

State of Colorado Department of Regulatory Agencies

Colorado Option Rate Target Methodology – 2027 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 21-1232.¹

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 subsequent annual addenda titled “Colorado Option Rate Target Methodology – 2024 Addendum”, dated January 13, 2023; in an addendum titled “Colorado Option Rate Target Methodology – 2025 Addendum”, dated January 24, 2024; and in an addendum titled “Colorado Option Rate Target Methodology – 2026 Addendum”, dated January 10, 2025. This report is an additional addendum to the preceding documentation and focuses only on changes for 2027 relative to the initial report and the 2024, 2025, and 2026 addenda. For the full methodology for 2027, both the original report, the 2024-2026 addenda, 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, 2025 addendum, and 2026 addendum, contains the results, data, assumptions, and methods used in our analyses and satisfies the Actuarial Standard of Practice (“ASOP”) 41 reporting requirements.

¹ https://leg.colorado.gov/sites/default/files/documents/2021A/bills/2021a_1232_ren.pdf

As of the date of this addendum, the Federal Actuarial Value Calculator (FAVC) for plan year 2027 has not yet been released. Accordingly, the 2027 rate target methodology has been updated only to reflect changes to the inflation rate. A subsequent addendum will be issued following the release of the 2027 FAVC and will incorporate updates related to 2027 standard plan designs, FAVC methodology changes, and any other necessary adjustments for forthcoming policy changes from the 2027 Notice of Benefit and Payment Parameters (NBPP).

Methodology and Adjustment Changes for 2027

The following outlines the changes in the calculation methodology or specific adjustments for determining the target rates for the 2027 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 2.20% for the 2027 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 Pricing AV Adjustments referenced in the 2026 addendum continue to be in place in 2027. For more information, reference the 2026 addendum dated January 10, 2025.

2027 AV Normalization Factor

The necessity of a 2027 AV Normalization Factor will be determined upon the release of the 2027 FAVC. The 2023, 2024, and 2025 normalization factors continue to be in place for the 2027 rate target methodology to account for the impact of methodology changes to the federal AV calculator

(FAVC), other than changes to trend, relative to the 2021 baseline premiums. More information regarding the 2023-2025 AV normalization factors can be found in the respective years' reports and addendums.

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 2027 changes includes:

- Consumer Price Index for All Urban Consumers for medical care and services and medical care commodities in Denver-Aurora-Lakewood, Colorado, accessed mid-November
- Bulletins, regulations, and other documentation from Colorado regarding the calculation of the target rates

Disclosures and Limitations

Responsible Actuaries. Jenna Hegemann is the actuary responsible for this communication. She is a Member of the American Academy of Actuaries and an Associate of the Society of Actuaries. She meets 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. **Namely, it is very likely that the target rates and associated methodology will change upon release of the 2027 FAVC.** 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, 2025, and 2026 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 2024-2026 addendums 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. This adjustment will be updated for 2027 plan designs upon release of the 2027 FAVC.
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.
Other Considerations:	Comments:
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.

<p>Market Changes</p>	<p>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.</p>
<p>Other Considerations</p>	<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. Inclusion of these adjustments will be reevaluated with the forthcoming addendum updates for the 2027 FAVC following the release 2027 Notice of Benefit and Payment Parameters (NBPP).</p> <p>Examples of potential adjustments may include:</p> <ol style="list-style-type: none"> 1. Regulatory or legislation changes 2. Methodology or data changes to the Federal AV Calculator for benefit years after 2027

Appendix B: Sample Calculations

Example 1: Individual Silver 2027

- Market: Individual
- Metal Plan: Silver
- Target Rate Year: 2027

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 ²		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

² Methodology will be updated to reflect 2027 Colorado Option Standard Plan designs upon release of the 2027 Federal Actuarial Value Calculator.

Line	Description	Notes	Source	Sample
J	Induced Utilization – 2021 Baseline Plan		Issuer Provided, Supplemental Data Request	0.951
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 – 2027 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, 2027 Colorado Option		2027 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	2.2%
X	Months of Trend Applied		Mid-Point of 2027 benefit year – Mid-	72

Line	Description	Notes	Source	Sample
			Point of 2021 benefit year	
Y	Total Trend Adjustment		Calculated: $(1 + W)^X / 12$	1.139
Z	Required Rate Reduction	5% in 2023, 10% in 2024, 15% in 2025 and beyond	Calculated: 1 – 15%	0.850
AA	Final 2027 Maximum Colorado Option Premium		Calculated: $A * I * M * O * R * S * V * Y * Z$	\$357.47

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 2027

- Market: Small Group
- Metal Plan: Silver
- Target Rate Year: 2027

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 ³		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

³ Methodology will be updated to reflect 2027 Colorado Option Standard Plan designs upon release of the 2027 Federal Actuarial Value Calculator.

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: $B^2 - B + 1.24$	1.035
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 – 2027 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, 2027 Colorado Option		2027 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	2.2%
X	Months of Trend Applied		Mid-Point of 2027 benefit year – Mid-Point of 2021 benefit year	72
Y	Total Trend Adjustment		Calculated: $(1 + W) ^ (X / 12)$	1.139

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	Final 2027 Maximum Colorado Option Premium		Calculated: A * I * M * O * R * S * V * Y * Z	\$496.80

The Colorado Option Standardized Plan premium rates filed in 2027 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.