WESPATH

2016 EXPERIENCE AND UPDATE TO 2018 RATE METHODOLOGY

MARCH 2017

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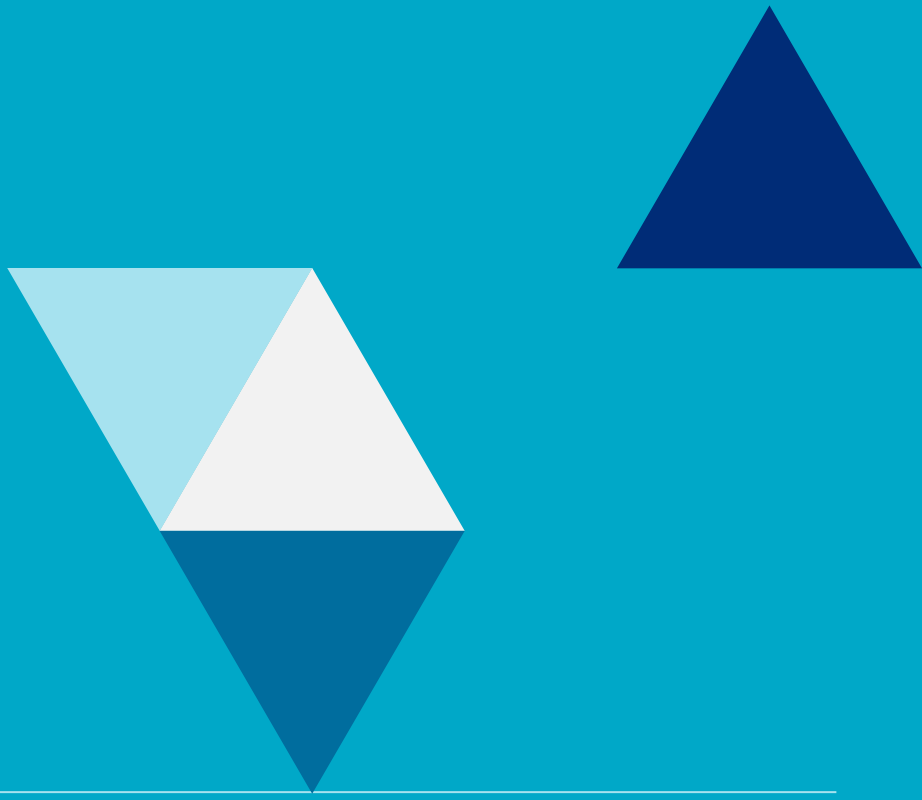
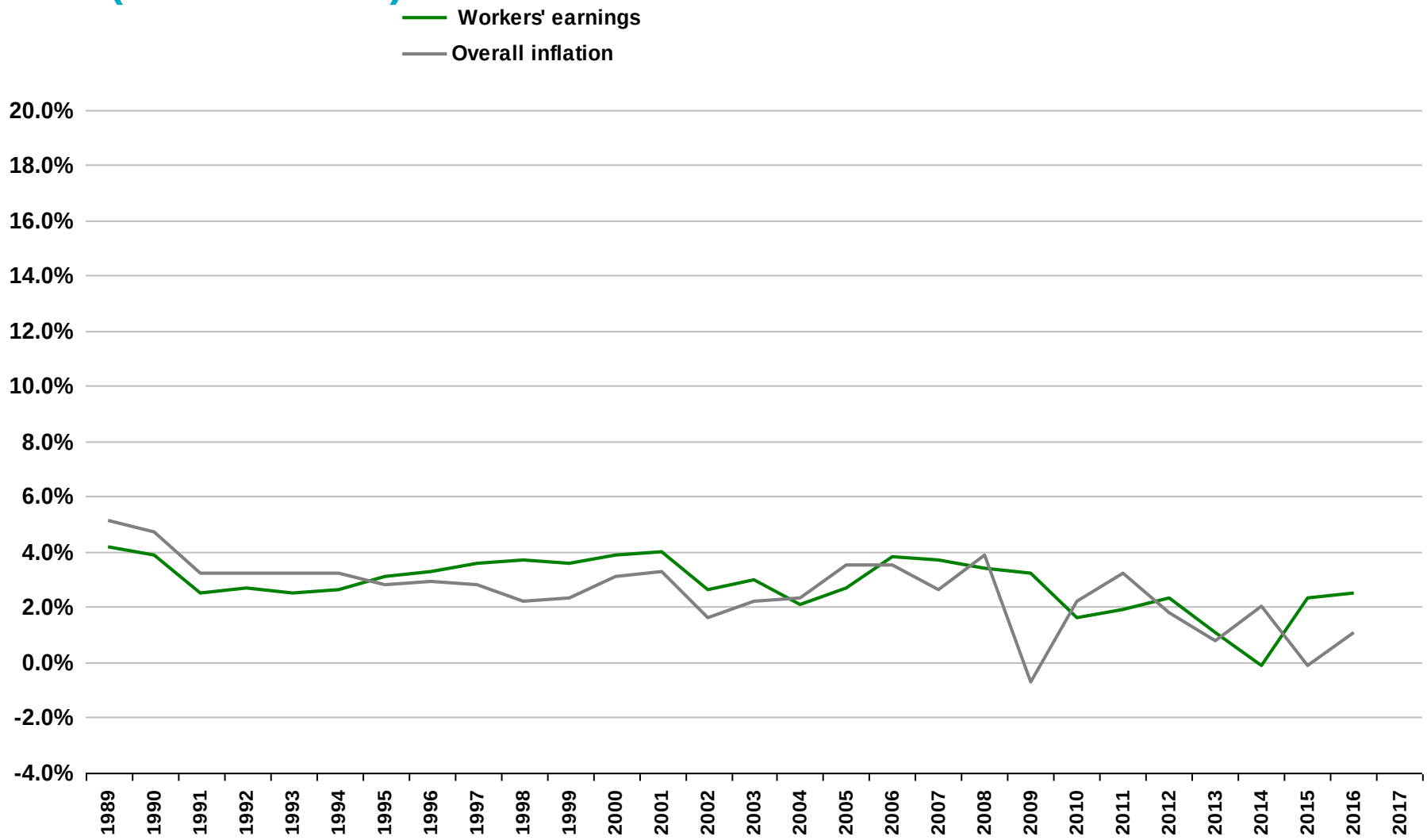
2016 EXPERIENCE



