



Axene Health Partners, LLC

Health Actuaries & Consultants

www.axenehp.com

David V. Axene, FCA, FSA, MAAA

David.axene@axenehp.com

August 27, 2010

Mr. Adam M. Cole
General Counsel
California Department of Insurance
45 Fremont Street
Suite 2300
San Francisco, CA 94105

Re: Review of Health Net Rate Filing

Dear Adam:

We have completed our review of the HealthNet Rate Filing as requested. Our assignment was as follows:

- Review current HealthNet rate filing to become familiar with them, the benefit plans, rating structure and methodologies used to develop rates and rate increases
- Review correspondence between the Department and HealthNet regarding rates and rate filings
- Familiarize ourselves with extensive data provided to the Department by HealthNet regarding these rates, rate filings, and rate increases
- Develop list of additional information needed from HealthNet, communicate that to the Department, and request from HealthNet
- Identify all key actuarial assumptions used by HealthNet to prepare information for rate filing
- Evaluate all key actuarial assumptions
- Independently develop sample rates for validation and comparison to HealthNet rates
- Validate HealthNet calculations to determine appropriateness and accuracy
- Test rates to determine whether they meet loss ratio requirements of the Department (i.e., the 70% lifetime loss ratio rule)
- Clarify our understanding of Department's position on loss ratio testing and what elements can be included to satisfy the loss ratio requirements.

35067 Mahogany Glen Drive, Winchester, CA 92596

951.294.0841 619.839.3980 fax

- Provide oral report as soon as information is available
- Communicate with the department on a regular basis as to progress on project and any interim findings
- Prepare written report for Department
- Present findings of report as directed by department (i.e., hearing, etc.)

We have accessed a significant number of materials for this review including multiple additional data requests from HealthNet. This information was collected by the California Department of Insurance and provided by them to us for our analysis. We independently reviewed this information without direct communication with or explanation by HealthNet staff. We developed multiple data requests and lists of questions that HealthNet responded to. We do not have any concern about our understanding of the information. If any of the information we reviewed was incomplete or inaccurate, our findings and conclusions may be affected. We have assumed that the responses provided by HealthNet are complete and accurate. We are not expressing an opinion about the accuracy of the information provided HealthNet. We are not aware of any effort by HealthNet to misrepresent any of the information we reviewed.

Summary of Findings

Our key findings are as follows:

- In their initial filing HealthNet submitted only an overall lifetime loss ratio calculation. The Department requested and received more specific information by individual benefit plan and benefit plan grouping¹. This more specific information is a requirement of the Department.
- HealthNet rates, as proposed, in the aggregate across all policy forms meet the 70% lifetime loss ratio requirements of the State of California. When reviewing them by benefit plan grouping, two such groupings (i.e., HSA and New) fail to meet the lifetime loss ratio test prior to appropriate adjustments. After such adjustments are made, all of the benefit plan groupings meet the lifetime loss ratio test.
- We found no material errors in the HealthNet rate filing
- The HealthNet methodology used to both make rates was straightforward and relatively easy to follow.

¹ The terms benefit plan and benefit plan grouping have been used throughout this report to refer to an insurance product with a specific benefit plan design. Similar benefit plans have been grouped together as a benefit plan grouping. These terms are intended to describe elements or subsets of policy forms, which is a term referenced by California statute.

- HealthNet did not include any adjustments for the wear-off of underwriting in their rate making process. They did include this in their lifetime loss ratio projections.
- HealthNet underlying PPO trend assumptions are reasonable and nearly identical to our “best estimate” assumptions. HealthNet has reasonably adjusted trend for the impact of deductible leveraging.

Overview of Rate Development Process

HealthNet prepared an overall summary (Exhibit 1) in their rate filing which documented the overall impact of their rate increase. We requested additional information by benefit plan and the Table 1 was prepared from this information. Table 1 shows the key information used to develop the projected rate increases for various benefit plans. This information is nearly identical to that shown in their Exhibit 1 and formed the basis for our review of the reasonableness of the rate increase.

Table 1 begins with current member count and the number of member months in the Calendar Year 2009 experience period. Premium and claims for medical, Rx, dental and vision are included with the loss ratio for each of the benefit plans. Benefit plan grouping are also shown with and without Salud which was a separate filing.

HealthNet then shows premium on current rates (i.e., 7/2009), and compares to trended claims plus projected expenses to determine needed revenue. The expected medical loss ratios were calculated before and after some adjustments were made to the rate increases.

However, the key compliance issue in California is whether or not these rates meet the 70% lifetime loss ratio test. HealthNet subsequently presented this using a 10 year projection model. This was presented on an overall basis, not by underlying benefit plan. We requested additional information to validate this by separate benefit plan or benefit plan grouping.

Review of Historical Experience

We carefully reviewed both historical experience as presented by HealthNet to determine the adequacy of prior rates by individual benefit plan and benefit plan grouping.

Table 2 summarizes the claims experience by benefit plan for both CY 2008 and CY 2009.

