

Molina Healthcare of California, Inc.

Part II: Explanation of the Rate Increase Effective January 1, 2018

Molina Healthcare of California, Inc. is a managed care organization that provides healthcare services for over 680,000 individuals eligible for Medicaid, Medicare, and Marketplace throughout the state of California. Molina Healthcare of California, Inc. is a licensed state health plan managed by its parent corporation, Molina Healthcare, Inc.

The rates included in this filing assume the cost sharing reduction (CSR) program is no longer funded for plan year 2018.

1. Scope and range of the rate increase: Molina's proposed rates represent an average rate increase of 44.7% for the 150,102 Molina members enrolled effective March 1, 2017. The proposed rate changes vary by metal tier. Members would receive premium increases ranging from 21.5% to 63.2% depending on their geographic location, metal tier, and age. A few members will receive premium increases near the upper end of the range due to a federally prescribed change in the age rating factors for members under the age of 21.

2. Financial experience of the product: Premium of \$315 per member per month was received for 2016 compared to allowed claims of \$184 per member per month and risk transfer payments of \$132 per member per month. Molina's financial experience in 2016 was worse than anticipated, resulting in a gain of 0.5 percent.

The proposed premium rates yield a medical loss ratio of 83.4 percent. The medical loss ratio represents the percentage of every premium dollar that Molina expects to spend on medical expenses and improving health care quality for our members. The projected medical loss ratio of 83.4 percent exceeds the Affordable Care Act minimum required loss ratio of 80 percent.

3. Changes in Medical Service Costs: Medical inflation related to the utilization and cost of covered services increased rates by 6.5 percent. Increases in the risk adjustment transfer payments related to statewide premium increases and changes in the morbidity of the population resulted in an increase to the rates.

4. Changes in benefits: Molina is renewing all of its plan offerings from 2017, with the standard benefits chosen by Covered California.

5. Administrative costs and anticipated profits: The Health Insurer Fee will return, after a one year moratorium. Targeted profit margin remained constant at 3 percent.