ANNUAL HEALTH COST TRENDS VS. EARNINGS AND CPI (1989-2016)



Source: Mercer's National Survey of Employer-Sponsored Health Plans; Bureau of Labor Statistics, Consumer Price Index, U.S. City Average of Annual Inflation (April to April) 2009-2016; Bureau of Labor Statistics, Seasonally Adjusted Weekly Earnings from the Current Employment Statistics Survey (April to April) 2009-2016.

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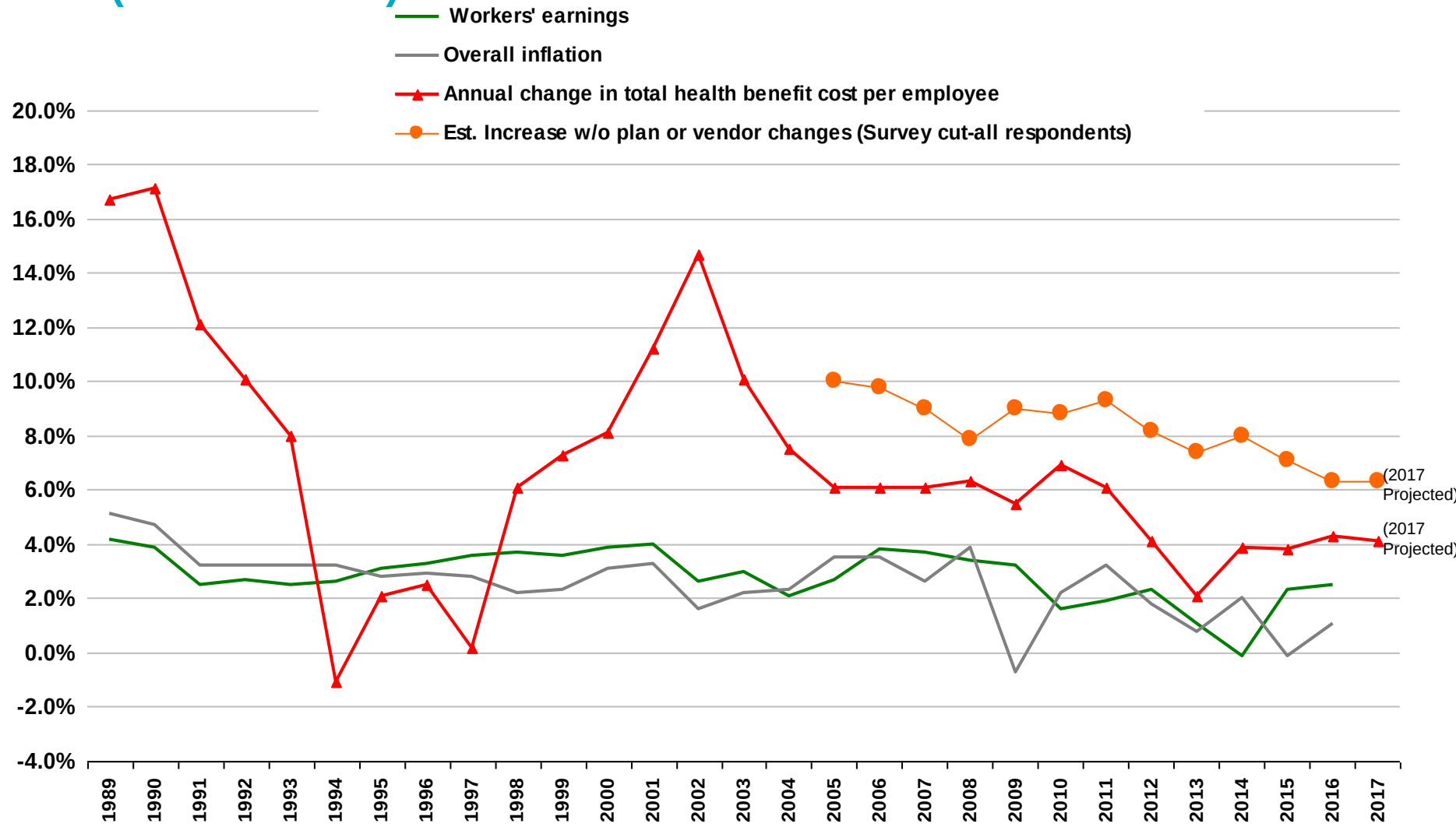

