

2024 Health Insurance Rate Review

Actuarial Memoranda

September 14, 2023

These actuarial memoranda document the analysis and final decision of the State of Rhode Island Office of the Health Insurance Commissioner review of 2024 commercial health insurance premiums in the individual market, small group market, and large group market



STATE OF RHODE ISLAND

Office of The Health Insurance Commissioner

Department of Business Regulation

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*Actuarial memos are individually paginated.

Cory King
Acting Health Insurance Commissioner
Office of the Health Insurance Commissioner
State of Rhode Island
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13 September 2023

Individual Market Rate Filings for Blue Cross and Blue Shield of Rhode Island (BCBSRI) for Rates Effective January 1, 2024: Actuarial Review Memo and Final RIOHIC Approved Decisions SERFF Filing #BCBS-133633817

Dear Commissioner King,

At the request of the Rhode Island Office of the Health Insurance Commissioner (RIOHIC), Oliver Wyman Actuarial Consulting, Inc. (OWA) has performed an actuarial review of BCBSRI's individual market rate filing.

I. Rate Filing Process

This actuarial review letter focuses on the review of the filings that were submitted on May 1, 2023. BCBSRI resubmitted a revised filing on June 1st and July 26th. The revised filing included updated rates for specific plans and updates to other information presented in the filing.¹

Throughout the filing process, OWA corresponded with Brian Mackintosh, Michael Bodenrader, and Sarah Bewick of BCBSRI. An actuarial memorandum and certification are included in the filing signed by Brian Mackintosh, FSA, MAAA. OWA submitted questions through SERFF on May 11th, June 15th, June 28th, July 6th, and August 1st. In addition, OWA conducted phone calls with the BCBSRI team. OWA received responses for questions through SERFF. OWA also relied on responses to questions for the BCBSRI small group and large group filings that pertain to BCBSRI individual filing.

OWA provided considerations for alternative assumptions to RIOHIC on August 21, 2023. The RI Health Insurance Commissioner provided preliminary decisions to OWA on August 25, 2023. BCBSRI submitted revised rates on September 6, 2023. This memo summarizes considerations for alternative assumptions as well as decisions approved by the RI Health Insurance Commissioner.

¹ In the June 1st version, BCBSRI revised the "Components of Premium" tab to be consistent with internal expectations of the drivers of the rate change.

II. Considerations for Alternative Assumptions and Final Approved Rate Change

Assumption #1: Revise the annual medical utilization & severity trend assumptions from 1.3% to 1.1%. These assumption changes would decrease the rates by approximately 0.2%.

Assumption #2: Revise the 2022 risk adjustment assumption from \$58 PMPM to \$55 PMPM, based on the final 2022 risk adjustment report. Also update BCBSRI’s blending methodology to reflect a weighting of 25% on 2021 results and 75% on 2022 results. This will result in a 2024 risk adjustment assumption of \$58 PMPM. There is no change to rates.

Contribution to Reserve: The RI Health Insurance Commissioner has approved a 1.0% contribution to reserve.

The table below shows BCBSRI’s requested rate change and final approved rate change. Note OWA has estimated how each individual assumption change impacts the overall rate change. Due to the interaction of assumptions, the actual impact may be slightly different due to each insurer’s own pricing models. However, final rate change is not an estimate.

	BCBSRI IND		
	Requested	Final Approved	Impact to Rate
1Q 2024 Calibrated Plan Adjusted Index Rate (CPAIR)	\$375.90	\$370.62	-1.4%
Medical Utilization & Severity Trend	1.3%	1.1%	-0.2%
Risk Adjustment PMPM (Receivable)	\$58	\$58	0.0%
Contribution to Reserves/Profit	2.0%	1.0%	-1.0%
CPAIR Change from 2023	9.3%	7.7%	

Table 1: Requested and Final Approved Rate Change

III. Proposed Rate Changes

There are many definitions of rate changes shown in the rate filing. The changes we focus our review on are the calibrated plan adjusted index rate (CPAIR) average increase.² The CPAIR reflects the average base rate used prior to the adjustments for age. The average is calculated using the most recent membership enrollment by plan offering. This rate change reflects the insurer’s assumptions on member migration from terminated plan offerings to existing plan offerings.

The proposed average CPAIR change is 9.3%. As of March 2023, there were 17,152 members. BCBSRI has not terminated any plans and has not added any new plans for 2024. They have revised their plan designs resulting in a reduction in rates ranging from 0.1% to 2.2% with an overall reduction of 1.3%. Of the 40 renewing plans, 18 of the plans have rate reductions due to plan design changes between 1.4% and 2.2%

² We also review the PAIR and the PAIR increases. Generally, the increases for the CPAIR and PAIR are similar. The PAIR increases reflect demographic changes in the rating pool from one year to the next.

and these rate reductions are primarily due to changing the cost sharing on pharmacy tier 5 from copays to coinsurance and increasing the out-of-pocket maximum.

The BCBSRI’s rate increase fluctuate by plan offering ranging from 8.0% to 10.6%. BCBSRI has not made any changes to their pricing model in their 2024 filing compared to their 2023 filing. The distribution of rate change is shown below.

Proposed Rate Increases						
Rate Change Range	Number of Plans	Number of Members	2023 CPAIR PMPM	2024 CPAIR PMPM	Rate Change	
8% to 9.9%	26	13,121	\$340.16	\$370.35	8.9%	
10% to 11.9%	14	4,031	\$356.77	\$393.94	10.4%	
Total	40	17,152	\$344.06	\$375.90	9.3%	

Table 2: Distribution of Rate Increases

The 2024 average rate change of 9.3% is driven by these key factors as reported by BCBSRI in Tab V of the RIOHIC rate template:

- 8.4% due to trend including leverage
- 1.8% due to overstatement of prior year claims
- 1.2% due to increase in contribution to reserve
- 0.6% due Rhode Island assessments
- 0.4% due to a change in the reinsurance recoveries
- -2.2% due to changes in risk adjustment
- -1.3% benefit & cost sharing changes

IV. Experience & Trend Assumptions

A review of actual allowed claims experience shows that actual trends for BCBSRI’s individual market was 17.9% from 2020 to 2021 and 8.1% from 2021 to 2022.

Allowed Claims PMPM			
	CY 2020	CY 2021	CY 2022
Inpatient Hospital	\$102.86	\$118.56	\$123.90
Outpatient Hospital	\$144.46	\$177.69	\$193.90
Professional	\$154.42	\$184.32	\$189.15
Other Medical	\$11.55	\$14.97	\$17.01
Capitation	\$0.31	\$0.34	\$0.37
Prescription Drug	<u>\$119.96</u>	<u>\$133.14</u>	<u>\$155.55</u>
Total	\$533.56	\$629.02	\$679.89
Member Months	205,004	203,546	205,509

Allowed Claims PMPM Trend		
	CY 2021	CY 2022
Inpatient Hospital	15.3%	4.5%
Outpatient Hospital	23.0%	9.1%
Professional	19.4%	2.6%
Other Medical	29.6%	13.7%
Capitation	10.4%	10.1%
Prescription Drug	<u>11.0%</u>	<u>16.8%</u>
Total	17.9%	8.1%
Member Months Trend	-0.7%	1.0%

Table 3: Allowable Claims PMPM and Trend CY 2020 – CY 2022

BCBSRI is assuming an average annual trend assumption of 6.8% which is slightly lower than the trend in last year's rate filing of 7.1%. The table below shows BCBSRI's cost and utilization & severity trend assumptions by service category. BCBSRI is currently assuming a 1.3% medical utilization & severity trend assumption. BCBSRI's trend assumption is driven by the unit cost trend component and the pharmacy trend component as shown in the table below.

Trend Assumptions			
	2 Year Avg Cost	2 Year Avg Utilization	2 Year Avg Total
Inpatient Hospital	6.1%	-2.4%	3.6%
Outpatient Hospital	4.8%	2.2%	7.1%
Professional	2.9%	2.8%	5.8%
Other Medical	2.9%	2.8%	5.8%
Capitation	0.0%	0.0%	0.0%
Total Medical	4.4%	1.3%	5.8%
Prescription Drug	<u>1.9%</u>	<u>8.2%</u>	<u>10.3%</u>
Total			6.8%

Table 4: Proposed Trend Assumptions

The table below shows BCBSRI’s inpatient hospital outpatient hospital and professional unit cost trend assumptions for 2023 and 2024. On combined inpatient and outpatient basis, the unit cost trend is 5.3% for both 2023 and 2024.³ BCBSRI has provided a detailed unit cost increase schedule for hospital and the numbers align with the rate filing.

Unit Cost Trend	Year 1 2023	Year 2 2024
Hospital Inpatient	6.3%	6.0%
Hospital Outpatient	4.7%	4.9%
Professional	2.5%	3.4%

Table 5: Unit Cost Trends

BCBSRI utilization & severity trends are developed based on regression analyses across the combined individual, small group, and large group insured markets. BCBSRI provided a series of regression charts by service category: inpatient hospital, outpatient, physician, and pharmacy. For inpatient utilization, regressions are performed on admissions per 1000 with COVID vaccines and testing claims removed. For the other service categories, BCBSRI adjusts allowed claims PMPMs for price, removes COVID testing and vaccine claims, and then performs regression analysis. Due to the impact of COVID-19 on CY 2020 utilization, 2020 data is not used in the regression analysis for the medical service categories. BCBSRI has also adjusted the data for age.

We performed our own trend analysis on BCBSRI’s individual, small group and large group insured data combined. The combined pool represents approximately 122,000 enrollees but the enrollment has ranged from a high of 138,000 enrollees in 2019 to the most recent enrollment of 122,000. We received monthly data from January 2018 through March 2023, adjusted for IBNR, and primarily relied on claims incurred through February 2023.⁴ We subtracted out COVID vaccines and testing from the data. We then

³ The unit cost trends were weighted by the CY 2022 allowed claims PMPM.

⁴ The original data provided was paid through March 2023. BCBSRI provided updated monthly medical allowed PMPMs for January through March 2023 paid through June 2023.

performed an actuarial trend analysis using the most recent data (Table 6) and also comparing the most recent data from 2023 and 2022 to 2019 (Table 7), due to the impact COVID had on both 2020 and 2021 utilization. As shown annual medical PMPM trends adjusted for COVID vaccines and testing range from 3.2% to 6.8% when comparing results across the two tables. Also note that trends appear to be increasing in the later time periods in both sets of results and it is most dramatic in the results shown in Table 6 in the “Rolling 3 Trend” column.

BCBS Fully-Insured Market (IND, SG, LG)				
Medical Only Less COVID Vaccines & Testing				
Allowed Medical		Rolling 3	Rolling 6	Rolling 12
Claims PMPM		Trend	Trend	Trend
October	2022	4.6%	1.3%	3.5%
November	2022	5.2%	1.7%	3.0%
December	2022	2.5%	2.9%	1.8%
January	2023	8.5%	6.6%	3.7%
February	2023	13.0%	9.0%	5.0%
Average of last 5 data points		6.8%	4.3%	3.4%

Table 6: OWA Medical Trend Analysis- Most Recent Trends

BCBS Fully-Insured Market (IND, SG, LG)				
Medical Only Less COVID Vaccines & Testing and Three-Year Annualized				
Allowed Medical		Total Rolling	Total Rolling	Total Rolling
Claims PMPM		3 Trend	6 Trend	12 Trend
October	2022	3.5%	2.8%	2.8%
November	2022	4.3%	3.8%	3.0%
December	2022	3.8%	3.6%	2.9%
January	2023	4.5%	4.0%	3.4%
February	2023	4.3%	4.3%	3.9%
Average of last 5 data points		4.1%	3.7%	3.2%

Table 7: OWA Medical Trend Analysis- Most Recent Data Compared to 2019

BCBSRI also provided monthly unit cost trends, therefore we were able to adjust (normalize) the allowed claims PMPM for impacts due to changes in unit costs. This allows us to analyze utilization and severity trends. A summary of the results is shown below, using again both the most recent data (Table 8) and the most recent data compared to 2019 (Table 9). As shown annual medical utilization and severity trends adjusted for COVID vaccines and testing, range from 0.4% to 3.3% when comparing results across the two tables. Also note that there is fluctuation in the results from the most recent time period (Table 8) although trends appear to be increasing overall in the later time periods. Trends are more stable in the comparison of 2019 to the most recent data (Table 9).

BCBS Fully-Insured Market (IND, SG, LG)				
Medical Only Less COVID Vaccines & Testing Adjusted for Unit Cost				
Allowed Medical Claims PMPM		Rolling 3 Trend	Rolling 6 Trend	Rolling 12 Trend
October	2022	1.8%	-1.5%	0.8%
November	2022	2.3%	-1.1%	0.2%
December	2022	-0.5%	0.0%	-1.1%
January	2023	4.6%	3.2%	0.6%
February	2023	8.4%	5.2%	1.6%
Average of last 5 data points		3.3%	1.2%	0.4%

Table 8: OWA Medical Trend Analysis- Most Recent Data Utilization & Severity Trends⁵

BCBS Fully-Insured Market (IND, SG, LG)				
Medical Only Less COVID Vaccines & Testing and Three-Year Annualized and Adjusted for Unit Cost				
Allowed Medical Claims PMPM		Total Rolling 3 Trend	Total Rolling 6 Trend	Total Rolling 12 Trend
October	2022	1.5%	0.8%	0.8%
November	2022	2.2%	1.7%	1.0%
December	2022	1.6%	1.5%	0.9%
January	2023	2.0%	1.7%	1.3%
February	2023	1.5%	1.8%	1.6%
Average of last 5 data points		1.7%	1.5%	1.1%

Table 9: OWA Medical Trend Analysis- Most Recent Data Compared to 2019 Utilization & Severity Trends⁶

BCSBRI provided data to show that their age factors have increased 0.4% on average from 2019 to 2022. After accounting for the impact of unit cost and aging, we have determined a utilization & severity trend assumption range from 0% to 2.9% using the most recent data (Table 8) and 0.7% to 1.3% using 2019 data compared to the most recent data (Table 9).⁷ The overall average is 1.1%. BCSBRI is assuming a 1.3% medical utilization & severity trend assumption, which is 0.2% higher than the average of our results.

⁵ The utilization & severity trends shown in this table are based on allowed claims PMPMs adjusted for changes in unit cost.

⁶ Ibid.

⁷ These ranges were determined by normalizing for the average change in age factors. We also reviewed the paid to allowed ratios for the past three years and there is little change, suggesting very little plan design changes and therefore we made no adjustments to the trend analysis for induced demand.

Assumption #1: Revise the annual medical utilization & severity trend assumptions from 1.3% to 1.1%. These assumption changes would decrease the rates by approximately 0.2%.⁸

We also analyzed pharmacy trends. The table below shows a historical pharmacy trend range from 11.4% to 11.9% with trends being fairly stable. BCBSRI is assuming 10.3% which is below this range. BCBSRI stated that their pharmacy trend are developed in conjunction with their pharmacy benefit manager (PBM) and reflect the impact of changes to contracts in future periods and the impact of new drugs.

BCBS Fully-Insured Market (IND, SG, LG)				
Pharmacy Only				
Allowed Pharmacy Claims PMPM		Rolling 3 Trend	Rolling 6 Trend	Rolling 12 Trend
October	2022	13.7%	13.6%	11.7%
November	2022	11.5%	12.0%	11.2%
December	2022	10.1%	10.1%	10.9%
January	2023	11.7%	12.7%	11.9%
February	2023	10.8%	11.2%	11.3%
Average of last 5 data points		11.6%	11.9%	11.4%

Table 10: OWA Pharmacy Trend Analysis

V. Cost Sharing Reduction (CSR) Adjustment

BCBSRI includes the cost sharing reduction (CSR) adjustment, or silver plan load, in five plans.⁹ BCBSRI evaluates the CSR adjustment to be 18.6% across all silver on-exchange plans. This is consistent with the assumption from last year’s filing. BCBSRI uses the metal actuarial values at the various subsidy levels, weighted by March 2023 members, to estimate the CSR adjustment. There are 491 members in the silver on-exchanges who are not eligible for subsidies, which BCBSRI has accounted for in their calculation of the CSR load.

VI. COVID-19 Experience

BCBSRI has provided COVID-19 costs related to treatment, testing and vaccines. They indicate that their total CY 2022 COVID-19 costs are \$13.47 PMPM.¹⁰ BCBSRI has made an adjustment of 0.988 to account for the expected reduction of COVID vaccines & testing costs in 2024 compared to 2022, along with an adjustment due to the reinstatement of prior authorizations that were waived during the public health emergency.

VII. 1332 Waiver (Reinsurance)

⁸ If BCBSRI were to use a 1.1% annual medical utilization & severity trend in 2023 and 2024 rather than 1.3%, this would decrease trends by approximately 0.2% each year. This is worth 0.4% over the entire projection period. The estimated impact to overall rates is determined assuming medical represents approximately 77% of total claims and that total claims spending represents 82% of total premium.

⁹ The Silver Plan Load is included in individual market silver plan on exchange rates to cover the expenses of the cost sharing reduction subsidy.

¹⁰ Each insurer may define COVID treatment differently and therefore these amounts may not be comparable across insurers

BCBSRI is assuming a 5.7% reduction in their rates for reinsurance or approximately \$37 PMPM in recoveries. BCBSRI assumed a 6.6% adjustment in the prior year rates. The information provided by insurers from HSRI and Wakely showed a reduction of 4.8% or \$41.19 PMPM. BCBSRI pointed out two key differences in the modeling used to develop their estimate versus Wakely. Firstly, Wakely analysis used a claims trend of 9% while BCBSRI is assuming 6.8%. Secondly, BCBSRI develops their estimate on member level data while Wakely uses continuance table data. BCBSRI provided their underlying data, model, and results to support the \$37 PMPM assumption.

VIII. Risk Adjustment

BCBSRI has assumed a \$59.75 PMPM receivable for risk adjustment and a \$1.76 PMPM High-Cost Risk Pool surcharge for a combined receipt of \$58.00 PMPM. This translates to approximately \$11.9M in receivables or an 8.9% downward adjustment to the revenue requirement. BCBSRI's estimate is based on an average of the 2021 final PMPM results and the interim 2022 PMPM results (blended equally at 50% each) trended forward using an assumed Rhode Island statewide average premium trend of 3.7% in 2022, and 6.1% in 2023 and 2024.¹¹

The final 2021 risk adjustment PMPM receivable for BCBSRI was \$46.30 PMPM. BCBSRI assumed a 2022 risk adjustment PMPM of \$58.13 based on the 2022 interim report. The final 2022 risk adjustment report, which was released after the rate filings were submitted, shows a risk adjustment receivable of \$54.90. BCBSRI blends its 2021 and 2022 risk adjustment receivables 50/50 to determine their 2024 risk adjustment receivable. The 2021 receivable is lower than the 2022 receivable which drives down their 2024 risk adjustment receivable assumption.

There have been many changes in risk adjustment. Since 2019, BCBSRI's average plan liability risk scores (PLRS) increased 53% and the risk adjustment receivable has increased from \$3.4M in 2019, to \$9.4M in 2021, and to \$11.4M in 2022. During these same periods NHPRI's PLRS decreased 15% from 2019 to 2022. In addition, there have been ACA model changes along with shifts in enrollment, but it appears that BCBSRI's risk adjustment receivable has been increasing over time. Therefore, it appears that it would be more appropriate to weight the 2021 and 2022 results 25% and 75% respectively, rather than 50% and 50%. It should also be noted that the other insurers in the Rhode Island market typically rely exclusively on the most recent year's risk adjustment results to develop projections, rather than blending with a prior year. However, due to Medicaid redetermination and the uncertainty in the risk pool changes in 2024, it is reasonable to blend 2021 with 2022.

Assumption #2: Revise the 2022 risk adjustment assumption from \$58 PMPM to \$55 PMPM, based on the final 2022 risk adjustment report. Also update BCBSRI's blending methodology to reflect a weighting of 25% on 2021 results and 75% on 2022 results. This will result in a 2024 risk adjustment assumption of \$58 PMPM. There is no change to rates.

IX. Morbidity

¹¹ The 2022 trend of 3.7% is based on the statewide average from the 2022 interim risk adjustment report compared to the 2021 final risk adjustment report. The 6.1% is the final approved rate change in the 2023 rate filings.

BCBSRI has assumed no changes in morbidity between the experience and projection periods. They have not assumed any impact to the morbidity of the population due to changes in enrollment related to Medicaid redetermination. BCBSRI stated that because of the automatic enrollment of members into Neighborhood Health Plan of Rhode Island’s second lowest cost silver plan, there is minimal expectation of new members and uncertainty of their health status.

X. Projected MLR and Retention Charge

Using the federal definition, excluding adjustments for credibility, BCBSRI projects an MLR for 2024 of 84.5% which includes a 2.0% contribution to reserve. BCBSRI reports an MLR of 81.7% for CY 2020, 80.3% MLR for 2020, and 86.0% MLR for 2022.¹²

The retention charge of a rate includes the administrative expenses, taxes and fees, and the contribution to reserve. BCBSRI is proposing an average retention charge of 17.6% for 2024. This is slightly higher than the retention charge from 2023 of 17.2%. BCBSRI includes 1.5% in their rates for RI assessments and fees, and last year this amount was 1.0%. The primary driver of the increase is due to an increase in childhood and adult immunizations. As shown in Table 12, BCBSRI is assuming a \$3.01 PMPM Childhood Immunization Assessment and a \$5.39 PMPM Adult Immunization Assessment. The retention charges shown below do not include exchange user fees, which is 1.5%.

Proposed Retention Charge	2024	2023	Change
ACA Taxes and Fees	0.1%	0.1%	0.0%
Premium Tax	2.0%	2.0%	0.0%
Other Retention Charge	1.5%	1.0%	0.5%
Contribution to Reserve (Profit/Risk Load)	2.0%	1.0%	1.0%
Investment Income Credit	0.0%	-0.1%	0.0%
Administrative Expense Load	<u>12.1%</u>	<u>13.2%</u>	<u>-1.1%</u>
Total Retention Charge	17.6%	17.2%	0.4%

Table 11: Proposed Retention Charge¹³

Assessment	PMPM	Premium Impact	PMPM	Premium Impact
Childhood Immunization Account	\$3.01	0.5%	\$1.80	0.3%
Adult Immunization Account	\$5.39	0.8%	\$2.99	0.5%
Children's Health Account	\$1.15	0.2%	\$1.16	0.2%
Care Transformation Collaborative of RI	\$0.78	0.1%	\$0.66	0.1%
Current Care	<u>\$1.00</u>	<u>0.2%</u>	<u>\$1.00</u>	<u>0.2%</u>
Total	\$11.33	1.7%	\$7.61	1.3%

Table 12: RI Assessments

¹² The 2022 MLR reported in the RIOHIC rate filing template does not reflect final 2022 risk adjustment results. There may be other updates to the 2022 MLR that are not reflected in what was reported in the initial rate filing.

¹³ The Other Retention Charge Line includes the amount for assessments included in retention (Childhood Immunization Account, Adult Immunization Account, and Children’s Health Account.) The charges for the Care Transformation Collaborative of RI and Current Care are included in the medical claims portion of the rate.

The table below shows the administrative expense PMPM charge for 2023 and 2024. As shown, the PMPM charge increased 0.3% from 2023 to 2024.¹⁴

	BCBSRI Individual		
Admin Charges	2024	2023	Admin Charge Trend
Admin PMPM	\$79.21	\$78.99	0.3%

Table 13: Administrative PMPM Charge¹⁵

XI. Financial Position

A review of BCBSRI's financial measures show that BCBSRI's RBC level in 2022 is 637%. This is lower than the RBC from 2021, but higher than 2018 and on par with the RBC from 2019.

	BCBSRI					
	2022	2021	2020	2019	2018	2017
8. Total Revenues	\$1,883,598,404	\$1,795,520,104	\$1,707,243,198	\$1,698,166,372	\$1,708,865,057	\$1,719,351,097
24. Net Underwriting G/L	\$19,004,861	\$9,239,068	\$7,713,021	\$28,874,085	\$36,858,723	\$8,177,236
Underwriting G/L	1.0%	0.5%	0.5%	1.7%	2.2%	0.5%
49. Capital and Surplus end of reporting year	\$408,954,854	\$434,692,861	\$415,814,234	\$371,583,769	\$298,658,624	\$292,996,877
SAPOR	21.7%	24.2%	24.4%	21.9%	17.5%	17.0%
14. Total Adjusted Capital	\$408,954,583	\$434,692,861	\$415,814,234	\$371,583,769	\$298,658,624	\$292,996,877
15. Authorized control level risk-based capital	\$64,201,018	\$63,315,995	\$58,616,377	\$58,232,394	\$57,430,307	\$58,588,774
RBC	637.0%	686.5%	709.4%	638.1%	520.0%	500.1%

Table 14: Summary of Financials

XII. URRT

I have reviewed the URRT for consistency with the Rhode Island rate template.

XIII. Requested and Final Approved Rate Change

The table below shows BCSBRI's requested rate change and final approved rate change. Note OWA has estimated how each individual assumption change impacts the overall rate change. Due to the interaction of assumptions, the actual impact may be slightly different due to each insurer's own pricing models. However, the final rate change is not an estimate.

¹⁴ From Tab IV Retention Charge, Administrative Expense Load PMPM reported in row 20 (7). This includes commissions.

¹⁵ The administrative charge shown here include commissions, exclude assessments, and exclude exchange user fees.

