

# State of Colorado Department of Regulatory Agencies

## Colorado Option Rate Target Methodology – 2026 Addendum

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## Introduction

The State of Colorado received approval for its amendment to its Section 1332 State Innovation Waiver (“1332 waiver” or “waiver”) in order to receive federal pass-through funding to expand premium subsidies to individuals eligible for federal premium and cost-sharing subsidies and those who are currently not eligible for federal premium tax credits, such as Coloradans without documentation. The waiver reduced premiums starting in 2023 through a state-led public option program, the Colorado Option, under House Bill 21-1232.<sup>1</sup>

The Colorado Option requires carriers operating in the individual and small group markets to offer a Standardized Plan at the Bronze, Silver, and Gold metal levels in the counties that the carriers offer plans. Under Colorado’s approved Section 1332 waiver, individual and small group market carriers must offer these plans in compliance with the premium rate reduction requirements in Section 10-16-1305(2), Colorado Revised Statutes (C.R.S.).

Wakely Consulting Group, an HMA Company (“Wakely”), has been retained by the State of Colorado Department of Regulatory Agencies (“Colorado” or “DORA”) to assist in the development of an actuarial methodology for calculating the premium rate targets for the Colorado Option Standardized Plans and to ensure compliance with the specified rate reductions required under § 10-16-1305(2)(a)-(c), C.R.S.. The 2023 methodology can be referenced in the report “Colorado Option Rate Target Methodology”, dated May 5, 2022. Updates to the 2023 methodology are also referenced in an addendum titled “Colorado Option Rate Target Methodology – 2024 Addendum”, dated January 13, 2023 and in an addendum titled “Colorado Option Rate Target Methodology – 2025 Addendum”, dated January 24, 2024. This report is an additional addendum to the preceding documentation and focuses only on changes for 2026 relative to the initial report and the 2024 and 2025 addendums. For the full methodology for 2026, both the original report, the 2024 and 2025 addendums, and this addendum should be referenced.

This document has been prepared for the sole use of DORA. It is our understanding that this report will be made public and utilized in discussion with stakeholders. Using the information in this report for other purposes may not be appropriate. This document, used in conjunction with the 2023 Colorado Option Rate Target Methodology report, 2024 addendum and 2025 addendum, contains the results, data, assumptions, and methods used in our analyses and satisfies the Actuarial Standard of Practice (“ASOP”) 41 reporting requirements.

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<sup>1</sup> [https://leg.colorado.gov/sites/default/files/documents/2021A/bills/2021a\\_1232\\_ren.pdf](https://leg.colorado.gov/sites/default/files/documents/2021A/bills/2021a_1232_ren.pdf)

## Methodology and Adjustment Changes for 2026

The following outlines the changes in the calculation methodology or specific adjustments for determining the target rates for the 2026 Colorado Option target rates. Carrier filed plan premiums must be at or below these rates to be compliant with the required rate reductions in § 10-16-1305(2), C.R.S. A summary of many of the adjustments and considerations is included in Appendix A. Samples of the rate calculations are provided in Appendix B.

### Trend

Trend is applied from the 2021 baseline premium to the applicable Colorado Option benefit year based on the annual percentage change in the medical care index component of the United States Department of Labor's Bureau of Labor Statistics Consumer Price Index for All Urban Consumers (CPI-U) for medical care services and medical care commodities in Denver-Aurora-Lakewood, Colorado, or its applicable predecessor or successor index. It is calculated as the geometric average change in the medical care index over the previous three years based on the annual changes as of the most recently available month. This was calculated based on the latest CPI-U published 30 days prior to the publication of a bulletin with maximum allowable premium rates by June 30, 2023 for the 2024 benefit year and by January 1 of each year thereafter. The annual trend was determined to be 3.70% for the 2026 Colorado Option Standardized Plan rate reduction targets based on the above methodology. Carriers may use trend that they believe is actuarially sound in rate development, but the target rates are determined by the CPI-U index as described here.

