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Oscar Health Plan of California
HIOS Part II Preliminary Justification
Written Explanation of Rate Increase in California

January 2019 through December 2019

1. SCOPE AND RANGE OF RATE INCREASE

The purpose of this memorandum is to present justification for a rate increase for Oscar Health Plan of California's (Oscar) individual market plans in California, effective January 1, 2019.

This justification is intended to comply with the requirements of Section 2794 of the Public Health Service Act as added by Section 1003 of the Patient Protection and Affordable Care Act (ACA). This justification may not be appropriate for purposes or scopes beyond those described above and, therefore, should not be used for other purposes.

This letter specifically addresses products with rate increases in excess of 15% requested for Oscar's individual market plans. This impacts 2,203 members in the Oscar Simple Silver plan as of March 31, 2018. The rate increase being requested for this plan is provided in the following table:

Table 1
Oscar Health Plan of California
Summary of Proposed Rate Increases

Plan	Exchange Status	2018 Plan Adjusted Index Rate*	2019 Plan Adjusted Index Rate*	Rate Increase
Oscar Simple Silver	Off Exchange Only	$382.90	$445.11	16.2%

*The Plan Adjusted Index Rates were generated using the current membership age and area distributions, consistent with the Current Rate PMPMs reflected on Worksheet 2, Section II of the URRT.

Rate increases vary by plan due to a combination of factors including shifts in benefit relativities, non-benefit expense allocation, and profit targets.

2. FINANCIAL EXPERIENCE

Oscar's financial experience for its individual market products in California for calendar year 2017 (based on claims paid through March 2018) is shown below:

- Earned Premium Net of Rebates = $43,149,009;
- Adjusted Incurred Claims (adjusted for risk adjustment) = $41,895,387;

- Medical Loss Ratio (MLR) = 97.1%

The rate increase is needed to begin moving the actual loss ratio towards the 2019 target of 83.6% MLR.

The other major drivers of the requested rate increase are as follows:

- Changes in medical service costs.
- Changes in benefits and observed plan behavior change factors.
- Repeal of the individual mandate penalty.

3. CHANGES IN MEDICAL SERVICE COSTS

Increases in medical unit costs and utilization contribute approximately 4% to the 2019 rate increases. These claims trend assumptions are based on research, general industry knowledge regarding recent trends in medical inflation, and Oscar's guidance on unit cost increases with its contracted providers. Medical service costs also reflect changes in Oscar's provider network reimbursement levels and its care management protocols, as well as Oscar's contracts with its Pharmacy Benefits Manager for prescription drugs (i.e. average wholesale price discounts, dispensing fees, anticipated rebates, and formulary).

4. CHANGES IN BENEFITS AND PLAN BEHAVIOR CHANGE FACTORS

Effective January 1, 2019 benefits have changed on certain plans based on state requirements, business decisions, and new Actuarial Value Calculator testing.

We also project changes in utilization of services due to differences in average cost sharing requirements during the experience period and average cost sharing requirements in the projection period due either to changes in benefits or anticipated plan mix. These plan behavior change factors (i.e., induced demand factors) for the projection period were developed using Oscar's CY2017 risk-adjusted experience data. These factors differ from those developed using Oscar's CY2016 risk-adjusted experience data. Changes in plan behavior change factors contribute approximately 7% to the 2019 rate increase.

5. REPEAL OF THE INDIVIDUAL MANDATE PENALTY

We estimated an increase in the morbidity of the covered population from the experience period to the projection period as a result of the repeal of the individual mandate penalty as well as other potential future healthcare reform. We anticipate that these changes will cause overall market morbidity to increase as healthier members exit the market. This change in morbidity contributes approximately 5% to the 2019 rate increases.

6. ADDITIONAL CAVEATS

This narrative and the attached filing are intended to support Oscar Health Plan of California's Individual Rate Filing in California. It should not be distributed, in whole or in part, to any external party, other than the regulators in the state of California or the Centers for Medicare and Medicaid Services (CMS), without prior written permission. In any event, this information is not intended to benefit any third party. This information may not be appropriate, and should not be used, for other purposes.

Differences between projections and actual amounts depend on the extent to which future experience conforms to the assumptions made for this analysis. It is certain actual experience will not conform exactly to the assumptions used in this analysis. Actual amounts will differ from projected amounts to the extent actual experience deviates from expected experience.

In preparing this written explanation of the rate increase, I have relied on information provided to me by Oscar Health Plan of California. To the extent that it is inaccurate, incomplete, or misleading, the contents of this document may be materially affected.

I am a Principal and Consulting Actuary with the firm of Milliman, Inc. I am a member of the American Academy of Actuaries, and I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. This filing is prepared on behalf of Oscar Insurance Corporation.

Respectfully Submitted,

Robert N Parke

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Member of the American Academy of Actuaries
July 13, 2018