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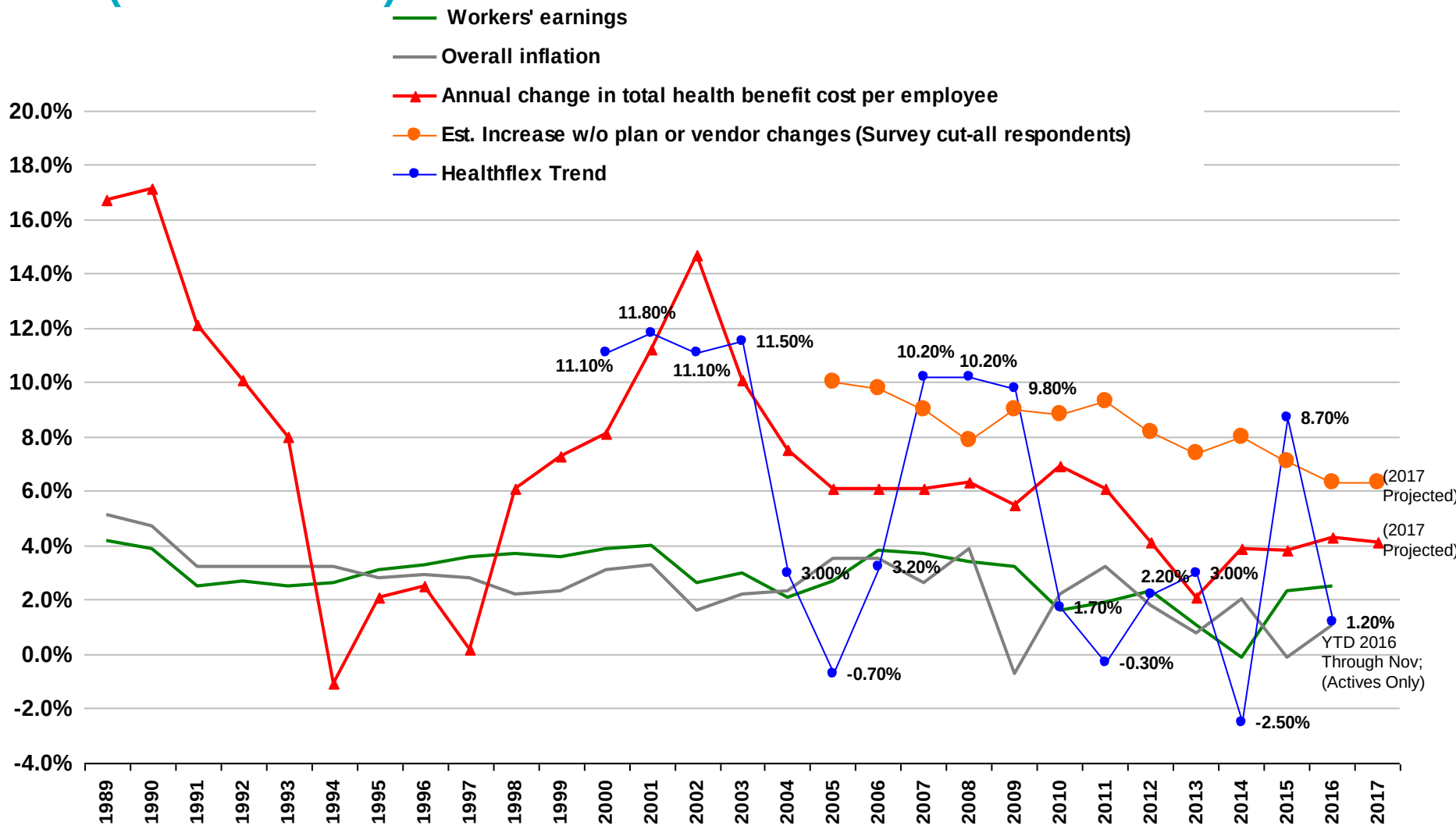