### Pricing AV Adjustment

The 2023 methodology report references a pricing AV adjustment by market and metal level that is applied to the 2021 baseline premiums per carrier feedback. The Division opted to update this adjustment for the 2026 plan year to capture more recent differences between the FAVC and carriers' pricing AV model results. Since an adjustment is already applied at the carrier, market, and metal level based on the FAVC, the pricing AV adjustment is based on the difference in relativities between the carrier-submitted pricing AV and the FAVC, between the Colorado Option plans and the Baseline plans, in the following way:

$$\text{Pricing AV Adjustment} = \frac{\text{Relativity of Carrier AV}}{\text{Relativity of FAVC}}$$

Where

$$\text{Relativity of Carrier AV} = \frac{\text{Pricing AV of Colorado Option Plan}}{\text{Pricing AV of Baseline Plan}}$$

$$\text{Relativity of FAVC} = \frac{\text{FAVC of Colorado Option Plan}}{\text{FAVC of Baseline Plan}}$$

The Division requested data from carriers on November 26, 2024 and December 3, 2024 to support the development of the Pricing AV adjustment for the Colorado Option premium rate reduction methodology. Carriers were required to provide the Federal and Pricing AV for each of their 2021 baseline plan designs and the Pricing AV for the 2026 Standardized Plan designs (Gold Standardized Plan, Silver On-Exchange Standardized Plan, Bronze Standardized Plan) in the corresponding 2025 plan year models. The Division and Wakely requested 2025 plan year models as the carriers' 2026 plan year pricing models were not yet available.

As the 2026 standardized plan design MOOPs exceed the 2025 MOOP limit of \$9,200, the 2026 standardized plans could not be run through the 2025 FAVC model without adjustment. To account for this limitation, Wakely ran the 2026 standardized plan designs through the 2025 FAVC with a MOOP limit of \$9,200. Wakely then estimated the impact of the MOOP change from the 2025 maximum levels to the actual 2026 standardized plan design level using the 2026 FAVC. That impact was applied to the 2026 standardized plan design AVs ran in the 2025 FAVC at the limited MOOP. This results in an estimation of what the 2026 standardized plan design AV would be in the 2025 FAVC, if the 2025 AVC allowed the 2026 MOOP levels. The adjustments applied to the 2026 standardized plan design 2025 Federal AVs are below. The adjustments are the same for individual and small group as the plan designs for both markets are identical.

Metal	2026 Standard Plan MOOP Adjustment
Gold	0.997
Silver	0.990
Bronze	0.982

Due to the confidentiality of pricing models, the pricing AV adjustment was calculated as an average adjustment that is applied to all carriers on a market and metal level basis. The average was calculated as a straight average of the pricing AV adjustments as submitted by the carriers. There were not significant outliers in the relativities calculated from the data points received from issuers so an outlier adjustment was not applied.

These calculations were done separately by market and metal level. The following is a summary of the pricing AV adjustments by market and metal level. These adjustments replace the adjustments included in the 2023 Methodology Report.

Metal	Individual	Small Group
Gold	0.987	0.990
Silver	1.003	1.006
Bronze	0.994	0.995

## 2026 AV Normalization Factor

The 2023 methodology report and 2024 and 2025 addendums reference a normalization factor that is applied to the 2021 baseline premiums to account for the impact of methodology changes to the federal AV calculator (FAVC) other than changes to trend. While the 2023, 2024, and 2025 adjustment factors are still applied to the 2021 baseline premiums to calculate 2026 target rates, there is not an additional adjustment for 2026 as there are no methodology changes to the 2026 FAVC. More information regarding the 2025 AV normalization factor can be found in the 2025 report addendum.

## Changes in Member Cost Sharing and Associated Induced Demand

Although there were small changes in member cost sharing and induced demand from updating the 2026 standardized plan designs, no impact has been included in the 2026 target rates because these updates were considered negligible.

