience trends.
- Experience period trends by type of service (Facility, Professional and Pharmacy) were projected forward accounting for expected changes in utilization and price.
- Anticipated changes in provider contracts were included as future cost trend adjustments.
- New medical management and other initiatives designed to lower health care costs were considered to adjust utilization and cost trends.

Facility trends were determined separately for inpatient and outpatient categories. The price trend was calculated using the historical and projected contractual price increases in each facility and blending the facilities using historical claims. Price trends were adjusted for changes in severity of services, payments for uncompensated care, and incentives for performance and quality initiatives.

Professional claims were split out by provider class for e.g. Physicians, CRNAs, Laboratory, DME, Ambulance, Independent Physical Therapy and Certified Nurse Practitioners. Physicians (MDs, DOs, chiropractors, psychologists, and podiatrist) were further split into procedure-based categories such as radiology, pathology, anesthesiology, surgery, evaluation and management, preventive services, cardiovascular, and maternity. This was done to capture the impact of fee schedule changes, severity of services, RVU impacts and changes in coding including bundling of codes and new codes from CMS. Adjustments were made to historical and projected claims to account for one time impacts including health care reform and historical high cost claimants.

BCBSM's pharmacy projection model breaks up the pharmacy business into three categories:

- Base model: All drugs except those included in the next two bullet points.
- Specialty drugs: High cost drugs for certain rarer and more severe conditions.
- Outlier model: Significant drugs that lost patent protection in the experience period or will lose patent protection in the projected period.

Historical data and knowledge of future impacts in the industry and initiatives/programs within BCBSM are used to project price trends and mix of drugs in each of these models. The base model also assumes an increase in our generic dispensing rate.

A thorough review of the pharmacy formulary was done in order to ensure compliance with Essential Health benefits. Some categories of pharmacy coverage were removed as they were not required under the EHB regulations. In addition to removing several categories of pharmacy spend, several drugs were removed within a therapeutic class. We anticipate lower overall pharmacy spending due to the removal of these drugs as members are able to receive a comparable substitute at a lower cost. The cost savings related to this removal are factored in the trend projection.

Exhibit 5.4: Trend Projection Factors

2013 to 2014 Trend	IP Hospital	OP Hospital	Professional	Rx	Composite
Base Trend	8.9%	8.5%	6.6%	10.6%	8.4%
One Time Impact Adjustments*	0.0%	0.0%	0.0%	-9.5%	-1.8%
Total 2012 to 2013 Trend	**8.9%**	**8.5%**	**6.6%**	**0.0%**	**6.3%**

2014 to 2015 Trend	IP Hospital	OP Hospital	Professional	Rx	Composite
Base Trend	9.3%	7.8%	7.0%	9.8%	8.2%
One Time Impact Adjustments*	0.0%	0.0%	0.0%	-4.3%	-0.8%
Total 2013 to 2014 Trend	**9.3%**	**7.8%**	**7.0%**	**5.1%**	**7.3%**

Annualized 2013 to 2015 Trend	IP Hospital	OP Hospital	Professional	Rx	Composite
Base Trend	9.1%	8.1%	6.8%	10.2%	8.3%
One Time Impact Adjustments*	0.0%	0.0%	0.0%	-7.0%	-1.3%
Total Annualized Trend	**9.1%**	**8.1%**	**6.8%**	**2.5%**	**6.8%**

** Includes one time trend impact such as new medical management and other initiatives to lower health care costs, changes in the drug formulary due to Healthcare Reform.*

Section 6: Credibility Manual Rate Development

No manual rates were used given the size of our current block.

Section 7: Credibility of Experience

100% credibility was assigned to the experience data due to the volume of membership and claims in the experience period.

Section 8: Paid to Allowed Ratio

BCBSM will be closing all of its products offered in the experience period and moving its current members to new compliant plans on each group's plan year on or after January 1, 2014. Each group will be moved to the plan most comparable to its current benefits. Groups will then be mapped to 2015 products on their 2015 plan year anniversary. The expected change in cost sharing is a 0.9% increase which produces an average paid to allowed ratio for the entire pool of 84.9% for the projection period.