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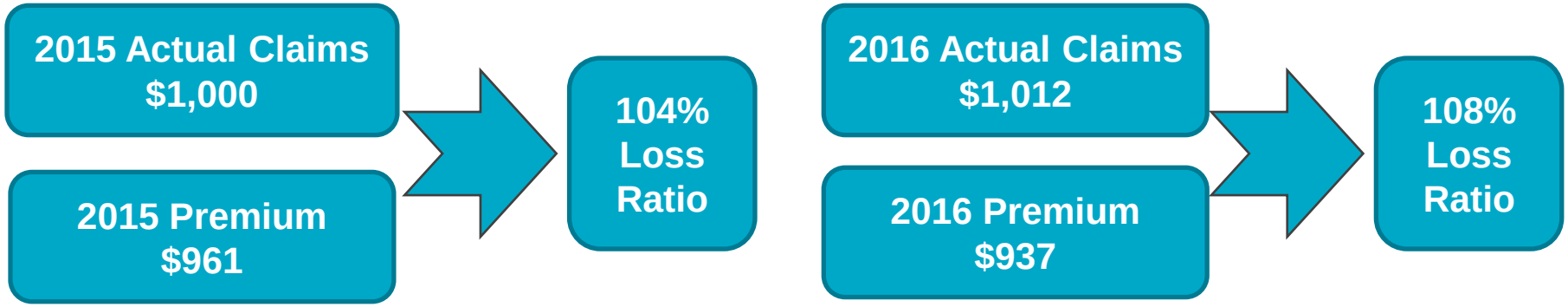
2016 EXPERIENCE SNAPSHOT

- Although 2016 HealthFlex claims trended lower, this is due to continued shifts to CDH/HDH plans, as well as 2016 is compared to higher than expected claims during 2015

Year	PEPM Claims Trend	Claims Funding Ratio PPO	CDHP
2010	+1.7%	97.1	N/A
2011	(0.3%)	93.4	71.0
2012	+2.2%	94.0	76.1
2013	+3.0%	100.2	73.7
2014	(2.5%)	96.9	71.8
2015	+8.7%	106.1	88.3
YTD 2016 (Nov)	+1.2%	112.6	85.0

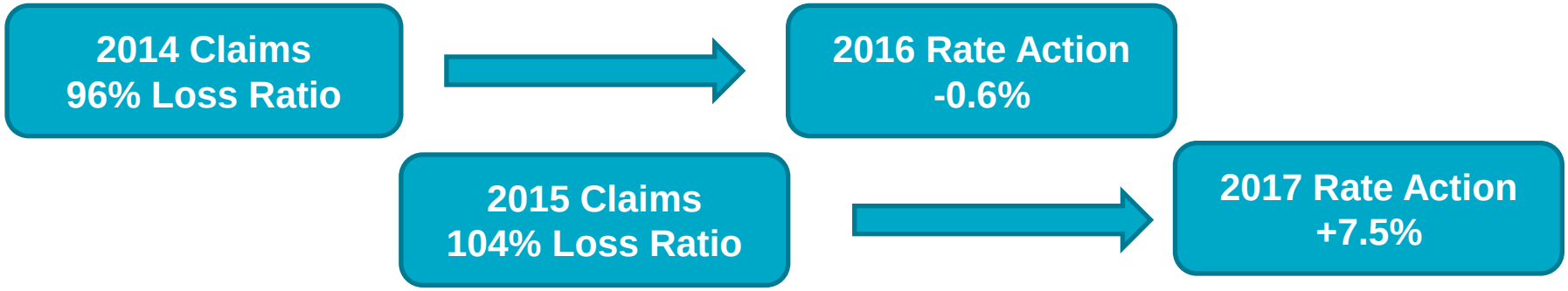
HEALTHFLEX RATING TIMING
TREND VS. LOSS RATIO



Note: figures are illustrative examples representing total HealthFlex performance