## Reliances

Wakely has utilized data provided by the State of Colorado as well as public data in the analyses described in this report. The new information that Wakely relied on for the 2026 changes includes:

- Final 2025 and Final 2026 Federal Actuarial Value Calculators
- Consumer Price Index for All Urban Consumers for medical care and services and medical care commodities in Denver-Aurora-Lakewood, Colorado, accessed mid-November
- 2026 Colorado Option plan designs and member cost sharing
- Carrier submitted data including, but not limited to, pricing and Federal actuarial values for the 2021 baseline plans and the pricing actuarial values for the 2026 Colorado Option plans
- Guidance from the Division regarding the methodology for the pricing AV adjustment and updates to member cost sharing and associated induced demand
- Bulletins, regulations, and other documentation from Colorado regarding the calculation of the target rates

## Disclosures and Limitations

**Responsible Actuaries.** Danielle Hilson and Jenna Hegemann are the actuaries responsible for this communication. They are Members of the American Academy of Actuaries. Danielle is a Fellow of the Society of Actuaries and Jenna is an Associate of the Society of Actuaries. They meet the Qualification Standards of the American Academy of Actuaries to issue this report. Michael Cohen also contributed significantly to this analysis and report.

**Intended Users.** This information has been prepared for the sole use of the management of the DORA and cannot be distributed to or relied on by any third party without the prior written permission of Wakely. Wakely does not intend to create a reliance to these outside parties and these materials may not be released to third parties without Wakely's prior written consent, and when consent is granted, the materials should be provided in their entirety. The parties receiving this report should retain their own actuarial experts in interpreting results.

**Risks and Uncertainties.** Please note that these results are preliminary and are subject to change as we gather input, and potentially refine the modeling methodology and assumptions. Users of the results should be qualified to use it and understand the results and the inherent uncertainty. Actual results may vary, potentially materially, from our estimates. It is the responsibility of the DORA receiving this output to review the assumptions carefully and notify Wakely of any potential concerns.

**Conflict of Interest.** Wakely provides actuarial services to a variety of clients throughout the health industry. Our clients include commercial, Medicare, and Medicaid health plans, the federal

government and state governments, medical providers, and other entities that operate in the domestic and international health insurance markets. Wakely has implemented various internal practices to reduce or eliminate conflict of interest risk in serving our various clients. The responsible actuaries are financially independent and free from conflict concerning all matters related to performing the actuarial services underlying this analysis. In addition, Wakely is organizationally and financially independent from DORA.

**Data and Reliance.** We have relied on information and data provided by DORA and other public data sources in the analysis. We have reviewed the data for reasonableness but have not performed any independent audit or otherwise verified the accuracy of the data/information. If the underlying information is incomplete or inaccurate, our estimates may be impacted, potentially significantly.

**Subsequent Events.** These analyses are based on the implicit assumption that the ACA will continue to be in effect in future years with no material change. Material changes in state or federal laws regarding health benefit plans may have a material impact on the results included in this analysis. Furthermore, changes in state or Federal law were not included in the analysis. There are no other known relevant events subsequent to the date of information received that would impact the results of this report.

**Contents of Actuarial Report.** This document, along with the original 2023 report and the 2024 and 2025 addendums, constitutes the entirety of actuarial report and supersedes any previous communications on the project.

**Deviations from ASOPs.** Wakely completed the analyses using sound actuarial practice. To the best of our knowledge, this addendum (and the original report and 2024 addendum to which this is a further addendum) and methods used in the analyses are in compliance with the appropriate ASOPs with no known deviations. A summary of ASOP compliance is listed below:

- ASOP No. 23, Data Quality
- ASOP No. 41, Actuarial Communication
- ASOP No. 50, Determining Minimum Value and Actuarial Value under the Affordable Care Act
- ASOP No. 56, Modeling