	BCBSRI IND		
	Requested	Final Approved	Impact to Rate
1Q 2024 Calibrated Plan Adjusted Index Rate (CPAIR)	\$375.90	\$370.62	-1.4%
Medical Utilization & Severity Trend	1.3%	1.1%	-0.2%
Risk Adjustment PMPM (Receivable)	\$58	\$58	0.0%
Contribution to Reserves/Profit	2.0%	1.0%	-1.0%
CPAIR Change from 2023	9.3%	7.7%	

Table 15: Requested and Final Approved Rate Change

XIV. Data Reliance, Limitations and Qualifications

This letter communicates our findings regarding our review of BCBSRI individual rate filing (SERFF tracking number BCBS-133633817.) This letter also communicates the RI Health Insurance Commissioner’s final decisions. Distribution of this letter to parties other than RIOHIC by us or any other party does not constitute advice by us to those parties. The reliance of parties other than the RIOHIC on any aspect of our work is not authorized by us and is done at their own risk. In arriving at our findings, we used and relied on information provided by BCBSRI. If this information is inaccurate or incomplete, our findings and conclusions may need to be revised. While we have relied on the data provided by the company without independent investigation or verification, we have reviewed the information for consistency and reasonableness. Where we found the data inconsistent or unreasonable, we requested clarification. We have utilized generally accepted actuarial methodologies in arriving at our findings.

This letter includes work based on actuarial analysis conducted by Jenn Smagula who is a member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. This letter was peer reviewed by Bela Gorman who is a member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. They both meet the Academy’s Qualification Standards to perform this work.

Yours sincerely,



Jenn Smagula FSA, MAAA

Cc: Bela Gorman FSA, MAAA, OWA

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Cory King
Acting Health Insurance Commissioner
Office of the Health Insurance Commissioner
State of Rhode Island
1511 Pontiac Ave, Building 69-1
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13 September 2023

**Individual Market Rate Filings for Neighborhood Health Plan of Rhode Island (NHPRI) for Rates Effective January 1, 2024: Actuarial Review Memo and Final RI OHIC Approved Decisions
SERFF Filing #NHRI-133659270**

Dear Commissioner King,

At the request of the Rhode Island Office of the Health Insurance Commissioner (RIOHIC), Oliver Wyman Actuarial Consulting, Inc. (OWA) has performed an actuarial review of NHPRI's individual market rate filings.

I. Rate Filing Process

This actuarial review letter focuses on the review of the filings that were submitted on May 4, 2023. NHPRI resubmitted a revised filing on May 24th. The revised filing included updated assumptions on RI assessments.

Throughout the filing process, OWA corresponded with NHPRI's actuarial consultant, Michelle B. Klein, FSA, MAAA of Milliman Inc. and Elizabeth McClaine of Neighborhood Health Plan. An actuarial memorandum and certification are included in the filing signed by Ms. Klein. OWA submitted questions through SERFF on May 10, May 11, May 18, June 6, June 22, and July 7. In addition, OWA conducted phone calls with NHPRI's actuarial consultant. OWA received responses for questions through SERFF. OWA also relied on responses to questions for the NHPRI small group filing that pertain to NHPRI individual filing.

OWA provided considerations for alternative assumptions to RIOHIC on August 12, 2023. The RI Health Insurance Commissioner provided preliminary decisions to OWA on August 25, 2023. This memo summarizes considerations for alternative decisions as well as decisions approved by the RI Health Insurance Commissioner.

II. Considerations for Alternative Assumptions and Final Approved Rates

Assumption #1: Revise the Year 2 Hospital Unit Cost trend from 6.2% to 5.9%. This will decrease the rates approximately 0.1%.

Assumption #2: Revise the 2022 risk adjustment payable assumption from \$35.90 PMPM to \$39.76 PMPM. This will result in a 2024 risk adjustment assumption of \$36.51 and a \$1.43 HCRP surcharge for a combined payment of \$37.94. This will increase the rates approximately 0.9%.

Assumption #3: Revise the 2024 immunization assessment from \$9.65 PMPM to \$7.00 which will decrease the rates approximately 0.7%.

The table below shows NHPRI’s requested rates and OWA’s summary of alternative assumptions and the impact to rates. OWA’s rates are estimated and are subject to verification by NHPRI. After incorporating the assumption changes, the corresponding rate change may differ slightly.

	NHPRI IND		
	Requested	Alternative Assumptions	Impact to Rate
2024 Calibrated Plan Adjusted Index Rate (CPAIR)	\$288.38	\$288.65	0.1%
Year 2 Hospital Cost Trend	6.2%	5.9%	-0.1%
Risk Adjustment Assumption	6.8%	7.4%	0.9%
Immunization Assessment	\$9.65	\$7.00	-0.7%
Contribution to Reserve	1.0%	1.0%	
CPAIR Change from 2023	4.4%	4.5%	

Table 1: Requested and Alternative Assumptions

The RI Health Commissioner has determined that the Rate Filing will be accepted as filed without modification. The table below shows requested and final approved rates.

	NHPRI IND		
	Requested	Final Approved	Impact to Rate
2024 Calibrated Plan Adjusted Index Rate (CPAIR)	\$288.38	\$288.38	0.0%
CPAIR Change from 2023	4.4%	4.4%	

Table 2: Requested and Final Approved Rate Change

III. Proposed Rate Changes

There are many definitions of rate changes shown in the rate filing. The changes we focus our review on are the calibrated plan adjusted index rate (CPAIR) average increase.¹ The CPAIR reflects the average base rate used prior to the adjustments for age. The average is calculated using the most recent membership enrollment by plan offering. This rate change reflects the insurer’s assumptions on member migration from terminated plan offerings to existing plan offerings.

The proposed average CPAIR change is 4.4%. As of March 2023, there were 21,721 members. NHPRI has not terminated any plans and has added one new plan for 2024. They have revised their plan designs resulting in a reduction in rates ranging from 0% to 1.7% with an overall reduction of 0.8%. NHPRI’s rate increase fluctuate by plan offering ranging from 4.1% to 5.1%. The distribution of rate change is shown below.

Proposed Rate Increases						
Rate Change Range	Number of Plans	Number of Members	2023 CPAIR PMPM	2024 CPAIR PMPM	Rate Change	
less than 0%	0	0	\$0.00	\$0.00	0.0%	
0% to 1.9%	0	0	\$0.00	\$0.00	0.0%	
2% to 3.9%	0	0	\$0.00	\$0.00	0.0%	
4% to 5.9%	6	21,721	\$276.14	\$288.38	4.4%	
6% to 7.9%	0	0	\$0.00	\$0.00	0.0%	
8% to 9.9%	0	0	\$0.00	\$0.00	0.0%	
10% to 11.9%	0	0	\$0.00	\$0.00	0.0%	
12% or greater	0	0	\$0.00	\$0.00	0.0%	
Total	6	21,721	\$276.14	\$288.38	4.4%	

Table 3: Distribution of Rate Increases

The 2024 average rate change of 4.4% is driven by these key factors as reported by NHPRI in Tab V of the RIOHIC rate template:

- 8.0% due to trend
- -1.2% due to pharmacy rebate improvements
- -2.7% due to prior period adjustments²
- 1.3% due to increased state assessments

¹ We also review the PAIR and the PAIR increases. Generally, the increases for the CPAIR and PAIR are similar. The PAIR increases reflect demographic changes in the rating pool from one year to the next.

² NHPRI has indicated this is “due pricing changes between 2023 and 2024 pricing that the OHIC form does not already explicitly account”.

IV. Experience & Trend Assumptions

A review of actual allowed claims experience shows that actual trends for NHPRI's individual market was 8.1% from 2020 to 2021 and 6.8% from 2021 to 2022.

Allowed Claims PMPM			
	CY 2020	CY 2021	CY 2022
Inpatient Hospital	\$53.90	\$57.66	\$58.74
Outpatient Hospital	\$88.40	\$112.06	\$124.10
Professional	\$113.80	\$106.48	\$112.20
Other Medical	\$5.81	\$4.90	\$5.54
Capitation	\$1.94	\$1.74	\$0.97
Prescription Drug	<u>\$82.94</u>	<u>\$92.10</u>	<u>\$98.80</u>
Total	\$346.79	\$374.93	\$400.35
Member Months	314,322	299,128	283,010

Allowed Claims PMPM Trend		
	CY 2021	CY 2022
Inpatient Hospital	7.0%	1.9%
Outpatient Hospital	26.8%	10.7%
Professional	-6.4%	5.4%
Other Medical	-15.6%	12.9%
Capitation	-10.5%	-44.3%
Prescription Drug	<u>11.0%</u>	<u>7.3%</u>
Total	8.1%	6.8%
Member Months Trend	-4.8%	-5.4%

Table 4: Allowable Claims PMPM and Trend CY 2020 – CY 2022

NHPRI is assuming an average annual trend assumption of 9.4% which is higher than the trend in last year's rate filing of 8.9%. The table below shows NHPRI's cost and utilization & severity trend assumptions by service category. NHPRI uses a combination of historical data, utilization & severity assumptions used in past years, and actuarial judgement to determine their utilization assumptions for 2022 and forward. NHPRI is currently assuming a 2.4% medical utilization & severity trend assumption. NHPRI's trend assumption is driven by the unit cost trend component and the pharmacy trend component as shown in the table below.

Trend Assumptions			
	2 Year Avg Cost	2 Year Avg Utilization	2 Year Avg Total
Inpatient Hospital	6.8%	1.6%	8.5%
Outpatient Hospital	6.8%	4.0%	11.1%
Professional	3.9%	1.1%	5.1%
Other Medical	4.7%	1.5%	6.3%
Capitation	0.0%	0.0%	0.0%
Total Medical	5.7%	2.4%	8.2%
Prescription Drug	<u>8.5%</u>	<u>3.8%</u>	<u>12.6%</u>
Total			9.4%

Table 5: Proposed Trend Assumptions

NHPRI’s hospital unit cost trend assumptions are 7.4% for 2023 and 6.2% for 2024. NHPRI has provided a detailed unit cost increase schedule for hospital and the numbers align with the rate filing. NHPRI reviews the Rhode Island’s Affordability Standards which are tied to a hospital price cap set by the Rhode Island Office of the Health Insurance Commissioner (RIOHIC) each October. This year, the hospital price cap will be based on the CPI-U (less food and energy) annual increase as of August 2023 or September 2023, increased by 1%. The reported CPI-U for the average of May (5.3%), June (4.8%), and July (4.7%) is 4.9%. Also, note that the CPI-U is decreasing from May to July.

Assumption #1: Revise the Year 2 Hospital Unit Cost trend from 6.2% to 5.9%. This will decrease the rates approximately 0.1%.

Unit Cost Trend	Year 1 2023	Year 2 2024
Hospital Inpatient	7.4%	6.2%
Outpatient Hospital	7.4%	6.2%
Professional	3.7%	4.2%
Other Medical	4.5%	5.0%

Table 6: Unit Cost Trends

We performed our own trend analysis on NHPRI Individual and Small Group Market data combined. The combined pool represents approximately 24,000 enrollees but the enrollment has ranged from 24,000 to 28,000 over the past two years. We received monthly data from January 2018 through March 2023, paid through April 2023, and adjusted for IBNR. We subtracted out COVID testing and vaccine claims from the data. We then performed an actuarial trend analysis using the most recent data (Table 7) and also comparing the most recent data to 2019 data (Table 8), due to the impact COVID had on both 2020 and 2021 utilization. A summary of our results is shown below. As shown, annual medical PMPM trends adjusted for COVID expenses range from 5.2% to 7.7% when excluding the latest data point and comparing results across the two tables. Also note that trends appear to be increasing in the later time periods (Table 7) but when comparing to 2019 data, the trends appear stable.

NHPRI Fully-Insured Market (IND, SG)				
Medical Only Less COVID Vaccines & Testing				
Allowed Medical Claims PMPM		Rolling 3 Trend	Rolling 6 Trend	Rolling 12 Trend
October	2022	7.2%	4.9%	5.9%
November	2022	4.2%	4.7%	4.8%
December	2022	4.9%	5.0%	4.6%
January	2023	9.5%	8.3%	6.2%
February	2023	12.7%	8.3%	6.4%
March	2023	11.2%	8.0%	6.0%
Average of last 6 data points		8.3%	6.5%	5.6%
Average of 5 data points (excl. most recent)		7.7%	6.3%	5.6%

Table 7: OWA Medical Trend Analysis

NHPRI Fully-Insured Market (IND, SG)				
Medical Only Less COVID Vaccines & Testing: And 3 Year Annualized				
Allowed Medical Claims PMPM		Total Rolling 3 Trend	Total Rolling 6 Trend	Total Rolling 12 Trend
October	2022	4.8%	5.2%	6.0%
November	2022	4.1%	5.2%	5.8%
December	2022	5.4%	5.3%	5.7%
January	2023	5.9%	5.3%	5.7%
February	2023	5.8%	4.9%	5.6%
March	2023	6.1%	5.7%	5.7%
Average of last 6 data points		5.3%	5.3%	5.7%
Average of 5 data points (excl. most recent)		5.2%	5.2%	5.7%

Table 8: OWA Medical Trend Analysis Compared to 2019

We performed a high-level analysis of utilization trends. After adjusting for unit cost changes, or price increases and aging we have estimated utilization & severity trend assumptions ranging from 0.2% to 2.3% using the most recent data (Table 7) and -0.7% to -0.1% using 2019 data (Table 8).³ We also reviewed NHPRI’s plan liability risk score (PLRS) which has been volatile since 2019 and more steady in the recent months. Focusing on the most recent data (Table 7) and adjusting for price and risk score we estimated

³ These ranges were determined by normalizing the data for price trends and changes in the average age factor. We also reviewed the paid to allowed ratios and the metal AV over time. The data suggests very little plan design change and therefore we have made no adjustments to the trend analysis for induced demand.

utilization & severity trends ranging from 1.7% to 5.8%. NHPRI is assuming a 2.4% utilization & severity trend assumption which is in the range of our estimates using the more recent data adjusted for risk scores.

We have also analyzed pharmacy trends. The table below shows a range from 9.9% to 16.6% with the rolling 12-month emerging trends being higher. NHPRI is assuming 12.6%, which is within this range.

NHPRI Fully-Insured Market (IND, SG) Pharmacy Only Less COVID Vaccines & Testing				
Allowed Pharmacy Claims PMPM		Rolling 3 Trend	Rolling 6 Trend	Rolling 12 Trend
October	2022	15.5%	15.4%	8.2%
November	2022	15.5%	15.1%	8.1%
December	2022	17.5%	16.2%	9.6%
January	2023	18.4%	16.9%	11.8%
February	2023	15.9%	15.7%	11.7%
March	2023	12.8%	15.2%	13.0%
Average of last 6 data points		15.9%	15.8%	10.4%
Average of 5 data points (excl. most recent)		16.6%	15.9%	9.9%

Table 9: OWA Pharmacy Trend Analysis

IBNR and Base Experience

NHPRI submits a rate filing which utilizes 2022 base experience paid through March 2023. This data is adjusted for IBNR. During the rate review process, we requested the most recent monthly trend data adjusted for IBNR. This data is paid through April 2023, so it contains more claims run-out than the rate filing data. We also requested a refresh of data paid through May 2023. The allowed medical claims PMPM for CY 2022 was reported as \$301.54 in the rate filing and \$301.70 in the most recent data. The IBNR appears appropriate.

V. Cost Sharing Reduction (CSR) Adjustment

Milliman estimated the CSR adjustment by first projecting the allowed claims for every CSR plan variant. The variation in allowed claims by CSR plan are due to induced demand assumptions which were derived from Milliman’s benefit relativity tool. For example, projected allowed claims for the CSR 94 enrollees is \$505.54 and the projected allowed claims for the CSR 73 enrollees is \$446.25. This is a 13.3% variance. Then, Milliman utilizes its pricing models to calculate the actuarial value (“AV”) for the CSR plans and the AV for the Silver plan offered on Exchange.⁴ For example, the pricing AV for the CSR 94 plan is 94.6% and the pricing AV for the standard Silver plan is 69.6%.⁵ The pricing AVs for CSR plans are applied to the

⁴ The AVs calculated here exclude induced demand assumptions as they are already included in the allowed claims. Milliman uses its benefit relativity models to calculate these AVs

⁵ Note that NHPRI offers two Silver plans on Exchange, one plan has a pricing AV of 68.6% and the other has a pricing AV of 70.4% and the weighted average of the AVs for the two plans using enrolled membership is 69.6%.

allowed claims. This represents the projected actual incurred and paid claims and estimated actual insurer liability. The Silver plan AV is also applied to the allowed claims. This represents the estimated insurer liability if everyone was enrolled in the Silver plan. The difference between these two amounts is the subsidy shortfall estimated at \$98.32 PMPM across CSR enrollees. This shortfall is spread across all the Silver plan enrollees, including those who are not eligible for CSR, resulting in a PMPM of \$92.75. Milliman also estimates the induced demand for the CSR enrollees and includes this as part of the CSR load. The final load is 29.1%. Last year it was 27.7% and the year prior it was 30%. We have also reviewed historical incurred claims and premium for the Silver plan and the ratio of claims to premium appear reasonable suggesting the historical CSR load is reasonable.

VI. COVID-19 Experience

NHPRI has provided COVID-19 costs related to treatment, testing and vaccines. They indicate that their total CY 2022 COVID-19 costs are \$8.80 PMPM. NHPRI has made no reductions in their base experience to account for lower COVID-19 expenses in 2024. Milliman stated “[NHPRI] determined the costs related to treatment, testing, vaccination, and pent-up demand within the 2022 allowed costs and adjusted for 2024 expectations resulted in no net material impact; therefore, [NHPRI] made no adjustments to the 2022 allowed costs to reflect COVID-19.” In addition, when asked why they expect COVID expenses to trend at the same rate as other medical expenses, the response was, “We expect COVID-19 is now part of the infectious disease landscape and will continue in the future much like other flu strains. Therefore, we project forward the base period costs with trend like we do for all other medical services.” NHPRI’s reported CY 2022 COVID-19 expenses also appear much lower than their peers.⁶ For these reasons, we believe NHPRI’s assumptions around COVID-19 is reasonable.

VII. 1332 Waiver (Reinsurance)

NHPRI is assuming a 4.0% reduction in their rates for reinsurance or approximately \$20.29 PMPM recoveries. This is consistent with information provided by HSRI. NHPRI assumed a 4.5% reduction in the prior year.

VIII. Risk Adjustment

NHPRI has assumed a \$32.97 PMPM payable for risk adjustment and a \$1.43 PMPM High-Cost Risk Pool surcharge for a combined payment of \$34.40 PMPM. This translates to approximately \$8.96M in payments or a 6.8% adjustment to the revenue requirement. NHPRI develops their risk adjustment assumption by beginning with an estimated 2022 risk adjustment payout of \$10.3M or \$35.90 PMPM. They then adjust this payout for premium trend from 2022 to 2024 as well as expected increases in morbidity, which will lower the payout. The result is a \$32.97 risk adjustment PMPM or a \$8.6M payout. Their 2024 PMPM estimate is approximately 8% lower than their estimated 2022 numbers. Note that at the time of the submission of the rate filing, the actual 2022 results had not been released. CCIIO released the risk adjustment report on June 30th. The 2022 results indicate a payment of \$11.4M which translates to \$39.76 PMPM. This actual 2022 risk adjustment results are approximately 11% higher than what NHPRI projected.

⁶ Each insurer may define COVID treatment differently and therefore these amounts may not be comparable across insurers

Assumption #2: Revise the 2022 risk adjustment assumption from \$35.90 PMPM to \$39.76 PMPM. This will result in a 2024 risk adjustment assumption of \$36.51 and a \$1.43 HCRP surcharge for a combined payment of \$37.94. This will increase the rate approximately 0.9%.

IX. Morbidity

NHPRI includes a 0.5% adjustment to their projected claims costs for morbidity. NHPRI expects higher costing members to join their ACA plans due to Medicaid redetermination as the public health emergency ends. To develop this assumption, a claims analysis was performed on enrollees who were enrolled in the special enrollment period (SEP) and enrollees who were “passively” enrolled in the CSR 94 and CSR 87 plans. Note, while there is an increase due to morbidity, NHPRI did assume a reduction in risk adjustment payables due to increased morbidity. We have reviewed their calculation as well as claims cost for the SEP and Passive population and the assumption appears reasonable.

X. Projected MLR and Retention Charge

Using the federal definition, excluding adjustments for credibility, NHPRI projects a 2024 MLR of 87.8% which includes a 1% contribution to reserve. NHPRI reports an 81.5% MLR for CY 2020, 83.6% MLR for 2020, and 84.1% MLR for 2022.⁷

The retention charge of a rate includes the administrative expenses, taxes and fees, and the contribution to reserve. NHPRI is proposing an average retention charge of 17.7% for 2024 compared to 17.1% for 2023. The increase is due to an increase in assessments and fees and a reduction in other administrative expenses. NHPRI includes 2.4% in their rates for RI assessments and fees, and last year it was 1.3%. As shown in Table 11, NHPRI is assuming a \$1.14 PMPM Childhood Immunization Assessment and a \$8.51 PMPM Adult Immunization Assessment. Our own calculation results in a \$1.03 PMPM Childhood Immunization and a \$5.98 PMPM Adult Immunization.⁸ When NHPRI was asked about this, they acknowledged that they made an error. NHPRI includes 3.5% for exchange user fees.

Assumption #3: Revise the 2024 immunization assessment from \$9.65 PMPM to \$7.00 which will decrease the rate approximately 0.7%.

⁷ 2022 reported MLR are estimates at the time of the rate filing submission.

⁸ \$24.83 PMPM childhood assessment and 4% of NHPRI's Individual Market are children results in a \$1.03 PMPM charge. \$6.24 PMPM adult assessment and 96% of NHPRI's Individual Market are adults results in a \$5.98 PMPM charge.

Proposed Retention Charge	2024	2023	Change
ACA Taxes and Fees	0.1%	0.1%	0.0%
Premium Tax	2.0%	2.0%	0.0%
Other Retention Charge	0.0%	0.0%	0.0%
Contribution to Reserve (Profit/Risk Load)	1.0%	1.0%	0.0%
Investment Income Credit	-0.1%	-0.1%	-0.1%
Administrative Expense Load	<u>14.8%</u>	<u>14.1%</u>	0.7%
Total Retention Charge	17.7%	17.1%	0.6%

Table 10: Proposed Retention Charge⁹

Assessment	2024 Assumptions		2023 Assumptions	
	PMPM	Premium Impact	PMPM	Premium Impact
Childhood Immunization Account	\$1.14	0.2%	\$0.66	0.1%
Adult Immunization Account	\$8.51	1.7%	\$3.04	0.6%
Children's Health Account	\$0.40	0.1%	\$0.39	0.1%
Care Transformation Collaborative of RI	\$1.34	0.3%	\$1.25	0.3%
Current Care	<u>\$1.03</u>	<u>0.2%</u>	<u>\$1.00</u>	<u>0.2%</u>
Total	\$12.42	2.4%	\$6.34	1.3%

Table 11: RI Assessments

The table below shows the administrative expense PMPM charge for 2023 and 2024. As shown, the PMPM charge increased 2.1% from 2023 to 2024.¹⁰

	NHPRI Individual		
	2024	2023	Admin Charge Trend
Admin Charges			
Admin PMPM	\$62.57	\$61.28	2.1%

Table 12: Administrative PMPM Charge

XI. Financial Position

A review of NHPRI's financial measures show that NHPRI's RBC levels in 2022 are higher than 2017 through 2019. However, their financial strength has been decreasing since 2020 and an RBC ratio lower than 200%

⁹ All state assessments are included in NHPRI's retention charge within the administrative expense load.

¹⁰ From Tab IV Retention Charge, the Taxes, Licenses and Fees (7g) are subtracted from the Administrative Expense Load PMPM reported in row 20 (7).

may trigger regulatory intervention. NHPRI is including a 1% contribution to reserve in its rates this year. Last year, NHPRI included a 3% contribution to reserve.

	NHPRI					
	2022	2021	2020	2019	2018	2017
8. Total Revenues	\$1,634,875,021	\$1,520,834,669	\$1,392,298,811	\$1,345,930,383	\$1,377,747,019	\$1,365,886,563
24. Net Underwriting G/L	\$2,638,932	\$10,313,351	\$21,228,747	-\$2,068,687	\$3,402,842	\$317,266
Underwriting G/L	0.2%	0.7%	1.5%	-0.2%	0.2%	0.0%
49. Capital and Surplus end of reporting year	\$129,171,416	\$126,138,439	\$122,648,134	\$101,607,294	\$101,566,291	\$100,277,569
SAPOR	7.9%	8.3%	8.8%	7.5%	7.4%	7.3%
14. Total Adjusted Capital	\$129,171,418	\$126,138,440	\$122,648,134	\$101,607,297	\$101,566,291	\$100,277,569
15. Authorized control level risk-based capital	\$57,649,243	\$53,359,759	\$48,513,766	\$48,108,549	\$49,588,540	\$47,820,169
RBC	224.1%	236.4%	252.8%	211.2%	204.8%	209.7%

Table 13: Summary of Financials

XII. URRT

We have reviewed the URRT for consistency with the Rhode Island rate template.

XIII. Requested & Final Approved Rates

The table below shows NHPRI's requested rates and final approved rates.

	NHPRI IND		
	Requested	Final Approved	Impact to Rate
2024 Calibrated Plan Adjusted Index Rate (CPAIR)	\$288.38	\$288.38	0.0%
CPAIR Change from 2023	4.4%	4.4%	

Table 14: Requested and Final Approved Rate Change

XIV. Conclusion

This letter communicates our findings regarding our review of NHPRI's individual market rate filings (SERFF tracking number NHRI-133659270.) This letter also communicates the RI Health Insurance Commissioner's final decisions. Distribution of this letter to parties other than RIOHIC by us or any other party does not constitute advice by us to those parties. The reliance of parties other than the RIOHIC on any aspect of our work is not authorized by us and is done at their own risk. In arriving at our findings, we used and relied on information provided by NHPRI. If this information is inaccurate or incomplete, our findings and conclusions may need to be revised. While we have relied on the data provided by the company without independent investigation or verification, we have reviewed the information for consistency and reasonableness. Where we found the data inconsistent or unreasonable, we requested clarification. We have utilized generally accepted actuarial methodologies in arriving at our findings.