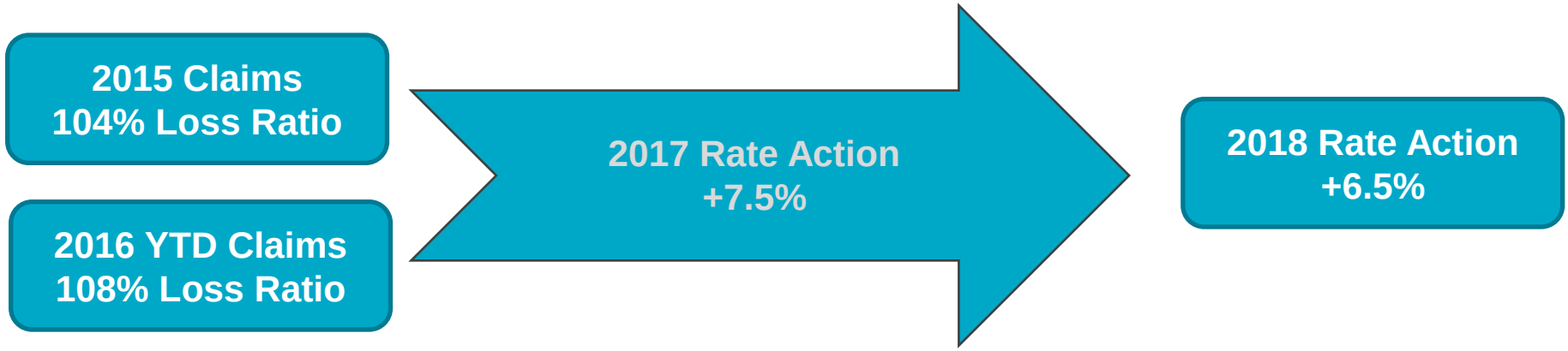
- Although “trend” for YTD 2016 is relatively low at 1.2% over 2015, the loss ratio was 108%
  - This means that although costs increased at a low rate, it was still higher than expected as the loss ratio was higher than 100%, which means we expected a ***decrease*** in claims due to plan election changes made by Plan Sponsors
- Therefore a low claims trend does not necessarily equate to a low rate increase as both trend increase and loss ratios need to be considered

HEALTHFLEX RATING TIMING
LAG IN 2016/2017 RATE ACTION VS. LOSS RATIO



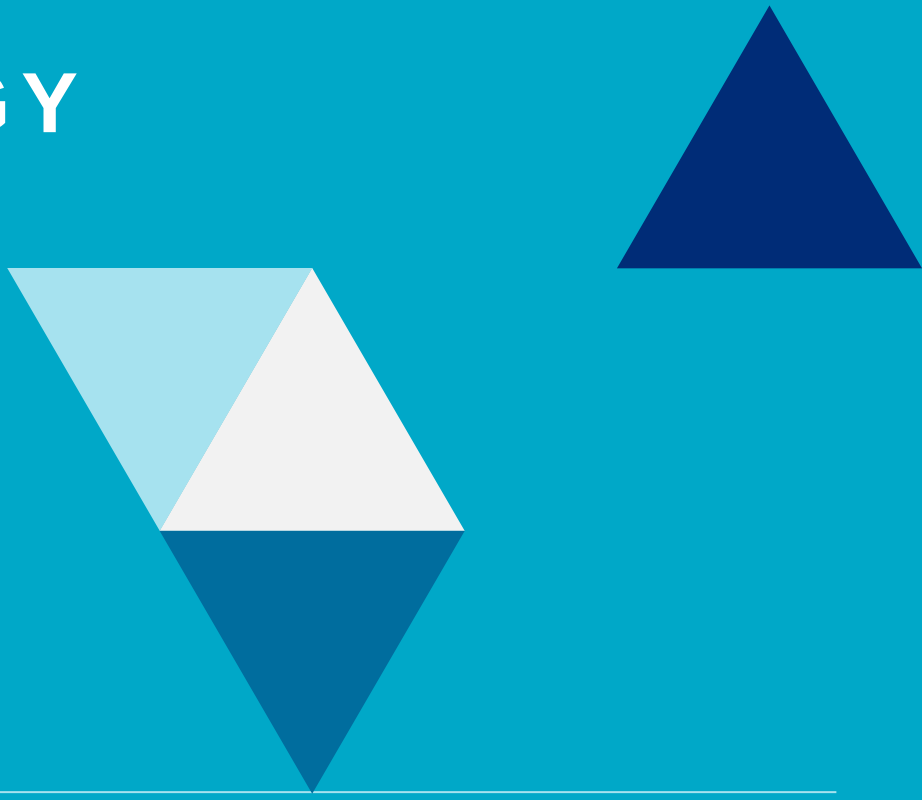
- Due to the timing of when HealthFlex needs to set premium rates for Plan Sponsors, the claims experience of a year impacts the rates for **2 years** out, which leads to a lag in rate actions/adjustments
- HealthFlex experience for the five-year period prior to 2015 (2010-2014) was extremely favorable
- 2015 was a markedly different year, as claims trended much higher at +8.7% (closer to general market cost trends) and were used to project 2017 rate increases
  - The +7.5% rate action for 2017 is closer to market averages

