

Part II – Written Explanation of Rate Increase

The requested average rate increase for Fallon Health and Life Assurance Company's small group and non-group PPO business renewing in the first quarter of 2019 is 12.75%. There are 41 covered members who will be impacted by this increase. Depending on the specific plan design, the increases will range from 12.64% to 13.15%.

The rate increases are needed to cover increasing medical costs and the fees and charges expected to be imposed on Fallon Health and Life Assurance Company during the rating period for the various provisions of the Affordable Care Act (ACA).

Medical costs in 2017 and 2018 continue to increase at a high rate. Although pharmacy cost increases have slowed compared to recent years, increases for drugs continue to outpace most other categories of medical expense. Costs for mental health and substance abuse services are increasing rapidly due largely to increases in unit costs required by state legislation. Fallon has also experienced increases in utilization across most other medical service categories and expects that trend to continue thru 2018 and 2019.

Fallon's rates include a 0.15% charge to cover the costs of fees and taxes imposed on insurers by the ACA.

The loss ratio targeted for these rates is 90.1% of premium, which is 2.1% higher than required under the 88.0% threshold permitted for 2019 under Massachusetts regulations. This results in Fallon's rates being lower than what we might be allowed to charge under current rules.