This letter includes work based on actuarial analysis conducted by Bela Gorman who is a member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. This letter was peer reviewed by Jenn Smagula who is a member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. They both meet the Academy's Qualification Standards to perform this work.

Sincerely,

A handwritten signature in black ink that reads "Bela Gorman". The signature is written in a cursive style with a horizontal line underneath the name.

Bela Gorman FSA, MAAA

Cc: Jennifer Smagula FSA, MAAA, OWA

Emily Maranjian, Executive Legal Counsel, RIOHIC

Cory King
Acting Health Insurance Commissioner
Office of the Health Insurance Commissioner
State of Rhode Island
1511 Pontiac Ave, Building 69-1
Cranston, RI 02920

13 September 2023

Small Group Market Rate Filing for Blue Cross and Blue Shield of Rhode Island (BCBSRI) for Rates Effective January 1, 2024: Actuarial Review Memo and Final RIOHIC Approved Decisions SERFF Filing #BCBS-133633617

Dear Commissioner King,

At the request of the Rhode Island Office of the Health Insurance Commissioner (RIOHIC), Oliver Wyman Actuarial Consulting, Inc. (OWA) has performed an actuarial review of BCBSRI's small group market rate filing.

I. Rate Filing Process

This actuarial review letter focuses on the review of the filings that were submitted on May 1, 2023. BCBSRI resubmitted a revised filing on June 1st and July 26th. The revised filing included updated rates for specific plans and updates to other information presented in the filing.¹

Throughout the filing process, OWA corresponded with Brian Mackintosh, Michael Bodenrader, and Sarah Bewick of BCBSRI. An actuarial memorandum and certification are included in the filing signed by Sarah Bewick, ASA, MAAA. OWA submitted questions through SERFF on May 18th, June 27th, July 6th, and August 1st. In addition, OWA conducted phone calls with the BCBSRI team. OWA received responses for questions through SERFF. OWA also relied on responses to questions for the BCBSRI individual and large group filings that pertain to BCBSRI small group filing.

OWA provided considerations for alternative assumptions to RIOHIC on August 21, 2023. The RI Health Insurance Commissioner provided preliminary decisions to OWA on August 25, 2023. BCBSRI submitted revised rates on September 6, 2023. This memo summarizes considerations for alternative assumptions as well as decisions approved by the RI Health Insurance Commissioner.

¹ In the June 1st version, BCBSRI revised the "Components of Premium" tab to be consistent with internal expectations of the drivers of the rate change.

II. Considerations for Alternative Assumptions and Final Approved Rate Change

Assumption #1: Revise the annual medical utilization & severity trend assumptions from 1.6% to 1.4%. These assumption changes would decrease the rates by approximately 0.2%.

Assumption #2: Revise the 2022 risk adjustment assumption from \$5.73 PMPM to \$3.74 PMPM, based on the final 2022 risk adjustment report. Also update BCBSRI’s blending methodology to reflect a weighting of 25% on 2021 results and 75% on 2022 results. This will result in a 2024 risk adjustment assumption of \$4.49 PMPM. This results in a 0.2% increase to the rates.

Contribution to Reserve: The RI Health Insurance Commissioner has approved a 0.0% contribution to reserve.

The table below shows BCBSRI’s requested rate change and final approved rate change. Note OWA has estimated how each individual assumption change impacts the overall rate change. Due to the interaction of assumptions, the actual impact may be slightly different due to each insurer’s own pricing models. However, final rate change is not an estimate.

	BCBSRI SG		
	Requested	Final Approved	Impact to Rate
2024 Calibrated Plan Adjusted Index Rate (CPAIR)	\$433.05	\$423.67	-2.2%
Medical Utilization & Severity Trend	1.6%	1.4%	-0.2%
Risk Adjustment PMPM (Receivable)	\$2.86	\$1.63	0.2%
Contribution to Reserves/Profit	2.0%	0.0%	-2.0%
CPAIR Change from 2023	5.8%	3.6%	

Table 1: Requested and Final Approved Rate Change

III. Proposed Rate Changes

There are many definitions of rate changes shown in the rate filing. The changes we focus our review on are the calibrated plan adjusted index rate (CPAIR) average increase.² The CPAIR reflects the average base rate used prior to the adjustments for age. The average is calculated using the most recent membership enrollment by plan offering. This rate change reflects the insurer’s assumptions on member migration from terminated plan offerings to existing plan offerings.

The proposed full year weighted average rate change is 5.8% and for 1Q renewals it is 6.2%. As of March 2023, there were 40,772 members enrolled throughout the year and 14,045 members enrolled in the first

² We also review the PAIR and the PAIR increases. Generally, the increases for the CPAIR and PAIR are similar. The PAIR increases reflect demographic changes in the rating pool from one year to the next.

quarter. For January 1, 2024, BCBSRI is renewing 62 plans, terminating twelve plans, and adding four new plans.

Proposed Rate Change					
Category	Number of Plans	Number of Members	1Q 2023	1Q 2024	Rate Change
			CPAIR PMPM	CPAIR PMPM	
New	4	0	\$0.00	\$0.00	0.0%
Renewal	62	13,232	\$395.06	\$419.08	6.1%
Terminated	<u>12</u>	<u>813</u>	<u>\$382.40</u>	<u>\$410.61</u>	<u>7.4%</u>
Total	78	14,045	\$394.33	\$418.59	6.2%

Table 2: Summary of Rate Changes for 1Q 2024

The average rate change due to plan design changes is -0.7%. Of the 62 renewing plans, 48 plans have no rate impact due to plan design changes and 14 plans revised their plan designs resulting in a reduction in rates ranging from 1% to 5%. These plan design changes were driven by increases in either the deductible or out-of-pocket maximum. BCBSRI's rate increases fluctuate by plan offering ranging from 1.7% to 6.2%. For the two plans with the 1.7% rate change, the rate change is driven by plan design changes of -5%. BCBSRI has not made any changes to their pricing model in their 2024 filing compared to their 2023 filing. The distribution of rate change is shown below.

Proposed Rate Changes					
Rate Change Range	Number of Plans	Number of Members	1Q 2023	1Q 2024	Rate Change
			CPAIR PMPM	CPAIR PMPM	
0% to 1.9%	2	1,123	\$451.92	\$459.60	1.7%
4% to 5.9%	12	2,074	\$296.72	\$310.95	4.8%
6% to 7.9%	48	10,035	\$409.03	\$436.89	6.8%
Total	62	13,232	\$395.06	\$419.08	6.1%

Table 3: Distribution of Rate Change 1Q 2024 for Renewing Plans Only

BCBSRI uses the same quarterly trend factor of 1.017 to develop rates in subsequent quarters. Rate changes vary by plan so the rate changes by quarter will vary due to the distribution of members by plan renewing each quarter. Average proposed rate changes by quarter are shown below.

Renewal Quarter and Year	Proposed Average Rate Change CPAIR	Renewal Membership
1Q 24	6.2%	14,045
2Q 24	5.9%	8,162
3Q 24	5.9%	8,371
4Q 24	5.4%	10,194
Total	5.8%	40,772

Table 4: Average Rate Changes by Renewal Quarter

The 2024 average rate change of 5.8% is driven by these key factors as reported by BCBSRI in Tab V of the RIOHIC rate template:

- 6.6% due to trend
- -4.8% due to overstatement of prior year claims
- 2.2% due to understatement of prior year pharmacy rebates
- 1.6% due to increase in contribution to reserve
- 0.5% due Rhode Island assessments
- -0.3% due to changes in risk adjustment

IV. Experience & Trend Assumptions

A review of actual allowed claims experience shows that actual trends for BCBSRI's small group market was 12.2% from 2020 to 2021 and 2.2% from 2021 to 2022.

Allowed Claims PMPM			
	CY 2020	CY 2021	CY 2022
Inpatient Hospital	\$90.37	\$104.59	\$88.85
Outpatient Hospital	\$131.53	\$148.41	\$151.18
Professional	\$145.39	\$168.81	\$181.85
Other Medical	\$13.09	\$14.33	\$14.92
Capitation	\$0.51	\$0.50	\$0.54
Prescription Drug	<u>\$96.73</u>	<u>\$99.25</u>	<u>\$110.42</u>
Total	\$477.61	\$535.89	\$547.76
Member Months	486,866	488,115	497,551

Allowed Claims PMPM Trend		
	CY 2021	CY 2022
Inpatient Hospital	15.7%	-15.1%
Outpatient Hospital	12.8%	1.9%
Professional	16.1%	7.7%
Other Medical	9.5%	4.1%
Capitation	-1.4%	6.6%
Prescription Drug	<u>2.6%</u>	<u>11.3%</u>
Total	12.2%	2.2%
Member Months Trend	0.3%	1.9%

Table 5: Allowable Claims PMPM and Trend CY 2020 – CY 2022

BCBSRI is assuming an average annual trend assumption of 7.1% which is lower than the trend assumption in last year's rate filing of 7.4%. The table below shows BCBSRI's cost and utilization & severity trend assumptions by service category. BCBSRI is currently assuming a 1.6% medical utilization & severity trend assumption.³ BCBSRI's trend assumption is driven by the unit cost trend component and the pharmacy trend component as shown in the table below.

³ BCBSRI individual, small group, and large group all use the same trend assumptions by service category, but the weights by service category are different which causes total trends to differ slightly. In addition, the small group rate filing Year 2 trend includes an additional month of trend to project to 1Q.

Trend Assumptions			
	2 Year Avg Cost	2 Year Avg Utilization	2 Year Avg Total
Inpatient Hospital	6.4%	-2.5%	3.7%
Outpatient Hospital	5.0%	2.3%	7.4%
Professional	3.1%	2.9%	6.1%
Other Medical	3.1%	2.9%	6.1%
Capitation	0.0%	0.0%	0.0%
Total Medical	4.4%	1.6%	6.1%
Prescription Drug	<u>2.1%</u>	<u>8.5%</u>	<u>10.9%</u>
Total			7.1%

Table 6: Proposed Trend Assumptions

The table below shows BCBSRI’s inpatient hospital outpatient hospital and professional unit cost trend assumptions for 2023 and 2024. On combined inpatient and outpatient basis, the unit cost trend is 5.3% for 2023 and 5.7% for 2024.⁴ BCBSRI has provided a detailed unit cost increase schedule for hospital and the numbers align with the rate filing.

Unit Cost Trend	Year 1 2023	Year 2 2024
Hospital Inpatient	6.3%	6.5%
Outpatient Hospital	4.7%	5.3%
Professional	2.5%	3.7%

Table 7: Unit Cost Trends

BCBSRI utilization & severity trends are developed based on regression analyses across the combined individual, small group, and large group insured markets. BCBSRI provided a series of regression charts by service category: inpatient hospital, outpatient, physician, and pharmacy. For inpatient utilization, regressions are performed on admissions per 1000 with COVID vaccines and testing claims removed. For the other service categories, BCBSRI adjusts allowed claims PMPMs for price, removes COVID testing and vaccine claims, and then performs regression analysis. Due to the impact of COVID-19 on CY 2020 utilization, 2020 data is not used in the regression analysis for the medical service categories. BCBSRI has also adjusted the data for age.

We performed our own trend analysis on BCBSRI’s individual, small group and large group insured data combined. The combined pool represents approximately 122,000 enrollees but the enrollment has ranged from a high of 138,000 enrollees in 2019 to the most recent enrollment of 122,000. We received monthly data from January 2018 through March 2023, adjusted for IBNR, and primarily relied on claims incurred

⁴ The unit cost trends were weighted by the CY 2022 allowed claims PMPM. The small group rate filing Year 2 trend include an additional month of trend to project to 1Q.

through February 2023.⁵ We subtracted out COVID vaccines and testing from the data. We then performed an actuarial trend analysis using the most recent data (Table 6) and also comparing the most recent data from 2023 and 2022 to 2019 (Table 7), due to the impact COVID had on both 2020 and 2021 utilization. As shown annual medical PMPM trends adjusted for COVID vaccines and testing range from 3.2% to 6.8% when comparing results across the two tables. Also note that trends appear to be increasing in the later time periods in both sets of results and it is most dramatic in the results shown in Table 6 in the “Rolling 3 Trend” column.

BCBS Fully-Insured Market (IND, SG, LG)				
Medical Only Less COVID Vaccines & Testing				
Allowed Medical Claims PMPM		Rolling 3 Trend	Rolling 6 Trend	Rolling 12 Trend
October	2022	4.6%	1.3%	3.5%
November	2022	5.2%	1.7%	3.0%
December	2022	2.5%	2.9%	1.8%
January	2023	8.5%	6.6%	3.7%
February	2023	13.0%	9.0%	5.0%
Average of last 5 data points		6.8%	4.3%	3.4%

Table 8: OWA Medical Trend Analysis- Most Recent Trends

BCBS Fully-Insured Market (IND, SG, LG)				
Medical Only Less COVID Vaccines & Testing and Three-Year Annualized				
Allowed Medical Claims PMPM		Total Rolling 3 Trend	Total Rolling 6 Trend	Total Rolling 12 Trend
October	2022	3.5%	2.8%	2.8%
November	2022	4.3%	3.8%	3.0%
December	2022	3.8%	3.6%	2.9%
January	2023	4.5%	4.0%	3.4%
February	2023	4.3%	4.3%	3.9%
Average of last 5 data points		4.1%	3.7%	3.2%

Table 9: OWA Medical Trend Analysis- Most Recent Data Compared to 2019

BCBSRI also provided monthly unit cost trends, therefore we were able to adjust (normalize) the allowed claims PMPM for impacts due to changes in unit costs. This allows us to analyze utilization and severity trends. A summary of the results is shown below, using again both the most recent data (Table 8) and the most recent data compared to 2019 (Table 9). As shown annual medical utilization and severity trends

⁵ The original data provided was paid through March 2023. BCBSRI provided updated monthly medical allowed PMPMs for January through March 2023 paid through June 2023.

adjusted for COVID vaccines and testing, range from 0.4% to 3.3% when comparing results across the two tables. Also note that there is fluctuation in the results from the most recent time period (Table 8) although trends appear to be increasing overall in the later time periods. Trends are more stable in the comparison of 2019 to the most recent data (Table 9).

BCBS Fully-Insured Market (IND, SG, LG)				
Medical Only Less COVID Vaccines & Testing Adjusted for Unit Cost				
Allowed Medical Claims PMPM		Rolling 3 Trend	Rolling 6 Trend	Rolling 12 Trend
October	2022	1.8%	-1.5%	0.8%
November	2022	2.3%	-1.1%	0.2%
December	2022	-0.5%	0.0%	-1.1%
January	2023	4.6%	3.2%	0.6%
February	2023	8.4%	5.2%	1.6%
Average of last 5 data points		3.3%	1.2%	0.4%

Table 10: OWA Medical Trend Analysis- Most Recent Data Utilization & Severity Trends⁶

BCBS Fully-Insured Market (IND, SG, LG)				
Medical Only Less COVID Vaccines & Testing and Three-Year Annualized and Adjusted for Unit Cost				
Allowed Medical Claims PMPM		Total Rolling 3 Trend	Total Rolling 6 Trend	Total Rolling 12 Trend
October	2022	1.5%	0.8%	0.8%
November	2022	2.2%	1.7%	1.0%
December	2022	1.6%	1.5%	0.9%
January	2023	2.0%	1.7%	1.3%
February	2023	1.5%	1.8%	1.6%
Average of last 5 data points		1.7%	1.5%	1.1%

Table 11: OWA Medical Trend Analysis- Most Recent Data Compared to 2019 Utilization & Severity Trends⁷

BCSBRI provided data to show that their age factors have increased 0.4% on average from 2019 to 2022. After accounting for the impact of unit cost and aging, we have determined a utilization & severity trend assumption range from 0% to 2.9% using the most recent data (Table 8) and 0.7% to 1.3% using 2019 data compared to the most recent data (Table 9).⁸ The overall average is 1.1%.

BCBSRI is assuming an annual 1.6% medical utilization & severity trend assumption in this small group filing. BCBSRI individual, small group, and large group all use the same trend assumptions by service category, but

⁶ The utilization & severity trends shown in this table are based on allowed claims PMPMs adjusted for changes in unit cost.

⁷ Ibid.

⁸ These ranges were determined by normalizing for the average change in age factors. We also reviewed the paid to allowed ratios for the past three years and there is little change, suggesting very little plan design changes and therefore we made no adjustments to the trend analysis for induced demand.

the weights by service category are different which causes total trends to differ slightly. In addition, the small group rate filing Year 2 trend includes an additional month of trend to project to 1Q. Consistent with the BCBSRI individual market filing the alternative assumption is based on a reduction of 0.2% to the annual medical utilization & severity trend.

Assumption #1: Revise the annual medical utilization & severity trend assumptions from 1.6% to 1.4%. These assumption changes would decrease the rates by approximately 0.2%.⁹

We also analyzed pharmacy trends. The table below shows a historical pharmacy trend range from 11.4% to 11.9% with trends being fairly stable. BCBSRI is assuming 10.3% which is below this range. BCBSRI stated that their pharmacy trend are developed in conjunction with their pharmacy benefit manager (PBM) and reflect the impact of changes to contracts in future periods and the impact of new drugs.

BCBS Fully-Insured Market (IND, SG, LG)				
Pharmacy Only				
Allowed Pharmacy Claims PMPM		Rolling 3 Trend	Rolling 6 Trend	Rolling 12 Trend
October	2022	13.7%	13.6%	11.7%
November	2022	11.5%	12.0%	11.2%
December	2022	10.1%	10.1%	10.9%
January	2023	11.7%	12.7%	11.9%
February	2023	10.8%	11.2%	11.3%
Average of last 5 data points		11.6%	11.9%	11.4%

Table 12: OWA Pharmacy Trend Analysis

V. COVID-19 Experience

BCBSRI has provided COVID-19 costs related to treatment, testing and vaccines. They indicate that their total CY 2022 COVID-19 costs are \$11.16 PMPM.¹⁰ BCBSRI has made an adjustment of 0.988 to account for the expected reduction of COVID vaccines & testing costs in 2024 compared to 2022, along with an adjustment due to the reinstatement of prior authorizations that were waived during the public health emergency.

VI. Risk Adjustment

BCBSRI has assumed a \$5.71 PMPM receivable for risk adjustment and a \$2.85 PMPM High-Cost Risk Pool surcharge for a combined receipt of \$2.86 PMPM. This translates to approximately \$1.4M in receivables or a 0.4% downward adjustment to the revenue requirement. BCBSRI's estimate is based on an average of

⁹ If BCBSRI were to use a 1.4% annual medical utilization & severity trend in 2023 and 2024 rather than 1.6%, this would decrease trends by approximately 0.2% each year. This is worth 0.4% over the entire projection period. The estimated impact to overall rates is determined assuming medical represents approximately 80% of total claims and that total claims spending represents 82% of total premium.

¹⁰ Each insurer may define COVID treatment differently and therefore these amounts may not be comparable across insurers

the 2021 final PMPM results and the interim 2022 PMPM results (blended equally at 50% each) trended forward using an assumed Rhode Island statewide average premium trend of 0.2% in 2022, and 9.2% in 2023 and 2024.¹¹

The final 2021 risk adjustment PMPM receivable for BCBSRI was \$3.83 PMPM. BCBSRI assumed a 2022 risk adjustment PMPM of \$5.73 based on the 2022 interim report. The final 2022 risk adjustment report, which was released after the rate filings were submitted, shows a risk adjustment receivable of \$3.74. BCBSRI blends its 2021 and 2022 risk adjustment receivables 50/50 to determine their 2024 risk adjustment receivable.

Given the variability in the risk adjustment results, it is reasonable to use more than one year of results to develop the estimates and however it may be more appropriate to weight the 2021 and 2022 results 25% and 75% respectively, rather than 50% and 50%, consistent with the methodology suggested in the individual market report.

Assumption #2: Revise the 2022 risk adjustment assumption from \$5.73 PMPM to \$3.74 PMPM, based on the final 2022 risk adjustment report. Also update BCBSRI's blending methodology to reflect a weighting of 25% on 2021 results and 75% on 2022 results. This will result in a 2024 risk adjustment assumption of \$4.49 PMPM. This results in a 0.2% increase to the rates.

VII. Projected MLR and Retention Charge

Using the federal definition, excluding adjustments for credibility, BCBSRI projects an MLR for 2024 of 85.1% which includes a 2.0% contribution to reserve. BCBSRI reports an MLR of 79.8% for CY 2020, 82.6% MLR for 2021, and 84.7% MLR for 2022.¹²

The retention charge of a rate includes the administrative expenses, taxes and fees, and the contribution to reserve. BCBSRI is proposing an average retention charge of 17.7% for 2024. This is higher than the retention charge from 2023 of 16.8% with the primary driver being the increase in the contribution to reserve assumption and the increase in RI assessments. BCBSRI includes 1.3% in their rates for RI assessments and fees, and last year this amount was 0.9%. The driver of the increase is due to an increase in childhood and adult immunizations. As shown in Table 13, BCBSRI is assuming a \$3.37 PMPM Childhood Immunization Assessment and a \$4.04 PMPM Adult Immunization Assessment. The retention charges shown below do not include exchange user fees, which is 0.5%.

¹¹ The 2022 trend of 0.2% is based on the statewide average from the 2022 interim risk adjustment report compared to the 2021 final risk adjustment report. The 9.2% is the final approved rate change in the 2023 rate filings.

¹² The 2022 MLR reported in the RIOHIC rate filing template does not reflect final 2022 risk adjustment results. There may be other updates to the 2022 MLR that are not reflected in what was reported in the initial rate filing.

Proposed Retention Charge	2024	2023	Change
ACA Taxes and Fees	0.1%	0.1%	0.0%
Premium Tax	2.0%	2.0%	0.0%
Other Retention Charge	1.3%	0.9%	0.4%
Contribution to Reserve (Profit/Risk Load)	2.0%	0.5%	1.5%
Investment Income Credit	-0.3%	-0.1%	-0.2%
Administrative Expense Load	<u>12.6%</u>	<u>13.4%</u>	<u>-0.7%</u>
Total Retention Charge	17.7%	16.8%	0.9%

Table 13: Proposed Retention Charge¹³

Assessment	2024 BCBSRI Assumptions		2023 BCBSRI Assumptions	
	PMPM	Premium Impact	PMPM	Premium Impact
Childhood Immunization Account	\$3.37	0.5%	\$2.03	0.3%
Adult Immunization Account	\$4.04	0.6%	\$2.26	0.4%
Children's Health Account	\$1.29	0.2%	\$1.31	0.2%
Care Transformation Collaborative of RI	\$0.78	0.1%	\$0.66	0.1%
Current Care	<u>\$1.00</u>	<u>0.2%</u>	<u>\$1.00</u>	<u>0.2%</u>
Total	\$10.49	1.6%	\$7.26	1.2%

Table 14: RI Assessments

The table below shows the administrative expense PMPM charge for 2023 and 2024. As shown, the PMPM charge increased 0.0% from 2023 to 2024.¹⁴

Admin Charges	BCBSRI Small Group		
	2024	2023	Admin Charge Trend
Admin PMPM	\$83.99	\$83.99	0.0%

Table 15: Administrative PMPM Charge¹⁵

VIII. Financial Position

A review of BCBSRI's financial measures show that BCBSRI's RBC level in 2022 is 637%. This is lower than the RBC from 2021, but higher than 2018 and on par with the RBC from 2019.

¹³ The Other Retention Charge Line includes the amount for assessments included in retention (Childhood Immunization Account, Adult Immunization Account, and Children's Health Account.) The charges for the Care Transformation Collaborative of RI and Current Care are included in the medical claims portion of the rate.

¹⁴ From Tab IV Retention Charge, Administrative Expense Load PMPM reported in row 20 (7). This includes commissions.

¹⁵ The administrative charge shown here include commissions, exclude assessments, and exclude exchange user fees.

	BCBSRI					
	2022	2021	2020	2019	2018	2017
8. Total Revenues	\$1,883,598,404	\$1,795,520,104	\$1,707,243,198	\$1,698,166,372	\$1,708,865,057	\$1,719,351,097
24. Net Underwriting G/L	\$19,004,861	\$9,239,068	\$7,713,021	\$28,874,085	\$36,858,723	\$8,177,236
Underwriting G/L	1.0%	0.5%	0.5%	1.7%	2.2%	0.5%
49. Capital and Surplus end of reporting year	\$408,954,854	\$434,692,861	\$415,814,234	\$371,583,769	\$298,658,624	\$292,996,877
SAPOR	21.7%	24.2%	24.4%	21.9%	17.5%	17.0%
14. Total Adjusted Capital	\$408,954,583	\$434,692,861	\$415,814,234	\$371,583,769	\$298,658,624	\$292,996,877
15. Authorized control level risk-based capital	\$64,201,018	\$63,315,995	\$58,616,377	\$58,232,394	\$57,430,307	\$58,588,774
RBC	637.0%	686.5%	709.4%	638.1%	520.0%	500.1%

Table 16: Summary of Financials

IX. URRT

I have reviewed the URRT for consistency with the Rhode Island rate template.

X. Requested and Final Approved Rate Change

The table below shows BCBSRI's requested rate change and final approved rate change. Note OWA has estimated how each individual assumption change impacts the overall rate change. Due to the interaction of assumptions, the actual impact may be slightly different due to each insurer's own pricing models. However, the final rate change is not an estimate.

