

Rate Increase Justification

Today's Date: July 31, 2024

Issuer: Blue Shield of California (HIOS ID: 70285)

Rate Change Effective Date: 1/1/2025

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).*

Premium rate changes for Affordable Care Act compliant Individual Market health insurance plans for the 2025 plan year include an average annual rate increase of 4.5 percent. This increase will impact approximately 90,000 renewing California Individual members in the first quarter of 2025.

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.*

Family Dental Plans were introduced in 2021.

For DHMO, 2023 experience is favorable with a 56% loss ratio 43K members. Since we gave a rate pass in 2024, but expect dental expenses to trend, the projected 2024 loss ratio is 57%. DHMO is receiving an average rate increase of 4.5% for 2025, driven by higher administrative cost. The 2025 proposed rate increase should help bring the loss ratio to 55%. But, we are not expecting to yield any profit in 2025 with a profit loss projected at 0.0%.

For DPPO, 2023 experience is unfavorable with a 76% loss ratio on 37K members. Since we gave a rate pass in 2024, but expect dental expenses to trend, the projected 2024 loss ratio is 78%. DPPO is receiving an average rate increase of 4.5% for 2025, driven by unfavorable emerging experience. The 2025 proposed rate increase should help bring the loss ratio to 75%. We are projecting a profit estimated at 8.7% in 2025.

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 experience of current dental PPO plans was used to project future claims costs and premiums. The experience period of January 1, 2023 through December 31, 2023 paid as of

January 31, 2024 was used as the basis of our projections for claims costs. The estimates include an assumption for trend, but do not consider any potential changes in contracting, behavior, morbidity, regulations, or other factors which may change future claim patterns. The experience period of January 1, 2023 through December 31, 2023 was used as the basis of our projections for membership and premium costs.

DHMO and DPPO receiving rate increases of 4.5%:

- 2023 experience performing unfavorably, with emerging 2024 experience showing little to no improvement.
- Accounting for 2024 rate pass, which equates to an average 2.8% increase over the past two years (consistent with overall economic inflationary trends).
- Higher 2025 administrative cost projection.

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.*

There are no changes to benefits in 2025 relative to 2024.

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.*

Administrative cost changes include broker commissions (DHMO increased from 7.5% in 2023 to 7.6% in 2025; DPPO decreased from 7.5% in 2023 to 6.8% in 2025), and allocated admin (DHMO increased from \$1.70 in 2023 to \$3.64 in 2025; DPPO decreased from \$2.82 in 2024 to \$2.06 in 2025).

While administrative costs increased, we lowered the target margin to offset and still proposed rate actions that are lower than what we need. The 4.5% rate increase yields a 2025 profit estimated at 0.0% for DHMO and 8.7% for DPPO.