

Methodology

Revenue

- Revenues are projected to CY2022 based on an assumed rate increase and enrollment estimations. Revenues include:
 - Healthcare premiums

Expenses

- Healthcare expenditures are projected to CY2022 using a set of assumptions. These expenditures include:
 - Medical claims
 - Pharmacy claims and rebates
 - Administrative costs
 - Stop Loss premiums and recoveries

“Break Even Point”

- The necessary rate increase for 2022 is the increase at which projected net expenses equal net revenue

Assumptions Used – Final Rate Setting

Assumption	Value	Comment
Base Period		See “Base Period” Slide
Demographic Adjustment	-3%/-1.5%/-1%	See “Demo Adj.” Slide
Priority Health Admin Fee	\$49.39 PEPM	CY2022 Rate
Stop Loss Premium Increase	2.5%	CY2022 Increase
Stop Loss Recoveries (% of premium)	50.0%	Assumed recovery rate
Medical Trend	5.8%	See Trend Development Slide
Rx Trend	5.6%	
Rx Rebates	19.6% of Rx Cost	Based on 2020 rebates received Savings est. by Priority Health in CY2022
Save on SP (Rx Program)	(\$200,000)	
Other Expense Increase	0.0%	Non-Claim, Non-Administrative
Change in Enrollment	0.0%	Constant from July 2021 Increase to TROOP levels to the 2021 maximum allowed limit
2022 Plan Changes	-0.35%	

Assumptions Used – Base Period

- For purposes of projecting Medical Claims experience, Terry Group wanted to avoid any claims experience from late April 2020 through June 2020 – the most heavily impacted months of COVID-19.
- Terry Group opted to rely on 2 different experience periods for Medical Claims. An older period which reflects more stable claims experience but relies on more trend. And a more recent period which relies on less trend but may still reflect some COVID-19 variance.
- Pharmacy experience is all from a recent period. Pharmacy has little lag in payment and was less impacted by COVID-19 than Medical.

Service Type	Base Period	Months of Trend Required	Weighting
Medical	Apr19 – Mar20	33	50% of Med
Medical	Jul20 - Apr21	19	50% of Med
Pharmacy	Jul20 - Jun21	18	100% of Rx

Assumptions Used – Demographic Adjustments

- Terry Group noted a decrease in collected premiums throughout CY2021, signifying a change in average demographics of MDA's covered population. To account for this, Terry Group made corresponding decreases to the estimated claims projections for CY2022.
- The estimated claims reduction factor varies for each Base Period, and is based on that period's average premiums compared to CY2021's average premiums controlled for plan enrollment and annual increase differences.

Service Type	Base Period	Demographic Adjustment
Medical	Apr19 – Mar20	-3.0%
Medical	Jul20 - Apr21	-1.5%
Pharmacy	Jul20 - Jun21	-1.0%

Assumptions Used – Trend Development

Terry Group considers both MDA experience and other industry sources when selected trends for projection

Source	Medical	Pharmacy
Segal Healthcare	7.7%	7.3%
PWC Behind the Numbers	6.0%	NA
Willis Towers Watson	7.3%	NA
Kaiser Foundation 2020 PPO	2.3%	NA
ESI 2020 Drug Trend Report	NA	4.0%
CVS 2020 Drug Trend Report	NA	2.6%
MDA CY2019-2020 Actual Trend*	-10.6%	-3.1%

	Medical	Pharmacy
Selected for 2022 Rating	5.8%	5.6%

*Actual trend for 2020 includes impacts due to COVID-19 and is not considered a typical representation of healthcare cost changes

2022 Projection – Impact of Different Rate Increases

Rate Increase Assumption	Projected 2021 Net Income	Comment
7.4%	\$5,200	The “break even” point
0.0%	(\$1,515,000)	7.4% below recommendation
5.0%	(\$488,000)	2.4% below recommendation
10.0%	\$539,000	2.6% above recommendation

- Terry Group projects that MDA MEWA requires an 7.4% rate increase over CY2021 rates to break even with projected healthcare costs in CY2022
- A 1% change in the rate increase used will have an approximate \$200K impact on the net income of MDA MEWA in CY2022.
- As examples, increases of 0%, 5%, and 10% are shown in the above table as well

2022 Projection – Alternate Trend Assumptions

- In Developing the CY2022 Rate Increase Estimation, Terry Group relied on Median Trend assumptions as detailed on the Trend Selection Slide
- The below table presents 2 alternate trend scenarios – a ‘higher’ trend and ‘lower’ trend. In each case, the trend values and the necessary rate increase are shown.

Trend Scenario	Trends Used	‘Break Even’ Rate Increase
Lower Trend	4% Med / 5% Rx	4.6%
Higher Trend	8% Med / 8% Rx	11.1%

MDA MEWA – Historic Rate Adequacy

Rating Year	Premium Collected	Expenses - Claims and Fixed Expenses	Premium over Expenses
2016	\$18,321,704	\$19,156,088	-4.4%
2017	\$18,754,790	\$19,020,899	-1.4%
2018	\$20,050,788	\$20,099,670	-0.2%
2019	\$19,639,768	\$19,640,824	0.0%
2020	\$18,830,553	\$18,703,627	0.7%