The plan level paid to allowed ratios were developed based on a proprietary benefit modeling Microsoft Excel spreadsheet tool which incorporates actual cost and utilization data for BCBSM's Michigan group PPO population trended and adjusted to 2014. The tool was created with the assistance of Donlon & Associates and is also utilized for adjusting AVs in the Center for Consumer Information and Insurance Oversight (CCIIO) AV calculator.

Section 9: Risk Adjustment and Reinsurance

Risk Adjustment

As stated in Section 5, we project that BCBSM will be 0.5% riskier than the Small Group ACA market average in 2015. Therefore, we expect to receive 0.5% or $1.69 in the risk adjustment transfer process. The $1.61 projected risk adjustment transfer included in Worksheet 1 of the URRT also includes an adjustment for the $0.08 PMPM prescribed risk adjustment user fee. The $1.61 was applied to the Market Adjusted Index Rate and is therefore applied uniformly to all Plan Adjusted Index Rates.

Reinsurance

A $3.67 PMPM fee was included in the BCBSM small group rates to fund the transitional reinsurance program. This $3.67 was applied to the Market Adjusted Index Rate and is therefore applied uniformly to all Plan Adjusted Index Rates.

Section 10: Non-Benefit Expense, Profit, and Risk

BCBSM has used a cost allocation methodology consistent with industry standards which allocates all cost by direct, variable, and overhead categories. The administrative expenses were projected by line of business using that methodology and current membership projections. The projected administrative cost $PMPM was converted to an expense ratio based on the total pool average and applied uniformly by plan. The same commission percentage was also applied to each plan. The BCBSM Small Group rates target a 4.0% contribution to surplus, 1.85% of which is for a state mandated subsidy for individual Medigap rates. All retention factors were converted into percentages of post-tax premium in the average premium development.

Please see the plan level details in Exhibit C in the Appendix.

Exhibit 10.1: Retention Factors

Retention Factors	% of Pre-Tax Premium	% of Post-Tax Premium
Administrative Costs	8.6%	8.1%
Commissions	5.3%	5.0%
Contribution to Surplus	4.0%	3.8%
Total Retention	**17.9%**	**17.0%**

Please see the following exhibit below for taxes and fees used in 2015 small group rate filing:

Exhibit 10.2: Taxes and Fees Factors

Tax	PMPM / % of Post-Tax Premium
Comparitive Effectiveness Fee	$0.17
Federal Insurer Premium Tax	2.1%
MI Claims Tax	0.5%
Exchange Fee	0.3%
State Premium Tax	1.3%

The PMPM amount for the prescribed comparative effectiveness fee was converted into a percentage based on the total average premium and then applied uniformly by plan.

The federal insurer premium tax percentage was based on an internal analysis of expected BCBSM small group market share versus the nationwide market share in 2015. The percentage was confirmed with external benchmarks as reasonable.

The Michigan claims tax is 0.75% of claims incurred in Michigan by Michigan residents. BCBSM is projecting that it applies to 85% of Small Group claims, which equates to 0.64% of projected

pool level small group claims. When converted to a percent of premium, BCBSM applies a 0.5% Michigan claims tax in the Plan Adjusted Index Rate Development.

The Exchange user fees are 3.5% of Exchange premium. BCBSM is projecting 7% of Small Group will enroll through the Small Business Health Options Program (SHOP) in 2015. Therefore, BCBSM is applying a 0.25% Exchange user fee in the Market Adjusted Index Rate Development.

The total taxes and fees, not including risk adjustment or reinsurance fees, equate to 4.2% of post-tax premium.

