

Calculation of Leveraging Factors

Note: Redacted information is designated confidential.

Let $x = \text{deductible}/100$

Let $F(x)$ = the trend leveraging factor for that deductible.

We are given:

- $F(0) = 1.00$
- $F(25) = \blacksquare$
- $F(50) = \blacksquare$
- $F(75) = \blacksquare$
- $F(100) = \blacksquare$
- $F(150) = \blacksquare$

Formula: $F(x) = a + bx + cx(x-25) + dx(x/25)(x-50) + ex(x-25)(x-50)(x-75) + fx(x-25)(x-50)(x-75)(x-100)$

- $a = F(0) = 1.00$
- $b = (F(25) - a) / 25 = \blacksquare$
- $c = (F(50) - 50b - a) / 50 / (50-25) = \blacksquare$
- $d = (F(75) - 75*50*c - 75b - a) / 75 / 50 / 25 = \blacksquare$
- $e = (F(100) - 100*75*50*d - 100*75*c - 100b - a) / 100 / 75 / 50 / 25 = \blacksquare$
- $f = (F(150) - 150*125*100*75*e - 150*125*100*d - 100*125*c - 100b - a) / 150 / 125 / 100 / 75 / 50 = \blacksquare$

| <u>Deductible</u> | <u>x</u> | <u>F(x)</u> |
|-------------------|----------|----------------|
| 0 | 0 | 1.000 |
| 150 | 1.5 | \blacksquare |
| 250 | 2.5 | \blacksquare |
| 300 | 3 | \blacksquare |
| 500 | 5 | \blacksquare |
| 750 | 7.5 | \blacksquare |
| 1000 | 10 | \blacksquare |
| 1500 | 15 | \blacksquare |
| 2000 | 20 | \blacksquare |
| 2250 | 22.5 | \blacksquare |
| 4000 | 40 | \blacksquare |
| 5000 | 50 | \blacksquare |
| 10000 | 100 | \blacksquare |
| 15000 | 150 | \blacksquare |

Summary of Proposed Changes to Filing

Note: Redacted information is designated confidential.

Change

Base leveraging adjustment on a weighted average of the leveraging factors for each deductible rather than using a leveraging factor based on the average deductible. Use methodology in Exhibit A to determine leveraging factors for each deductible.

No rate increase for the mandated plans with the exception of the two new age bands

Reduce administrative expense to corrected amount provided by Anthem.

Credit \$15,500 expense of correcting errors made in implementing the 2006 rate increase.

Use the 3% profit and risk margin approved in prior filings.

Remove 65+ rates.

Clarify calculation of average increase

Impact

Reduces trend from ███% to ███%

In addition to the obvious impact on the mandated plans, this slightly increases the rate increase for the non-mandated plans, but in combination with other changes proposed, the net effect is a smaller increase for these plans than proposed by Anthem.

Reduces administrative expense per contract per month from \$████ to \$████

Results in a credit of \$__ per contract per month

Reduces profit and risk margin from █ to 3%

No impact. The amended filing did not use these rates in any calculations.

No impact on rates. When applied to the filing as amended above, the average increase is 16.7%.