Table 2 HealthNet 2008 - 2009 Experience by Benefit Plan*

Benefit Plan	2008			2009		
	Member Months	Revenue	LR	Member Months	Revenue	LR
PPO 20 Copay	707	487,062	127.9%	366	301,208	98.7%
Premier 20	87	64,959	132.1%	25	28,392	11.5%
Premier 30	827	487,886	48.4%	672	431,507	40.2%
Premier 40	3,784	1,811,744	97.8%	2,683	1,583,011	103.8%
Value 25	14,645	4,299,573	96.1%	8,293	3,077,731	104.6%
Value 30	27,059	5,881,759	73.8%	16,757	4,530,470	82.6%
Value 400	6,700	2,140,681	80.3%	3,626	1,488,297	71.5%
Value 750	4,510	1,599,880	139.3%	2,930	1,392,744	72.7%
Value 500	39,518	7,915,877	71.9%	25,392	6,187,153	74.5%
Value Basic 1000	94,249	15,329,271	99.4%	58,665	11,894,897	81.1%
Value Basic 2500	25,920	6,485,251	89.0%	15,362	4,776,098	92.1%
Value Basic 35	3,167	680,176	44.2%	5,281	1,319,626	57.9%
Value Basic 40	29,428	5,199,911	67.8%	21,846	4,809,436	63.3%
Value Basic 500	31,726	5,217,111	81.1%	20,373	4,146,216	77.2%
NetSaver 1500	58,834	5,344,057	98.1%	48,407	5,055,702	116.3%
ValueChoice 1500	64,917	8,079,340	98.4%	52,897	7,669,739	113.8%
ValueChoice 1500 (CSFA)	152	17,518	34.4%	72	11,271	370.5%
SimpleChoice HSA	61,445	5,158,342	51.0%	52,049	5,338,256	69.8%
Smart Choice	24,059	2,693,043	107.5%	20,519	2,724,939	70.8%
SimpleChoice 15	48,860	9,241,119	82.7%	26,786	6,252,827	80.1%
SimpleChoice 15 (CSFA)	189	30,873	12.9%	138	27,950	6.9%
SimpleChoice 25	34,745	5,824,578	73.8%	22,898	4,737,694	65.9%
SimpleChoice 35	7,567	1,281,791	42.4%	4,727	971,145	35.0%
SimpleChoice 40	12,729	1,813,665	229.4%	9,497	1,815,450	159.0%
SimpleChoice 50	4,873	809,723	60.3%	3,806	761,803	59.2%
SimpleValue 30	126,441	18,023,327	89.0%	70,008	12,603,145	86.5%
SimpleValue 40	16,410	2,369,718	89.4%	8,830	1,589,629	64.9%
SimpleValue 50	15,439	2,360,659	65.4%	11,487	2,125,328	92.4%
First Choice	5,388	831,982	103.1%	2,864	580,713	32.8%
BalanceNet				227	53,769	45.4%
NetFirst				1,995	295,166	58.8%
Opt Adv HSA 2,500				13,740	1,446,310	71.7%

Opt Adv HSA 4,500				9,584	837,715	26.7%
ValueNet				1,364	158,782	18.1%
Salud PPO 15	3,025	582,433	100.7%	2,559	682,431	111.6%
Salud PPO 15/25%	3,495	344,842	56.7%	3,251	379,196	37.0%
Salud PPO 25	5,977	644,597	121.8%	6,277	736,200	111.7%
Total	776,872	123,052,748	87.7%	556,253	102,821,945	83.9%
Total (excluding Salud)	764,375	121,480,876	87.5%	544,166	101,024,118	83.6%

*Loss ratios less than 70% have been shown in bold font

Those cells with loss ratios below 70% have been bolded in Table 2. Some of the benefit plans have limited volume suggesting that experience is not credible. We have grouped information by common benefit plan category in Table 3 to present the same information in Table 2 but by benefit plan grouping.

Table 3 HealthNet 2008 - 2009 Experience by Benefit Plan Grouping*

Benefit Plan	2008			2009		
	Member Months	Revenue	LR	Member Months	Revenue	LR
Premier	5,405	2,851,651	95.3%	3,746	2,344,118	90.3%
Value	52,914	13,921,894	89.2%	31,606	10,489,242	86.2%
Value Basic	224,008	40,827,597	85.1%	146,919	33,133,427	77.5%
NetSaver	123,903	13,440,915	98.2%	101,376	12,736,712	115.0%
HSA	85,504	7,851,385	70.4%	72,568	8,063,195	70.2%
SimpleChoice	108,963	19,001,749	90.2%	67,852	14,566,868	81.1%
SimpleValue	158,290	22,753,704	86.6%	90,325	16,318,102	85.1%
First Choice	5,388	831,982	103.1%	2,864	580,713	32.8%
New				26,910	2,791,742	53.3%
Salud	12,497	1,571,872	99.7%	12,087	1,797,828	95.9%
Total	776,872	123,052,748	87.7%	556,253	102,821,945	83.9%
Total (Excluding Salud)	764,375	121,480,876	87.5%	544,166	101,024,118	83.6%

*Loss ratios less than 70% have been shown in bold font

Table 3 shows that all loss ratios are greater than 70% except for the First Choice and the New categories in 2009. The New category includes: BalanceNet, NetFirst, Opt Adv HAS and ValueNet.

Credibility

Credibility is an important issue when reviewing experience of any kind. If the experience base is small, the observed experience may not be representative of what is happening as a result of unusual and unpredictable claims fluctuation. As the experience base increases in size, the observed experience stabilizes and is representative of the actual experience base. As a result when comparing claims history and claims, meaningful conclusions can be made.

There are no hard and fast rules in industry as to when a block of business is stable or mature enough to actually draw meaningful conclusions. Several measures have been suggested, all indicating that the larger the population studied the more likely it is credible. It is generally agreed that as deductibles increase and more patient payment is required (i.e., lesser benefit plans), that a larger population is required. Also when the underlying probability of claim is small and there is more statistical fluctuation in claim frequency, a larger population is required to obtain stability.

There are multiple ways to deal with a lack of credibility

Recent work completed by the American Academy of Actuaries (i.e., AAA) in preparing a response to HHS regarding credibility for implementation of health care reform showed that for health plan sizes below 10,000 lives, the observed loss ratio would need to be increased by more than 10% (i.e., ranging from 10% to more than 35% for very small blocks) to adequately describe the likely loss ratio at the 90% confidence limit. Above 10,000 the error adjustment ranged from 1.5% above 200,000 members to 7% at 10,000 members.

In the case of the HealthNet population, it is clear that from Table 1 only one of the benefit plan grouping exceeds 10,000 members (i.e., just barely), and the actual experience observed experience requires some type of adjustment to produce a more accurate observed loss ratio. The adjustments from the AAA analysis are shown in Table 4 based using 1/12th of the member months in the experience period.

Table 4 Adjusted HealthNet 2009 Experience by Benefit Plan Grouping*

Benefit Plan	Member Months	1/12 th MMs	LR	LR Adj.	Adjusted LR
Premier	3,746	312	90.3%	14.7%	105.0%
Value	31,606	2634	86.2%	14.7%	100.9%
Value Basic	146,919	12243	77.5%	7.3%	84.8%
NetSaver	101,376	8448	115.0%	10.3%	125.3%
HSA	72,568	6047	70.2%	10.3%	80.5%
SimpleChoice	67,852	5654	81.1%	10.3%	91.4%
SimpleValue	90,325	7527	85.1%	10.3%	95.4%
First Choice	2,864	239	32.8%	n/a	n/a
New	26,910	2243	53.3%	22.4%	75.7%
Salud	12,087	1007	95.9%	22.4%	118.3%
Total	556,253	46354	83.9%	4.6%	88.5%
Total (Excluding Salud)	544,166	45347	83.6%	4.6%	88.2%

Table 4 suggests that the overall block of HealthNet business looked as a single entity would have its loss ratio increased by about 4.6% for credibility purposes. Individual benefit plan grouping loss ratios increased between 7.3% and 22.4%. One benefit plan grouping has no credibility under this approach. Although the blocks of business are small, many of them should be looked at individually to determine appropriate rating action.