Section 11: Projected Loss Ratio

In 2015, Federal MLR rebates, reinsurance, risk adjustment, and risk corridor payments and receipts will be accounted for as claims (or negative claims) in the loss ratio calculation. Reinsurance fee amounts will be included as a federal or state regulatory fee, and will be treated as a reduction to earned premium. Federal and State taxes and fees, including new taxes and fees related to the ACA, will also be removed from premium in the denominator of the MLR calculation. State taxes and regulatory assessments, including state-mandated Medigap subsidies, are also removed from the denominator.

We expect the BCBSM small group segment to be above the MLR thresholds, between 84% and 85%.

Additionally, in 2015 the MLR calculation will be a three year average of 2013, 2014, and 2015, which will smooth any unexpected fluctuations experienced in 2015.

Section 12: Single Risk Pool

The BCBSM Small Group rate filing was developed in compliance with the single risk pool requirement of the ACA.

Section 13: Index Rate

The index rate was developed by taking the projected 2015 allowed claims PMPM for the single risk pool, and removing any benefits that are in excess of the essential health benefit requirements. The development of the index rates for the experience period and projection periods are shown below.

BCBSM intends to increase the renewal rates on a quarterly basis. In this filing, BCBSM is requesting approval for rates with effective start dates of 1/1/2015 – 3/31/2015, 4/1/2015 – 6/30/2015, 7/1/2015 – 9/30/2015, and 10/1/2015 – 12/31/2015. All rates effective after 3/31/2015 were developed by using the annual 2014/2015 base trend of 8.2% shown in Exhibit 5.4. We did not include the one-time adjustment of -0.8% as it was already reflected in the 2015 allowed claims PMPM.

Exhibit 13.1: Index Rate Development

		Effective Date				
	Experience Period	**01/01/2015**	**04/01/2015**	**07/01/2015**	**10/01/2015**	**2015 Total**
Renewal Distribution		22%	15%	19%	44%	100%
Index Rate Development						
Allowed Claims PMPM	$351.67	$398.17	$406.09	$414.17	$422.41	$413.06
- Voluntary Abortion*	$0.04	$0.01	$0.01	$0.01	$0.01	$0.01
Index Rate PMPM	**$351.63**	**$398.16**	**$406.08**	**$414.16**	**$422.40**	**$413.05**

The experience period PMPMs are based on all groups regardless of their renewal date.
Voluntary abortion is an optional benefit. The experience period reflects a mix of groups with and without this coverage.
We assumed that 10% of members will elect this coverage in the projection period.

More information on the 1/1/2015 Effective Date allowed claims PMPM development can be found in Exhibit B in the Appendix.

Section 14: Market Adjusted Index Rate

To set the 2015 plan level rates, the 2015 index rate was first adjusted for the anticipated risk adjustment transfer, reinsurance fee and the Exchange user fee as shown below.

Exhibit 14.1: Market Adjusted Index Rate Development

Market Adjusted Index Rate Development	
Projected 2015 Index Rate	$398.16
- Projected Risk Adjustments PMPM	$1.61
- Projected Reinsurance Recoveries (net of reins. Premium) PMPM	($3.67)
+ Projected Exchange User Fee	$1.08
2015 Market Adjusted Index Rate	$401.30
Projected Issuer's Portion of Total Allowed Claims (TAC)	**$398.16**
Risk Adjustment + Reinsurance + Exchange Fees	**$3.14**

More information regarding the projected risk adjustment transfer and reinsurance fees can be found in Section 9. More information on the projected exchange user fee can be found in Section 10.

Section 15: Plan Adjusted Index Rates

A brief description of the methodology used to derive plan adjusted index rates follows. Please refer to Exhibit C of the Appendix for the detailed calculations.

