AGENDA

Greta
Introduction & Overview

James
Interpretation & Analysis

Annie
Our Recommendation & Scenarios

Serena
Trade-Offs & Other Considerations
OVERVIEW

01. “SHOP” bill

02. Two New lines of business: Small Group and Individual

03. In 2016: 59% Small-Large Groups with “Good Offer”

04. Annual Lapse Rate:
   1. Large Group: 5%
   2. Small Group: 10%
   3. Individual: Varies
OUR GOALS

1. Grow Membership
2. Increase Profit: 10%
3. Gain Experience in new markets
OUR RECOMMENDATION

In 2016:

- Extend the “Good Offer” to the rest of the Small-Large Groups
- Add Individual and Small Group lines

In 2017:

- Remain in all three business lines
MEMBERSHIP PROJECTION

2015 Membership

- 100+ (4.2 m) - 80%
- 51-100 (1.05 m) - 20%

Profit Margin: 7.1%
Medical Loss Ratio: 85.6%

Extend “Good Offer” to all Small-Large Groups

- 100+ (3.9 m) - 79%
- 51-100 (1.05 m) - 21%

Profit Margin: 7.4%
Medical Loss Ratio: 85.6%
MEMBERSHIP PROJECTION

2016: Extend “Good Offer” to ALL Small-Large Groups

- 100+ (3.9m)
- 51-100 (1.05m)

Profit Margin: 7.4%
Medical Loss Ratio: 85.6%

2016: Groups already accepted “Good Offer”

- 100+ (4.05m)
- 51-100 (Good Offer) (0.62m)
- 51-100 (No offer) (0.41m)

Profit Margin: 7.6%
Medical Loss Ratio: 85.5%
# FINANCIAL PROJECTION

## Before adding new lines

<table>
<thead>
<tr>
<th>Year</th>
<th>Profit %</th>
<th>Membership</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>6.6%</td>
<td>5.3M</td>
</tr>
<tr>
<td>2017</td>
<td>7.5%</td>
<td>5.4M</td>
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</table>

## After adding new lines

<table>
<thead>
<tr>
<th>Year</th>
<th>Profit %</th>
<th>Membership</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>7.7%</td>
<td>5.3M</td>
</tr>
<tr>
<td>2017</td>
<td>10.0%</td>
<td>6.0M</td>
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</tbody>
</table>

- Increase Profit to 10%
- Grow Membership
- Gain Experience in new markets
SCENARIOS

59% Small-Large Groups with:

1. SG in 2017
2. SG in 2016
3. Ind. in 2016
4. Both in 2016

All Small-Large Groups with:

5. SG in 2017
6. SG in 2016
7. Ind. in 2016
8. Both in 2016
PROFIT COMPARISON

8. Add Both lines in 2016
MEMBERSHIP COMPARISON (MILLIONS)

- SG 2017: 4.9
- SG 2016: 5.1
- IFP 2016: 5.1
- Both: 5.1
- ALL+SG 2017: 6.01
- ALL+SG 2016: 5.1
- ALL+IFP 2016: 5.1
- All+Both: 5.3

Comparison between 2016 and 2017.
## TRADE-OFFS

### Recommended strategy (All + Both)

<table>
<thead>
<tr>
<th>Year</th>
<th>Profit</th>
<th>Membership</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>7.8%</td>
<td>5.2M</td>
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</table>

### Alternative: (59% + Both)

<table>
<thead>
<tr>
<th>Year</th>
<th>Profit</th>
<th>Membership</th>
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<tbody>
<tr>
<td>2016</td>
<td>7.7%</td>
<td>5.3M</td>
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</table>
OTHER CONSIDERATIONS

- **Medical Loss Ratio (MLR)**
  - >80% for Individual & Small Group
  - >85% for large group

- **Membership Threshold**
  - Additional cost if exceeded

- **Additional Costs**
  - Administrative
  - Advertising
  - Employment
  - Relative cost of members moving between lines of business
CONCLUSION

- **Our Recommendation:**
  - Extend the “Good Offer” to all Small-Large Groups in 2016
  - Add new lines of business in 2016 and 2017

- **Profit:**
  - 7.7% in 2016
  - 10% in 2017
  - Profit increases

- **Membership:**
  - 5.3m in 2016
  - 6m in 2017
  - Membership grows
  - Gain experience in new markets
Example: 2016 Individual Mkt 35-year-old population

<table>
<thead>
<tr>
<th>% Relative to market</th>
<th>Impact to Membership</th>
<th>Expected Cost</th>
<th>Rate Multiplier</th>
<th>Resulting Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>-10%</td>
<td>12%</td>
<td>-7%</td>
<td>90%</td>
<td>$248</td>
</tr>
<tr>
<td>-5%</td>
<td>6%</td>
<td>-1%</td>
<td>95%</td>
<td>$261</td>
</tr>
<tr>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>100%</td>
<td>$275</td>
</tr>
<tr>
<td>1%</td>
<td>-1.2%</td>
<td>0.6%</td>
<td>101%</td>
<td>$278</td>
</tr>
<tr>
<td>2%</td>
<td>-2.4%</td>
<td>0.9%</td>
<td>102%</td>
<td>$281</td>
</tr>
<tr>
<td>3%</td>
<td>-3.6%</td>
<td>1.2%</td>
<td>103%</td>
<td>$283</td>
</tr>
<tr>
<td>4%</td>
<td>-4.8%</td>
<td>1.5%</td>
<td>104%</td>
<td>$286</td>
</tr>
<tr>
<td>5%</td>
<td>-6.0%</td>
<td>1.9%</td>
<td>105%</td>
<td>$289</td>
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</tbody>
</table>

IFP&SG Price/Membership Sensitivity, Risk Selection

Develop Rate Multiplier
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Why do we set our own rate for SG in 2017?

In short, since the risk profiles of our current small-large population will carry over to the SG LOB. Since this population is healthier (lower medical cost compared to the market). The overall MLR will be significantly below 80%. Consequently, we will be forced to pay MLR rebate if we charge the rates that were provided by our consultants.

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<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>Small-Large</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>25 Year Olds</td>
<td>$117.62</td>
<td>$139.74</td>
<td>$193.20</td>
<td>61%</td>
</tr>
<tr>
<td>35 Year Olds</td>
<td>$177.31</td>
<td>$210.66</td>
<td>$276.64</td>
<td>64%</td>
</tr>
<tr>
<td>45 Year Olds</td>
<td>$275.22</td>
<td>$327.00</td>
<td>$413.50</td>
<td>67%</td>
</tr>
<tr>
<td>55 Year Olds</td>
<td>$352.85</td>
<td>$419.23</td>
<td>$522.01</td>
<td>68%</td>
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<tr>
<td>Weighted Total</td>
<td></td>
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