NEIGHBORHOOD HEALTH PLAN OF RHODE ISLAND

Individual Market Products
Part II, Consumer Narrative Justification

Neighborhood Health Plan of Rhode Island's (Neighborhood) mission is to be an innovative health insurance company that, in partnership with Rhode Island's Community Health Centers, secures access to high quality, cost-effective health care for Rhode Island's at-risk populations. In service of this mission, Neighborhood has submitted its annual rate filing for the individual market. An overview of the filing is described below.

Scope and range of increase:

Carriers file two average rate increase amounts with OHIC: the EHB base rate increase and the weighted average rate increase. These two percentages reflect different calculations.

- **Essential Health Benefits Base Rate Increase**: After considering all the pricing assumptions except for benefits and cost sharing, the average rate increase for a theoretical plan that provides 100% coverage for all Essential Health Benefits would be 1.5%. Since this EHB increase uses a theoretical plan, it allows for comparisons across health insurance carriers and across years.
- **Weighted Average Rate Increase**: However, consumer plans have adjustments to reflect the benefits selected, including modifications to prior year benefits and pricing. The average premium increase to consumers, before reflecting changes in age is expected to be 5.5%.

The range of rate changes, before reflecting changes in age, which consumers will experience, is approximately 4.9% to 6.5%.

Key drivers of this rate increase, further described below, include:

- Financial experience of the products
- Changes in plan design to meet actuarial value requirements
- Uncertainty and additional costs associated with the COVID-19 pandemic

Financial experience of product:

In January 2014, Neighborhood for the first time offered individual insurance coverage through HealthSource RI (HSRI). Stable membership and utilization in 2015 through 2019 has allowed Neighborhood to develop rates based on actual experience. Neighborhood retained actuarial expertise who utilized models along with Neighborhood's commercial market experience to prepare the premium rates for individual market plans to be offered on HSRI in 2021.

Reserves have been established that allow Neighborhood to continue serving our members and maintain financial stability. Since Neighborhood first started offering products on HSRI in calendar year 2014, Neighborhoods commercial reserves have contributed to total reserves on average by 7% annually. Neighborhood will continue to grow our reserves by including a 4.9% contribution in this filing.

Changes in Benefits:

Neighborhood has updated the benefit packages in 2021 to comply with federal Actuarial Value (AV) requirements. These benefit changes impacted the rate change by approximately -1.4%, which mitigated the overall rate increase.

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Changes in Medical Service costs:

Another driver of premium increases includes changes in enrollment in 2019 and 2020, increasing medical costs on paid claims for our members resulting in an approximate 8.6% medical/prescription drug trend assumption. Components of this trend also includes increase in unit costs of medical services due to inflation, increased medical utilization, increases in specialty drug expenses, technology advances in medicine, equipment and drugs, changes in network provider contracts, and other factors. To ensure members are getting the best high quality, cost-effective health care, Neighborhood regularly reviews medical expenses to find innovative ways to decrease medical costs for our members.

Administrative costs and anticipated profits:

Neighborhood is committed to high quality, cost-effective health care which involves managing administrative costs by increasing operating efficiencies and reducing unnecessary expenditures. Administrative cost changes resulted in a 0.2% increase to the Essential Health Benefits Base Rate.

Neighborhood anticipates that 80.5% of premium dollars will go towards medical expenses. This is an estimate which may be subject to change based on medical trends and other adjustments under federal regulations. This assumption meets the federal requirements under the ACA, which states at least 80% of premium dollars need to be utilized for medical expenses. If less than 80% of premium dollars go towards medical expenses in 2021, members will receive a premium rebate based on the difference.