The projected 2015 Market Adjusted Index Rate from Exhibit 14.1 was the starting allowed claims PMPM (after risk adjustment, reinsurance and Exchange Fees) for all plans BCBSM intends to offer in 2015. To develop the Plan Adjusted Index Rates, the Market Adjusted Index Rate was adjusted by the following:

- Actuarial Value and Cost Sharing Design of the Plan including utilization differences due to differences in cost sharing
- Provider Network / Utilization Management and Catastrophic Risk Pool Adjustment were not used as they do not apply to the BCBSM small group pool
- Benefits in Addition to Essential Health Benefits to reflect the elective abortion benefit combination available for each plan design
- Administrative Costs including administrative expense factors, contribution to surplus factors, and taxes and fees (less exchange user fee and risk adjustment fees and reinsurance premiums)
- Exhibit C in the Appendix demonstrates the rate development for the 26 plans that members will be cross-walked to in 2015. Exhibit C reflects the average of the three benefit combinations BCBSM intends to offer in 2015:
    - Base Plans (26 HIOS plan IDs)
    - Base Plans with Elective Abortion Coverage (26 HIOS plan IDs)

      The base plans do not include coverage for elective abortion, but BCBSM will offer identical products to the base plan with coverage for elective abortion added as an option for its members. The cost of elective abortion was estimated to be 0.02% based on experience data. The plans with elective abortion coverage are 0.02% more expensive than the corresponding base plan.
    - Base Plans without Contraceptive Coverage (26 HIOS plan IDs)

      The base plans include coverage for contraceptives. However, for religious groups that are exempt from the women's preventive mandates, we are offering plans that do not provide contraceptive coverage. The cost of contraceptives was estimated to be 0.7%. The plans that do not cover contraceptives are 0.7% less expensive than the corresponding base plan.

Section 16: Calibration

Age Curve Calibration

BCBSM's small group age curve calibration uses a member weighted average using the age factors prescribed by the ACA. As shown in Exhibit 5.3, the projected average age factor is 1.365 and the average age is 34.1. To account for the 3 child cap, non-billable members will receive an age factor of 0.00. Recalculating the average age factor setting non-billable members to 0.00, results in a 1.355 projected average age factor for the total single risk pool in 2015.

Geographic Factor Calibration

The geographic factor calibration uses a member weighted average across the 16 Michigan rating regions. As shown in Exhibit 5.3, the projected average area factor is 0.997.

All Plan Adjusted Index rates in Exhibits C are divided by the 1.355 average age factor for billable members and the 0.997 average geographic factor to determine the starting plan base rate. This base rate is then used to determine the Consumer Adjusted Premium Rates as explained in the following section.

Section 17: Consumer Adjusted Premium Rate Development

The consumer adjusted premium rate is calculated by first taking the Plan Adjusted Index Rate and dividing by the calibration factors stated in Section 16 to create the starting plan base rate as shown in Exhibit C. Each member's rate is determined by applying the appropriate area factor and age factor to the starting plan base rate. Tobacco rating will not be used in 2015.

For second quarter through fourth quarter rates, a "quarterly roll" for trend of 2.0% is determined based on the projected 2014 to 2015 base trend of 8.2%. The starting base plan is rolled forward by 2.0% per quarter before applying the area factor and age factor.

Section 18: Actuarial Value Metal Levels

Exhibit D in the Appendix summarizes the process and analysis performed by BCBSM to derive the Actuarial Values (AVs) of the proposed 2015 Small Group products in order to comply with rules governing the definition of Qualified Health Plans (QHPs). All analyses and calculations comply with prescribed regulations. The conclusions in this report are based on the regulations as we understand them as of the date of the Final Rule, including all subsequent interpretation and guidance provided by CCIIO.

The ACA requires that health care coverage provided by issuers of non-grandfathered plans in the small group market must cover EHBs and have AVs that fall within the following metal classifications, within +/- 2% of the anchor percentage for each category.

- Platinum at 90% (88% to 92%)
- Gold at 80% (78% to 82%)
- Silver at 70% (68% to 72%)
- Bronze at 60% (58% to 62%)

The results of our analysis rely on the Actuarial Value Calculator tool provided by CCIIO. Any adjustments made to the results of the AV tool are disclosed in Exhibit D and comply to the best of our knowledge with the guidelines for allowed adjustments provided within the final rules. We have also disclosed in Exhibit D areas or issues with the tool that may have an impact on our analysis or assertions. We are hereby confirming that methods used to model cost sharing features which did not fit directly into a benefit or cost sharing category provided within the AV tool comply with allowed adjustments and methodologies outlined in regulations.