Analysis of Rate Development

Beginning with the rate development process, we have reviewed in depth each of the key assumptions and adjustments as completed by HealthNet. We have included comments on each of the key items.

- **PMPM Revenue for experience period:** We validated the revenue for each of the benefit plans as shown in Table 1 to that provided by HealthNet in separate information. Table 5 presents this information on a PMPM basis.

Table 5 PMPM Revenue by Benefit Plan

Benefit Plan	2008 Revenue	2009 Revenue	7/09 Rates
PPO 20 Copay	\$688.91	\$822.97	\$935.75
Premier 20	\$746.66	\$1,135.68	\$1,326.64
Premier 30	\$589.95	\$642.12	\$680.40
Premier 40	\$478.79	\$590.02	\$670.04
Value 25	\$293.59	\$371.12	\$421.41
Value 30	\$217.37	\$270.36	\$296.26
Value 400	\$319.50	\$410.45	\$456.42
Value 750	\$354.74	\$475.34	\$539.32
Value 500	\$200.31	\$243.67	\$261.10
Value Basic 1000	\$162.65	\$202.76	\$229.50
Value Basic 2500	\$250.20	\$310.90	\$354.09
Value Basic 35	\$214.77	\$249.88	\$258.42
Value Basic 40	\$176.70	\$220.15	\$241.54
Value Basic 500	\$164.44	\$203.52	\$228.38
NetSaver 1500	\$90.83	\$104.44	\$122.50
ValueChoice 1500	\$124.46	\$144.99	\$169.12
ValueChoice 1500 (CSFA)	\$115.25	\$156.54	\$158.04
SimpleChoice HSA	\$83.95	\$102.56	\$110.71
Smart Choice	\$111.93	\$132.80	\$150.10
SimpleChoice 15	\$189.13	\$233.44	\$255.49
SimpleChoice 15 (CSFA)	\$163.35	\$202.54	\$209.33
SimpleChoice 25	\$167.64	\$206.90	\$225.92
SimpleChoice 35	\$169.39	\$205.45	\$224.26

SimpleChoice 40	\$142.48	\$191.16	\$212.38
SimpleChoice 50	\$166.17	\$200.16	\$218.19
SimpleValue 30	\$142.54	\$180.02	\$199.17
SimpleValue 40	\$144.41	\$180.03	\$201.60
SimpleValue 50	\$152.90	\$185.02	\$199.97
First Choice	\$154.41	\$202.76	\$233.71
BalanceNet	n/a	\$236.87	\$239.71
NetFirst	n/a	\$147.95	\$147.53
Opt Adv HSA 2,500	n/a	\$105.26	\$105.18
Opt Adv HSA 4,500	n/a	\$87.41	\$87.82
ValueNet	n/a	\$116.41	\$115.29
Salud PPO 15	\$192.54	\$266.68	\$77.38
Salud PPO 15/25%	\$98.67	\$116.64	\$84.34
Salud PPO 25	\$107.85	\$117.29	\$94.50
Total	\$158.40	\$184.85	\$203.83
Total (excluding Salud)	\$158.93	\$185.65	\$206.40

Table 6 presents this information on a benefit plan grouping basis.

Table 6 PMPM Revenue by Benefit Plan Grouping

Benefit Plan	2008	2009	7/09 Rates
Premier	\$527.60	\$625.77	\$702.24
Value	\$263.10	\$331.88	\$370.00
Value Basic	\$182.26	\$225.52	\$250.66
NetSaver	\$108.48	\$125.64	\$146.86
HSA	\$91.82	\$111.11	\$121.85
SimpleChoice	\$174.39	\$214.69	\$235.11
SimpleValue	\$143.75	\$180.66	\$199.51
First Choice	\$154.41	\$202.76	\$233.71
New	n/a	\$103.74	\$103.78
Salud	\$125.78	\$148.74	\$88.14
Total	\$158.40	\$184.85	\$203.83
Total (Excluding Salud)	\$158.93	\$185.65	\$206.40

- PMPM Claims for experience period:** We validated the claims for each of the benefit plans as shown Table 1 to amounts produced by HealthNet in separate information. Table 7 presents this information which is consistent with previously presented loss ratio information and exhibits. Claims were projected to the midpoint of the future rating period using trend factors which will be discussed later. Projected Claims are also presented in Table 7.

Table 7 Claims PMPM by Benefit Plan

Benefit Plan	2008	2009	Projected Claims
PPO 20 Copay	\$881.46	\$812.57	\$1,186.81
Premier 20	\$986.25	\$130.81	\$1,158.43
Premier 30	\$285.81	\$258.10	\$368.54
Premier 40	\$468.33	\$612.59	\$723.86
Value 25	\$282.03	\$388.36	\$434.78
Value 30	\$160.45	\$223.21	\$249.26
Value 400	\$256.66	\$293.58	\$362.99
Value 750	\$494.24	\$345.56	\$599.72
Value 500	\$144.06	\$181.49	\$214.76
Value Basic 1000	\$161.74	\$164.51	\$222.21
Value Basic 2500	\$222.65	\$286.33	\$336.91
Value Basic 35	\$95.02	\$144.77	\$160.36
Value Basic 40	\$119.77	\$139.26	\$173.68
Value Basic 500	\$133.37	\$157.18	\$190.46
NetSaver 1500	\$89.07	\$121.42	\$137.67
ValueChoice 1500	\$122.44	\$165.00	\$189.81
ValueChoice 1500 (CSFA)	\$39.66	\$579.94	\$249.59
SimpleChoice HSA	\$42.80	\$71.60	\$73.49
Smart Choice	\$120.36	\$94.05	\$147.27
SimpleChoice 15	\$156.40	\$186.88	\$224.23
SimpleChoice 15 (CSFA)	\$21.11	\$13.96	\$9.30
SimpleChoice 25	\$123.64	\$136.36	\$174.58
SimpleChoice 35	\$71.87	\$71.94	\$97.41
SimpleChoice 40	\$326.82	\$304.00	\$436.26
SimpleChoice 50	\$100.15	\$118.51	\$146.23
SimpleValue 30	\$126.92	\$155.64	\$178.12
SimpleValue 40	\$129.06	\$116.79	\$168.58
SimpleValue 50	\$100.02	\$171.01	\$168.67
First Choice	\$159.17	\$66.47	\$183.54
BalanceNet	n/a	\$107.56	\$125.62
NetFirst	n/a	\$86.93	\$97.93
Opt Adv HSA 2,500	n/a	\$75.45	\$90.36
Opt Adv HSA 4,500	n/a	\$23.34	\$27.09
ValueNet	n/a	\$21.06	\$22.34
Salud PPO 15	\$193.90	\$297.69	\$318.16
Salud PPO 15/25%	\$55.94	\$43.13	\$65.09
Salud PPO 25	\$131.35	\$131.01	\$175.27
Total	\$138.88	\$155.02	\$195.37
Total (excluding Salud)	\$139.10	\$155.29	\$195.71

Table 8 presents this same information by benefit plan grouping.

