

## 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 third quarter of 2019 is 5.61%. There are 25 covered members who will be impacted by this increase.

The rate increases are needed to cover increases 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 2020 continue to increase but at a lower level than prior studies. Although pharmacy cost increases have slowed compared to recent years, increases for drugs continue to outpace most other categories of medical expense. Fallon has also experienced shifts in utilization across most other medical service categories and is anticipating the utilization to decrease in 2020.

Fallon's rates include a 1.29% charge to cover the costs of fees and taxes imposed on insurers by the ACA.

The loss ratio targeted for these rates is 90.0% of premium, which is 2.0% 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.