Section 19: Actuarial Value Pricing Values

Please refer to Exhibit C in the Appendix for the Actuarial Value Pricing Values for each plan. Simply Blue Gold $500 is used as the reference plan in this exhibit. This plan is the most comparable to the expected 2015 pool average benefit. Only benefit designs were factored into the actuarial pricing values, which were based on the pool level experience. No morbidity adjustments were utilized when developing benefit differentials between plans within the pool.

Exhibit C in the Appendix also provides the components of the Actuarial Value Pricing Values due to cost sharing design, provider network, utilization management, benefits in addition to EHB, administrative costs, and taxes/fees (excluding exchange user fees, reinsurance fees or risk adjustment fees).

Section 20: Membership Projections

BCBSM Small Group is projected to experience a 17% net membership loss from the experience period to the projection period primarily driven by groups dropping coverage. The total projected 2015 membership was then allocated to the new product portfolio by cross walking each group to the product in the 2014 menu most comparable to its current benefit design at renewal on or after January 1, 2014. Similarly, in 2015, each group will be cross walked to a 2015 product which is either identical to 2014 products or have relatively small cost sharing changes. We are also projecting a small amount of members will move to the new plans being offered in 2015. Exhibit C in the Appendix includes the membership projection by plan.

Section 21: Terminated Products

Below is the list of BCBSM Small Group products that were closed on December 31, 2013. New members are not able to enroll in these products as of January 1, 2014 and existing business has not been able to renew in these products since January 1, 2014. No additional products are being closed in 2014.

Product Name	HIOS Product ID
Community Blue	15560MI001
Flexible Blue	15560MI002
Blue Managed Traditional (Comprehensive Major Medical)	15560MI003
Blue Managed Traditional First Dollar (Comprehensive Hospital Care and Professional Services Group)	15560MI004
Blue Choice PPO	15560MI005
Healthy Blue PPO	15560MI006
Blue Managed Traditional First Dollar Plan with Master Medical (Master Medical)	15560MI007
BlueCore Plus	15560MI008
Blue Preferred	15560MI009
Healthy Blue Outcomes	15560MI010
Simply Blue	15560MI030
Simply Blue HSA w/ Drug	15560MI033
Simply Blue HRA	15560MI032
Simply Blue HSA w/o Drug	15560MI034

Section 22: Plan Type

All products BCBSM intends to offer in the Small Group market are PPO products.

Section 23: Warning Alerts

We aggregated all of our current products that will be closed to new business and not available to renewal business on their plan year on or after January 1, 2014, as one product named "Terminated Products." The Bulletin 2014-06-INS (Bulletin), issued by the Department of Insurance and Financial Services (DIFS) on March 26, 2014 indicated to use the product ID of the product with the most membership which was our current Community Blue products. The Bulletin also indicated to set the plan ID equal to the product ID. We followed the instructions but it generated a warning for the plan ID.

BCBSM Small Group is filing for trended quarterly rate changes as described in Section 13 of this memorandum. Based on the URRT instructions, the Plan Adjusted Index Rates in Section IV of Worksheet II represent the membership weighted average of the quarterly adjusted Plan Adjusted Index Rates. Therefore, the average calculated on Worksheet II will be higher than the Single Risk Pool Gross Premium Average Rate calculated in Worksheet 1. Since the Total Premium (TP) is calculated from the Plan Adjusted Index rate, this value on Worksheet 2 will also be higher than the Total Premium in Section III of Worksheet 1.

Section 24: Effective Rate Review Information

There is no additional information provided by BCBSM.

Section 25: Reliance on Third Parties

The following information, processes, or analysis were provided by third parties outside of BCBSM. All other information or analysis provided within the memorandum have been performed or provided by internal associates of BCBSM. The actuary, by providing the attestation below, is confirming the accuracy and completeness of all information and analysis provided within the memorandum.