Table 8 PMPM Claims by Benefit Plan Grouping

Benefit Plan	2008	2009	Projected Claims
Premier	\$502.78	\$565.32	\$725.26
Value	\$234.73	\$285.96	\$344.35
Value Basic	\$155.19	\$174.70	\$221.10
NetSaver	\$106.50	\$144.49	\$165.05
HSA	\$64.63	\$77.95	\$94.30
SimpleChoice	\$157.24	\$174.03	\$221.65
SimpleValue	\$124.52	\$153.80	\$176.13
First Choice	\$159.17	\$66.47	\$183.54
New	n/a	\$55.25	\$65.24
Salud	\$125.40	\$142.66	\$177.49
Total	\$138.88	\$155.02	\$195.37
Total (Excluding Salud)	\$139.10	\$155.29	\$195.71

Experience was combined for both 2008 and 2009 to project initial rates to maximize the information available. This helps reduce the volatility of the smaller sized portfolio. The projected claims were based upon trend assumptions which will be discussed below. Required premium increases were initially estimated the ratio of projected claims loaded for expenses/margins divided by the current 7/2009 rates.

- **Health Care Trend Adjustment:** HealthNet's trend adjustments were based upon the information shown in Table 9. The trend factors vary by level of PPO deductible as a result of the deductible leveraging assumptions.

Table 9 Trend Assumption By Deductible

PPO	\$0	\$400	\$500	\$750	\$1,000	\$1,500	\$2,000	\$2,500	\$3,000	\$3,500	\$4,000	\$4,500	\$5,000
Unit Cost	8.96%	8.96%	8.96%	8.96%	8.96%	8.96%	8.96%	8.96%	8.96%	8.96%	8.96%	8.96%	8.96%
Utilization	2.40%	2.40%	2.40%	2.40%	2.40%	2.40%	2.40%	2.40%	2.40%	2.40%	2.40%	2.40%	2.40%
Risk Margin	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Deductible Leveraging	0.0%	0.4%	0.4%	0.6%	0.8%	1.1%	1.3%	1.5%	1.7%	1.8%	2.0%	2.2%	2.3%
Med Deterioration Factor	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Medical & Det Trend Factor	13.8%	14.2%	14.3%	14.5%	14.7%	15.0%	15.3%	15.5%	15.7%	15.9%	16.1%	16.3%	16.5%

The other assumptions are constant for all benefit plans. Claims were projected from each of the experience periods (i.e., actually by month) to the midpoint of the projection period (i.e., 3/2/2011). HealthNet’s underlying inflationary trend value is 11.6% (i.e., $1.0896 \times 1.024 = 1.1158$), very close to our underlying assumption of 11.5%. They have added a 2% trend miss margin as we had done in the initial Anthem Blue Cross rate review. This underlying assumption was adjusted for benefit plan design (i.e., deductible leveraging) resulting in trend assumptions that ranged from 13.8% to 16.5%. Table 9 shows no medical deterioration and wear-off of selection.

It is our professional opinion that the trend assumptions presented in this rate filing are reasonable in light of the latest information we have and are using. The Department has noted that multiple carriers have been reported in the press as seeing their trends reduce in recent months. We have not yet observed this as a statewide pattern here in California and stand by our trend assumptions as being reasonable. If in fact trend is reducing, future rate increases will be lower as reported claims costs in future rate filings will be lower.

HealthNet’s deductible leveraging factors are consistent with information we would develop from our firm’s proprietary claims distribution information.

Table 10 compares the projected PMPM claims cost by benefit plan to a member-weighted average of 2008 and 2009 PMPM claims costs developed from the values shown in Table 7.

Table 10 Implied Claims Trend by Benefit Plan

Benefit Plan	Projected Claims	Member Weighted PMPM Claims	Ratio	Annualized Trend Factor
PPO 20 Copay	\$1,186.81	\$857.96	38.3%	16.2%
Premier 20	\$1,158.43	\$795.30	45.7%	19.0%
Premier 30	\$368.54	\$273.39	34.8%	14.8%
Premier 40	\$723.86	\$528.18	37.0%	15.7%
Value 25	\$434.78	\$320.47	35.7%	15.1%
Value 30	\$249.26	\$184.45	35.1%	14.9%
Value 400	\$362.99	\$269.62	34.6%	14.7%
Value 750	\$599.72	\$435.69	37.6%	15.9%
Value 500	\$214.76	\$158.70	35.3%	15.0%
Value Basic 1000	\$222.21	\$162.80	36.5%	15.4%
Value Basic 2500	\$336.91	\$246.35	36.8%	15.5%
Value Basic 35	\$160.36	\$126.12	27.1%	11.7%
Value Basic 40	\$173.68	\$128.07	35.6%	15.1%
Value Basic 500	\$190.46	\$142.68	33.5%	14.3%
NetSaver 1500	\$137.67	\$103.67	32.8%	14.0%
ValueChoice 1500	\$189.81	\$141.55	34.1%	14.5%
ValueChoice 1500 (CSFA)	\$249.59	\$213.32	17.0%	7.5%
SimpleChoice HSA	\$73.49	\$56.01	31.2%	13.4%
Smart Choice	\$147.27	\$108.25	36.0%	15.3%
SimpleChoice 15	\$224.23	\$167.20	34.1%	14.5%
SimpleChoice 15 (CSFA)	\$9.30	\$18.09	-48.6%	-26.5%
SimpleChoice 25	\$174.58	\$128.69	35.7%	15.1%
SimpleChoice 35	\$97.41	\$71.90	35.5%	15.0%
SimpleChoice 40	\$436.26	\$317.07	37.6%	15.9%
SimpleChoice 50	\$146.23	\$108.20	35.1%	14.9%
SimpleValue 30	\$178.12	\$137.16	29.9%	12.8%
SimpleValue 40	\$168.58	\$124.77	35.1%	14.9%
SimpleValue 50	\$168.67	\$130.30	29.4%	12.6%
First Choice	\$183.54	\$126.99	44.5%	18.5%
BalanceNet	\$125.62	\$107.56	16.8%	14.2%
NetFirst	\$97.93	\$86.93	12.7%	10.8%
Opt Adv HSA 2,500	\$90.36	\$75.45	19.8%	16.7%
Opt Adv HSA 4,500	\$27.09	\$23.34	16.1%	13.6%
ValueNet	\$22.34	\$21.06	6.1%	5.2%
Salud PPO 15	\$318.16	\$241.46	31.8%	13.6%
Salud PPO 15/25%	\$65.09	\$49.77	30.8%	13.2%