## Appendix A: Methodology Outline

Compliance is determined separately by:	Comments:
Carrier	Based on HIOS Company Code
County	Includes partial county plans
Metal Level	Expanded and non-expanded Bronze plans are considered together for the Bronze metal level
Market	Separately for Individual and Small Group
2021 Premiums and Adjustments:	Comments:
Baseline Plan Premium	For each group above, the comparison rate is based on the lowest age 21 premium in 2021, adjusted to the appropriate year.
Reinsurance	Compliance is determined prior to impact of reinsurance.
Tobacco Rates	Compliance is determined based on non-Tobacco rates only.
Changes in Member Cost Sharing	Adjustment is made for the Actuarial Value of the Colorado Option plans in each metal level; this is determined based on the Carrier AV submitted in the Plan & Benefits template for the 2021 plan design and the Colorado Option in applicable benefit year, as well as Carrier-submitted AVs based on outputs from their pricing models for each plan design, which were calculated for 2026 plan designs. Updates may be considered for future years.
Induced Demand	An adjustment is made for changes in the induced demand factor applied in 2021 and the applicable Colorado Option plan design.
CSR Loading – Individual Silver Plans Only	An adjustment is made for changes in the CSR load between 2021 and applicable benefit year.
Benefit Changes – EHB	An adjustment is made to reflect the changes in the EHB-benchmark plan, which is in effect starting with the 2023 benefit year; this adjustment is based on the cost impact of the benefit changes in the actuarial analysis submitted to CMS for approval of these changes.
Benefit Changes – Non-EHB	Non-EHBs are allowed in Colorado Option if they are related to perinatal coverage and reproductive health; if there are differences in non-EHBs in the Baseline and Colorado Option plans, an adjustment is made based on the EHB Percent of Total Premium in the Plan & Benefits Templates for the corresponding year.

Trend	Per HB21-1232 and HB23-1224, trend is applied to the 2021 premium to the applicable Colorado Option benefit year based on the annual percentage change in the medical care index component of the United States Department of Labor's Bureau of Labor Statistics Consumer Price Index for all Urban Consumers (CPI-U) for medical care services and medical care commodities in Denver-Aurora-Lakewood, Colorado, or its applicable predecessor or successor or successor index, based on the average change in the medical care index over the previous three years; this is calculated based on the latest CPI-U published 30 days prior to the publication of a bulletin with maximum allowable premium rates by June 30 2023 for the 2024 benefit year and by January 1 of each year thereafter; carriers may use trend that they believe is actuarially sound in rate development, but the target rates are determined by the CPI-U index as described here.
Rate Reduction	Adjusted 2021 premium is reduced by 5% in 2023, 10% in 2024, and 15% in 2025 and beyond to determine compliance.
<b>Other Considerations:</b>	<b>Comments:</b>
Small Group – Quarterly Trend	For small group, the lowest plan premium is based on the premiums applicable for Q4 in 2021; small group rates will continue to be reviewed quarterly, however, all quarterly rates for Colorado Option Standardized Plans, must be at or below the adjusted Q4 lowest premium in 2021.
Individual - Exchange	For plans offered both on and off-Exchange, compliance with target premium rate is determined based on the lowest premium in 2021 offered on-Exchange.
Small Group - Exchange	Compliance with the target premium rate is determined based on the lowest premium in 2021 offered off-Exchange, due to the limited availability of plans on-Exchange.
Health Alliance Plans (Healthcare Coverage Cooperatives)	Plans offered in partnership with health alliances (such as Peak Health Alliance and/or the Southwest Health Alliance) are excluded from consideration as the lowest cost plan in 2021 and therefore will not be eligible as the 2021 Baseline plan.

