

Molina Healthcare of Washington, Inc.

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

Molina Healthcare of Washington, Inc. is a managed care organization that provides healthcare services for over 785,000 individuals eligible for Medicaid, Medicare, and Marketplace throughout the state of Washington. Molina Healthcare of Washington, Inc. is a licensed state health plan managed by its parent corporation, Molina Healthcare, Inc.

1. Scope and range of the rate increase: Molina is requesting on average a 44.81 percent premium increase for its individual policies sold in the Washington Marketplace effective January 1, 2018. 39,646 Molina Marketplace members would receive premium increases ranging from 37.94 percent to 63.73 percent depending on their geographic location and metal tier. Molina will be renewing its Gold and Silver Choice Marketplace plans while terminating Bronze. A few members will receive premium increases near the upper end of the range due to the termination of our existing Bronze plan and subsequent mapping to our Silver offering for 2018. Bronze to Silver mapped members will experience a dramatic change in benefits which drives a significant portion of the premium increase for these individuals. Additionally, please note these are averages, by plan and due to changes in the Health and Human Services (HHS) age factors and members aging, premium increases could be considerably higher.

2. Financial experience of the product: Premium of \$85,926,487 was received for 2016 compared to allowed claims of \$101,752,060 and risk transfer payments of \$6,198,875. Molina's financial experience in 2016 was worse than anticipated, resulting in a loss of 10.6 percent.

The proposed premium rates yield a medical loss ratio of 82.3 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 82.3 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 7.6 percent. 2.5 percent of the total is owed to utilization, driven by a 5.0 percent trend in pharmacy drug utilization. 5.0 percent of the total is owed to unit cost, driven by a 6.4 percent increase to outpatient services. A durational medical trend component in Molina's population has been uncovered resulting in an additional 2.7 percent increase to premiums.

4. Changes in benefits: Molina is renewing its Gold and Silver plan offerings from 2017, while choosing to terminate and map our 2017 Bronze plan offering. For our renewing Gold and Silver plans important changes were made to cost share amounts. Maximum Out of Pockets, Medical Deductibles and Rx Deductibles all increased for both metal plans. The Gold plan did see reductions in PCP, Mental Health and Substance Abuse Copays. In contrast, our Silver plan did

see increases to ER, PCP, Specialist, Mental Health and Substance Abuse copays. Generic and brand pharmacy drug copays for Silver will also increase in 2018. Additional changes to both Gold and Silver cost shares did occur, please consult our public rate filing for further detail.

5. Administrative costs and anticipated profits: The Health Insurer Fee will return, after a one year moratorium, which increased rates approximately 4.3 percent. Additional administrative and quality assurance expenses increased rates 5.3 percent. A risk and contingency margin commensurate with increased product risk and volatility due to legislative uncertainty, changes in membership, and other considerations increased rates by approximately 2.8 percent. The targeted profit margin remained constant.

Summary of Pooled Experience relating to 3R's:

The following amounts relating to the "3R's" represent the period January 1, 2016 through December 31, 2016. Reinsurance Receivables: 2,469,063; Risk Adjustment Transfer payments & charges: -8,236,559; Risk Corridor payment & charges: 0

The following amounts relating to the "3R's" represent the 1st prior period January 1, 2015 through December 31, 2015. Reinsurance Receivables: 1,178,099; Risk Adjustment Transfer payments & charges: 1,537,384; Risk Corridor payment & charges: 0

The following amounts relating to the "3R's" represent the 2nd prior period January 1, 2014 through December 31, 2014. Reinsurance Receivables: 1,257,985; Risk Adjustment Transfer payments & charges: 3,774,961; Risk Corridor payment & charges: -1,376,734

Increases in the risk adjustment transfer payments related to statewide premium increases and changes in the morbidity of the population are expected to increase 2018 rates by 24.1 percent.