Salud PPO 25	\$175.27	\$131.17	33.6%	14.3%
Total	\$195.37	\$145.61	34.2%	14.5%
Total (excluding Salud)	\$195.71	\$145.83	34.2%	14.5%

Table 11 shows the same information but by benefit plan groupings.

Table 11 Implied Claims Trends by Benefit Plan Grouping

Benefit Plan	Projected Claims	Member Weighted PMPM Claims	Ratio	Annualized Trend Factor
Premier	\$725.26	\$528.38	37.3%	15.7%
Value	\$344.35	\$253.89	35.6%	15.1%
Value Basic	\$221.10	\$162.92	35.7%	15.1%
NetSaver	\$165.05	\$123.59	33.5%	14.3%
HAS	\$94.30	\$70.74	33.3%	14.2%
SimpleChoice	\$221.65	\$163.69	35.4%	15.0%
SimpleValue	\$176.13	\$135.16	30.3%	13.0%
First Choice	\$183.54	\$126.99	44.5%	18.5%
New	\$65.24	\$55.25	18.1%	8.0%
Salud	\$177.49	\$133.89	32.6%	13.9%
Total	\$195.37	\$145.61	34.2%	14.5%
Total (Excluding Salud)	\$195.71	\$145.83	34.2%	14.5%

With the exception of one very small benefit plan grouping all of the benefit plan grouping show trend adjustment factors within the ranges shown in Table 9 confirming their reasonableness.

- Policy Duration Adjustment:** Although HealthNet has developed selection factors by policy duration spanning 6 years, they were not used in any of the rate development information. Their historical experience was analyzed in light of these by an outside third party, per email communications received from them, but their actual rate development process did not include any adjustment for wear-off of selection. Per a note in the responses to our requests for more information, HealthNet explained that they chose not to reflect this to keep rate increases at lower levels.

We have analyzed their enrollment mix for the 2007 - 2009 time period to determine whether or not we would expect any deterioration in the claims experience for each of the benefit plan groupings. Table 12 presents the result of this analysis.

Table 12 Composite Selection Factors By Year and Benefit Plan Grouping

Benefit Plan	2007	2008	2009	2009/2008
Premier	1.0934	1.0952	1.0954	100.0%
Value	0.9919	1.0430	1.0692	102.5%
Value Basic	0.9611	1.0220	1.0594	103.7%
NetSaver	0.7167	0.7662	0.8201	107.0%
HSA	0.6372	0.6896	0.7838	113.7%
SimpleChoice	0.6475	0.7197	0.8055	111.9%
SimpleValue	0.6112	0.6758	0.7669	113.5%
First Choice	0.6627	0.7336	0.8408	114.6%
New			0.5334	n/a
Salud	0.5906	0.6036	0.6805	112.7%
Total	0.7937	0.8249	0.8675	105.2%
Total (Excluding Salud)	0.7945	0.8286	0.8716	105.2%

Table 12 shows that the overall experience of HealthNet will likely experience a 5% greater increase in claims costs than expected from inflationary forces just because of the wear-off of selection. This will result in a deterioration of claims experience over time. Most often this pattern is incorporated in the pricing of the policies. HealthNet did not include this in their pricing.

- **Administrative Expense Load:** HealthNet builds in an administrative expense load using a combination of a fixed \$27.60 PMPM G&A load plus 7% broker commission, 2.35% premium tax and a 3% margin for profit and contingencies.

Table 12 Expense and Profit Load By Benefit Plan Grouping

Benefit Plan	% of Premium
Premier	15.6%
Value	18.8%
Value Basic	22.1%
NetSaver	24.9%
HSA	32.2%
SimpleChoice	22.0%
SimpleValue	24.2%
First Choice	23.8%
New	44.0%
Salud	28.5%
Total	23.3%
Total (Excluding Salud)	23.2%

As Table 12 shows, the expense and profit margin ranges from a low of 15.6% to a high of 44.0%. Two of the benefit plan groupings have loads in excess of 30% which needs to be carefully monitored to be sure that the lifetime loss ratio is kept at or above 70%. Table 3 shows that HSA had a 2009 loss ratio of 70.2% and New was 52.3%. This needs to be carefully monitored to be sure there are no problems not meeting the lifetime loss ratio requirements.

- **Impact of Rating Tiers:** As with most carriers, HealthNet underwrites each policy and assigns policyholders to a rating tier based upon the results of underwriting. In the future, it is our understanding this practice will have to discontinue as part of health care reform, but it is still acceptable today. HealthNet provided a distribution of its business by rating tier and Table 13 shows that the overall impact of applying rating tiers leads to about a 1.8% load to rates above and beyond the standard rating tables. If no longer allowed, at some time the rates will have to be adjusted by this amount to cover the additional cost of this.

Table 13 Analysis of Rating Tier Impact on Rate Level

Rating Tier	Rating Factor	Distribution
Standard	1.000	93.8%
Standard + 20%	1.200	4.2%
Standard + 50%	1.500	1.9%
Overall	1.018	100.0%

- **Required Revenue and Projected Rate Increase:** HealthNet projected a required revenue level by benefit plan and an implied rate for each benefit plan. This resulted in rate increases ranging from 8% to 24% on various benefit plans. HealthNet adjusted the derived rate increases and reallocated the required revenue by benefit plan. They lowered their derived average rate increase from about 20% to 16.5%. Table 8 presents the final projected average PMPM rates for each benefit plan, their anticipated pricing loss ratio and the derived and final rate increases for each.