HEALTHFLEX RATING TIMING
LAG IN 2018 RATE ACTION VS. LOSS RATIO



- As 2016 rates were based in part on the favorable 2014 claims experience, during the 2017 rating process, we projected 2016 loss ratio would exceed 100%, given the emerging higher than expected claims we saw in 2015
  - Our projections were correct, and 2016 loss ratio was at 108% through November
- Even with the +7.5% rate action for 2017, as the experience continued into 2016 at the higher levels, this resulted in another rate action for 2018 which is closer to market averages than in past years (prior to 2017)
- ***This resulted in an overall average 2018 rate action of +6.5%***

RATE METHODOLOGY



HEALTHFLEX—GOALS FOR RATE-SETTING PROCESS

- Provide rates approximately 10 months in advance to facilitate conference budgeting and conference review
- Requires 25-month trend projected (e.g., 2018 rates use data midpoint 6/1/2016 to midpoint 7/1/2018)
- Facilitate rate stability over time
- Assure rate equity
  - Ensure balance between responsibility for own experience and integrity of connectional plan
- Produce competitive rates
- Protect financial integrity of HealthFlex Pool

RATE METHODOLOGY—ENHANCED METHOD

- Increased claim thresholds as part of rate methodology review in order to align to claims experience that has increased over time
  - Claim threshold levels have not been changed for many years
  - Need to continue to ensure rate equity and stability, and minimize the need for rate floors/ceilings
- Enhanced methodology – key areas of focus
  - Increase claim threshold levels
  - Expand claim lookback period

RATE METHODOLOGY—ENHANCED METHOD *(CONT'D)*

- Increase in claim thresholds increases the ownership each PS assumes for their own claims experience (rate equity)
  - Lowest = under $25,000 is 100% credible – experience fully assigned to plan sponsor
  - Middle = $25,000 to $200,000 is partially credible – plan sponsor & pool experience blend
  - Highest = $200,000 is 0% credible – experience completely pooled
- Expanded claim lookback period (24 months of data) mitigates claims volatility, including potential volatility from increase in claims thresholds (rate stability)
  - Most recent year of claims is weighted slightly more at 60%, compared to 40% for the prior year

RATE METHODOLOGY—KEY PARAMETERS

- Experience base equals prior 24 months

- Enhanced 2018 pooling limits (% of total claim dollars)
  - For 24 months of claims (December 2014 – November 2016):
    - Claims < $25,000: 100% to plan sponsor 63%
    - Claims $25,000 to $200,000: credibility blended 32%
    - Claims $200,000: and above fully “pooled” 5%

RATE METHODOLOGY—POOLING AND CREDIBILITY

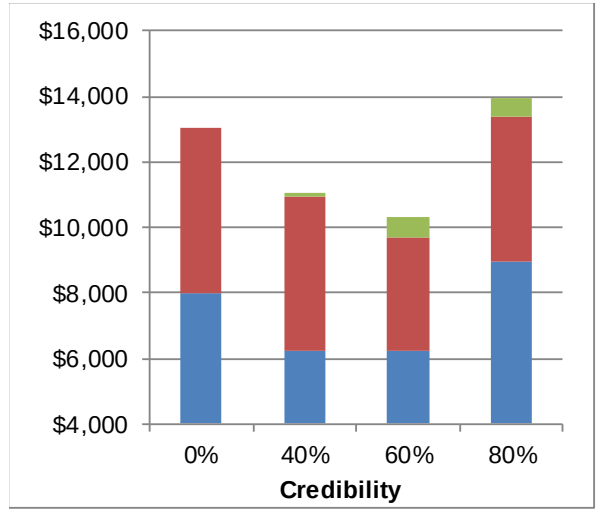
- Credibility measured by covered households (average annual)
- Groups under 42 households (12 months average) = 0% credibility
- Groups with 1,250 or more households = 100% credibility
- Typical rating—the largest conference has approximately 80% of their own experience driving their rates, while the smallest conference is at 0%
  - Credibility table remains same as used historically as the group size ultimately determines the volatility of the Plan Sponsor's claims experience