	BCBSRI SG		
	Requested	Final Approved	Impact to Rate
2024 Calibrated Plan Adjusted Index Rate (CPAIR)	\$433.05	\$423.67	-2.2%
Medical Utilization & Severity Trend	1.6%	1.4%	-0.2%
Risk Adjustment PMPM (Receivable)	\$2.86	\$1.63	0.2%
Contribution to Reserves/Profit	2.0%	0.0%	-2.0%
CPAIR Change from 2023	5.8%	3.6%	

Table 17: Requested and Final Approved Rate Change

XI. Data Reliance, Limitations and Qualifications

This letter communicates our findings regarding our review of BCBSRI's small group rate filing (SERFF tracking number BCBS-133633617.) This letter also communicates the RI Health Insurance Commissioner's final decisions. Distribution of this letter to parties other than RIOHIC by us or any other party does not constitute advice by us to those parties. The reliance of parties other than the RIOHIC on any aspect of our

work is not authorized by us and is done at their own risk. In arriving at our findings, we used and relied on information provided by BCBSRI. If this information is inaccurate or incomplete, our findings and conclusions may need to be revised. While we have relied on the data provided by the company without independent investigation or verification, we have reviewed the information for consistency and reasonableness. Where we found the data inconsistent or unreasonable, we requested clarification. We have utilized generally accepted actuarial methodologies in arriving at our findings.

This letter includes work based on actuarial analysis conducted by Jenn Smagula who is a member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. This letter was peer reviewed by Bela Gorman who is a member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. They both meet the Academy's Qualification Standards to perform this work.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Jenn Smagula', written over a faint, light-colored circular stamp or watermark.

Jenn Smagula FSA, MAAA

Cc: Bela Gorman FSA, MAAA, OWA

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13 September 2023

**Small Group Market Rate Filings for Neighborhood Health Plan of Rhode Island (NHPRI) for rates effective January 1, 2024: Actuarial Review Memo and Final RIOHIC Approved Decisions
SERFF Filing #NHRI-133659277**

Dear Commissioner King,

At the request of the Rhode Island Office of the Health Insurance Commissioner (RIOHIC), Oliver Wyman Actuarial Consulting, Inc. (OWA) has performed an actuarial review of NHPRI's small group market rate filings.

I. Rate Filing Process

This actuarial review letter focuses on the review of the filings that were submitted on May 4, 2023. NHPRI resubmitted a revised filing on May 24th. The revised filing included updated assumptions on RI assessments.

Throughout the filing process, OWA corresponded with NHPRI's actuarial consultant, Michelle B. Klein, FSA, MAAA of Milliman Inc. and Elizabeth McClaine of Neighborhood Health Plan. An actuarial memorandum and certification are included in the filing signed by Ms. Klein. OWA submitted questions through SERFF on May 12, May 18, June 5, June 22, July 7, and July 27. ¹ In addition, OWA conducted phone calls with NHPRI's actuarial consultant. OWA received responses for questions through SERFF. OWA also relied on responses to questions for the NHPRI individual market filing that pertain to NHPRI small group filing.

OWA provided considerations for alternative assumptions to RIOHIC on August 12, 2023. The RI Health Insurance Commissioner provided preliminary decisions to OWA on August 25, 2023. This memo

¹ OWA received additional information on August 8th and will request NHPRI to submit this information in SERFF.

summarizes considerations for alternative decisions as well as decisions approved by the RI Health Insurance Commissioner. NHPRI submitted revised rate filings on September 6, 2023.

I. Considerations for Alternative Assumptions and Final Approved Rates

Assumption #1: Revise the Year 2 Hospital Unit Cost trend from 6.2% to 5.9%. This will decrease the rates approximately 0.1%.

Assumption #2: Revise the small group medical base experience using data paid through May 2023. This will decrease the rate approximately 1.2%.²

Assumption #3: Revise the morbidity adjustments to reflect the recent risk adjustment data. This would reduce the adjustment applied to NHPRI's individual market experience from 1.149 to 1.137 and the morbidity adjustment applied to NHPRI's small group market experience would decrease from 1.106 to 1.091. This would reduce the rates by approximately 1.2%.

Assumption #4: Revise the assessments included in the rates for the Childhood Immunization Account and Adult Immunization Account to \$8.60 PMPM. This will increase the rates by approximately 0.2%.

Contribution to Reserve: The RI Health Insurance Commissioner has approved a 0.0% contribution to reserve.

Administrative PMPM Charge: The RI Health Insurance Commissioner has approved a 4.9% administrative charge trend.³

The table below shows NHPRI's requested rates and final approved rate changes. Note OWA has estimated how each individual assumption change impacts the overall rate. Due to the interaction of assumptions, the actual impact may be slightly different due to each insurer's own pricing models. However, final rate change is not an estimate.

² Note, in the memos provided to RIOHIC on August 12, 2023, the estimated impact was originally a rate decrease of 2.4%. However, this calculation was updated which resulted in an impact of 1.2%.

³ The 4.9% is the average of the CPI for all items less food & energy for the months of May (5.3%), June (4.8%), and July (4.7%). [12-month percentage change, Consumer Price Index, selected categories \(bls.gov\)](https://www.bls.gov)

	NHPRI SG		
	Requested	Final Approved	Impact to Rate
2024 Calibrated Plan Adjusted Index Rate (CPAIR)	\$354.48	\$342.99	-3.2%
2022 Base			-1.2%
Individual Market 2022	\$301.54	\$301.54	
Small Group Market 2022	\$263.27	\$253.13	
Year 2 Hospital Cost Trend	6.2%	5.9%	-0.1%
Morbidity Assumption			-1.2%
Individual Market	1.149	1.137	
Small Group Market	1.106	1.091	
Childhood & Adult Immunization Assessment	\$7.77	\$8.60	0.2%
Administrative PMPM Charge*	\$66.75	\$63.03	-0.7%
Contribution to Reserve*	0.5%	0.0%	-0.5%
Annual 2024 CPAIR Rate Change	9.5%	5.9%	

Table 1: Requested and Final Approved Rate Changes⁴

II. Proposed Rate Changes

There are many definitions of rate changes shown in the rate filing. The increases we focus our review on are the calibrated plan adjusted index rate (CPAIR) average change.⁵ The CPAIR reflects the average base rate used prior to the adjustments for age. The average is calculated using the most recent membership enrollment by plan offering. This increase reflects the insurer’s assumptions on member migration from terminated plan offerings to existing plan offerings.

The proposed annual average CPAIR increase is 9.5%. The first quarter rate change is 9.7%. As of April 2023, there were 2,068 members enrolled renewing throughout the year and 720 members renewing in the first quarter. NHPRI is not adding any new plans or discontinuing any plans. NHPRI offers a total of 18 plan offerings. The rate increase varies by plan offering but within a very narrow range between 8% and

⁴ Note, in the memos provided to RIOHIC on August 12, 2023, the requested Childhood & Adult Immunization Assessment was reported as \$7.55PMPM. This has been updated to \$7.77 PMPM. The proposed and revised administrative charge PMPM is calculated using the administrative expense load PMPM reported in Tab IV of the RI Rate Review Template found in cell D20 and subtracting the assessments found in Section IV of this tab.

⁵ We also focus our review on the PAIR and the PAIR increases. Generally, the increases for the CPAIR and PAIR are similar. The PAIR increases reflect demographic changes in the rating pool from one year to the next.

11.9%. This variation is mostly due to plan design changes. NHPRI has made plan design changes which impacts the overall rate change by -0.6%.

Proposed Rate Increases						
Rate Change Range	Number of Plans	Number of Members	2023 CPAIR PMPM	2024 CPAIR PMPM	Rate Change	
less than 0%	0	0	\$0.00	\$0.00	0.0%	
0% to 1.9%	0	0	\$0.00	\$0.00	0.0%	
2% to 3.9%	0	0	\$0.00	\$0.00	0.0%	
4% to 5.9%	0	0	\$0.00	\$0.00	0.0%	
6% to 7.9%	0	0	\$0.00	\$0.00	0.0%	
8% to 9.9%	8	323	\$349.41	\$380.45	8.9%	
10% to 11.9%	10	397	\$285.18	\$315.15	10.5%	
12% or greater	0	0	\$0.00	\$0.00	0.0%	
Total	18	720	\$313.99	\$344.45	9.7%	

Table 2: 1Q Distribution of Rate Increases

The quarterly trend factor is 2.3% and the annual rate change by renewal quarter is shown in the table below.

Renewal Quarter and Year	Proposed Average Rate Change CPAIR	Renewal Membership
1Q 24	9.7%	720
2Q 24	9.6%	457
3Q 24	9.3%	482
4Q 24	9.2%	409
Total	9.5%	2,068

Table 3: Annual Rate Change by Renewal Quarter

The 2024 average rate change of 9.5% is driven by these key factors as reported in Tab V of the RIOHIC rate template:

- 8.0% due to trend
- -1.3% due to pharmacy rebate improvement
- 1.3% due to admin charge

- 0.9% due to increased state assessments

III. Experience & Trend Assumptions

A review of actual allowed claims experience shows that actual trends for NHPRI’s small group market are volatile. The tables below illustrate this volatility. The allowed claims PMPM trend was 35.3% in 2021 and -5.5% in 2022. This is to be expected considering NHPRI’s small group risk pool is small and not credible for trend analysis. In addition, member months increased 6.6% in 2021 and 7.9% in 2022.

Allowed Claims PMPM			
	CY 2020	CY 2021	CY 2022
Inpatient Hospital	\$37.54	\$58.78	\$45.81
Outpatient Hospital	\$59.05	\$106.13	\$107.63
Professional	\$102.00	\$96.20	\$102.66
Other Medical	\$6.58	\$10.10	\$6.26
Capitation	\$2.93	\$1.58	\$0.91
Prescription Drug	<u>\$70.74</u>	<u>\$104.57</u>	<u>\$93.40</u>
Total	\$278.83	\$377.36	\$356.68
Member Months	20,227	21,560	23,267

Allowed Claims PMPM Trend		
	CY 2021	CY 2022
Inpatient Hospital	56.6%	-22.1%
Outpatient Hospital	79.7%	1.4%
Professional	-5.7%	6.7%
Other Medical	53.6%	-38.0%
Capitation	-46.0%	-42.6%
Prescription Drug	<u>47.8%</u>	<u>-10.7%</u>
Total	35.3%	-5.5%
Member Months Trend	6.6%	7.9%

Table 4: Allowable Claims PMPM and Trend CY 2020 – CY 2022⁶

NHPRI is assuming an average annual trend assumption of 9.4% which is higher than what was assumed last year (8.9%) and consistent with what is used in the individual market filing. The table below shows NHPRI’s cost and utilization & severity trend assumptions by service category. NHPRI uses a combination of historical data, utilization assumptions used in past years, and actuarial judgement to determine their utilization & severity assumptions for 2023 and forward. NHPRI is currently assuming a 2.4% medical

⁶ This is based on data paid through March 2023.

utilization and severity trend assumption. NHPRI’s trend assumption is driven by the unit cost trend component and the pharmacy trend component as shown in the table below.

Trend Assumptions			
	2 Year Avg Cost	2 Year Avg Utilization	2 Year Avg Total
Inpatient Hospital	6.8%	1.6%	8.5%
Outpatient Hospital	6.8%	4.0%	11.1%
Professional	3.9%	1.1%	5.1%
Other Medical	4.7%	1.5%	6.3%
Capitation	0.0%	0.0%	0.0%
Total Medical	5.6%	2.4%	8.1%
Prescription Drug	<u>8.5%</u>	<u>3.8%</u>	<u>12.6%</u>
Total			9.4%

Table 5: Annual Trend Assumption

NHPRI’s hospital unit cost trend assumptions are 7.4% for 2023 and 6.2% for 2024. NHPRI has provided a detailed unit cost increase schedule by hospital and the numbers align with the rate filing. NHPRI revises the Rhode Island’s Affordability Standards which are tied to a hospital price cap set by the Rhode Island Office of the Health Insurance Commissioner (RIOHIC) each October. This year, the hospital price cap will be based on the CPI-U (less food and energy) annual increase as of August 2023 or September 2023, increased by 1%. The reported CPI-U for the average of May (5.3%), June (4.8%), and July (4.7%) is 4.9%. Also, note that the CPI-U is decreasing from May to July.

Assumption #1: Revise the Year 2 Hospital Unit Cost trend from 6.2% to 5.9%. This will decrease the rates approximately 0.1%.

Unit Cost Trend	Year 1 2023	Year 2 2024
Hospital Inpatient	7.4%	6.2%
Outpatient Hospital	7.4%	6.2%
Professional	3.7%	4.2%
Other Medical	4.5%	5.0%

Table 6: Unit Cost Trend Assumption

We performed our own trend analysis on NHPRI Individual and Small Group Market data combined. The combined pool represents approximately 24,000 enrollees but the enrollment has ranged from 24,000 to 28,000 over the past two years. We received monthly data from January 2018 through March 2023, paid through April 2023, and adjusted for IBNR. We subtracted out COVID testing and vaccine claims from the data. We then performed an actuarial trend analysis using the most recent data (**Table 7**) and also comparing the most recent data to 2019 data (**Table 8**), due to the impact COVID had on both 2020 and

2021 utilization. A summary of our results is shown below. As shown, annual medical PMPM trends adjusted for COVID expenses range from 5.2% to 7.7% when excluding the latest data point and comparing results across the two tables. Also note that trends appear to be increasing in the later time periods (Table 6) but when comparing to 2019 data, the trends appear stable.

NHPRI Fully-Insured Market (IND, SG)				
Medical Only Less COVID Vaccines & Testing				
Allowed Medical Claims PMPM		Rolling 3 Trend	Rolling 6 Trend	Rolling 12 Trend
October	2022	7.2%	4.9%	5.9%
November	2022	4.2%	4.7%	4.8%
December	2022	4.9%	5.0%	4.6%
January	2023	9.5%	8.3%	6.2%
February	2023	12.7%	8.3%	6.4%
March	2023	11.2%	8.0%	6.0%
Average of last 6 data points		8.3%	6.5%	5.6%
Average of 5 data points (excl. most recent)		7.7%	6.3%	5.6%

Table 7: OWA Medical Trend Analysis

NHPRI Fully-Insured Market (IND, SG)				
Medical Only Less COVID Vaccines & Testing: And 3 Year Annualized				
Allowed Medical Claims PMPM		Total Rolling 3 Trend	Total Rolling 6 Trend	Total Rolling 12 Trend
October	2022	4.8%	5.2%	6.0%
November	2022	4.1%	5.2%	5.8%
December	2022	5.4%	5.3%	5.7%
January	2023	5.9%	5.3%	5.7%
February	2023	5.8%	4.9%	5.6%
March	2023	6.1%	5.7%	5.7%
Average of last 6 data points		5.3%	5.3%	5.7%
Average of 5 data points (excl. most recent)		5.2%	5.2%	5.7%

Table 8: OWA Medical Trend Analysis Compare to 2019

We performed a high-level analysis of utilization trends. After adjusting for unit cost changes, or price increases and aging we have estimated utilization & severity trend assumptions ranging from 0.2% to 2.3%

using the most recent data (**Table 7**) and -0.7% to -0.1% using 2019 data (**Table 8**).⁷ We also reviewed NHPRI’s plan liability risk score (PLRS) which has been volatile since 2019 and more steady in the recent months. Focusing on the most recent data (**Table 7**) and adjusting for price and risk score we estimated utilization & severity trends ranging from 1.7% to 5.8%. NHPRI is assuming a 2.4% utilization & severity trend assumption which is in the range of our estimates using the more recent data adjusted for risk scores. We have also analyzed pharmacy trends. The table below shows a range from 9.9% to 16.6% with the rolling 12-month emerging trends being higher. NHPRI is assuming 12.6%, which is within this range.

NHPRI Fully-Insured Market (IND, SG)				
Pharmacy Only Less COVID Vaccines & Testing				
Allowed Pharmacy Claims PMPM		Rolling 3 Trend	Rolling 6 Trend	Rolling 12 Trend
October	2022	15.5%	15.4%	8.2%
November	2022	15.5%	15.1%	8.1%
December	2022	17.5%	16.2%	9.6%
January	2023	18.4%	16.9%	11.8%
February	2023	15.9%	15.7%	11.7%
March	2023	12.8%	15.2%	13.0%
Average of last 6 data points		15.9%	15.8%	10.4%
Average of 5 data points (excl. most recent)		16.6%	15.9%	9.9%

Table 9: OWA Pharmacy Trend Analysis

IBNR and Base Experience

NHPRI submits a rate filing which utilizes 2022 base experience paid through March 2023. This data is adjusted for IBNR. To increase credibility, NHPRI blends their individual market experience with their small group market experience. During the rate review process, we requested the most recent monthly trend data adjusted for IBNR. This data is paid through May 2023, so it contains more claims run-out than the rate filing data. The table below shows that the more recent data has restated lower than what was used in the rate filing.

⁷ These ranges were determined by normalizing the data for price trends and changes in the average age factor. We also reviewed the paid to allowed ratios and the metal AV over time. The data suggests very little plan design change and therefore we have made no adjustments to the trend analysis for induced demand.

Market	Medical Claims PMPM		Variance
	Paid through March 2023 Rate Filing	Paid through May 2023 Trend Data	
NHPRI IND	\$301.54	\$301.71	0.1%
NHPRI SG	\$263.27	\$253.27	-3.8%

Table 10: Medical Claims Restated ⁸

Assumption #2: Revise the small group medical base experience using data paid through May 2023. This will decrease the rate approximately 1.2%.⁹

IV. COVID-19 Experience

NHPRI has provided COVID-19 costs related to treatment, testing and vaccines. They indicate that their total CY 2022 COVID-19 costs are \$6.11 PMPM. NHPRI has made no reductions in their base experience to account for lower COVID-19 expenses in 2024. Milliman stated that “They determined the costs related to treatment, testing, vaccination, and pent-up demand within the 2022 allowed costs and adjusted for 2024 expectations resulted in no net material impact; therefore, they made no adjustments to the 2022 allowed costs to reflect COVID-19.” In addition, when asked why they expect COVID expenses to trend at the same rate as other medical expenses within their individual market filing, the response was, “We expect COVID-19 is now part of the infectious disease landscape and will continue in the future much like other flu strains. Therefore, we project forward the base period costs with trend like we do for all other medical services.” NHPRI’s reported CY 2022 COVID-19 expenses also appear much lower than their peers.¹⁰ For these reasons, we believe NHPRI’s assumptions concerning COVID-19 is reasonable.

V. Risk Adjustment and Morbidity Adjustment

NHPRI has assumed a 0% adjustment for risk adjustment. NHPRI develops their small group rates assuming the underlying morbidity reflects the entire small group market in Rhode Island. By assuming the average morbidity of the small group market, NHRPI does not need to apply a risk adjustment assumption.

NHPRI develops their claims projections for rate development by blending a projection based on their own small group experience with a projection based on their own individual market experience (“manual rate”). Their small group experience is adjusted for the ratio of the overall RI small group market morbidity to NHPRI’s small group morbidity. The individual market experience is adjusted for the ratio of the overall RI small group market morbidity to NHPRI’s individual market morbidity. Morbidity is defined as plan liability

⁸ NHPRI’s final filing shows a Small Group medical PMPM of \$253.13 as compared to the \$253.27 shown in this table.

⁹ Note, in the memos provided to RIOHIC on August 12, 2023, the estimated impact was originally a rate decrease of 2.4%. However, this calculation was updated which resulted in an impact of 1.2%.

¹⁰ Each insurer may define COVID treatment differently and therefore these amounts may not be comparable across insurers

risk score (PLRS) normalized for the age rating factor.¹¹ The diagram below shows how the morbidity adjustment is calculated.

NHPRI SG Experience Morbidity Adj		NHPRI IND Experience Morbidity Adj	
A	RI SG Plan Liability Risk Score	H	RI SG Plan Liability Risk Score
B	RI SG Age Rating Factor	I	RI SG Age Rating Factor
C=A/B	RI SG Morbidity Factor	J=H/I	RI SG Morbidity Factor
D	NHPRI SG Plan Liability Risk Score	K	NHPRI IND Plan Liability Risk Score
E	NHPRI SG Age Rating Factor	L	NHPRI IND Age Rating Factor
F=D/E	NHPRI SG Morbidity Factor	M=K/L	NHPRI IND Morbidity Factor
G=C/F	Morbidity Adjustment for SG	N = J/M	Morbidity Adjustment for IND

Note that at the time of the submission of the rate filing, the actual 2022 results had not been released. NHPRI had to estimate the PLRS for the RI small group market and for their own markets. NHPRI estimated that the PLRS for the RI small group market would be 1.20. I have recalculated the morbidity adjustment based on the final risk adjustment PLRS information released on June 30th and have estimated that the morbidity adjustment applied to NHPRI’s individual market experience would decrease from 1.149 to 1.137 and the morbidity adjustment applied to NHPRI’s small group market experience would decrease from 1.106 to 1.091.

Assumption #3: Revise the morbidity adjustments to reflect the recent risk adjustment data. This would reduce the adjustment applied to NHPRI’s individual market experience from 1.149 to 1.137 and the morbidity adjustment applied to NHPRI’s small group market experience would decrease from 1.106 to 1.091. This would reduce the rates by approximately 1.2%.

VI. Projected MLR and Retention Charge

Using the federal definition and prior to credibility adjustments, under the proposed rates, NHPRI projects an 87.8% MLR for 2024. NHPRI reports an 80.6%, 107.1%, and 80.7% MLR for CY 2020, 2021, and 2022 respectively.¹²

The retention charge of a rate includes the administrative expenses, taxes and fees, and the contribution to reserve. NHPRI is proposing an average retention charge of 17.8% for 2024 compared to 16.9% for 2023. The table below shows the components of retention. NHPRI has filed a 0.5% contribution to reserve, consistent with the assumption from last year. NHPRI’s administrative expense load has increased from 14.4% to 15.3% which appears to be due to increased state assessments. The table below excludes a 3.5% Exchange User Fee.

¹¹ Plan Liability Risk Score is the risk score calculated by CMS for the Federal risk adjustment program.

¹² 2022 reported MLR are estimates at the time of the rate filing submission.

Proposed Retention Charge	2024	2023	Change
ACA Taxes and Fees	0.1%	0.1%	0.0%
Premium Tax	2.0%	2.0%	0.0%
Other Retention Charge	0.0%	0.0%	0.0%
Contribution to Reserve (Profit/Risk Load)	0.5%	0.5%	0.0%
Investment Income Credit	-0.1%	-0.1%	0.0%
Administrative Expense Load	<u>15.3%</u>	<u>14.4%</u>	<u>0.9%</u>
Total Retention Charge	17.8%	16.9%	0.9%

Table 11: Retention Charges¹³

The table below shows the administrative expense PMPM charge for 2023 and 2024. As shown, the PMPM charge increased 11.4% from 2023 to 2024.¹⁴

	NHPRI Small Group		
Admin Charges	2024	2023	Admin Charge Trend
Admin PMPM	\$66.75	\$59.90	11.4%

Table 12: Administrative PMPM Charges

NHPRI includes \$11.10 PMPM in their administrative expense load for RI assessments and fees. The table below shows the details of the RI assessments and fees. NHPRI calculates \$0.22 PMPM for Childhood Immunization Account and \$7.55 PMPM for Adult Immunization Account for a total of \$7.77 PMPM. We estimate an \$8.60 PMPM.¹⁵ It is unclear how NHPRI calculates these amounts. In addition, NHPRI has reported two different numbers for PMPM assessments in Section I and IV of Tab IV Retention Charge in the Rhode Island Rate Template. It has been verified that the assessments reported in Section IV (\$11.10) are the charges included in the retention charge of the rates.¹⁶

Assumption #4: Revise the assessments included in the rates for the Childhood Immunization Account and Adult Immunization Account to \$8.60 PMPM. This will increase the rates by approximately 0.2%.

¹³ Excludes 3.5% for Exchange User Fee.

¹⁴ From Tab IV Retention Charge, the Taxes, Licenses and Fees (7g) are subtracted from the Administrative Expense Load PMPM reported in row 20 (7). An additional adjustment was made to reflect the correct assessments and fees (\$11.10 vs. \$11.42)

¹⁵ 13% of NHPRI's small group block are children and the assessment is \$24.83 (.13*\$24.83 = \$3.15PMPM). 87% of NHPRI's small group block are adults and the assessment is \$6.24 PMPM (.87*\$6.24=\$5.45 PMPM)

¹⁶ NHPRI reports 11.42 PMPM in Section I and 11.10 in Section IV.

Assessment	2024 NHPRI Assumptions		2023 NHPRI Assumptions	
	PMPM	Premium Impact	PMPM	Premium Impact
Childhood Immunization Account	\$0.22	0.0%	\$1.94	0.4%
Adult Immunization Account	\$7.55	1.5%	\$2.76	0.6%
Children's Health Account	\$1.12	0.2%	\$1.09	0.2%
Care Transformation Collaborative of RI	\$1.18	0.2%	\$0.15	0.0%
Current Care	<u>\$1.03</u>	<u>0.2%</u>	<u>\$1.00</u>	<u>0.2%</u>
Total	\$11.10	2.2%	\$6.94	1.5%

Table 13: RI Assessments

VII. Financial Position

A review of NHPRI's financial measures show that NHPRI's RBC levels in 2022 are higher than 2017 through 2019. However, their financial strength has been decreasing since 2020 and an RBC ratio lower than 200% will trigger regulatory intervention. NHPRI is including a 0.5% contribution to reserve in its rates this year.

	NHPRI					
	2022	2021	2020	2019	2018	2017
8. Total Revenues	\$1,634,875,021	\$1,520,834,669	\$1,392,298,811	\$1,345,930,383	\$1,377,747,019	\$1,365,886,563
24. Net Underwriting G/L	\$2,638,932	\$10,313,351	\$21,228,747	-\$2,068,687	\$3,402,842	\$317,266
Underwriting G/L	0.2%	0.7%	1.5%	-0.2%	0.2%	0.0%
49. Capital and Surplus end of reporting year	\$129,171,416	\$126,138,439	\$122,648,134	\$101,607,294	\$101,566,291	\$100,277,569
SAPOR	7.9%	8.3%	8.8%	7.5%	7.4%	7.3%
14. Total Adjusted Capital	\$129,171,418	\$126,138,440	\$122,648,134	\$101,607,297	\$101,566,291	\$100,277,569
15. Authorized control level risk-based capital	\$57,649,243	\$53,359,759	\$48,513,766	\$48,108,549	\$49,588,540	\$47,820,169
RBC	224.1%	236.4%	252.8%	211.2%	204.8%	209.7%

Table 14: Summary of Financials

VIII. URRT

I have reviewed the URRT for consistency with the Rhode Island rate template. The rates and data are consistent.