Table 14 Analysis of Rate Increases by Benefit Plan

Benefit Plan	Projected Claims	Required Premium	Current Premium	Derived Rate Increase	HealthNet Derived Increase	HealthNet Proposed Increase
PPO 20 Copay	\$1,186.81	\$1,386.74	\$935.75	48.2%	43.4%	15.0%
Premier 20	\$1,158.43	\$1,364.90	\$1,326.64	2.9%	20.3%	15.0%
Premier 30	\$368.54	\$452.20	\$680.40	-33.5%	-34.7%	15.0%
Premier 40	\$723.86	\$857.43	\$670.04	28.0%	27.5%	15.0%
Value 25	\$434.78	\$527.50	\$421.41	25.2%	26.6%	20.0%
Value 30	\$249.26	\$315.83	\$296.26	6.6%	8.0%	20.0%
Value 400	\$362.99	\$445.62	\$456.42	-2.4%	0.4%	19.0%
Value 750	\$599.72	\$715.76	\$539.32	32.7%	38.7%	15.0%
Value 500	\$214.76	\$276.46	\$261.10	5.9%	7.7%	16.0%
Value Basic 1000	\$222.21	\$284.97	\$229.50	24.2%	24.5%	15.0%
Value Basic 2500	\$336.91	\$415.84	\$354.09	17.4%	17.8%	20.0%
Value Basic 35	\$160.36	\$214.42	\$258.42	-17.0%	-15.3%	8.0%
Value Basic 40	\$173.68	\$229.60	\$241.54	-4.9%	-3.4%	9.0%
Value Basic 500	\$190.46	\$248.75	\$228.38	8.9%	12.3%	9.0%
NetSaver 1500	\$137.67	\$188.51	\$122.50	53.9%	51.7%	20.0%
ValueChoice 1500	\$189.81	\$248.00	\$169.12	46.6%	45.9%	20.0%
ValueChoice 1500 (CSFA)	\$249.59	\$317.47	\$158.04	100.9%	116.6%	20.0%
SimpleChoice HSA	\$73.49	\$115.29	\$110.71	4.1%	9.0%	10.0%
Smart Choice	\$147.27	\$199.47	\$150.10	32.9%	34.3%	15.0%
SimpleChoice 15	\$224.23	\$287.27	\$255.49	12.4%	11.3%	16.0%
SimpleChoice 15 (CSFA)	\$9.30	\$42.08	\$209.33	-79.9%	-79.9%	16.0%
SimpleChoice 25	\$174.58	\$230.63	\$225.92	2.1%	2.2%	12.0%
SimpleChoice 35	\$97.41	\$142.59	\$224.26	-36.4%	-37.4%	12.0%
SimpleChoice 40	\$436.26	\$529.20	\$212.38	149.2%	146.1%	20.0%
SimpleChoice 50	\$146.23	\$198.30	\$218.19	-9.1%	-10.2%	12.0%
SimpleValue 30	\$178.12	\$234.66	\$199.17	17.8%	17.5%	20.0%

SimpleValue 40	\$168.58	\$223.79	\$201.60	11.0%	8.6%	20.0%
SimpleValue 50	\$168.67	\$223.89	\$199.97	12.0%	10.9%	20.0%
First Choice	\$183.54	\$240.88	\$233.71	3.1%	5.2%	10.0%
BalanceNet	\$125.62	\$193.02	\$239.71	-19.5%	-19.5%	10.0%
NetFirst	\$97.93	\$157.62	\$147.53	6.8%	6.8%	16.0%
Opt Adv HSA 2,500	\$90.36	\$148.06	\$105.18	40.8%	40.8%	24.0%
Opt Adv HSA 4,500	\$27.09	\$68.62	\$87.82	-21.9%	-21.9%	15.0%
ValueNet	\$22.34	\$62.67	\$115.29	-45.6%	-45.6%	10.0%
Salud PPO 15	\$318.16	\$418.37	\$77.38	440.7%	391.2%	20.0%
Salud PPO 15/25%	\$65.09	\$112.11	\$84.34	32.9%	35.1%	20.0%
Salud PPO 25	\$175.27	\$245.43	\$94.50	159.7%	148.2%	20.0%
Total	\$195.37	\$254.83	\$203.83	25.0%	21.2%	16.5%
Total (excluding Salud)	\$195.71	\$254.95	\$206.40	23.5%	20.0%	16.5%

Table 14 shows that HealthNet derived rate increases closely correspond to those we independently developed. The claims are volatile and need to be smoothed for lack of credibility.

We grouped this information by benefit plan grouping to help smooth out the volatility. Table 15 presents this information.

Table 15 Analysis of Rate Increases by Benefit Plan Grouping

Benefit Plan	Projected Claims	Required Premium	Current Premium	Derived Rate Increase	HealthNet Derived Increase	HealthNet Proposed Increase
Premier	\$725.26	\$859.32	\$702.24	22.4%	20.0%	15.0%
Value	\$344.35	\$424.34	\$370.00	14.7%	16.5%	19.2%
Value Basic	\$221.10	\$283.70	\$250.66	13.2%	14.2%	14.3%
NetSaver	\$165.05	\$219.75	\$146.86	49.6%	48.3%	20.0%
HSA	\$94.30	\$139.03	\$121.85	14.1%	18.0%	11.8%
SimpleChoice	\$221.65	\$284.33	\$235.11	20.9%	19.4%	14.8%
SimpleValue	\$176.13	\$232.39	\$199.51	16.5%	15.9%	20.0%

First Choice	\$183.54	\$240.88	\$233.71	3.1%	5.2%	10.0%
New	\$65.24	\$116.53	\$103.78	12.3%	12.3%	19.4%
Salud	\$177.49	\$248.13	\$88.14	181.5%	171.4%	20.0%
Total	\$195.37	\$254.83	\$203.83	25.0%	21.2%	16.5%
Total (Excluding Salud)	\$195.71	\$254.95	\$206.40	23.5%	20.0%	16.5%

The grouping of the experience by benefit plan grouping effectively smooth out the claims fluctuation. The proposed HealthNet rate increases shown in Table 15 reduce the wide range of rate increases to a more acceptable band of increases and as mentioned earlier in this report, reduce the average rate increase from 20% to 16.5%.

Analysis of Lifetime Loss Ratio Calculations

HealthNet developed a 10 year projection of experience to calculate the lifetime loss ratio for all benefit plans in total. They they also provided calculations for each benefit plan and benefit plan combination. We have reviewed each of the projections to validate them. We have commented on each component of that calculation regarding its reasonableness.