Market Changes	New carriers, existing carriers entering a new county, or existing carriers providing a Colorado Option Standardized Plan at a new metal level in a county a carrier previously operated in, are required to offer a Colorado Option Standardized Plan in that county that has a premium rate at or below the average 2021 adjusted premiums applicable for currently existing carriers in that county, metal level, and market.
Other Considerations	<p>Consideration may be given on a yearly basis for other adjustments not considered above. These considerations are meant to reflect impacts to premiums that are not known or available at this time; these will either be updated through rulemaking or will be determined during the rate review process when carriers provide their initial premium rates .</p> <p>Examples of potential adjustments may include:</p> <ol style="list-style-type: none"> <li>1. Regulatory or legislation changes</li> <li>2. Methodology or data changes to the Federal AV Calculator for benefit years after 2026</li> </ol>

## Appendix B: Sample Calculations

### Example 1: Individual Silver 2026

- Market: Individual
- Metal Plan: Silver
- Target Rate Year: 2026

Line	Description	Notes	Source	Sample
A	2021 Baseline Premium, Unadjusted	Minimum age 21 non-tobacco rate for metal level and county	2021 Filed Rate Template, Without Reinsurance	\$337.39
B	Actuarial Value of 2021 Baseline Plan		2021 PBT "Issuer Actuarial Value"	68.7%
C	Actuarial Value of 2026 Colorado Option Plan		CY2026 Federal Actuarial Value	70.0%
D	CY2023 AV Calculator Adjustment		Colorado Option Federal AV in CY2022 calculator / Federal AV in CY2023 calculator	0.971
E	CY2024 AV Calculator Adjustment		Colorado Option Federal AV in CY2023 calculator / Federal AV in CY2024 calculator	1.019
F	2025 AV Normalization Factor		Colorado Option Federal AV in CY2024 calculator / Federal AV in CY2025 calculator	1.040
G	2026 AV Normalization Factor		Colorado Option Federal AV in CY2025 calculator / Federal AV in CY2026 calculator	1.000
H	Pricing AV Adjustment		Issuer Provided, Supplemental Data Request	1.003
I	Adjustment for Changes in Member Cost Sharing		Calculated: $C * D / B * E * F * G * H$	1.052
J	Induced Utilization – 2021 Baseline Plan		Issuer Provided, Supplemental Data Request	0.951

Line	Description	Notes	Source	Sample
K	Induced Utilization – 2021 Baseline Plan - Using Federal Induced Demand Formula	For plans offered after 2021, required formula per Colorado regulation	Calculated: $B^2 - B + 1.24$	1.025
L	Induced Demand Normalization Factor			0.959
M	Adjustment for Federal Induced Demand Formula		Calculated: $K * L / J$	1.033
N	Induced Utilization - Colorado Option Plan using Federal Induced Demand Formula		Calculated: $C^2 - C + 1.24$	1.030
O	Adjustment for Induced Utilization - AV Difference		Calculated: $N / K$	1.005
P	CSR Load – 2021 Baseline Plan	Only applies to Silver On-Exchange plans	Supplemental Template	1.200
Q	CSR Load – 2026 Colorado Option	Only applies to Silver On-Exchange plans	Supplemental Template	1.200
R	Adjustment for CSR Loading		Calculated: $Q / P$	1.000
S	Adjustment for EHB Changes		EHB-Benchmark Plan Actuarial Report	1.0016
T	Non-EHB Benefits, 2021 Baseline Plan		2021 PBT “EHB Percent of Total Premium”	100.0%
U	Non-EHB Benefits, 2026 Colorado Option		2026 PBT “EHB Percent of Total Premium”	100.0%
V	Adjustment for non-EHB Benefit Changes		Calculated: $U / T$	1.000
W	Medical Inflation Trend		10 year average CPI-U for Medical Care Services, Annualized	3.7%
X	Months of Trend Applied		Mid-Point of 2026 benefit year – Mid-Point of 2021 benefit year	60
Y	Total Trend Adjustment		Calculated: $(1 + W)^{(X / 12)}$	1.199

Line	Description	Notes	Source	Sample
Z	Required Rate Reduction	5% in 2023, 10% in 2024, 15% in 2025 and beyond	Calculated: 1 – 15%	0.850
AA	<b>Final 2026 Maximum Colorado Option Premium</b>		<b>Calculated: A * I * M * O * R * S * V * Y * Z</b>	<b>\$376.23</b>

The numbers in the example above have been rounded. However, no rounding will occur in the calculation of the final target rate.