As stated within Section 18, Actuarial Value Metal Levels, and Section 19, Actuarial Value Pricing Values, we relied upon a benefit modeling tool created in conjunction with Donlon and Associates.

BCBSM is attesting to the completeness of all plan product and pricing actuarial analysis. Milliman, Inc. provided high level peer review for all medical plan pricing, product determination, and documentation.

Section 26: Actuarial Certifications

I, David Nelson, Chief Actuary, am an employee of Blue Cross Blue Shield of Michigan and a member of the American Academy of Actuaries.

I certify that the projected index rate provided within the memorandum is:

- In compliance with all applicable State and Federal Statutes and Regulations (45 CFR §156.80(d)(1)),
- Developed in compliance with the applicable Actuarial Standards of Practice
- Reasonable in relation to the benefits provided and the population anticipated to be covered
- Neither excessive nor deficient

I certify that the index rate and only the allowable modifiers as described in 45 CFR §156.80(d)(1) and 45 CFR §156.80(d)(2) were used to generate plan level rates.

I certify that the percent of total premium that represents essential health benefits included in Worksheet 2, Sections III and IV were calculated in accordance with actuarial standards of practice.

I certify that the AV Calculator was used to determine the AV Metal Values shown in Worksheet 2 of the Part I Unified Rate Review Template for all plans except those specified in the documentation above. The values for all excepted plans were developed in accordance with generally accepted actuarial principles and methodologies.

I am disclosing the Part I Unified Rate Review Template does not demonstrate the process used by BCBSM to develop the rates, but rather represents information required by Federal regulation to be provided in support of the review of rate increases, for certification of qualified health plans for federally facilitated exchanges, and for certification that the index rate is developed in accordance with Federal regulation and used consistently and only adjusted by the allowable modifiers.

I am certifying that this filing has been prepared in accordance with the following Actuarial Standards of Practice:

- Actuarial Standard of Practice No. 5, 'Incurred Health and Disability Claims',
- Actuarial Standard of Practice No. 8, 'Regulatory Filings for Rates and Financial Projections for Health Plans',
- Actuarial Standard of Practice No. 12, 'Risk Classification',
- Actuarial Standard of Practice No. 23, 'Data Quality',
- Actuarial Standard of Practice No. 25, 'Credibility Procedures Applicable to Accident and Health, Group Term Life, and Property/Casualty Coverages',

- Actuarial Standard of Practice No. 26, 'Compliance with Statutory and Regulatory Requirements for the Actuarial Certification of Small Group Employer Health Benefit Plans',
- Actuarial Standard of Practice No. 31, 'Documentation in Health Benefit Plan Ratemaking', and
- Actuarial Standard of Practice No. 41, 'Actuarial Communications'.

David Nelson, FSA, MAAA
Chief Actuary
600 E. Lafayette Blvd.
Detroit, MI 48226-2998
(313) 225-7100
June 6, 2014

I, Alan P. Huddy, Vice President Group and Individual Pricing Actuary, am an employee of Blue Cross Blue Shield of Michigan and a member of the American Academy of Actuaries.

I certify that the projected index rate provided within the memorandum is:

- In compliance with all applicable State and Federal Statutes and Regulations (45 CFR §156.80(d)(1)),
- Developed in compliance with the applicable Actuarial Standards of Practice
- Reasonable in relation to the benefits provided and the population anticipated to be covered
- Neither excessive nor deficient

I certify that the index rate and only the allowable modifiers as described in 45 CFR §156.80(d)(1) and 45 CFR §156.80(d)(2) were used to generate plan level rates.

I certify that the percent of total premium that represents essential health benefits included in Worksheet 2, Sections III and IV were calculated in accordance with actuarial standards of practice.