- Discount Rate:** HealthNet has used a 5% discount rate for these calculations. We would expect a discount rate in the range of 2% - 6%. The HealthNet assumption is at the higher end of that range. Changing the assumption to anything else within that ranges changes the values by a small amount, but has no meaningful impact to the overall lifetime loss ratio. We accept the HealthNet assumption.
- Historical Premium and Claim Matching:** Since the rate development process is somewhat independent of the lifetime loss ratio calculation it is critical that these processes are internally consistent. We checked both premiums and claims to be sure the projections were reasonable and were also based upon information consistent with the premium development process. The historical premium and claims information for 2007 - 2009 were consistent. The projected PMPM revenue for 2010 - 2011 is consistent with the proposed rate increase. Projected PMPM claims in 2010 are consistent with trend assumptions, however, claims for 2011 is not consistent with the trend assumption used to make rates; it is lower than the assumption, seemingly based upon the out-year assumption of 10%/year. Correcting this raises the lifetime loss ratio. The forecast has used identical premium and claims increase assumptions beginning in 2012 as is the department's preference.

- **Membership Projections and Lapse Rate Assumptions:** One of the key assumptions in the lifetime loss ratio calculations is the membership projection reflecting anticipated lapse rates. HealthNet provided lapse rate assumptions based upon internal data. This was used to project future membership. These lapse rates averaged about 3% per month. The same lapse rates were used on all benefit plans. Membership was provided by duration to facilitate the calculation of future membership. It appears that HealthNet has used substantially reduced lapse rates in 2010 and 2011 (i.e., about 20% per year), with a common lapse rate after 2011 of 30.6% per year. The reported lapse rates from HealthNet's experience are similar to other company lapse rates although higher than we would expect per year.
- **Projected PMPM Premium and Claims:** For the overall projected loss ratios started at 86% and settled at 82% for 2013 and later. The future period loss ratio averaged 83%. The total projected lifetime loss ratio was 78%. Applying our best estimate assumptions, we derived a projected lifetime loss ratio of 78% as presented in Table 16. There is a very minor difference between the lifetime loss ratio calculated by HealthNet and that we would calculate. This projection also includes Salud which is part of a separate rate filing. It is a small enrollment benefit plan and doesn't significantly distort the information.

Upon our request, HealthNet also provided lifetime loss ratio calculations by individual benefit plan and benefit plan grouping. The results of these have been summarized in Table 17.

According to our analysis presented in Table 17, two of the products potentially have lifetime loss ratios less than 70% (i.e., HSA and New). New has just recently started and is in the situation where average selection factors are considerably below 1.00 (i.e., .53), so there is little issue with this product. This is projected to be substantially higher than 70% when mature. HealthNet's lifetime loss ratio calculations have assumed this increase in average selection factors, impacting trend in future years. HSA currently has an average durational factor of .78 also below 1.00 so it is unlikely this is below 70% when mature also. In addition the volume of business is small. When adjusted for the credibility adjustment we have included, both of these products are above the 70%. Our conclusion is that none of the policies fail to meet the lifetime loss ratio test in California.

Table 16 Projected Lifetime Loss Ratio - All Benefit Plans - AHP Best Estimate

Year	Member	Premium	PMPM	Trend	Claims	PMPM	Trend	LR	5.0% Disc.	Discounted Premium	Discounted Claims	Disc. LR	
2000	81139	\$8,784,820	\$108.27		\$5,950,110	\$73.33		68%	1.62889	\$14,309,546	\$9,692,102	68%	
2001	199235	\$16,071,274	\$80.66	75%	\$10,975,946	\$55.09	75%	68%	1.55133	\$24,931,821	\$17,027,295	68%	
2002	342597	\$27,890,148	\$81.41	101%	\$19,977,574	\$58.31	106%	72%	1.47746	\$41,206,451	\$29,515,975	72%	
2003	777222	\$75,461,544	\$97.09	119%	\$54,680,172	\$70.35	121%	72%	1.40710	\$106,181,970	\$76,940,493	72%	
2004	933980	\$101,819,993	\$109.02	112%	\$67,960,428	\$72.76	103%	67%	1.34010	\$136,448,529	\$91,073,473	67%	
2005	850903	\$103,769,724	\$121.95	112%	\$74,547,799	\$87.61	120%	72%	1.27628	\$132,439,385	\$95,143,981	72%	
2006	852976	\$111,346,864	\$130.54	107%	\$81,186,168	\$95.18	109%	73%	1.21551	\$135,342,809	\$98,682,295	73%	
2007	891929	\$125,275,201	\$140.45	108%	\$104,134,605	\$116.75	123%	83%	1.15763	\$145,021,705	\$120,548,822	83%	
2008	776872	\$123,052,748	\$158.40	113%	\$107,852,908	\$138.83	119%	88%	1.10250	\$135,665,655	\$118,907,831	88%	
2009	556253	\$102,821,945	\$184.85	117%	\$86,193,201	\$154.95	112%	84%	1.05000	\$107,963,042	\$90,502,861	84%	
Total	6263106	\$796,294,261	\$127.14		\$613,458,911	\$97.95		77%		\$979,510,913	\$748,035,129	76%	Best Est
													lapse Rates
2010	445,002	\$94,596,189	\$212.57	115%	\$79,297,745	\$178.20	115%	84%	1.00000	\$94,596,189	\$79,297,745	84%	20.0%
2011	267,001	\$65,271,371	\$244.46	115%	\$54,715,444	\$204.93	115%	84%	0.95238	\$62,163,210	\$52,109,947	84%	40.0%
2012	160,201	\$43,079,105	\$268.91	110%	\$36,112,193	\$225.42	110%	84%	0.90703	\$39,074,018	\$32,754,824	84%	40.0%
2013	96,121	\$28,432,209	\$295.80	110%	\$23,834,047	\$247.96	110%	84%	0.86384	\$24,560,811	\$20,588,746	84%	40.0%
2014	57,672	\$18,765,258	\$325.38	110%	\$15,730,471	\$272.76	110%	84%	0.82270	\$15,438,224	\$12,941,498	84%	40.0%
2015	34,603	\$12,385,070	\$357.91	110%	\$10,382,111	\$300.03	110%	84%	0.78353	\$9,704,027	\$8,134,656	84%	40.0%
2016	20,762	\$8,174,146	\$393.71	110%	\$6,852,193	\$330.03	110%	84%	0.74622	\$6,099,674	\$5,113,212	84%	40.0%

