

Rate Increase Justification

Today's Date: August 22, 2024

Issuer: Health Net of California

Rate Change Effective Date: January 1, 2025

Market: Individual

- 1. Scope and range of the rate increase:** Health Net of California (HNCA) currently provides health care coverage for over 138,000 members enrolled in either our Ambetter HMO or Ambetter PPO plans. Individual Family Plans (IFP) are available to purchase through Covered California or directly from Health Net of California. Premium rates are expected to increase on average by 6.5% for renewing members, effective January 1, 2025. This however represents an average, with annual rate changes ranging between 2.5% and 10.6%, depending on a member's current product type (HMO or PPO) and geographic rating region. Variations are primarily driven by underlying cost differences between the HMO and PPO network and regional cost trends. Note that these rate changes do not reflect any additional increases in a member's calculated premium driven by aging an additional year at the point of renewal.
- 2. Financial experience of the product:** HNCA's Individual Family Plans, including Ambetter PPO plans, incurred \$720,659,997 in estimated paid claims costs, gross of an estimated risk transfer receivable of \$15,672,186 from the federal risk adjustment program in 2023. HNCA collected \$816,980,133 in premium revenue, resulting in a loss ratio of 86.3% inclusive of federal risk transfer payments for 2023.
- 3. Changes in Medical Service Costs:** Medical service costs are projected to increase at an annualized rate of 7.2% due to medical inflation and increased utilization of health care services. Other factors related to expected changes in the demographics of HNCA's population and overall population health are expected to partially offset these increases in medical costs.
- 4. Changes in benefits:** All Individual Family Plans offered by HNCA are based on the standard benefit plan designs determined by the state-based exchange, Covered California. Updates to these standard benefit plan designs include cost-sharing updates, which is expected to increase claims costs by 0.1%. California's enhanced cost-sharing reduction program is also expected to drive an additional 0.6% increase to claims costs, net of any expected subsidy payments funded by the state.
- 5. Administrative costs and anticipated margins:** HNCA anticipates administrative costs to decrease by \$3.48 per member per month compared to what was assumed for 2024 rates. The target profit margin for 2025 is set to 1.4% of premium, reflecting a 0.1% decrease from the 2024 target profit margin as a percentage of premium.