IX. Requested and Final Approved Rate Changes

The table below shows NHPRI's requested and final approved rate changes. Note OWA has estimated how each individual assumption change impacts the overall rate. Due to the interaction of assumptions, the actual impact may be slightly different due to each insurer's own pricing models. However, the final rate change is not an estimate.

	NHPRI SG		
	Requested	Final Approved	Impact to Rate
2024 Calibrated Plan Adjusted Index Rate (CPAIR)	\$354.48	\$342.99	-3.2%
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Individual Market 2022	\$301.54	\$301.54	
Small Group Market 2022	\$263.27	\$253.13	
Year 2 Hospital Cost Trend	6.2%	5.9%	-0.1%
Morbidity Assumption			-1.2%
Individual Market	1.149	1.137	
Small Group Market	1.106	1.091	
Childhood & Adult Immunization Assessment	\$7.77	\$8.60	0.2%
Administrative PMPM Charge*	\$66.75	\$63.03	-0.7%
Contribution to Reserve*	0.5%	0.0%	-0.5%
Annual 2024 CPAIR Rate Change	9.5%	5.9%	

Table 15: Requested and Final Approved Rate Changes¹⁷

X. Conclusion

This letter communicates our findings regarding our review of NHPRI’s small group market rate filings (SERFF tracking number NHRI-133659277.) This letter also communicates the RI Health Insurance Commissioner’s final decisions. Distribution of this letter to parties other than RIOHIC by us or any other party does not constitute advice by us to those parties. The reliance of parties other than the RIOHIC on any aspect of our work is not authorized by us and is done at their own risk. In arriving at our findings, we used and relied on information provided by NHPRI. If this information is inaccurate or incomplete, our findings and conclusions may need to be revised. While we have relied on the data provided by the company without independent investigation or verification, we have reviewed the information for consistency and reasonableness. Where we found the data inconsistent or unreasonable, we requested clarification. We have utilized generally accepted actuarial methodologies in arriving at our findings.

This letter includes work based on actuarial analysis conducted by Bela Gorman who is a member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. This letter was peer reviewed by

¹⁷ Note, in the memos provided to RIOHIC on August 12, 2023, the requested Childhood & Adult Immunization Assessment was reported as \$7.55PMPM. This has been updated to \$7.77 PMPM. The proposed and revised administrative charge PMPM is calculated using the administrative expense load PMPM reported in Tab IV of the RI Rate Review Template found in cell D20 and subtracting the assessments found in Section IV of this tab.

Jenn Smagula who is a member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. They both meet the Academy's Qualification Standards to perform this work.

Sincerely,

A handwritten signature in black ink that reads "Bela Gorman". The signature is written in a cursive style with a horizontal line underneath the name.

Bela Gorman FSA, MAAA

Cc: Jennifer Smagula FSA, MAAA, OWA

Emily Maranjian, Executive Lead Counsel, RIOHIC

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State of Rhode Island
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13 September 2023

**Small Group Market Rate Filing for Harvard Pilgrim Health Care of New England, Inc (HPHCNE) for Rates Effective January 1, 2024: Actuarial Review Memo and Final RIOHIC Approved Decisions
SERFF Filing #HPHC-133654011**

Dear Commissioner King,

At the request of the Rhode Island Office of the Health Insurance Commissioner (RIOHIC), Oliver Wyman Actuarial Consulting, Inc. (OWA) has performed an actuarial review of HPHCNE's small group market rate filing.

I. Rate Filing Process

This actuarial review letter focuses on the review of the filings that were submitted by HPHCNE on May 1st and May 22nd of 2023.¹ The revised filing submitted May 22nd included updated rates for two new plans and updates to other information presented in the filing. The requested rate increase remained unchanged from the version submitted May 1st.²

Throughout the filing process, OWA corresponded with HPHCNE's actuary Besart Stavileci FSA, MAAA. An actuarial memorandum and certification are included in the filing signed by Besart Stavileci. OWA submitted questions through SERFF on May 15th, June 14th, June 30th, July 10th, and August 12th. In addition, OWA conducted several phone calls with Mr. Stavileci. OWA received responses for questions through SERFF. OWA also relied on responses to questions for the Harvard Pilgrim Insurance Company

¹ The updated OHIC template submitted on May 22nd was updated for errors in the Manual EHB Allowed Claims, Projected Index Rate, Prescription Drug trend in Tab II, Rate Change due to Plan Design Changes and Cost Sharing & Benefit Factor columns in Tab III, updates to 2 HSA Plans in Tab III due to IRS guidelines released after the initial filing, updates to better reflect trend in the Components of Premium Change Tab V and updates to 2024 premium and claims reflecting a buydown adjustment in Tab VI.

² Rates for two new HSA plans changed in the May 22nd submission due to benefit changes to bring the plans in line with the recently released IRS HSA rules but total average rates and the requested rate increase did not change since these were new plans with no members.

(HPIC) small group filing and the HPHCNE & HPIC large group filing that pertain to HPHCNE small group filing.

From 2009 to 2023, Point32Health has sold commercial health insurance policies in Rhode Island through Tufts Associated Health Maintenance Organization, Inc. (TAHMO) and Tufts Insurance Company, Inc. (TICO), jointly referred to as Tufts Health Plan (THP). Beginning on renewal in 2024, Point32Health is migrating all commercial policies issued in Rhode Island from TAHMO to HPHCNE, and from TICO to HPIC. Effective in 2024, all TAHMO & TICO members are being migrated to HPHC & HPIC plans and there will no longer be TAHMO & TICO rate filings. The 2024 rate filings for HPHCNE and HPIC are filed as renewing blocks of business. All 2023 TAHMO small group plans have been mapped to similar 2024 HPHCNE plans.³ Plan level rate changes, as well as an overall weighted average rate increase, have been calculated based on this mapping and based on March 2023 enrollment in TAHMO plans.

OWA provided considerations for alternative assumptions to RIOHIC on August 21, 2023. The RI Health Insurance Commissioner provided preliminary decisions to OWA on August 25, 2023. HPHCNE submitted revised rates on September 11, 2023. This memo summarizes considerations for alternative assumptions as well as decisions approved by the RI Health Insurance Commissioner.

II. Considerations for Alternative Assumptions and Final Approved Rate Change

Assumption #1: Revise the morbidity adjustment applied to the base experience to 0.931(-6.9%) from the currently filed 0.955 (-4.5%) morbidity adjustment. This change would decrease the rates by approximately 1.4%.⁴

Assumption #2: Revise the rate methodology to a credibility-based approach using a blend of the Massachusetts based manual and the 2022 Rhode Island small group experience. This change would decrease the rates by approximately 0.8%.⁵

Assumption #3: Revise the medical utilization & severity trend assumptions from 2.4% to 2.1% in Year 1 and from 2.2% to 1.9% in Year 2. This assumption change would decrease the rates by approximately 0.4%.

Assumption #4: Revise the assessment calculation to reflect the Rhode Island resident assumption. This changes the assessment PMPM from \$15.18 to \$12.33 and would decrease rates by approximately 0.4%.⁶

³ HPHCNE has terminated 8 plans in 2024 with enrollees mapped to renewing or new plans with similar cost sharing provisions.

⁴ Note in the memos provided to RIOHIC on August 21, 2023, the estimated impact was originally a rate decrease of 1.6%. However, this calculation was updated which resulted in an impact of 1.4%. The -1.4% rate impact for the morbidity adjustment reflects the rate change assuming the credibility blended rate development formula with 63% manual credibility. The rate impact due to the morbidity adjustment change alone using HPHCNE's current rate methodology based on 100% Massachusetts-based adjusted manual experience would be a decrease of 2.2%.

⁵ Note in the memos provided to RIOHIC on August 21, 2023, the estimated impact was originally a rate decrease of 0.9%. However, this calculation was updated which resulted in an impact of 0.8%.

⁶ Note in the memos provided to RIOHIC on August 21, 2023, the estimated impact was originally a rate decrease of 0.5%. However, this calculation was updated which resulted in an impact of 0.4%.

Administrative PMPM Charge: The RI Health Insurance Commissioner has approved a 4.9% administrative charge trend.⁷

In future filings, HPHCNE should review the URRT instructions and reevaluate how they enter data in the URRT.

The table below shows HPHCNE’s requested rates and OWA’s final approved rate changes. Note OWA has estimated how each individual assumption change impacts the overall rate. Due to the interaction of assumptions, the actual impact may be slightly different due to each insurer’s own pricing models. However, the final rate change is not an estimate.

	HPHCNE SG		
	Requested	Final Approved	Impact to Rate
2024 Calibrated Plan Adjusted Index Rate (CPAIR)	\$446.88	\$431.19	-3.5%
Morbidity Adjustment for HPHC SG MA to RI Market	-4.5%	-6.9%	-1.4%
Credibility Blend 37% RI 2022 Experience with MA 2022	n/a	n/a	-0.8%
2023 Medical Utilization Trend	2.4%	2.1%	-0.2%
2024 Medical Utilization Trend	2.2%	1.9%	-0.2%
RI Assessment	\$15.18	\$12.33	-0.4%
Administrative PMPM Charge	\$83.81	\$79.74	-0.6%
Contribution to Reserves/Profit	0.0%	0.0%	0.0%
CPAIR Change from 2023	11.9%	7.9%	

Table 1: HPHCNE Requested and Final Approved Rate Change⁸

III. Proposed Rate Changes

There are many definitions of rate changes shown in the rate filing. The changes we focus our review on are the calibrated plan adjusted index rate (CPAIR) average change.⁹ The CPAIR reflects the average base rate used prior to the adjustments for age. The average is calculated using the most recent membership enrollment by plan offering. This change reflects the insurer’s assumptions on member migration from terminated plan offerings to existing plan offerings.

⁷ The 4.9% is the average of the CPI for all items less food & energy for the months of May (5.3%), June (4.8%), and July (4.7%). [12-month percentage change, Consumer Price Index, selected categories \(bls.gov\)](https://www.bls.gov/charts/percentages/m12umcsls.htm)

⁸ The -1.4% rate impact for the morbidity adjustment reflects the rate change assuming the credibility blended rate development formula with 63% manual credibility. The rate impact due to the morbidity adjustment change alone using HPHCNE’s current rate methodology based on 100% Massachusetts- based adjusted manual experience would be a decrease of 2.2%.

⁹ We also focus our review on the PAIR and the PAIR increases. Generally, the increases for the CPAIR and PAIR are similar. The PAIR increases reflect demographic changes in the rating pool from one year to the next.

In the small group rate filings, insurers file quarterly trend projection factors and therefore rates and rate changes can vary by quarter. Insurers also provide average rate changes by quarter. The focus of our review is the full year 2024 weighted average rate change (annual rate change) using the CPAIRs.

In the rate filing submitted on May 1st, the annual CPAIR change was 11.9% and for 1Q renewals it was 12.3%.

As of March 2023, there were 697 members enrolled throughout the year and 150 members renewing in 1Q. The rate filing includes 38 plans: 24 renewing plans¹⁰, 6 new plans, and 8 terminated plans as of January 1, 2024. As shown in the table below there will be 24 renewing plan offerings and the average proposed increase for first quarter renewals is 12.3%. There are 45 members, or 30% of the current 1Q enrollment, reported in the eight terminated plans. HPHCNE has mapped the enrollees in terminated plans to existing plans with similar cost sharing provisions and this mapping resulted in higher than average increases for the majority of terminated plan enrollees.

Rate changes vary slightly by plan, primarily due to the leveraging impact which is applied at the plan level and plan design changes implemented for some plans. HPHCNE did not make any changes to their pricing model to develop the AV and Cost Sharing values for the 2024 rate filing compared to the Tufts 2023 values.

Category	Number of Plans	Number of Members	2023 CPAIR PMPM	2024 CPAIR PMPM	Rate Change
New	6	0	\$0.00	\$0.00	0.0%
Renewal	24	105	\$381.69	\$422.99	10.8%
Terminated	8	45	\$391.27	\$452.81	15.7%
Total	38	150	\$384.56	\$431.94	12.3%

Table 2: HPHCNE Summary of Plans and Rate Changes for 1Q 2024

Rate Change Range	Number of Plans	Number of Members	2023 CPAIR PMPM	2024 CPAIR PMPM	Rate Change
8% to 9.9%	2	3	\$287.61	\$315.04	9.5%
10% to 11.9%	22	102	\$384.46	\$426.17	10.8%
12% or greater	0	0	\$0.00	\$0.00	0.0%
Total	24	105	\$381.69	\$422.99	10.8%

Table 3: HPHCNE Summary of Rate Changes for Renewing Plans 1Q 2024

There were some plan design changes in 2024 compared to 2023. Most plans have decreases in benefits from changes to out-of-pocket maximums and some plans had changes to various copays to align their

¹⁰ The 24 renewing plans reflect the mapping of former Rhode Island TAHMO plans to similar HPHCNE plans.

HMO and PPO offerings. Rate impacts due to plan changes ranges from -2.4% to +0.1%. The overall rate change due to plan design changes was -0.4%.

HPHCNE uses the same quarterly trend factor of 1.015 to develop rates in subsequent quarters. Rate changes vary slightly by plan so the rate changes by quarter will vary due to the distribution of members by plan renewing each quarter. Average proposed rate changes by quarter are shown below for HPHCNE.

Renewal Quarter and Year	Proposed Average Rate Change CPAIR	Renewal Membership
1Q 24 Renewals	12.3%	150
2Q 24 Renewals	11.2%	135
3Q 24 Renewals	11.9%	164
4Q 24 Renewals	12.0%	248
Total	11.9%	697

Table 4: HPHCNE Average Rate Changes by Quarter

The primary drivers of HPHCNE’s 11.9% annual rate change include:

- 6.7% for trend and leverage
- 2.7% for changes in underlying experience data and rate methodology
- 1.3% for increases in administrative expenses
- 1.0% for mapping of terminated plans
- 0.9% for increases in Rhode Island assessments
- -0.5% for change in Contribution to Reserve

IV. Rate Development Methodology Changes

There are two separate filings for HPHCNE and HPIC. HPHCNE and HPIC report on historical membership and claims experience separately by company, however HPHCNE and HPIC, collectively called “HPHC” in this document, are combined for purposes of rate development with the same Market Adjusted Index Rate. The one key place where the assumptions will vary are the AV and cost sharing factors (unique to each company’s plan designs) which results in different rates. The HPIC PPO products are typically sold alongside the HPHCNE HMO products.

HPHCNE updated their rate development methodology in this 2024 filing from the methodology used for the TAHMO and TICO SG filings in prior years, which was based on a manual rate developed several years ago with trend applied annually. HPHCNE states that their combined HPHCNE & HPIC blocks are still non-credible and volatile, and membership continues to decrease so projected claims are developed relying on the combined CY 2022 experience from the HPHC and HPIC Small Group book of business in Massachusetts.

HPHCNE's 2024 rate development starts with the CY 2022 fee-for-service claim PMPM from the combined Massachusetts HPHC & HPIC small group book of business normalized to an average age rating factor of 1.0 and an average benefit adjustment value of 1.0. Then HPHCNE adjusts the PMPM for differences in morbidity and relative cost between Rhode Island and Massachusetts.

Morbidity Adjustment:

The morbidity adjustment applied to the Massachusetts experience reflects differences between the combined HPHC & HPIC Massachusetts small group book of business and the HPHCNE & HPIC Rhode Island small group market population. This approach produces a HPHCNE rate representative of the RI market average risk. HPHCNE developed the morbidity adjustment as a blend of the following two methods:

1. HPHCNE applied an 80% weight to a morbidity adjustment of .932 based on the ratio of PLRS scores, adjusted to remove the impact of the AV and ARF components, for the Rhode Island small group market compared to the combined HPHC & HPIC Massachusetts market. PLRS scores used were based on Wakely risk adjustment reporting with claims paid through December 2022.
2. HPHCNE applied 20% weight to a morbidity adjustment of 1.045 based on utilization differences between the MA and RI markets using the Milliman HCG Managed Care Rating Model (MCRM).

This results in the filed combined morbidity adjustment applied to the HPHC and HPIC Massachusetts small group claims of 0.955 ($80\% \cdot .932 + 20\% \cdot 1.045$) or -4.5%.

The first approach using adjusted PLRS scores is a reasonable valid method and aligns with the underlying base claim experience to which the adjustment is applied. However, the second approach using the Milliman MCRM is based on a different underlying claim distribution which does not appear to be appropriate without a more detailed alignment of the underlying population characteristics of the model data with the base experience data used.

Therefore, we believe it is reasonable to use the PLRS based morbidity adjustment without blending with the Milliman method. This would result in a morbidity adjustment of 0.932 based on the Wakely risk adjustment data used in the filing. Since the final CMS Risk Adjustment reports were released after HPHCNE submitted the filing, we developed a PLRS based morbidity adjustment similarly to method 1 using the ratio of the PLRS data from the final CMS CY 2022 report for the Rhode Island small group market and the small group PLRS data from HPHC's and HPIC's Massachusetts TPIR reports. Our calculation of the morbidity adjustment using the actual 2022 risk adjustment data is 0.931 or -6.9%.

This change alone would decrease the rates by approximately 2.5% using HPHCNE's current rate formula relying fully on Massachusetts based claims. OWA believes it is reasonable to use a credibility-based approach for rate development, as discussed later in this section, which impacts the savings associated with this morbidity assumption change. Using 63% manual¹¹ credibility and 37% experience credibility offsets a

¹¹ "Manual" refers to HPHCNE's projected claims based on their current methodology relying on Massachusetts claims adjusted to a Rhode Island basis.

portion of the morbidity assumption savings so the change in the morbidity assumption would decrease rates by approximately 1.6% if the credibility blended approach is used for rate development.

Assumption #1: Revise the morbidity adjustment applied to the base experience to 0.931(-6.9%) from the currently filed 0.955 (-4.5%) morbidity adjustment. This change would decrease the rates by approximately 1.4%.¹²

Relative Cost Adjustment:

HPHCNE developed a relative cost adjustment to reflect the expected difference in average provider reimbursement expected for employers sited in RI compared to those located in MA. Using input from the contracting and their Network Performance team, HPHC estimated that the unit cost relativity between HPHC Rhode Island provider contracts and HPHC Massachusetts provider contracts was 0.982. Weighting this relativity by the 62% of claims of RI employers for services from RI providers results in a relative cost adjustment to the MA base experience of .989 (62%*.982+38%*1.0). We were unable to validate this assumption and do not have an alternative relative cost adjustment assumption.

After applying the morbidity and relative cost adjustment, HPHCNE trends the resulting adjusted experience period claims and adjusts for several other factors including COVID-19 and State Assessments (both discussed further below), pharmacy rebates, new RI state mandates, and other non-FFS medical costs including Supplemental Provider Payments. The resulting Total 2024 Projected Claims PMPM is combined with a pediatric dental PMPM and then divided by their age normalization resulting in HPHCNE's 2024 manual claims PMPM.

HPHCNE treats this manual claims PMPM as their Manual EHB Allowed Claims PMPM on the URRT; however, OWA's understanding is that this is not reflective of allowed claims. HPHCNE's rate development uses paid claims instead of allowed claims and plan factors appear to not directly reflect paid to allowed relationships.

In future filings, HPHCNE should review the URRT instructions and reevaluate how they enter data in the URRT.

Credibility-Based Rate Development Approach

HPHCNE provided an alternative analysis to demonstrate what the rates would be if two years of Rhode Island experience (CY 2021 and CY 2022) were used in the rate development. This analysis showed that rates would be 1.7% higher if Rhode Island experience was used for the combined HPHCNE and HPIC block. HPHCNE stated that the relative similarity of rates based on their new Massachusetts based rate development methodology compared to the rates based on RI experience is coincidental and they maintain that developing rates for RI SG using the experience of the RI block is not adequate. Based on last year's analysis, the rates would have been 15% higher if Rhode Island experience was used in the rate development highlighting the volatility. As shown in Table 5 below and in the HPIC memo, HPHCNE and

¹² Note in the memos provided to RIOHIC on August 21, 2023, the estimated impact was originally a rate decrease of 1.6%. However, this calculation was updated which resulted in an impact of 1.4%. The -1.4% rate impact for the morbidity adjustment reflects the rate change assuming the credibility blended rate development formula with 63% manual credibility. The rate impact due to the morbidity adjustment change alone using HPHCNE's current rate methodology based on 100% Massachusetts-based adjusted manual experience would be a decrease of 2.2%.

HPIC membership has decreased significantly in CY 2020, CY 2021, and CY 2022 and the block was small to begin with, leading to volatility in the experience and trends.

OWA believes it is reasonable to develop alternative HPHCNE rates by blending Rhode Island experience with HPHC's Massachusetts-based manual despite the Rhode Island volatility. In HPHCNE's alternative approach discussed above, they used CY 2021 and 2022 experience. Given the membership volatility and the impact that COVID was continuing to have on CY 2021 experience, OWA requested that HPHCNE develop a credibility-based rate using 2022 Rhode Island experience blended with HPHC's Massachusetts based manual experience. HPHCNE submitted an alternative rate development using 37.1% experience credibility blended with 62.9% manual credibility.¹³ We reviewed their alternative rate development which included updated adjustments to 2022 experience and an updated risk adjustment estimate. We do not have all the information to validate each of the adjustments, but the approach and overall results appeared reasonable. The resulting rates were 0.9% lower due to the blending with Rhode Island experience.

Assumption #2: Revise the rate methodology to a credibility-based approach using a blend of the Massachusetts based manual and the 2022 Rhode Island small group experience. This change would decrease the rates by approximately 0.8%.¹⁴

V. Experience & Trend Assumptions

The table below shows a three-year history of allowed claims PMPMs. A review of actual claims experience shows that actual trends for HPHCNE's small group market have increased 7.7% in 2021 and increased 8.6% in 2022. HPHCNE has a fairly small population and their membership significantly decreased from 2020 to 2022, with a reduction of 57% over the two years. This leads to fluctuations in claims trends.

¹³ HPHCNE's 37.1% experience credibility percentage was based on credibility standards assuming 150,000 member months as 100% credible. HPHCNE and HPIC combined has 20,674 member months in 2022. The 37.1% experience credibility was calculated based on a standard actuarial formula using the square root of the ratio of the insurer's member months divided by 150,000.

¹⁴ Note in the memos provided to RIOHIC on August 21, 2023, the estimated impact was originally a rate decrease of 0.9%. However, this calculation was updated which resulted in an impact of 0.8%.

Allowed Claims PMPM			
	CY 2020	CY 2021	CY 2022
Inpatient Hospital	\$92.58	\$87.22	\$110.10
Outpatient Hospital	\$110.67	\$115.78	\$134.84
Professional	\$166.01	\$181.49	\$178.80
Other Medical	\$32.62	\$26.11	\$33.11
Capitation	\$1.16	\$0.95	\$1.10
Prescription Drug	<u>\$77.77</u>	<u>\$106.38</u>	<u>\$104.41</u>
Total	\$480.81	\$517.94	\$562.36
Member Months	29,127	19,749	12,406

Allowed Claims PMPM Trend		
	CY 2021	CY 2022
Inpatient Hospital	-5.8%	26.2%
Outpatient Hospital	4.6%	16.5%
Professional	9.3%	-1.5%
Other Medical	-20.0%	26.8%
Capitation	-17.9%	15.7%
Prescription Drug	<u>36.8%</u>	<u>-1.8%</u>
Total	7.7%	8.6%
Member Months Trend	-32.2%	-37.2%

Table 5: HPHCNE Allowed Claims PMPM and Trends

With the transition from Tufts contracts to Harvard Pilgrim contracts in Rhode Island, HPHCNE's Year 1 pricing trends include a one-time adjustment to account for anticipated medical cost reductions due to provider network re-contracting initiatives to bring the Harvard Pilgrim contracts in line with the existing Tufts level of provider discount. HPHCNE stated that currently the Tufts contracts are more discounted than the HPHC contracts. Since the average trend submitted by HPHCNE includes this one-time cost adjustment, the table below shows the Year 2 trends which are representative of trend assumptions excluding the one-time adjustment for provider network re-contracting. HPHCNE and HPIC small group and large group filings utilize the same underlying trend assumptions.¹⁵

As shown in the table below, HPHCNE is using a 7.2% overall trend assumption.¹⁶ Last year's comparable annual trend assumption was 6.9%.¹⁷ The medical cost trend is 3.5%, compared to 2.4% last year. The

¹⁵ Small group and large group trend assumptions only differ due to the way leverage is reflected and slight rounding differences. Totals may differ due to the use of different weights.

¹⁶ HPHCNE and HPIC small group use the same trend assumptions by service category but totals may differ due to use of different weights.

¹⁷ This 6.9% trend for the prior year is calculated to reflect pharmacy trend gross of rebates. In the 2023 filing, the total trend reported in the RIOHIC template was 4.6% which reflected a -2.9% pharmacy trend net of rebates driven by a one-time adjustment reflecting improved pharmacy rebates due to a change in PBMs in 2023. With HPHCNE's new rate methodology in 2024, trends are now reported gross of pharmacy rebates.

average medical utilization & severity trend is 2.2% which is lower than last year’s assumption of 3.2%. The overall pharmacy trend is 12.5% which compares to an 11.2% trend last year.¹⁸

Trend Assumptions - Year 2			
	Utilization &		
	Cost Trend	Severity Trend	Total Trend
Inpatient Hospital	3.5%	2.2%	5.8%
Outpatient Hospital	3.5%	2.2%	5.8%
Professional	3.5%	2.2%	5.8%
Other Medical	3.5%	2.2%	5.8%
Capitation	3.5%	2.2%	5.8%
Total Medical	3.5%	2.2%	5.8%
Prescription Drug	<u>10.3%</u>	<u>2.0%</u>	<u>12.5%</u>
Total			7.2%

Table 6: HPHCNE Trend Assumptions¹⁹

HPHCNE stated that Rhode Island experience is not credible to use for trend analysis purposes. Medical utilization & severity trends are based on Harvard Pilgrim and Tufts Commercial fully insured Massachusetts data. Specifically, HPHCNE stated that they reviewed HPHC Massachusetts fully insured paid trends and THP Massachusetts fully insured paid trends focusing on key data points from 2019 trend, the two-year annualized trend between 2019 and 2021, and 2022 trends. Medical unit cost trends are developed based on Rhode Island provider contracts and estimates for future changes to those contracts. Pharmacy trends are set in aggregate based on historical utilization, AWP cost increases, changes in AWP discounts from PBM arrangements, and upcoming drug launch pipelines.