## Example 2: Small Group Silver 2026

- Market: Small Group
- Metal Plan: Silver
- Target Rate Year: 2026

Line	Description	Notes	Source	Sample
A	2021 Benchmark Premium, Unadjusted	Minimum age 21 non-tobacco rate for metal level and county, Effective 10/1/2021	2021 Filed Rate Template	\$505.52
B	Actuarial Value of 2021 Baseline Plan		2021 PBT "Issuer Actuarial Value"	71.3%
C	Actuarial Value of 2026 Colorado Option Plan		CY2026 Federal Actuarial Value	70.0%
D	CY2023 AV Calculator Adjustment		Colorado Option Federal AV in CY2022 calculator / Federal AV in CY2023 calculator	0.971
E	CY2024 AV Calculator Adjustment		Colorado Option Federal AV in CY2023 calculator / Federal AV in CY2024 calculator	1.019
F	2025 AV Normalization Factor		Colorado Option Federal AV in CY2024 calculator / Federal AV in CY2025 calculator	1.040
G	2026 AV Normalization Factor		Colorado Option Federal AV in CY2025 calculator / Federal AV in CY2026 calculator	1.000
H	Pricing AV Adjustment		Issuer Provided, Supplemental Data Request	1.006
I	Adjustment for Changes in Member Cost Sharing		Calculated: $C * D / B * E * F * G * H$	1.017
J	Induced Utilization – 2021 Baseline Plan		Issuer Provided, Supplemental Data Request	1.000
K	Induced Utilization – 2021 Baseline Plan -	For plans offered after 2021, required formula per Colorado regulation	Calculated: $B^2 - B + 1.24$	1.035

Line	Description	Notes	Source	Sample
	Using Federal Induced Demand Formula			
L	Induced Demand Normalization Factor		Calculated	0.968
M	Adjustment for Federal Induced Demand Formula		Calculated: $K * L / J$	1.002
N	Induced Utilization - Colorado Option Plan using Federal Induced Demand Formula		Calculated: $C^2 - C + 1.24$	1.030
O	Adjustment for Induced Utilization - AV Difference		Calculated: $N / K$	0.995
P	CSR Load – 2021 Baseline Plan	Only applies to Silver On-Exchange plans (Individual Market)	Supplemental Template	1.000
Q	CSR Load – 2026 Colorado Option	Only applies to Silver On-Exchange plans (Individual Market)	Supplemental Template	1.000
R	Adjustment for CSR Loading		Calculated: $Q / P$	1.000
S	Adjustment for EHB Changes		EHB-Benchmark Plan Actuarial Report	1.0016
T	Non-EHB Benefits, 2021 Baseline Plan		2021 PBT “EHB Percent of Total Premium”	100.0%
U	Non-EHB Benefits, 2026 Colorado Option		2026 PBT “EHB Percent of Total Premium”	100.0%
V	Adjustment for non-EHB Benefit Changes		Calculated: $U / T$	1.000
W	Medical Inflation Trend		10 year average CPI-U for Medical Care Services, Annualized	3.7%
X	Months of Trend Applied		Mid-Point of 2026 benefit year – Mid-Point of 2021 benefit year	60
Y	Total Trend Adjustment		Calculated: $(1 + W)^{(X / 12)}$	1.199
Z	Required Rate Reduction	5% in 2023, 10% in 2024, 15% in 2025	Calculated: $1 - 15\%$	0.850



Line	Description	Notes	Source	Sample
AA	<b>Final 2025 Maximum Colorado Option Premium</b>		<b>Calculated: A * I * M * O * R * S * V * Y * Z</b>	<b>\$522.86</b>

The Colorado Option Standardized Plan premium rates filed in 2026 will need to be at or below the target calculated above in each quarter.

The numbers in the example above have been rounded. However, no rounding will occur in the calculation of the final target rate.