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- Actuarial Standard of Practice No. 12, ‘Risk Classification’,
- Actuarial Standard of Practice No. 23, ‘Data Quality’,
- Actuarial Standard of Practice No. 25, ‘Credibility Procedures Applicable to Accident and Health, Group Term Life, and Property/Casualty Coverages’,
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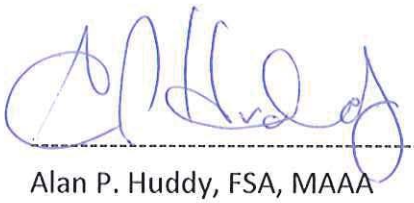
- Actuarial Standard of Practice No. 31, 'Documentation in Health Benefit Plan Ratemaking', and
- Actuarial Standard of Practice No. 41, 'Actuarial Communications'.



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Vice President, Group and Individual Pricing Actuary
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June 6, 2014

I, Xuan Wu, Director, Group Pricing, am an employee of Blue Cross Blue Shield of Michigan and a member of the American Academy of Actuaries.

I certify that the projected index rate provided within the memorandum is:

- In compliance with all applicable State and Federal Statutes and Regulations (45 CFR §156.80(d)(1)),
- Developed in compliance with the applicable Actuarial Standards of Practice
- Reasonable in relation to the benefits provided and the population anticipated to be covered
- Neither excessive nor deficient

I certify that the index rate and only the allowable modifiers as described in 45 CFR §156.80(d)(1) and 45 CFR §156.80(d)(2) were used to generate plan level rates.

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- Actuarial Standard of Practice No. 26, ‘Compliance with Statutory and Regulatory Requirements for the Actuarial Certification of Small Group Employer Health Benefit Plans’,

- Actuarial Standard of Practice No. 31, 'Documentation in Health Benefit Plan Ratemaking', and
- Actuarial Standard of Practice No. 41, 'Actuarial Communications'.

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June 6, 2014

Section 27: Rate Change Summary

In support of the DIFS rate checklist, a description of the allowable rating factors for 2015 is included below:

Quarterly Trend Adjustments

- BCBSM is intending to adjust rates quarterly throughout 2015 by a 1.02 quarterly trend factor. This factor was developed based on the projected base trend from 2014 to 2015 of 8.2% as described in Section 5.

Age Factors

- BCBSM uses age factors prescribed in the Reform Rating regulations.
- Age rate adjustment is applied based on the following age bands:
    - A single age factor for children 0 to 20 years of age, where the age rate adjustment is the same for all members in this age range.
    - One-year age bands starting at age 21 through age 63.
    - A single age band for individuals 64 years of age and older, where the age rate adjustment is the same for all members in this age range.
- The premium variation between the youngest and the oldest adult individuals between the ages of 21 – 64+ should not exceed a ratio of 3:1 as prescribed by the ACA and adopted by the State of Michigan.

Geographic Factors

- All rates (in or out of state members) will utilize the area rating factor associated with the geographic location of the employer within the state.
- If the headquarters is not in Michigan, location to default to the employer's Michigan office address.
- There are 16 geographic rating areas as established by the State of Michigan.
- BCBSM's area factors for 2015 are shown in Exhibit 27.1.

Exhibit 27.1: Area Rating Factors

Area	Area Factor
A Wayne/ Monroe	1.056
B Oakland/ Macomb	1.056
C St. Clair	0.956
D Ann Arbor	0.976
E Flint	0.946
F Thumb	0.956
G Lansing	0.947
H Saginaw	0.898
I Southwest	1.160
J Kalamazoo/ Battle Creek	1.015
K Allegan/ Barry	0.994
L Grand Rapids	0.946
M Midland	0.898
N N.W. Lower	0.854
O N.E. Lower	0.933
P UP	1.150
Composite	0.997

Tobacco Factors

- Consistent with the 2014 rate filing, BCBSM will not be utilizing a tobacco rating factor in 2015.

Family Composition

- Family rates equal the sum of:
    - Rates for all enrollees age 21 and over,
    - plus rates for all subscribers or spouses under age 21, as applicable,
    - plus the rates of the three oldest children under age 21, as applicable.