We performed our own trend analysis using Harvard Pilgrim and Tufts fully insured Massachusetts claim data provided by HPHC. The combined pool represents approximately 322,000 enrollees but the enrollment has ranged from a high of 380,000 enrollees in 2018 to the most recent enrollment of 322,000. We received monthly data from January 2018 through February 2023, adjusted for IBNR, but since the claims were only paid through February 2023 for the HPHC portion of the data, we primarily relied on claims incurred through January 2023.²⁰ We subtracted out COVID vaccines and testing from the data. We then performed an actuarial trend analysis using the most recent data (Table 7) and also compared the most recent data from 2023 and 2022 to 2019 (Table 8), due to the impact COVID had on both 2020 and 2021 utilization. As shown below, annual allowed medical PMPM trends adjusted for COVID vaccines and

¹⁸Pharmacy trends shown are gross of rebates. In the 2023 filing, HPHCNE reported a -2.9% pharmacy trend net of rebates driven by a one-time adjustment reflecting improved pharmacy rebates due to a change in PBMs in 2023. HPHCNE indicates that the comparable pharmacy trend gross of rebates in 2023 was 11.2%.

¹⁹ Note that these trend assumptions represent the Year 2 trends reported in Tab II of the RIOHIC template. HPHCNE’s reported Year 1 overall trend is 1.5% with medical cost trend of -3.4%, medical utilization & severity trend of 2.4% and total pharmacy trend of 12.6%. Year 1 trends include a one-time decrease in medical unit cost trend to reflect renegotiation of HPHC provider contracts. Average trend applied in HPHCNE’s 2024 rate development blending Year 1 and Year 2 trend is 5.1% with 2.4% medical trend and 12.5% pharmacy trend.

²⁰ HPHCNE submitted Harvard Pilgrim and Tufts Massachusetts data separately. Tufts Massachusetts data was provided through March 2023, paid through April 2023 but Harvard Pilgrim Massachusetts data was only provided through February 2023, paid through February 2023.

testing range from 2.2% to 4.5% when comparing results across the two tables. Also note that trends appear to be increasing in the later time periods and more significantly with the most recent trends shown in Table 7.

Harvard Pilgrim(HPHC & HPIC) and Tufts (TAHMO & TICO) Massachusetts Medical Only Less COVID Vaccines & Testing				
Allowed Medical Claims PMPM		Rolling 3 Trend	Rolling 6 Trend	Rolling 12 Trend
September	2022	1.0%	0.4%	3.9%
October	2022	4.5%	1.6%	3.9%
November	2022	4.1%	1.5%	3.2%
December	2022	3.4%	2.2%	2.4%
January	2023	6.3%	5.4%	3.0%
Average of 5 data points		3.9%	2.2%	3.3%

Table 7: OWA Medical Trend Analysis – Most Recent Trends

Harvard Pilgrim(HPHC & HPIC) and Tufts (TAHMO & TICO) Massachusetts Medical Only Less COVID Vaccines & Testing; 3-Year Annualized				
Allowed Medical Claims PMPM		Total Rolling 3 Trend	Total Rolling 6 Trend	Total Rolling 12 Trend
September	2022	3.7%	3.6%	3.7%
October	2022	4.4%	3.6%	3.7%
November	2022	4.7%	4.1%	3.8%
December	2022	4.6%	4.2%	3.8%
January	2023	5.1%	4.7%	4.1%
Average of 5 data points		4.5%	4.0%	3.8%

Table 8: OWA Medical Trend Analysis – Compared to 2019

We estimated medical utilization and severity trends using their historic allowed claim PMPM data and adjusted for cost trend impacts using calendar year unit cost trends provided by HPHCNE. After adjusting for unit cost changes, or price, we have calculated a utilization & severity trend assumption ranging from 0.5% to 1.1% using the most recent data (Table 7) and 1.0% to 1.7% using the most recent data compared to 2019 data (Table 8).²¹

HPHCNE and HPIC small group allowed medical utilization and severity trend assumptions for the 2014 filing are 2.4% for Year 1 and 2.2% for Year 2. HPHCNE provided the key data points in the table below as support for their assumptions stating that the reasonable range for the paid annualized medical utilization

²¹ We also reviewed HPHC and THP data separately and compared to normalized trend data provided by HPHCNE for the highlighted time periods discussed in the next section and saw that normalized data generally aligned with our own unnormalized data points for the separate HPHC and THP entities so we did not pursue further data for normalization.

and severity trend is 1.5% to 2.5%. Their analysis focused on highlighted normalized paid annual trends from 2019 to 2022 excluding COVID vaccines and testing claims.

	2019	2-year annualized 2021		2022	
	All Claims	All Claims	Without COVID vaccine / testing	All Claims	Without COVID vaccine / testing
HPHC MA	3.4%	2.2%	0.7%	-2.5%	-1.2%
THP MA	1.9%	3.1%	1.6%	-0.5%	0.5%

* Normalized for age, cost sharing (induced utilization), and HCCs above \$250k
* Note that THP 2019 normalized trend is normalized using age and cost sharing factors specific to THP

HPHCNE states they weighted pre-COVID 2019 experience trends more heavily and chose a paid medical utilization and severity trend assumption at the upper end of their range at 2.25%.²²

In addition to using the high end of their range, HPHCNE added 0.25% for Rhode Island volatility for a total paid trend of 2.5% including leveraging or a 2.2% trend on an allowed basis.²³ For 2023 (Year 1) only, HPHCNE added an additional 0.25% to account for high-cost medical gene therapy for a Year 1 medical utilization and severity trend of 2.75% including leveraging or a 2.4% trend on an allowed basis. HPHCNE also noted they were seeing some trend increases in emerging 2023 experience compared to the CY 2022 trends, which is consistent with our analysis.

Comparing OWA’s estimated allowed historic medical utilization and severity trends of 0.5% to 1.7% and the HPHCNE allowed trend assumption of 2.2%, it is reasonable to assume that the heavier weighting of pre-COVID trends combined with the additional 0.25% for volatility drives HPHCNE’s trend choice to a more conservative point than warranted by the data. Considering the volatility in experience during these time frames, we believe it is reasonable to assume trends at the high end of our historic trend analysis range of 1.7% plus an additional 0.2% to account for increases in the 2023 emerging experience, for a total allowed medical utilization and severity trend of 1.9%. Our 1.9% estimate is 0.3% lower than HPHCNE’s allowed trend assumption of 2.2%.²⁴ This 0.3% reduction would change their assumptions from 2.4% to 2.1% in Year 1 and from 2.2% to 1.9% in Year 2. These assumptions better reflect the more current experience and are also more in line with OWA’s alternative assumptions for other insurers.

Assumption #3: Revise the medical utilization & severity allowed trend assumptions from 2.4% to 2.1% in Year 1 and from 2.2% to 1.9% in Year 2. This assumption change would decrease the rates by approximately 0.4%.²⁵

OWA also reviewed the pharmacy trend data and saw that historical experience does not vary significantly from HPHCNE’s trend assumptions so we do not have alternative pharmacy trend assumptions.

²² If HPHCNE weights the three highlighted time periods for the combined HPHC and THP block evenly, the average paid trend is approximately 1.1%. Weighting HPHCNE’s highlighted data points to arrive at a 2.25% trend requires at least 75% weight on the pre-Covid trends which does not appear to weight or reflect the current experience appropriately.

²³ The 2.2% allowed trend reported by HPHCNE appears to be calculated by reducing the paid trend of 2.5% by 0.35% for leveraging for a 2.15% allowed trend and then rounding to 2.2%.

²⁴ HPHCNE assumes a 2.2% allowed medical utilization and severity trend for both Year 1 and Year 2 then adds an additional load in Year 1 only to account for gene therapy costs for a Year 1 allowed medical utilization trend of 2.4%.

²⁵ OWA estimated the rate impact of the change in trend assumptions using HPHCNE’s rate development build-up calculation.

In addition to the allowed trend assumptions discussed above, HPHCNE adds a leverage adjustment into their rates to account for cost sharing leveraging. Since copayments and deductibles do not increase at the same rate as claims cost trends, the share of claims paid for by the insurer increases at a higher rate than total allowed costs. Insurers account for this by applying a leverage adjustment. To estimate this adjustment, HPHCNE used their pricing model to calculate a leverage adjustment for each plan design. HPHCNE’s leverage assumption across all plans is 0.7% and was accounted for in the AV and Cost Sharing factor.

VI. Assessments

HPHCNE includes the cost of assessments for Childhood Immunizations, Adult Immunizations, Children’s Health Account, Care Transformation Collaborative of RI and Current Care in their medical claims projection. Tab IV of the RIOHIC template shows that HPHCNE includes \$15.18 PMPM for these RI assessments as shown in the table below.

Assessment	2024 Assumptions		2023 Assumptions	
	PMPM	Premium Impact	PMPM	Premium Impact
Childhood Immunization Account	\$5.43	0.6%	\$3.24	0.4%
Adult Immunization Account	\$4.87	0.5%	\$2.78	0.3%
Children's Health Account	\$2.29	0.2%	\$2.06	0.2%
Care Transformation Collaborative of RI	\$1.58	0.2%	\$1.49	0.2%
Current Care	<u>\$1.00</u>	<u>0.1%</u>	<u>\$1.00</u>	<u>0.1%</u>
Total	\$15.18	1.7%	\$10.56	1.2%

Table 9: HPHCNE Rhode Island Assessments²⁶

HPHCNE provided a detailed build-up of assessments which indicated that they were applying RI assessment rates to all HPHCNE insured members. Since RI assessments only apply to Rhode Island residents, HPHCNE has overstated the PMPM value for assessments. The revised PMPM charge for the assessments when applying the charge to Rhode Island residents only is \$12.33.²⁷

Assumption #4: Revise the assessment calculation to reflect to the Rhode Island resident assumption. This changes the assessment PMPM from \$15.18 to \$12.33 and would decrease rates by approximately 0.4%.²⁸

VII. COVID Expenses

HPHCNE has provided COVID-19 costs related to treatment, testing and vaccines for their fully insured Rhode Island experience as well as their HPHC and THP fully insured Massachusetts data. HPHCNE’s new rate development methodology adjusts for the differences between the underlying COVID-19 related

²⁶ All RI Assessments are included in HPHCNE’s projected medical claims.

²⁷ In response to OWA’s questions, HPHCNE provided a revised assessment value of \$12.33 based on RI residents, which represent about 86% of the combined HPHCNE and HPIC small group membership.

²⁸ Note in the memos provided to RIOHIC on August 21, 2023, the estimated impact was originally a rate decrease of 0.5%. However, this calculation was updated which resulted in an impact of 0.4%.

claims in their 2022 base experience and the 2024 projected COVID-19 related costs. HPHCNE projects COVID-19 vaccine, testing, and treatment costs to be \$10.13 PMPM in 2024 compared to \$13.36 PMPM in the 2022 Massachusetts HPHC base experience. The net adjustment to projected claims after adjustments between Massachusetts and Rhode Island, trending and normalization is -\$3.44 PMPM.²⁹

VIII. Risk Adjustment

HPHCNE has assumed a 0% adjustment for risk adjustment. HPHCNE's rate development methodology assumes the underlying morbidity reflects the entire small group market in Rhode Island. By assuming the average morbidity of the small group market, HPHC does not need to separately apply a risk adjustment assumption.

For the alternative credibility blended approach discussed in Section IV, HPHCNE provided an estimate of \$48.21 PMPM for risk adjustment for the Rhode Island experience based portion of the alternative rate development. HPHCNE developed the estimate using the 2022 CMS final risk transfer amounts and adjusted the amounts for 2024 model changes based on Wakely analysis and trend. OWA reviewed the final 2022 CMS risk adjustment report and the Wakely analysis for CY 2022 paid through April 2023 and believes HPHCNE's 2024 risk adjustment estimate is reasonable.

IX. Projected MLR and Retention Charge

Using the federal definition and under the proposed rates, HPHCNE projects an 88.9% MLR for 2024.³⁰ HPHCNE reported historical MLRs in Tab VI for TAHMO based on the federal definition of 89.0% for CY 2020 and 89.1% CY 2021.³¹ HPHCNE reported a CY 2022 MLR for TAHMO of 81.6%.³²

The retention charge of a rate includes the administrative expenses, taxes and fees, and the contribution to reserve. HPHCNE proposed an average retention charge of 14.1%. For 2023, the retention charge was 14.7%. The table below shows the components of retention. HPHCNE has proposed a contribution to reserve assumption of 0.0% in 2024 which is a decrease from the 2023 assumption of 0.5%.

²⁹ In response to OWA's questions, HPHCNE provided a revised 2024 projection of COVID-19 vaccine costs from \$3.58 PMPM to \$3.95 PMPM to reflect their revised understanding of how vaccine expenses would be covered under the Rhode Island Vaccine Assessment Program. This would change the net -\$3.44 PMPM adjustment to -\$3.11 PMPM resulting in a slight increase in rates. This revised estimate was submitted by HPHCNE via email to OWA on July 10th 2023.

³⁰ This is coming from Tab VI MLR Exhibit in the RI rate template. This is prior to the credibility adjustment factor.

³¹ Ibid.

³² MLR reported is from filing submitted as of May 22nd and may change due to final risk adjustment or for other updates.

Proposed Retention Charge	2024	2023	Change
ACA Taxes and Fees	0.1%	0.1%	0.0%
Premium Tax	2.0%	2.0%	0.0%
Other Retention Charge	0.0%	0.0%	0.0%
Contribution to Reserve (Profit/Risk Load)	0.0%	0.5%	-0.5%
Investment Income Credit	0.0%	0.0%	0.0%
Administrative Expense Load	<u>12.0%</u>	<u>12.2%</u>	<u>-0.2%</u>
Total Retention Charge	14.1%	14.7%	-0.7%

Table 10: HPHCNE Retention Charges

The table below shows the administrative expense PMPM charge for 2023 and 2024. As shown, the PMPM charge increased 10.3% from 2023 to 2024.

	HPHCNE Small Group		
	2024	2023	Admin Charge Trend
Admin PMPM	\$83.81	\$76.00	10.3%

Table 11: HPHCNE Retention Charges³³

X. Financial Position

A review of TAHMO financial measures show that TAHMO's RBC position has decreased from 712.4% in 2021 to 613.8% in 2022. The underwriting gain/loss was steady at 2% to 3% but decreased to -0.8% in 2021 and has declined further to -1.0% in 2022. The SAPOR³⁴ has decreased from 30.7% in 2021 to 24.0% in 2022.

	TAHMO					
	2022*	2021*	2020	2019	2018	2017
8. Total Revenues	\$2,963,623,714	\$2,773,179,809	\$2,798,892,444	\$2,698,353,911	\$2,581,958,897	\$2,555,327,303
24. Net Underwriting G/L	-\$30,526,018	-\$23,061,853	\$76,576,206	\$64,165,199	\$72,911,770	\$85,992,431
Underwriting G/L	-1.0%	-0.8%	2.7%	2.4%	2.8%	3.4%
49. Capital and Surplus end of reporting year	\$711,733,566	\$852,681,676	\$738,870,321	\$748,323,163	\$642,456,738	\$644,286,474
SAPOR	24.0%	30.7%	26.4%	27.7%	24.9%	25.2%
14. Total Adjusted Capital	\$711,733,566	\$852,681,676	\$738,870,321	\$748,323,162	\$642,456,738	\$644,286,474
15. Authorized control level risk-based capital	\$115,954,780	\$119,693,706	\$121,103,639	\$111,559,193	\$101,285,836	\$93,089,036
RBC	613.8%	712.4%	610.1%	670.8%	634.3%	692.1%

Table 12: TAHMO Financials³⁵

³³ From Tab IV Retention Charge, Section I row 20 item (7).

³⁴ SAPOR is surplus as a percentage of revenue.

³⁵ TAHMO financial data based on amended 2022 financial statement and includes a restatement of 2021 Capital and Surplus and the Authorized control level risk-based capital.

XI. URRT

I have reviewed the rates in the URRT for consistency with the Rhode Island rate template.

XII. Requested and Final Approved Rate Change

The table below shows HPHCNE’s requested and final approved rate changes. Note OWA has estimated how each individual assumption change impacts the overall rate. Due to the interaction of assumptions, the actual impact may be slightly different due to each insurer’s own pricing models. However, the final rate change is not an estimate.

	HPHCNE SG		
	Requested	Final Approved	Impact to Rate
2024 Calibrated Plan Adjusted Index Rate (CPAIR)	\$446.88	\$431.19	-3.5%
Morbidity Adjustment for HPHC SG MA to RI Market	-4.5%	-6.9%	-1.4%
Credibility Blend 37% RI 2022 Experience with MA 2022	n/a	n/a	-0.8%
2023 Medical Utilization Trend	2.4%	2.1%	-0.2%
2024 Medical Utilization Trend	2.2%	1.9%	-0.2%
RI Assessment	\$15.18	\$12.33	-0.4%
Administrative PMPM Charge	\$83.81	\$79.74	-0.6%
Contribution to Reserves/Profit	0.0%	0.0%	0.0%
CPAIR Change from 2023	11.9%	7.9%	

Table 13: HPHCNE Requested and Final Approved Rate Change

XIII. Conclusion

This letter communicates our findings regarding our review of HPHCNE’s small group rate filing (SERFF tracking number HPHC-133654011). This letter also communicates the RI Health Insurance Commissioner’s final decisions. Distribution of this letter to parties other than OHIC by us or any other party does not constitute advice by us to those parties. The reliance of parties other than the OHIC on any aspect of our work is not authorized by us and is done at their own risk. In arriving at our findings, we used and relied on information provided by HPHCNE. If this information is inaccurate or incomplete, our findings and conclusions may need to be revised. While we have relied on the data provided by the company without independent investigation or verification, we have reviewed the information for consistency and reasonableness. Where we found the data inconsistent or unreasonable, we requested clarification. We have utilized generally accepted actuarial methodologies in arriving at our findings.

This letter is based on actuarial review and actuarial analysis conducted by Lynda Johnson and peer reviewed by Jenn Smagula. Lynda Johnson is a member of the American Academy of Actuaries and an Associate of the Society of Actuaries. Jenn is a member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. Jenn meets the qualification standards for reviewing the actuarial analysis represented in this memo.

Sincerely,

A handwritten signature in black ink, appearing to be 'Jenn Smagula', written over a light grey rectangular background.

Jennifer Smagula FSA, MAAA

Cc: Bela Gorman FSA, MAAA, OWA
Lynda Johnson, ASA, MAAA, OWA
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State of Rhode Island
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13 September 2023

**Small Group Market Rate Filing for HPHC Insurance Company, Inc. (HPIC) for Rates Effective January 1, 2024: Actuarial Review Memo and Final RIOHIC Approved Decisions
SERFF Filing #HPHC-133655334**

Dear Commissioner King,

At the request of the Rhode Island Office of the Health Insurance Commissioner (RIOHIC), Oliver Wyman (OWA) has performed an actuarial review of HPIC's small group market rate filing.

I. Rate Filing Process

This actuarial review letter focuses on the review of the filings that were submitted by HPIC on May 1st and May 22nd of 2023.¹ The revised filing submitted May 22nd included updated rates for two plans and updates to other information presented in the filing. The requested rate increase remained unchanged from the version submitted May 1st.²

Throughout the filing process, OWA corresponded with HPIC's actuary Besart Stavileci FSA, MAAA. An actuarial memorandum and certification are included in the filing signed by Besart Stavileci. OWA submitted questions through SERFF on May 15th, June 14th, June 30th, July 10th, and August 12th. In addition, OWA conducted several phone calls with Mr. Stavileci. OWA received responses for questions through SERFF. OWA also relied on responses to questions for the Harvard Pilgrim Health Care of New England, Inc (HPHCNE) small group filing and the HPHCNE & HPIC large group filing that pertain to the HPIC small group filing.

¹ The updated OHIC template submitted on May 22nd was updated for errors in the Manual EHB Allowed Claims, Projected Index Rate, Prescription Drug trend in Tab II, Rate Change due to Plan Design Changes and Cost Sharing & Benefit Factor columns in Tab III, updates to 2 HSA Plans in Tab III due to IRS guidelines released after the initial filing, updates to better reflect trend in the Components of Premium Change Tab V and updates to 2024 premium and claims reflecting a buydown adjustment in Tab VI.

² Rates for two new HSA plans changed in the May 22nd submission due to benefit changes to bring the plans in line with the recently released IRS HSA rules but total average rates and the requested rate increase did not change since these were new plans with no members.

From 2009 to 2023, Point32Health has sold commercial health insurance policies in Rhode Island through Tufts Associated Health Maintenance Organization, Inc. (TAHMO) and Tufts Insurance Company, Inc. (TICO), jointly referred to as Tufts Health Plan (THP). Beginning on renewal in 2024, Point32Health is migrating all commercial policies issued in Rhode Island from TAHMO to HPHCNE, and from TICO to HPIC. Effective in 2024, all TAHMO & TICO members are being migrated to HPHC & HPIC plans and there will no longer be TAHMO & TICO rate filings. The 2024 rate filing for HPHCNE and HPIC is filed as renewing blocks of business. All 2023 TICO small group plans have been mapped to similar 2024 HPIC plans.³ Plan level rate changes, as well as an overall weighted average rate increase, have been calculated based on this mapping and based on March 2023 enrollment in TICO plans.

OWA provided considerations for alternative assumptions to RIOHIC on August 21, 2023. The RI Health Insurance Commissioner provided preliminary decisions to OWA on August 25, 2023. HPHCNE submitted revised rates on September 11, 2023. This memo summarizes considerations for alternative assumptions as well as decisions approved by the RI Health Insurance Commissioner.

II. Considerations for Alternative Assumptions and Final Approved Rate Change

Assumption #1: Revise the morbidity adjustment applied to the base experience to 0.931(-6.9%) from the currently filed 0.955 (-4.5%) morbidity adjustment. This change would decrease the rates by approximately 1.4%.⁴

Assumption #2: Revise the rate methodology to a credibility-based approach using a blend of the Massachusetts based manual and the 2022 Rhode Island small group experience. This change would decrease the rates by approximately 0.8%.⁵

Assumption #3: Revise the medical utilization & severity trend assumptions from 2.4% to 2.1% in Year 1 and from 2.2% to 1.9% in Year 2. This assumption change would decrease the rates by approximately 0.4%.

Assumption #4: Revise the assessment calculation to reflect the Rhode Island resident assumption. This changes the assessment PMPM from \$15.18 to \$12.33 and would decrease rates by approximately 0.4%.⁶

Administrative PMPM Charge: The RI Health Insurance Commissioner has approved a 4.9% administrative charge trend.⁷

³ HPIC has terminated 4 plans in 2024 with enrollees mapped to renewing or new plans with similar cost sharing provisions.

⁴ Note in the memos provided to RIOHIC on August 21, 2023, the estimated impact was originally a rate decrease of 1.6%. However, this calculation was updated which resulted in an impact of 1.4%. The -1.4% rate impact for the morbidity adjustment reflects the rate change assuming the credibility blended rate development formula with 63% manual credibility. The rate impact due to the morbidity adjustment change alone using HPIC's current rate methodology based on 100% Massachusetts-based adjusted manual experience would be a decrease of 2.2%.

⁵ Note in the memos provided to RIOHIC on August 21, 2023, the estimated impact was originally a rate decrease of 0.9%. However, this calculation was updated which resulted in an impact of 0.8%.

⁶ Note in the memos provided to RIOHIC on August 21, 2023, the estimated impact was originally a rate decrease of 0.5%. However, this calculation was updated which resulted in an impact of 0.4%.

⁷ The 4.9% is the average of the CPI for all items less food & energy for the months of May (5.3%), June (4.8%), and July (4.7%). [12-month percentage change, Consumer Price Index, selected categories \(bls.gov\)](https://www.bls.gov)

In future filings, HPIC should review the URRT instructions and reevaluate how they enter data on the URRT.

The table below shows HPIC’s requested rates OWA’s final approved rate changes. Note OWA has estimated how each individual assumption change impacts the overall rate. Due to the interaction of assumptions, the actual impact may be slightly different due to each insurer’s own pricing models. However, the final rate change is not an estimate.

	HPIC SG		
	Requested	Final Approved	Impact to Rate
2024 Calibrated Plan Adjusted Index Rate (CPAIR)	\$485.69	\$469.02	-3.4%
Morbidity Adjustment for HPHC SG MA to RI Market	-4.5%	-6.9%	-1.4%
Credibility Blend 37% RI 2022 Experience with MA 2022	n/a	n/a	-0.8%
2023 Medical Utilization Trend	2.4%	2.1%	-0.2%
2024 Medical Utilization Trend	2.2%	1.9%	-0.2%
RI Assessment	\$15.18	\$12.33	-0.4%
Administrative PMPM Charge	\$91.08	\$87.29	-0.6%
Contribution to Reserves/Profit	0.0%	0.0%	0.0%
CPAIR Change from 2023	11.0%	7.2%	

Table 1: HPIC Requested and Final Approved Rate Change⁸

III. Proposed Rate Changes

There are many definitions of rate changes shown in the rate filing. The changes we focus our review on are the calibrated plan adjusted index rate (CPAIR) average change.⁹ The CPAIR reflects the average base rate used prior to the adjustments for age. The average is calculated using the most recent membership enrollment by plan offering. This change reflects the insurer’s assumptions on member migration from terminated plan offerings to existing plan offerings.

