

Rate Increase Justification

Today's Date: July 31, 2024

Issuer: County of Santa Clara dba Valley Health Plan

Rate Change Effective Date: January 1, 2025

Market: Individual

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).*

The purpose of this memorandum is to request a rate increase effective January 1, 2025 for Valley Health Plan Health Plan's (VHP) individual market plans.

This justification is intended to comply with the requirements of CMS, the State of California Department of Managed Health Care (DMHC) and Covered California. This justification may not be appropriate for purposes or scopes beyond those described above and, therefore, should not be used for other purposes.

The rate increase requested for VHP's individual market plans impacts approximately 24,000 members. The composite requested rate increase from January 2024 to January 2025 is 9.0% across all members. Due to changes in pricing relativities for 2025, the requested rate changes vary by plan from -5.29% to 14.25%.

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.*

In 2023, VHP collected \$148.9 million in premium and incurred \$142.2 million in net claim expenses plus federal risk adjustment payments, resulting in a 95.5% loss ratio for its individual market plans. VHP's administrative expenses in 2023 were approximately 18.5% of premium and taxes and fees were approximately 3.3% of premium, resulting in a loss of approximately 17.3% for VHP.

VHP's requested rate increase for 2025 is projected to result in a financially solvent block of business.

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.*

The overall impact on rates due to changes in projected medical service and pharmacy costs was about 3.2%. Projected medical and pharmacy costs includes increases in unit costs, changes in utilization of medical services and prescription drugs. In addition, the plan has recently capitated professional services for a portion of its members. We assumed a fee-for-service trend rate of 5.5%. Utilization of GLP-1 drugs is expected to continue to

significantly increase for 2025. In general, however, trend is expected to be driven mainly by unit costs while utilization is expected to remain relatively stable.

In addition, the plan continues to pay high risk adjustment transfer payments: the impact on rates due to the change in estimated risk adjustment transfer payment is about 3.9%.

- 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.*

VHP made various changes to comply with the 2025 California standard plan designs and to account for increased induced demand associated with the state-funded enhanced Silver cost-sharing. Major benefit changes include changes to medical and drug deductibles, out-of-pocket maximums, inpatient facility copay/coinsurance, PCP copays, specialist copays, mental health/substance use copays, outpatient facility copay/coinsurance, and drug copays.

In aggregate, the impact on rates due to benefit changes was about 0.7%, driven largely by the cost of induced demand associated with the state-funded enhanced Silver cost-sharing.

- 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.*

VHP anticipates relatively little change in commission payments, while projecting other administrative expenses will grow moderately due to inflation. The overall impact on rates due to administrative expenses is 1.5%, which was somewhat offset by a decrease in the exchange fee from 3.25% to 2.25% of premiums. VHP's anticipated margin as a percentage of premium remains unchanged at 3.0% for 2025.