

NEIGHBORHOOD HEALTH PLAN OF RHODE ISLAND

Small Group 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 small group 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 Decrease:** After considering all the pricing assumptions except for benefits and cost sharing, the average rate decrease for a theoretical plan that provides 100% coverage for all Essential Health Benefits would be 2.6%. Since this EHB increase uses a theoretical plan, it allows for comparisons across health insurance carriers and across years.
- **Weighted Average Rate Decrease:** However, consumer plans have adjustments to reflect the benefits selected, including modifications to prior year benefits and pricing. The average premium decrease to consumers, before reflecting changes in age is expected to be 2.2%.

The range of rate changes, before reflecting changes in age, which consumers will experience, is: approximately (2.9%) to (1.3%).

Key drivers of this rate increase, further described below, include increases in mandatory state and federal taxes and fees, as well as increases in administrative and medical services costs.

Financial experience of product:

In January 2014, Neighborhood for the first time offered small group insurance coverage through HealthSource RI (HSRI). Increased membership and higher utilization in 2015 has allowed Neighborhood to develop rates based on actual experience. Neighborhood retained actuarial expertise who utilized published data models along with Neighborhood's 2015 commercial market experience to prepare the premium rates for small group market plans to be offered on HSRI in 2017.

Reserves have been established that allow Neighborhood to continue serving our members and maintain financial stability. Since offering our first products on HSRI, Neighborhood's reserves

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have increased by 50% but are still below the recommended level. Neighborhood will continue to grow our reserves by including a 2% contribution in this filing.

Changes in Medical and Prescription Drug Service costs:

One key driver of premium increases includes increased medical and prescription drug costs on paid claims for our members, resulting in a 5% medical and prescription drug trend assumption. Components of this trend include increases 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. Neighborhood was able to offset increased medical costs by decreasing other key drivers of premium.

Changes in Benefits:

Under the Affordable Care Act (ACA), health plans Neighborhood must ensure that annual out-of-pocket cost sharing (e.g., deductibles, coinsurance and copayments) for in-network essential health benefits do not exceed certain limits. Neighborhood has updated the benefit packages in 2017 to fulfill state and federal requirements. These benefit changes impacted the rate change by approximately (1.3%).

Administrative costs and anticipated profits:

Neighborhood is committed to high-quality, low cost healthcare which involves managing administrative costs by increasing operating efficiencies and reducing unnecessary expenditures. A key driver in premium rates include increased administrative costs of 3.4% relative to 2016. This is a result of fixed costs spread over a small membership base, resulting in higher administrative costs per member. This does not include taxes, licenses, fees, assessments or profits.

Neighborhood anticipates that 77.2% 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 is directly due to low enrollment levels which do not meet federal standards for assessing premium tax rebates. Neighborhood is in compliance with ACA regulations.