In the small group rate filings, insurers file quarterly trend projection factors and therefore rates and rate changes can vary by quarter. Insurers also provide average rate changes by quarter. The focus of our review is the full year 2024 weighted average rate change (annual rate change) using the CPAIRs.

⁸ The -1.4% rate impact for the morbidity adjustment reflects the rate change assuming the credibility blended rate development formula with 63% manual credibility. The rate impact due to the morbidity adjustment change alone using HPIC’s current rate methodology based on 100% Massachusetts- based adjusted manual experience would be a decrease of 2.2%.

⁹ We also focus our review on the PAIR and the PAIR increases. Generally, the increases for the CPAIR and PAIR are similar. The PAIR increases reflect demographic changes in the rating pool from one year to the next.

In the rate filing submitted on May 1st, the annual CPAIR change was 11.0% and for 1Q renewals it was 11.5%.

As of March 2023, there were 532 members enrolled throughout the year and 207 members renewing in 1Q. The rate filing includes 32 plans: 24 renewing plans¹⁰, 4 new plans, and 4 terminated plans as of January 1, 2024. As shown in the table below there will be 24 renewing plan offerings and the average proposed increase for first quarter renewals is 11.3%.

Rate changes vary slightly by plan, primarily due to the leveraging impact which is applied at the plan level and plan design changes implemented for some plans. HPIC did not make any changes to their pricing model to develop the AV and Cost Sharing values for the 2024 rate filing compared to the Tufts 2023 values.

Rate Change Range	Number of Plans	Number of Members	2023 CPAIR PMPM	2024 CPAIR PMPM	Rate Change
8% to 9.9%	2	0	\$0.00	\$0.00	0.0%
10% to 11.9%	22	201	\$429.69	\$478.36	11.3%
12% or greater	0	0	\$0.00	\$0.00	0.0%
Total	24	201	\$429.69	\$478.36	11.3%

Table 2: HPIC Summary of Plans and Rate Changes for 1Q 2024

Rate Change Range	Number of Plans	Number of Members	2023 CPAIR PMPM	2024 CPAIR PMPM	Rate Change
8% to 9.9%	2	0	\$0.00	\$0.00	0.0%
10% to 11.9%	22	201	\$429.69	\$478.36	11.3%
12% or greater	0	0	\$0.00	\$0.00	0.0%
Total	24	201	\$429.69	\$478.36	11.3%

Table 3: HPIC Summary of Rate Changes for Renewing Plans 1Q 2024

There were some plan design changes in 2024 compared to 2023. Most plans have decreases in benefits from changes to out-of-pocket maximums and some plans had changes to various copays to align their HMO and PPO offerings. Rate impacts due to plan changes ranges from -2.0% to +0.3%. The overall rate change due to plan design changes was 0.0%.

HPIC uses the same quarterly trend factor of 1.015 to develop rates in subsequent quarters. Rate changes vary slightly by plan so the rate changes by quarter will vary due to the distribution of members by plan renewing each quarter. Average proposed rate changes by quarter are shown below for HPIC.

¹⁰ The 24 renewing plans reflect the mapping of former Rhode Island TICO plans to similar HPIC plans.

Renewal Quarter and Year	Proposed Average Rate Change CPAIR	Renewal Membership
1Q 24 Renewals	11.3%	207
2Q 24 Renewals	11.0%	94
3Q 24 Renewals	10.6%	111
4Q 24 Renewals	11.1%	120
Total	11.0%	532

Table 4: HPIC Average Rate Changes by Quarter

The primary drivers of HPIC’s 11.0% annual rate change include:

- 6.7% for trend and leverage
- 2.7% for changes in underlying experience data and rate methodology
- 1.2% for increases in administrative expenses
- 0.8% for increases in Rhode Island assessments
- -0.5% for change in Contribution to Reserve

IV. Rate Development Methodology Changes

There are two separate filings for HPHCNE and HPIC. HPHCNE and HPIC report on historical membership and claims experience separately by company, however HPHCNE and HPIC, collectively called “HPHC” in this document, are combined for purposes of rate development with the same Market Adjusted Index Rate. The one key place where the assumptions will vary are the AV and cost sharing factors (unique to each company’s plan designs) which results in different rates. The HPIC PPO products are typically sold alongside the HPHCNE HMO products.

HPIC updated their rate development methodology in this 2024 filing from the methodology used for the TAHMO and TICO SG filings in prior years, which was based on a manual rate developed several years ago with trend applied annually. HPIC states that their combined HPHCNE & HPIC blocks are still non-credible and volatile, and membership continues to decrease so projected claims are developed relying on the combined CY 2022 experience from the HPHC and HPIC Small Group book of business in Massachusetts.

HPIC’s 2024 rate development starts with the CY 2022 fee-for-service claim PMPM from the combined Massachusetts HPHC & HPIC small group book of business normalized to an average age rating factor of 1.0 and an average benefit adjustment value of 1.0. Then HPHC adjusts the PMPM for differences in morbidity and relative cost between Rhode Island and Massachusetts.

Morbidity Adjustment:

The morbidity adjustment applied to the Massachusetts experience reflects differences between the combined HPHC & HPIC Massachusetts small group book of business and the HPHCNE & HPIC Rhode Island small group market population. This approach produces a HPIC rate representative of the RI market average risk. HPIC developed the morbidity adjustment as a blend of the following two methods:

1. HPIC applied an 80% weight to a morbidity adjustment of .932 based on the ratio of PLRS scores, adjusted to remove the impact of the AV and ARF components, for the Rhode Island small group market compared to the combined HPHC & HPIC Massachusetts market. PLRS scores used were based on Wakely risk adjustment reporting with claims paid through December 2022.
2. HPIC applied 20% weight to a morbidity adjustment of 1.045 based on utilization differences between the MA and RI markets using the Milliman HCG Managed Care Rating Model (MCRM).

This results in the filed combined morbidity adjustment applied to the HPHC and HPIC Massachusetts small group claims of 0.955 ($80\% \times .932 + 20\% \times 1.045$) or -4.5%.

The first approach using adjusted PLRS scores is a reasonable valid method and aligns with the underlying base claim experience to which the adjustment is applied. However, the second approach using the Milliman MCRM is based on a different underlying claim distribution which does not appear to be appropriate without a more detailed alignment of the underlying population characteristics of the model data with the base experience data used.

Therefore, we believe it is reasonable to use the PLRS based morbidity adjustment without blending with the Milliman method. This would result in a morbidity adjustment of 0.932 based on the Wakely risk adjustment data used in the filing. Since the final CMS Risk Adjustment reports were released after HPIC submitted the filing, we developed a PLRS based morbidity adjustment similarly to method 1 using the ratio of the PLRS data from the final CMS CY 2022 report for the Rhode Island small group market and the small group PLRS data from HPHC's and HPIC's Massachusetts TPIR reports. Our calculation of the morbidity adjustment using the actual 2022 risk adjustment data is 0.931 or -6.9%.

This change alone would decrease the rates by approximately 2.5% using HPIC's current rate formula relying fully on Massachusetts based claims. OWA believes it is reasonable to use a credibility-based approach for rate development, as discussed later in this section, which impacts the savings associated with this morbidity assumption change. Using 63% manual¹¹ credibility and 37% experience credibility offsets a portion of the morbidity assumption savings so the change in the morbidity assumption would decrease rates by approximately 1.6% if the credibility blended approach is used for rate development.

¹¹ "Manual" refers to HPIC's projected claims based on their current methodology relying on Massachusetts claims adjusted to a Rhode Island basis.

Assumption #1: Revise the morbidity adjustment applied to the base experience to 0.931(-6.9%) from the currently filed 0.955(-4.5%) morbidity adjustment. This change would decrease the rates by approximately 1.4%.¹²

Relative Cost Adjustment:

HPIC developed a relative cost adjustment to reflect the expected difference in average provider reimbursement expected for employers sited in RI compared to those located in MA. Using input from the contracting and their Network Performance team, HPHC estimated that the unit cost relativity between HPHC Rhode Island provider contracts and HPHC Massachusetts provider contracts was 0.982. Weighting this relativity by the 62% of claims of RI employers for services from RI providers results in a relative cost adjustment to the MA base experience of .989 (62%*.982+38%*1.0). We were unable to validate this assumption and do not have an alternative relative cost adjustment assumption.

After applying the morbidity and relative cost adjustment, HPIC trends the resulting adjusted experience period claims and adjusts for several other factors including COVID-19 and State Assessments (both discussed further below), pharmacy rebates, new RI state mandates, and other non-FFS medical costs including Supplemental Provider Payments. The resulting Total 2024 Projected Claims PMPM is combined with a pediatric dental PMPM and then divided by their age normalization resulting in HPIC's 2024 manual claims PMPM.

HPIC treats this manual claims PMPM as their Manual EHB Allowed Claims PMPM on the URRT; however, OWA's understanding is that this is not reflective of allowed claims. HPIC's rate development uses paid claims instead of allowed claims and plan factors appear to not directly reflect paid to allowed relationships.

In future filings, HPIC should review the URRT instructions and reevaluate how they enter data in the URRT.

Credibility-Based Rate Development Approach

HPIC provided an alternative analysis to demonstrate what the rates would be if two years of Rhode Island experience (CY 2021 and CY 2022) were used in the rate development. This analysis showed that rates would be 1.7% higher if Rhode Island experience was used for the combined HPHCNE and HPIC block. HPIC stated that the relative similarity of rates based on their new rate development methodology compared to the rates based on RI experience is coincidental and they maintain that developing rates for RI SG using the experience of the block is not adequate. Based on last year's analysis, the rates would have been 15% higher if Rhode Island experience was used in the rate development highlighting the volatility. As shown below and in the HPHCNE memo, HPHCNE and HPIC membership has decreased significantly in CY 2020, CY 2021, and CY 2022 and the block was small to begin with, leading to volatility in the experience and trends.

OWA believes it is reasonable to develop alternative HPIC rates by blending Rhode Island experience with HPHC's Massachusetts-based manual despite the Rhode Island volatility. In HPIC's alternative approach

¹² Note in the memos provided to RIOHIC on August 21, 2023, the estimated impact was originally a rate decrease of 1.6%. However, this calculation was updated which resulted in an impact of 1.4%. The -1.4% rate impact for the morbidity adjustment reflects the rate change assuming the credibility blended rate development formula with 63% manual credibility. The rate impact due to the morbidity adjustment change alone using HPIC's current rate methodology based on 100% Massachusetts-based adjusted manual experience would be a decrease of 2.2%.

discussed above, they used CY 2021 and 2022 experience. Given the membership volatility and the impact that COVID was continuing to have on CY 2021 experience, OWA requested that HPIC develop a credibility-based rate using 2022 Rhode Island experience blended with HPHC's Massachusetts based manual experience. HPIC submitted an alternative rate development using 37.1% experience credibility blended with 62.9% manual credibility.¹³ We reviewed their alternative rate development which included updated adjustments to 2022 experience and an updated risk adjustment estimate. We do not have all the information to validate each of the adjustments, but the approach and overall results appeared reasonable. The resulting rates were 0.9% lower due to the blending of Rhode Island experience.

Assumption #2: Revise the rate development methodology to a credibility-based approach using a blend of the Massachusetts based manual and the 2022 Rhode Island small group experience. This change would decrease rates by approximately 0.8%.¹⁴

V. Experience & Trend Assumptions

The table below shows a three-year history of allowed claims PMPMs. A review of actual claims experience shows that actual trends for HPIC's small group market have increased 26.0% in 2021 and decreased 17.5% in 2022. HPIC has a fairly small population and their membership significantly decreased from 2020 to 2022, with a reduction of 50% over the two years. This leads to fluctuations in claims trends.

¹³ HPIC's 37.1% experience credibility percentage was based on credibility standards assuming 150,000 member months as 100% credible. HPHCNE and HPIC combined has 20,674 member months in 2022. The 37.1% experience credibility was calculated based on a standard actuarial formula using the square root of the ratio of the insurer's member months divided by 150,000.

¹⁴ Note in the memos provided to RIOHIC on August 21, 2023, the estimated impact was originally a rate decrease of 0.9%. However, this calculation was updated which resulted in an impact of 0.8%.

Allowed Claims PMPM			
	CY 2020	CY 2021	CY 2022
Inpatient Hospital	\$103.74	\$117.78	\$52.22
Outpatient Hospital	\$116.48	\$185.04	\$118.07
Professional	\$177.74	\$198.49	\$209.91
Other Medical	\$19.52	\$24.46	\$24.06
Capitation	\$0.00	\$0.00	\$0.00
Prescription Drug	<u>\$100.53</u>	<u>\$127.12</u>	<u>\$134.10</u>
Total	\$518.01	\$652.89	\$538.36
Member Months	16,559	10,579	8,268

Allowed Claims PMPM Trend		
	CY 2021	CY 2022
Inpatient Hospital	13.5%	-55.7%
Outpatient Hospital	58.9%	-36.2%
Professional	11.7%	5.8%
Other Medical	25.3%	-1.7%
Capitation	0.0%	0.0%
Prescription Drug	<u>26.5%</u>	<u>5.5%</u>
Total	26.0%	-17.5%
Member Months Trend	-36.1%	-21.8%

Table 5: HPIC Allowed Claims PMPM and Trends

With the transition from Tufts contracts to Harvard Pilgrim contracts in Rhode Island, HPIC’s Year 1 pricing trends include a one-time adjustment to account for anticipated medical cost reductions due to provider network re-contracting initiatives to bring the Harvard Pilgrim contracts in line with the existing Tufts level of provider discount. HPIC stated that currently the Tufts contracts are more discounted than the HPHC contracts. Since the average trend submitted by HPIC includes this one-time cost adjustment, the table below shows the Year 2 trends which are representative of trend assumptions excluding the one-time adjustment for provider network re-contracting. HPHCNE and HPIC small group and large group filings utilize the same underlying trend assumptions.¹⁵

As shown in the table below, HPIC is using a 7.6% overall trend assumption.¹⁶ Last year’s comparable annual trend assumption was 6.8%.¹⁷ The medical cost trend is 3.5%, compared to 2.4% last year. The

¹⁵ Small group and large group trend assumptions only differ due to the way leverage is reflected and slight rounding differences. Totals may differ due to the use of different weights.

¹⁶ HPHCNE and HPIC small group use the same trend assumptions by service category but totals may differ due to use of different weights.

¹⁷ This 6.8% trend for the prior year is calculated to reflect pharmacy trend gross of rebates. In the 2023 filing, the total trend reported on the RIOHIC template was 4.0% which reflected a -2.9% pharmacy trend net of rebates driven by a one-time adjustment reflecting improved pharmacy rebates due to a change in PBMs in 2023. With HPIC’s new rate methodology in 2024, trends are now reported gross of pharmacy rebates.

average medical utilization & severity trend is 2.2% which is lower than last year’s assumption of 3.2%. The overall pharmacy trend is 12.5% which compares to an 11.2% trend last year.¹⁸

Trend Assumptions - Year 2			
	Cost Trend	Utilization & Severity Trend	Total Trend
Inpatient Hospital	3.5%	2.2%	5.8%
Outpatient Hospital	3.5%	2.2%	5.8%
Professional	3.5%	2.2%	5.8%
Other Medical	3.5%	2.2%	5.8%
Capitation	3.5%	2.2%	5.8%
Total Medical	3.5%	2.2%	5.8%
Prescription Drug	<u>10.3%</u>	<u>2.0%</u>	<u>12.5%</u>
Total			7.6%

Table 6: HPIC Trend Assumptions¹⁹

HPIC stated that Rhode Island experience is not credible to use for trend analysis purposes. Medical utilization & severity trends are based on Harvard Pilgrim and Tufts Commercial Fully Insured Massachusetts data. Specifically, HPIC stated that they reviewed HPHC Massachusetts Fully Insured trends and THP Massachusetts Fully Insured trends focusing on key data points from 2019 trend, the two-year annualized trend between 2019 and 2021, and 2022 trends. Medical unit cost trends are developed based on Rhode Island provider contracts and estimates for future changes to those contracts. Pharmacy trends are set in aggregate based on historical utilization, AWP cost increases, changes in AWP discounts from PBM arrangements, and upcoming drug launch pipelines.

We performed our own trend analysis on Harvard Pilgrim and Tufts Fully Insured Massachusetts claim data provided by HPHC. The combined pool represents approximately 322,000 enrollees but the enrollment has ranged from a high of 380,000 enrollees in 2018 to the most recent enrollment of 322,000. We received monthly data from January 2018 through February 2023, adjusted for IBNR, but since the claims were only paid through February 2023 for the HPHC portion of the data, we primarily relied on claims incurred

¹⁸Pharmacy trends shown are gross of rebates. In the 2023 filing, HPIC reported a -2.9% pharmacy trend net of rebates driven by a one-time adjustment reflecting improved pharmacy rebates due to a change in PBMs in 2023. HPIC indicates that the comparable pharmacy trend gross of rebates in 2023 was 11.2%.

¹⁹ Note that these trend assumptions represent the Year 2 trends reported in Tab II of the RIOHIC template. HPIC’s reported Year 1 overall trend is 2.3% with medical cost trend of -3.4%, medical utilization & severity trend of 2.4% and total pharmacy trend of 12.6%. Year 1 trends include a one-time decrease in medical unit cost trend to reflect renegotiation of HPHC provider contracts. Average trend applied in HPIC’s 2024 rate development blending Year 1 and Year 2 trend is 5.1% with 2.4% medical trend and 12.5% pharmacy trend.

through January 2023.²⁰ We subtracted out COVID vaccines and testing from the data. We then performed an actuarial trend analysis using the most recent data (Table 7) and also compared the most recent data from 2023 and 2022 to 2019 (Table 8), due to the impact COVID had on both 2020 and 2021 utilization. As shown below, annual medical PMPM trends adjusted for COVID vaccines and testing range from 2.2% to 4.5% when comparing results across the two tables. Also note that trends appear to be increasing in the later time periods and more significantly with the most recent trends shown in Table 7.

Harvard Pilgrim(HPHC & HPIC) and Tufts (TAHMO & TICO) Massachusetts Medical Only Less COVID Vaccines & Testing				
Allowed Medical Claims PMPM		Rolling 3 Trend	Rolling 6 Trend	Rolling 12 Trend
September	2022	1.0%	0.4%	3.9%
October	2022	4.5%	1.6%	3.9%
November	2022	4.1%	1.5%	3.2%
December	2022	3.4%	2.2%	2.4%
January	2023	6.3%	5.4%	3.0%
Average of 5 data points		3.9%	2.2%	3.3%

Table 7: OWA Medical Trend Analysis – Most Recent Trends

Harvard Pilgrim(HPHC & HPIC) and Tufts (TAHMO & TICO) Massachusetts Medical Only Less COVID Vaccines & Testing; 3-Year Annualized				
Allowed Medical Claims PMPM		Total Rolling 3 Trend	Total Rolling 6 Trend	Total Rolling 12 Trend
September	2022	3.7%	3.6%	3.7%
October	2022	4.4%	3.6%	3.7%
November	2022	4.7%	4.1%	3.8%
December	2022	4.6%	4.2%	3.8%
January	2023	5.1%	4.7%	4.1%
Average of 5 data points		4.5%	4.0%	3.8%

Table 8: OWA Medical Trend Analysis – Compared to 2019

We estimated utilization and severity trends using their historic allowed claim PMPM data and adjusted for cost trend impacts using calendar year unit cost trends provided by HPIC. After adjusting for unit cost changes, or price, we have calculated a utilization & severity trend assumption ranging from 0.5% to 1.1% using the most recent data (Table 7) and 1.0% to 1.7% using 2019 data (Table 8).²¹

²⁰ HPIC submitted Harvard Pilgrim and Tufts Massachusetts data separately. Tufts Massachusetts data was provided through March 2023, paid through April 2023 but Harvard Pilgrim Massachusetts data was only provided through February 2023, paid through February 2023.

²¹ We also reviewed HPHC and THP data separately and compared to normalized trend data provided by HPIC for the highlighted time periods discussed in the next section and saw that normalized data generally aligned with our own unnormalized data points for the separate HPHC and THP entities so we did not pursue further data for normalization.

HPHCNE and HPIC small group allowed medical utilization and severity trend assumptions for the 2014 filing are 2.4% for Year 1 and 2.2% for Year 2. HPIC provided the key data points in the table below as support for their assumptions stating that the reasonable range for the annualized medical utilization and severity trend is 1.5% to 2.5%. Their analysis focused on highlighted normalized annual trends from 2019 to 2022 excluding COVID vaccines and testing claims.

Historic Normalized Utilization / Mix Trends*						
	2019		2-year annualized 2021		2022	
	All Claims	All Claims	Without COVID vaccine / testing	All Claims	Without COVID vaccine / testing	
HPHC MA	3.4%	2.2%	0.7%	-2.5%	-1.2%	
THP MA	1.9%	3.1%	1.6%	-0.5%	0.5%	

* Normalized for age, cost sharing (induced utilization), and HCCs above \$250k
* Note that THP 2019 normalized trend is normalized using age and cost sharing factors specific to THP

HPIC states they weighted pre-COVID 2019 experience trends more heavily and chose a paid medical utilization and severity trend assumption at the upper end of their range at 2.25%.²²

In addition to using the high end of their range, HPIC added 0.25% for Rhode Island volatility for a total paid trend of 2.5% including leveraging or a 2.2% trend on an allowed basis.²³ For 2023(Year 1) only, HPIC added an additional 0.25% to account for high-cost medical gene therapy for a Year 1 utilization and severity trend of 2.75% including leveraging or a 2.4% trend on an allowed basis. HPIC also noted they were seeing some trend increases in emerging 2023 experience compared to the CY 2022 trends, which is consistent with our analysis.

Comparing OWA’s estimated allowed historic medical utilization and severity trends of 0.5% to 1.7% and the HPIC allowed trend assumption of 2.2%, it is reasonable to assume that the heavier weighting of pre-COVID trends combined with the additional 0.25% for volatility drives HPIC’s trend choice to a more conservative point than warranted by the data. Considering the volatility in experience during these time frames, we believe it is reasonable to assume trends at the high end of our historic trend analysis range of 1.7% plus an additional 0.2% to account for increases in the 2023 emerging experience, for a total allowed medical utilization and severity trend of 1.9%. Our 1.9% estimate is 0.3% lower than HPIC’s allowed trend assumption of 2.2%.²⁴ This 0.3% reduction would change their assumptions from 2.4% to 2.1% in Year 1 and from 2.2% to 1.9% in Year 2. These assumptions better reflect the more current experience and are also more in line with OWA’s alternative assumptions for other insurers.

²² If HPIC weights the three highlighted time periods for the combined HPHC and THP block evenly, the average paid trend is approximately 1.1%. Weighting HPIC’s highlighted data points to arrive at a 2.25% trend requires at least 75% weight on the pre-Covid trends which does not appear to weight or reflect the current experience appropriately.

²³ The 2.2% allowed trend reported by HPIC appears to be calculated by reducing the paid trend of 2.5% by 0.35% for leveraging for a 2.15% allowed trend and then rounding to 2.2%.

²⁴ HPIC assumes a 2.2% allowed medical utilization and severity trend for both Year 1 and Year 2 then adds an additional load in Year 1 only to account for gene therapy costs for a Year 1 allowed medical utilization trend of 2.4%.

Assumption #3: Revise the medical utilization & severity allowed trend assumptions from 2.4% to 2.1% in Year 1 and from 2.2% to 1.9% in Year 2. This assumption change would decrease the rates by approximately 0.4%.²⁵

OWA also reviewed the pharmacy trend data and saw that historical experience does not vary significantly from HPIC’s trend assumptions so we do not have alternative pharmacy trend assumptions.

In addition to the allowed trend assumptions discussed above, HPIC adds a leverage adjustment into their rates to account for cost sharing leveraging. Since copayments and deductibles do not increase at the same rate as claims cost trends, the share of claims paid for by the insurer increases at a higher rate than total allowed costs. Insurers account for this by applying a leverage adjustment. To estimate this adjustment, HPIC used their pricing model to calculate a leverage adjustment for each plan design. HPIC’s leverage assumption across all plans is 0.7% and was accounted for in the AV and Cost Sharing factor.

VI. Assessments

HPIC includes the cost of assessments for Childhood Immunizations, Adult Immunizations, Children’s Health Account, Care Transformation Collaborative of RI and Current Care in their medical claims projection. Tab IV of the RIOHIC template shows that HPIC includes \$15.18 PMPM for these RI assessments as shown in the table below.

Assessment	2024 Assumptions		2023 Assumptions	
	PMPM	Premium Impact	PMPM	Premium Impact
Childhood Immunization Account	\$5.43	0.6%	\$3.24	0.4%
Adult Immunization Account	\$4.87	0.5%	\$2.78	0.3%
Children's Health Account	\$2.29	0.2%	\$2.06	0.2%
Care Transformation Collaborative of RI	\$1.58	0.2%	\$1.49	0.2%
Current Care	<u>\$1.00</u>	<u>0.1%</u>	<u>\$1.00</u>	<u>0.1%</u>
Total	\$15.18	1.7%	\$10.56	1.2%

Table 9: HPIC Rhode Island Assessments²⁶

HPIC provided a detailed build-up of assessments which indicated that they were applying RI assessment rates to all HPIC insured members. Since RI assessments only apply to Rhode Island residents, HPIC has overstated the PMPM value for assessments. The correct PMPM charge for the assessments when applying the charge to Rhode Island residents only is \$12.33.²⁷

²⁵ OWA estimated the rate impact of the change in trend assumptions using HPIC’s rate development build-up calculation.