2017	12,457	\$5,394,937	\$433.08	110%	\$4,522,448	\$363.04	110%	84%	0.71068	\$3,834,081	\$3,214,019	84%	40.0%
2018	7,474	\$3,560,658	\$476.38	110%	\$2,984,815	\$399.34	110%	84%	0.67684	\$2,409,994	\$2,020,241	84%	40.0%
2019	4,485	\$2,350,034	\$524.02	110%	\$1,969,978	\$439.28	110%	84%	0.64461	\$1,514,853	\$1,269,865	84%	40.0%
2020	2,691	\$1,551,023	\$576.43	110%	\$1,300,186	\$483.20	110%	84%	0.61391	\$952,193	\$798,201	84%	40.0%
Total	1108469	\$283,560,000	\$255.81		\$237,701,632	\$214.44		84%		\$260,347,274	\$218,242,953	84%	
Grand Total	7371575	\$1,079,854,261	\$146.49		\$851,160,543	\$115.47		79%		\$1,239,858,187	\$966,278,082	78%	

Table 17 Projected Lifetime Loss Ratios By Benefit Plan Grouping

Benefit Plan	Members 7/2010	Historical Loss Ratio	Future Loss Ratio	Total LLR	Credibility Adjustment	Adjusted LLR	HealthNet calculation
Premier Value	215	71%	90%	73%	14.7%	87.7%	72%
Value Basic	1,683	68%	86%	70%	14.7%	84.7%	70%
NetSaver	8,424	75%	77%	75%	7.3%	82.3%	75%
HSA	5,400	81%	115%	93%	10.3%	103.3%	98%
SimpleChoice	4,386	60%	70%	64%	10.3%	70.3%	77%
SimpleValue	3,505	89%	81%	86%	10.3%	96.3%	91%
First Choice	4,348	86%	85%	86%	10.3%	96.3%	91%
New Salud	107	95%	33%	78%	n/a	n/a	81%
Total	10,403	53%	53%	53%	22.4%	75.4%	91%
Total (Excluding Salud)	787	91%	96%	93%	22.4%	115.4%	95%
Total	39,258	75%	84%	77%	4.6%	81.6%	80%
Total (Excluding Salud)	38,471	75%	84%	77%	4.6%	81.6%	79%

Sensitivity Analysis

We have reviewed and analyzed each of the key HealthNet assumptions used to project the lifetime loss ratios to assess how reasonable these assumptions were and their effect on the projected lifetime loss ratio. As part of this analysis we have compared their assumptions to our best estimate and our range of acceptable assumptions.

Table 18 Categories of Alternate Assumptions

Alternate Assumption	Description
Underlying Claims Trend	<p>The underlying health care claims trend including both utilization and unit cost trends. This assumption is prior to benefit plan specific adjustments (e.g., deductible leveraging). Other factors such as aging, wearing off of underwriting, durational factors, etc. all apply to the projected claims after the underlying claims trend is applied.</p> <p>The assumptions for this are:</p> <ul style="list-style-type: none"> ○ HealthNet: 13.6% ○ AHP: 13.5% ○ "low": 12.0% ○ "high": 15.0%
Claim Selection Curve	<p>HealthNet uses a common selection curve for their products ranging from an average of .60 in the first year following issue to about 1.10 at 6 years and beyond. HealthNet did not use this in their pricing so we have not tested the sensitivity of it.</p>
Lapse rate assumptions	<p>Lapse rates define how quickly policyholders terminate policies by policy duration. HealthNet has conducted lapse studies to estimate their lapses by policy duration and have used the results of these studies to develop their assumptions. We have used this information to define alternate lapse rates for our assumption testing.</p> <p>The assumptions for this are:</p> <ul style="list-style-type: none"> ○ HealthNet: standard lapse rates ○ AHP: standard lapse rates ○ "low": 90% of HealthNet ○ "high": 110% of HealthNet

Impact of Trend Sensitivity: All of the lifetime loss ratios calculated by HealthNet exceeded 70%. Since HealthNet trend rates were at the low end of our range of reasonable assumptions, using higher rates results in higher claims. Since our best estimate lifetime loss ratios increased premiums at the same rate, there was no impact on the lifetime loss ratio. Table 19 presents lifetime loss ratios for alternate assumptions for all benefit plans combined.

Table 19 Alternate Trend Assumption Lifetime Loss Ratios

Benefit Plan	HealthNet	12%	13.5%	15%
All Benefit Plans	78%	78%	78%	78%

Impact of Alternate Lapse Rates: We compared alternative selection lapse rates on the projected lifetime loss ratios. There was a minor impact and none of the benefit plans had lifetime loss ratios dropping below 70%.

Table 20 Alternate Lapse Rate Assumption Lifetime Loss Ratios

Benefit Plan	HealthNet	HealthNet - 10%	HealthNet + 10%
All Benefit Plans	78%	78%	78%

Summary

In summary, we find the HealthNet rate filing and related analysis to be reasonable. In addition, HealthNet included experience from another filing (i.e., Salud) in this filing. We believe the rates were calculated reasonably, reflect current costs and reasonable trend factors and in the aggregate meet the 70% lifetime loss ratio requirement.

Our only concerns about this filing are:

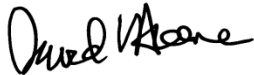
- **Incomplete initial filing:** HealthNet needs to include lifetime loss ratio calculations for at least common benefit plan groupings when initially filing the rates to be sure that each benefit plan grouping meets the 70% lifetime loss ratio requirement. In this particular filing, the volume of experience on individual benefit plans is not credible and benefit plan groupings are required. For more substantial blocks of business it is the policy of the Department to require lifetime loss ratio projections by benefit plan and even at greater detail providing the experience is credible.
- **Combined Policy Forms:** The experience included in HealthNet's lifetime loss ratio calculations includes experience from Salud which was a separate rate filing. It is the policy of the Department not to combine policy forms when preparing lifetime loss ratio projections.

Adam M. Cole
August 27, 2010
Page 25 of 25

We appreciate the cooperation of both the department and HealthNet staff who responded to our requests for more information.

If you have any questions, please don't hesitate to call

Sincerely,



David V. Axene, FSA, CERA, FCA, MAAA
President & Consulting Actuary

cc: Perry Kupferman, FSA, MAAA, DOI
John Fritz, FSA, MAAA, AHP
Josh Axene, AHP