RATE METHODOLOGY
CREDIBILITY AND POOLED CLAIMS

		How claims are allocated	
Households	**Credibility**	**% Assigned Claims**	**% Pooled Claims**
Less than 42	0%	35%	65%
42 -58	10%	40%	60%
58 – 83	20%	45%	55%
83 – 125	30%	51%	49%
125 – 208	40%	56%	44%
208 – 292	50%	61%	39%
292 – 417	60%	66%	34%
417 – 583	70%	72%	28%
583 – 875	80%	77%	23%
875 – 1,250	90%	82%	18%
1,250 or more	100%	87%	13%

POOLING EXAMPLES—AVG. CLAIMS/HOUSEHOLD

Actual Dec 2014 – Nov 2016



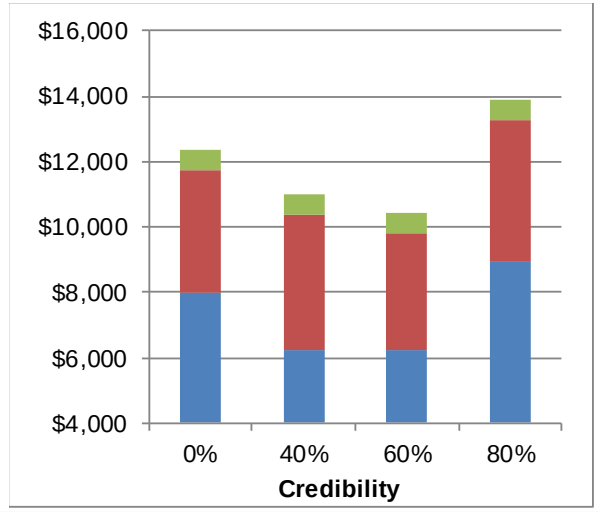
Claim Strata

= Claims < $25,000

= Claims $25,000 - $200,000

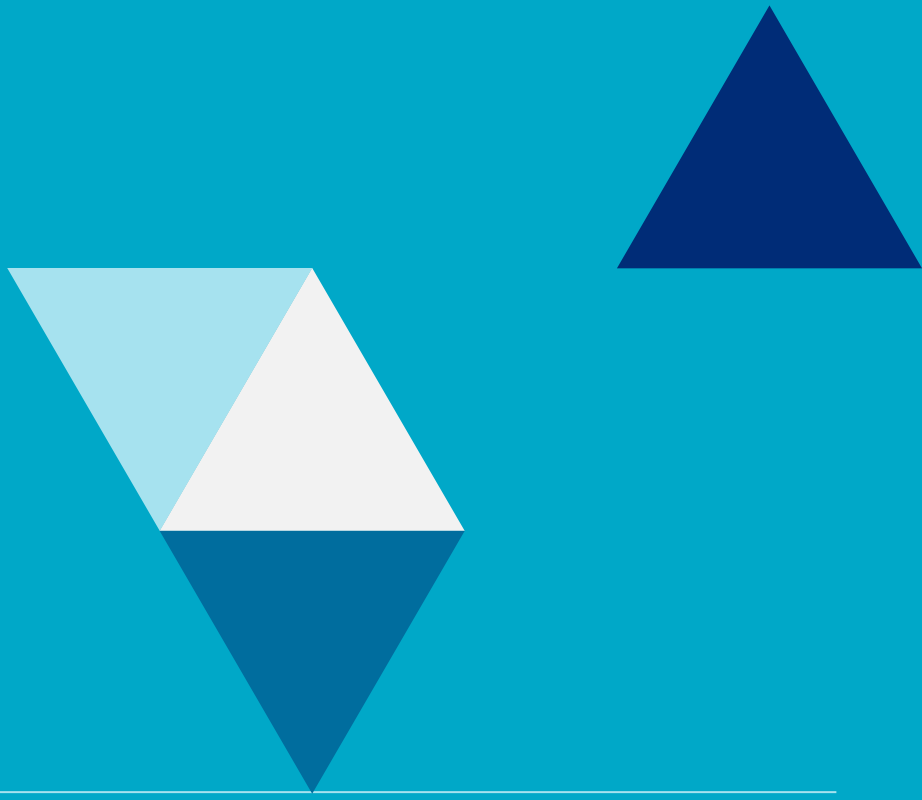
= Claims > $200,000

Adjusted Dec 2014 – Nov 2016

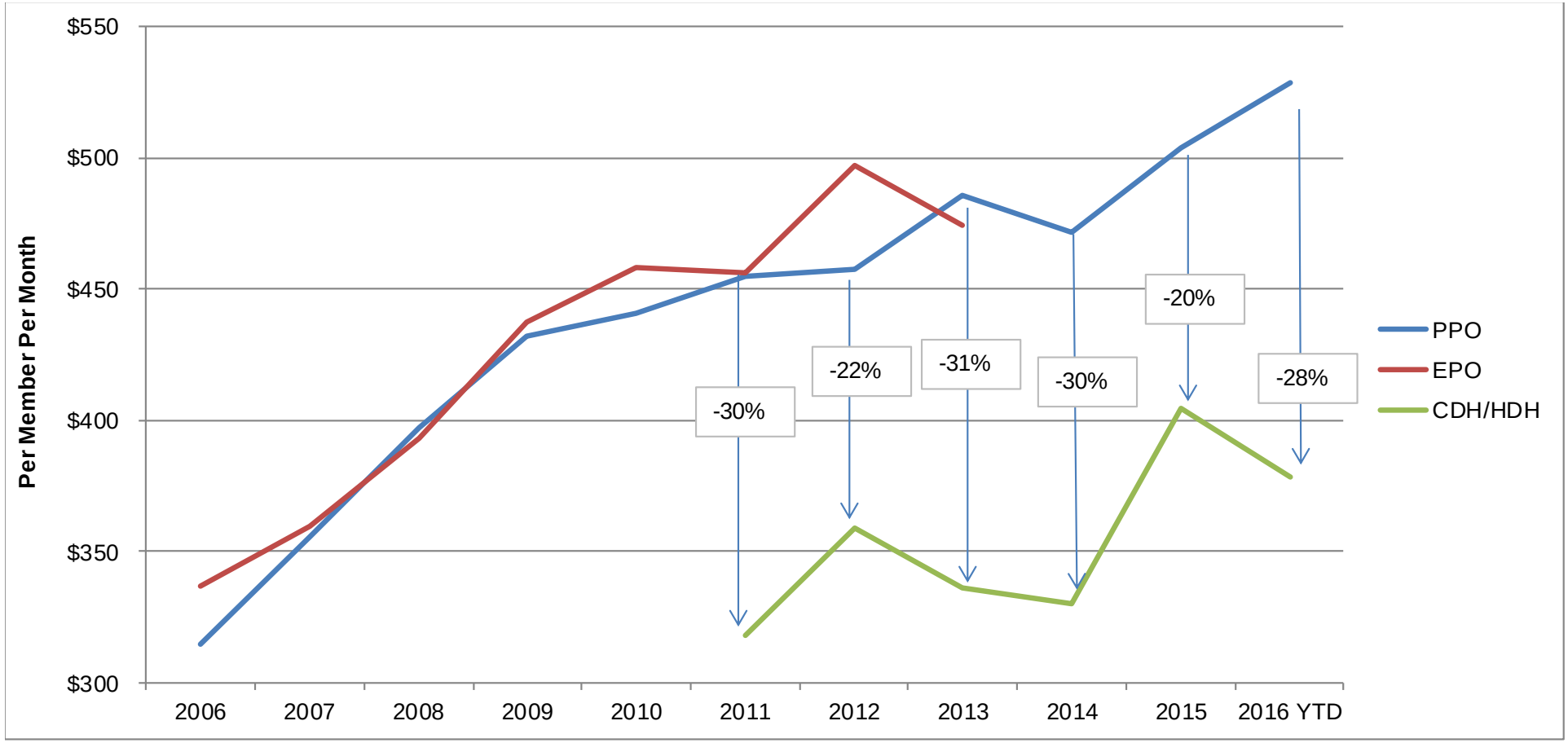


Adjusted based on pooling methodology – smooths out actual experience

CDH/HDH PLANS



CDH/HDH PLANS CONTINUE TO PERFORM WELL



VALUE PROPOSITION OF CDH PLANS

- Numerous studies continue to show that participant behavior changes when enrolled in CDH plans
  - Fewer emergency room visits
  - Higher use of generic prescriptions and less-expensive brand prescriptions
  - Fewer SCP (Specialty Care Physician) visits but more PCP (Primary Care Physician) visits
  - Fewer x-ray and lab services
  - Fewer elective surgeries
  - Higher use of preventative services (covered at 100%)
- Mercer Survey each year shows continued enrollment increase in CDH plans
  - In 2016, 61% of plan sponsors with 500+ employees offered CDH Plans
  - In 2016, across all plans, sponsors with 500+ employees, 33% of enrollment was in CDH plans
  - The growth rate of enrollment in CDH plans has been the fastest of any “new” plan type in the history of the Mercer Survey (e.g., HMOs, EPOs, POS plans)

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