²⁶ All RI Assessments are included in HPIC’s projected medical claims.

²⁷ In response to OWA’s questions, HPIC provided a revised assessment calculation based on RI residents totaling \$12.33.

Assumption #4: Revise the assessment calculation to reflect the Rhode Island resident assumption. This changes the assessment PMPM from \$15.18 to \$12.33 and would decrease rates by approximately 0.4%.²⁸

VII. COVID Expenses

HPIC has provided COVID-19 costs related to treatment, testing and vaccines for their fully insured Rhode Island experience as well as their HPHC and THP fully insured Massachusetts data. HPIC's new rate development methodology adjusts for the differences between the underlying COVID-19 related claims in their 2022 base experience and the 2024 projected COVID-19 related costs. HPIC projects COVID-19 vaccine, testing, and treatment costs to be \$10.13 PMPM in 2024 compared to \$13.36 PMPM in the 2022 Massachusetts HPHC base experience. The net adjustment to projected claims after adjustments between Massachusetts and Rhode Island, trending and normalization is -\$3.44 PMPM.²⁹

VIII. Risk Adjustment

HPIC has assumed a 0% adjustment for risk adjustment. HPIC's rate development methodology assumes the underlying morbidity reflects the entire small group market in Rhode Island. By assuming the average morbidity of the small group market, HPHC does not need to separately apply a risk adjustment assumption.

For the alternative credibility blended approach discussed in Section IV, HPIC provided an estimate of \$48.21 PMPM for risk adjustment for the Rhode Island experience based portion of the alternative rate development. HPIC developed the estimate using the 2022 CMS final risk transfer amounts and adjusted the amounts for 2024 model changes based on Wakely analysis and trend. OWA reviewed the final 2022 CMS risk adjustment report and the Wakely analysis for CY 2022 paid through April 2023.

IX. Projected MLR and Retention Charge

Using the federal definition and under the proposed rates, HPIC projects an 88.9% MLR for 2024.³⁰ HPIC reported historical MLRs in Tab VI based on the federal definition of 85.5% for CY 2020 and 94.2% CY 2021.³¹ HPIC reported a CY 2022 MLR of 65.9%.³²

²⁸Note in the memos provided to RIOHIC on August 21, 2023, the estimated impact was originally a rate decrease of 0.5%. However, this calculation was updated which resulted in an impact of 0.4%.

²⁹ In response to OWA's questions, HPIC provided a revised 2024 projection of COVID-19 vaccine costs from \$3.58 PMPM to \$3.95 PMPM to reflect their revised understanding of how vaccine expenses would be covered under the Rhode Island Vaccine Assessment Program. This would change the net -\$3.44 PMPM adjustment to -\$3.11 PMPM resulting in a slight increase in rates. This revised estimate was submitted by HPIC via email to OWA on July 10th 2023.

³⁰ This is coming from Tab VI MLR Exhibit in the RI rate template. This is prior to the credibility adjustment factor.

³¹ Ibid.

³² MLR reported is from filing submitted as of May 22nd and may change due to final risk adjustment or for other updates.

The retention charge of a rate includes the administrative expenses, taxes and fees, and the contribution to reserve. HPIC proposed an average retention charge of 14.1%. For 2023, the retention charge was 14.7%. The table below shows the components of retention. HPIC has proposed a contribution to reserve assumption of 0.0% in 2024 which is a decrease from the 2023 assumption of 0.5%.

Proposed Retention Charge	2024	2023	Change
ACA Taxes and Fees	0.1%	0.1%	0.0%
Premium Tax	2.0%	2.0%	0.0%
Other Retention Charge	0.0%	0.0%	0.0%
Contribution to Reserve (Profit/Risk Load)	0.0%	0.5%	-0.5%
Investment Income Credit	0.0%	0.0%	0.0%
Administrative Expense Load	<u>12.0%</u>	<u>12.2%</u>	<u>-0.2%</u>
Total Retention Charge	14.1%	14.7%	-0.7%

Table 10: HPIC Retention Charges

The table below shows the administrative expense PMPM charge for 2023 and 2024. As shown, the PMPM charge increased 9.5% from 2023 to 2024.

	HPIC Small Group		
Admin Charges	2024	2023	Admin Charge Trend
Admin PMPM	\$91.08	\$83.19	9.5%

Table 11: HPIC Retention Charges³³

X. Financial Position

A review of TICO's financial measures show that TICO's RBC position decreased in 2021 to 534.1% but has increased in 2022 to 578.9%. TICO's underwriting gain/loss has been volatile year to year but increased from 2021 to 2022.

	TICO					
	2022	2021	2020	2019	2018	2017
8. Total Revenues	\$392,747,102	\$350,691,959	\$312,553,610	\$312,500,551	\$294,435,615	\$278,780,892
24. Net Underwriting G/L	\$12,164,019	\$6,899,114	-\$5,586,842	\$16,911,003	\$10,256,311	-\$11,961,236
Underwriting G/L	3.1%	2.0%	-1.8%	5.4%	3.5%	-4.3%
49. Capital and Surplus end of reporting year	\$83,427,650	\$76,838,407	\$69,677,169	\$74,104,038	\$70,788,022	\$52,607,155
SAPOR	21.2%	21.9%	22.3%	23.7%	24.0%	18.9%
14. Total Adjusted Capital	\$83,427,650	\$76,838,407	\$69,677,169	\$74,104,038	\$70,788,022	\$52,607,155
15. Authorized control level risk-based capital	\$14,411,793	\$14,387,007	\$11,670,898	\$11,259,632	\$10,976,297	\$11,089,644
RBC	578.9%	534.1%	597.0%	658.1%	644.9%	474.4%

Table 12: TICO Financials

³³ From Tab IV Retention Charge, Section I row 20 item (7).

XI. URRT

I have reviewed the rates in the URRT for consistency with the Rhode Island rate template.

XII. Requested and Final Approved Rate Change

The table below shows HPIC’s requested and final approved rate changes. Note OWA has estimated how each individual assumption change impacts the overall rate. Due to the interaction of assumptions, the actual impact may be slightly different due to each insurer’s own pricing models. However, the final rate change is not an estimate.

	HPIC SG		
	Requested	Final Approved	Impact to Rate
2024 Calibrated Plan Adjusted Index Rate (CPAIR)	\$485.69	\$469.02	-3.4%
Morbidity Adjustment for HPHC SG MA to RI Market	-4.5%	-6.9%	-1.4%
Credibility Blend 37% RI 2022 Experience with MA 2022	n/a	n/a	-0.8%
2023 Medical Utilization Trend	2.4%	2.1%	-0.2%
2024 Medical Utilization Trend	2.2%	1.9%	-0.2%
RI Assessment	\$15.18	\$12.33	-0.4%
Administrative PMPM Charge	\$91.08	\$87.29	-0.6%
Contribution to Reserves/Profit	0.0%	0.0%	0.0%
CPAIR Change from 2023	11.0%	7.2%	

Table 13: HPIC Requested and Final Approved Rate Change

XIII. Conclusion

This letter communicates our findings regarding our review of HPIC’s small group rate filing (SERFF tracking number HPHC-133655334). This letter also communicates the RI Health Insurance Commissioner’s final decisions. Distribution of this letter to parties other than OHIC by us or any other party does not constitute advice by us to those parties. The reliance of parties other than the OHIC on any aspect of our work is not authorized by us and is done at their own risk. In arriving at our findings, we used and relied on information provided by HPIC. If this information is inaccurate or incomplete, our findings and conclusions may need to be revised. While we have relied on the data provided by the company without independent investigation or verification, we have reviewed the information for consistency and reasonableness. Where we found the data inconsistent or unreasonable, we requested clarification. We have utilized generally accepted actuarial methodologies in arriving at our findings.

This memo is based on actuarial review and actuarial analysis conducted by Lynda Johnson and peer reviewed by Jenn Smagula. Lynda Johnson is a member of the American Academy of Actuaries and an

Associate of the Society of Actuaries. Jenn is a member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. Jenn meets the qualification standards for reviewing the actuarial analysis represented in this memo.

Sincerely,

A handwritten signature in black ink, appearing to be 'Jenn', written over a faint, light-colored circular stamp or watermark.

Jennifer Smagula FSA, MAAA

Cc: Bela Gorman FSA, MAAA, OWA
Lynda Johnson ASA, MAAA, OWA
Emily Maranjian, Executive Legal Counsel, RIOHIC

Cory King
Acting Health Insurance Commissioner
Office of the Health Insurance Commissioner
State of Rhode Island
1511 Pontiac Ave, Building 69-1
Cranston, RI 02920

13 September 2023

Small Group Market Rate Filings for UnitedHealthcare Insurance Company (UHIC) and UnitedHealthcare of New England (UHCNE) for Rates Effective January 1, 2024: Actuarial Review Memo and Final RIOHIC Approved Decisions SERFF Filing # UHLC-133647720 and UHLC-133647730

Dear Commissioner King,

At the request of the Rhode Island Office of the Health Insurance Commissioner (RIOHIC), Oliver Wyman Actuarial Consulting, Inc. (OWA) has performed an actuarial review of UHIC's and UHCNE's (United's) small group market rate filings.

I. Rate Filing Process

This actuarial review letter focuses on the review of the filings that were submitted on May 1, 2023 and May 26, 2023. The filing on May 26th included an updated mapping for terminated plans in the UHIC filing.

Throughout the filing process, OWA corresponded with UHIC and UHCNE assistant pricing director, Elvira Tananykin. An actuarial memorandum and actuarial certification is included in the filing signed by Michael Duberowski FSA, MAAA. OWA submitted questions through SERFF on May 16th, June 22nd, July 6th, and July 24th.¹ OWA also conducted a phone call with Ms. Tananykin. OWA received responses for questions through SERFF. OWA also relied on responses to questions for the UHIC & UHCNE large group filing that pertain to UHIC & UHCNE small group filings.

OWA provided considerations for alternative assumptions to RIOHIC on August 15, 2023. The RI Health Insurance Commissioner provided preliminary decisions to OWA on August 25, 2023. UHIC and UHCNE submitted revised rates on September 12, 2023. This memo summarizes considerations for alternative assumptions as well as decisions approved by the RI Health Insurance Commissioner.

¹ Questions were submitted to the UHIC filing (UHLC-133647720) for both filings

II. Considerations for Alternative Assumptions and Final Approved Rate Change

Assumption #1: Revise the overall medical FFS utilization & severity trend assumptions from 4.3% to 1.8%. These assumption changes would decrease the rates by approximately 2.9%.

Assumption #2: Revise the assumptions for RI assessments to reflect the updated vaccination costs for FY 2024 and the Rhode Island resident assumption. This would lower rates by approximately 0.1%.

Assumption #3: Revise the rate filing assumptions to reflect the final 2022 risk adjustment results. This results in a 1.0% net decrease to rates, which is a combination of the 0.2% due to the risk adjustment assumption change and -1.2% due to the change in the morbidity adjustment to the Massachusetts experience.

Assumption #4: Revise the rate filing assumptions to remove the 1.0% primary care spending shortfall from their administrative charges. This results in an approximate 1.4% decrease to rates.²

Administrative PMPM Charge: The RI Health Insurance Commissioner has approved a 4.9% administrative charge trend.³

Contribution to Reserve: The RI Health Insurance Commissioner has approved a 0.0% contribution to reserve.

In future filings, United should complete the projected assessment section of Tab IV of the Rhode Island OHIC rate template based on what is actually assumed in the rates for both the projected year and the prior year.

The table below shows UHIC and UHCNE's requested rate changes and final approved rate changes. Note OWA has estimated how each individual assumption change impacts the overall rate change. Due to the interaction of assumptions, the actual impact may be slightly different due to each insurer's own pricing models. However, final rate change is not an estimate.

² Note in the memos provided to RIOHIC on August 15, 2023, the estimated impact was originally a rate decrease of 0.8%. However, this calculation was updated which resulted in an impact of 1.4%.

³ The 4.9% is the average of the CPI for all items less food & energy for the months of May (5.3%), June (4.8%), and July (4.7%). [12-month percentage change, Consumer Price Index, selected categories \(bls.gov\)](https://www.bls.gov)

	UHC SG		
	Requested	Final Approved	Impact to Rate
2024 Calibrated Plan Adjusted Index Rate (CPAIR)	\$472.09	\$440.72	-6.6%
Medical FFS Utilization & Severity Trend	4.3%	1.8%	-2.9%
RI Assessment incl. in Medical Projections (PMPM)	\$8.31	\$7.24	-0.1%
Risk Adjustment (Payable)	1.1%	1.3%	0.2%
Morbidity Adjustment to MA Experience	1.160	1.140	-1.2%
Removal of 1% Primary Care Shortfall from Admin	1.0%	0.0%	-1.4%
Administrative PMPM Charge	\$88.12	\$77.77	-0.8%
Contribution to Reserves/Profit	0.5%	0.0%	-0.5%
CPAIR Change from 2023	14.7%	7.1%	

Table 1: UHC Requested and Final Approved Rate Change

	UHCNE SG		
	Requested	Final Approved	Impact to Rate
2024 Calibrated Plan Adjusted Index Rate (CPAIR)	\$462.68	\$431.63	-6.7%
Medical FFS Utilization & Severity Trend	4.3%	1.8%	-2.9%
RI Assessment incl. in Medical Projections (PMPM)	\$8.31	\$7.24	-0.1%
Risk Adjustment (Payable)	1.1%	1.3%	0.2%
Morbidity Adjustment to MA Experience	1.16	1.14	-1.2%
Removal of 1% Primary Care Shortfall from Admin	1.0%	0.0%	-1.4%
Administrative PMPM Charge	\$88.12	\$77.77	-0.8%
Contribution to Reserves/Profit	0.5%	0.0%	-0.5%
CPAIR Change from 2023	16.1%	8.3%	

Table 2: UHCNE Requested and Final Approved Rate Change

III. Proposed Rate Changes

There are many definitions of rate changes shown in the rate filing. The changes we focus our review on are the calibrated plan adjusted index rate (CPAIR) average change.⁴ The CPAIR reflects the average base rate used prior to the adjustments for age. The average is calculated using the most recent membership enrollment by plan offering. This rate change reflects the insurer's assumptions on member migration from terminated plan offerings to existing plan offerings.

⁴ We also review the PAIR and the PAIR increases. Generally, the increases for the CPAIR and PAIR are similar. The PAIR increases reflect demographic changes in the rating pool from one year to the next.

United submitted two filings, one for UHCNE and one for UHIC. The information is the same in both filings as both filings include information for UHCNE and UHIC. Some of the information is presented as combined across both companies and other information is separated by company.⁵ The rates are developed using the same starting claims PMPM and then adjustments are applied which vary based on each company’s specific plan designs.

In the revised filing submitted on May 26th, the proposed full year weighted average rate change for UHIC is 14.7% and for 1Q renewals it is 14.5%. For UHCNE the proposed full year weighted average rate change is 16.1% and for 1Q renewals it was 15.4%. When combined across both companies, the full year weighted average rate change is 15.0% and for 1Q renewals it is 14.7%.

As of March 2023, there were 1,750 UHIC members and 450 UHCNE members enrolled throughout the year and 508 UHIC members and 86 UHCNE members renewing in the first quarter. For January 1, 2024, UHIC includes 58 plans and UHCNE includes six plans, all renewing. UHIC is terminating 34 plans.

Proposed Rate Increases (UHIC)					
Category	Number of Plans	Number of Members	1Q 2023 CPAIR PMPM	1Q 2024 CPAIR PMPM	Rate Change
New	0	0	\$0.00	\$0.00	0.0%
Renewal	58	370	\$395.67	\$456.77	15.4%
Terminated	<u>34</u>	<u>138</u>	<u>\$392.33</u>	<u>\$439.92</u>	<u>12.1%</u>
Total	92	508	\$394.76	\$452.19	14.5%

Table 3: UHIC Summary of Rate Changes for 1Q 2024

Proposed Rate Increases (UHCNE)					
Category	Number of Plans	Number of Members	1Q 2023 CPAIR PMPM	1Q 2024 CPAIR PMPM	Rate Change
New	0	0	\$0.00	\$0.00	0.0%
Renewal	6	86	\$398.39	\$459.62	15.4%
Terminated	<u>0</u>	<u>0</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>0.0%</u>
Total	6	86	\$398.39	\$459.62	15.4%

Table 4: UHCNE Summary of Rate Changes for 1Q 2024

The overall rate change due to plan design changes was +0.30% for UHIC and +0.02 for UHCNE. For UHIC plans, the rate change due to plan design changes ranges from -1.80% to +1.03%. For UHCNE plans, the

⁵ Tab I- Data and Rate Change, Tab IV- Retention Charge, Tab V-Components of Premium Change and Tab VI- MLR Exhibit are presented on a combined basis. Tab II-Rate Development is presented on a company specific basis. Tab III- Plan Rates are presented as one exhibit, but information is presented in a way that average rate changes by company can be determined.

rate change due to plan design changes ranges from -1.10% to +0.04%. The plan design changes driving these rate changes are changes to the out-of-pocket maximum and/or specialty office visit copays.

UHIC and UHCNE update their pricing model each year. The table below shows a distribution of rate changes for 1Q 2024 across both the UHIC and UHCNE companies for renewing plans only. As shown, the majority of plans have rate changes of 12% or greater with approximately 456 enrollees renewing in the first quarter.

Proposed Rate Increases (UHIC + UHCNE)					
Rate Change Range	Number of Plans	Number of 1Q Members	1Q 2023 CPAIR PMPM	1Q 2024 CPAIR PMPM	1Q 2024 CPAIR Rate Change
10% to 11.9%	2	0	\$0.00	\$0.00	0.0%
12% or greater	62	456	\$396.18	\$457.31	15.4%
Total	64	456	\$396.18	\$457.31	15.4%

Table 5: Distribution of Rate Change 1Q 2024 for Renewing Plans Only

United uses the same quarterly trend factor of 1.022 to develop rates in subsequent quarters. Rate changes vary by plan so the rate changes by quarter will vary due to the distribution of members by plan renewing each quarter. Average proposed rate changes by quarter are shown below for both UHIC and UHCNE.

Renewal Quarter and Year	Total		UHCNE		UHIC	
	Proposed Average Rate Change CPAIR	Renewal Membership	Proposed Average Rate Change CPAIR	Renewal Membership	Proposed Average Rate Change CPAIR	Renewal Membership
1Q 24 Renewals	14.7%	594	15.4%	86	14.5%	508
2Q 24 Renewals	14.4%	534	15.9%	112	14.0%	422
3Q 24 Renewals	15.5%	517	16.0%	111	15.3%	406
4Q 24 Renewals	15.3%	555	16.8%	141	14.8%	414
Total	15.0%	2,200	16.1%	450	14.7%	1,750

Table 6: Average Rate Changes by Renewal Quarter

The 2024 average rate change of 15.0%, combined across both companies, is driven by these key factors as reported by United in Tab V of the RIOHIC rate template:

- 8.8% due to trend

- 3.5% due to understatement related to the calculation of last year's average plan relativities from United's pricing model⁶
- 2.8% due to increases in the administrative charges
- 1.0% due to increase in assessments including the primary care affordability initiatives
- -2.0% due to changes in risk adjustment

IV. Experience & Trend Assumptions

A review of claims experience shows that actual trends for UHIC and UHCNE's small group market increased 1.2% in 2021 and 6.6% in 2022. The table below shows a three-year history of allowed claims PMPMs. Membership for UHIC and UHCNE decreased 8.4% in 2021 and an additional 17.3% in 2022.

Capitation amounts increased 25% in 2021 and 13.7% in 2022. The capitation amount includes behavioral health, chiropractor services, payments to providers from gain share arrangements, and some Rhode Island assessments.⁷ UHIC and UHCNE provided data to show that all categories within the capitation amount contributed to the increase in 2021, while the increase in 2022 is primarily driven by increases to primary care. The small size of the segment and changes in membership lead to volatility in claim costs and trends. Due to credibility, UHIC and UHCNE does not rely solely on their Rhode Island data for trend projections.

⁶ United stated that in last year's rate filing, the projected 2022 average plan relativity was calculated to be 0.6958. Based on actual enrollment in 2022, the average 2022 plan relativity is 0.6711. United stated that this is due to members buying down to leaner plans at a higher rate than expected. United's pricing methodology starts with incurred claims and then divides by the average plan relativity factor. Because the average plan relativity factor in last year's rate development was overstated, last year's rates were understated. The 3.5% understatement is equal to $0.6711 / 0.6958 - 1$.

⁷ The Rhode Island assessments identified by United as being included in their medical claims rather than administrative charge are Care Transformation Collaborative of Rhode Island, Primary Care, Children's Immunization Assessment, Adult Immunization Assessment and the Children's Health Account Assessment.

Allowed Claims PMPM (UHCNE + UHIC)			
	CY 2020	CY 2021	CY 2022
Inpatient Hospital	\$123.85	\$83.02	\$58.03
Outpatient Hospital	\$141.94	\$170.61	\$214.65
Professional	\$99.10	\$108.11	\$103.88
Other Medical	\$1.35	\$1.55	\$1.55
Capitation	\$42.11	\$52.80	\$60.06
Prescription Drug	<u>\$83.17</u>	<u>\$81.46</u>	<u>\$92.27</u>
Total	\$491.52	\$497.55	\$530.45
Member Months	40,228	36,849	30,490

Allowed Claims PMPM Trend (UHCNE + UHIC)		
	CY 2021	CY 2022
Inpatient Hospital	-33.0%	-30.1%
Outpatient Hospital	20.2%	25.8%
Professional	9.1%	-3.9%
Other Medical	14.5%	-0.1%
Capitation	25.4%	13.7%
Prescription Drug	<u>-2.1%</u>	<u>13.3%</u>
Total	1.2%	6.6%
Member Months Trend	-8.4%	-17.3%

Table 7: Allowable Claims PMPM and Trend CY 2020 – CY 2022

Due to the small size of UHIC and UHCNE’s Rhode Island experience, UHIC and UHCNE developed 2024 rates by blending experience from Rhode Island with adjusted Massachusetts experience. These adjustments include differences in state mandates, differences in provider contracts and differences in morbidity. The morbidity adjustments are based on the plan liability risk scores (PLRS) from the CMS risk adjustment reports. The methodology of blending the Rhode Island experience with experience for another state has been in place for several years, but starting with the final 2023 rates, United is using experience from Massachusetts. Prior to the final 2023 rates, United used experience from Pennsylvania. Based on analysis presented in last year’s rate review memo, experience from Massachusetts was deemed to be more similar to Rhode Island. United is assigning 35% credibility to the Rhode Island experience.

UHIC and UHCNE are assuming an average annual trend assumption of 8.1%.⁸ This is an increase from last year’s trend assumption of 6.9%. The table below shows UHIC and UHCNE’s trend assumptions by service category. The average medical cost trend is 3.9%, compared to 3.0% last year. The average medical utilization & severity trend is 3.7%, compared to 3.4% last year. The average medical fee-for-service (FFS) utilization & severity trend is 4.3%.⁹

⁸ Trends by service category are the same for both UHIC and UHCNE, but the total trend differs slightly by company due to different weights by service category.

⁹ This excludes capitation.

Trend Assumptions			
	2 Year Avg Cost	2 Year Avg Utilization & Severity	2 Year Avg Total
Inpatient Hospital	4.1%	2.8%	7.0%
Outpatient Hospital	3.6%	4.5%	8.3%
Professional	4.1%	4.6%	8.9%
Other Medical	4.6%	4.7%	9.5%
Capitation	4.9%	0.0%	4.9%
Total Medical	3.9%	3.7%	7.8%
Prescription Drug	<u>4.7%</u>	<u>4.8%</u>	<u>9.7%</u>
Total			8.1%

Table 8: Proposed Trend Assumptions

As they have done in prior rate filings, UHIC and UHCNE provided a significant amount of detail related to their trend development and the data and methodology is the same for the large group filing as the small group filing. Given that United Rhode Island specific data is not credible for trend analysis purposes, utilization and severity trends are developed at the nationwide level based on actual experience and adjusted for items such as the impact of technology, environmental, network contracting, administrative initiatives, and the number of workdays. These adjustments are primarily developed on a national company-wide level. United provided information to show that the nationwide 2022 medical utilization & severity trend is -0.8% (prior to adjustments) and it is the adjustments that lead to the overall 3.7% medical utilization & severity trend. The two largest adjustments are for “economic” and “contracting”, valued at 3.8% and 0.8% respectively. Quantitative support was requested for these items. United did not provide quantitative support but instead provided these responses:

- 3.8% Economic: “During 2022, sudden inflationary pressures resulted in temporary one-time utilization decreases especially for medical claims. In contrast, our pharmacy claims increase dramatically under this sudden increase in inflation. Our national first quarter 2023 claims have verified that our trends have reverted to above normal levels which indicate that delayed care is now being sought.”
- 0.8% Contracting: “Since we develop utilization mix assumptions based on national experience, this component represents expected changes in utilization patterns based on changes in in-network designations, consolidation of provider groups, and shifts in service across the country.”

OWA is not able to validate these adjustments, or the overall medical utilization & severity trend based on the information provided by United.

Given United's reliance on national data to develop trends and the lack of credibility with United's Rhode Island specific data, it is not reasonable to develop Rhode Island trend assumptions specific to United's own Rhode Island data. It is reasonable to assume that United should have medical utilization & severity trends in line with other major Rhode Island insurers and that Rhode Island specific utilization & severity trend assumptions would be more appropriate than national trend assumptions given the differences in utilization patterns and the impact from COVID across the country. For the other primary insurers in Rhode Island, OWA is proposing medical utilization & severity trend assumptions in the 1.1% to 2.4% range with an average of approximately 1.8%.

Assumption #1: Revise the overall medical FFS utilization & severity trend assumptions from 4.3% to 1.8%. These assumption changes would decrease the rates by approximately 2.9%.¹⁰

In addition to the trend assumptions above, UHIC and UHCNE adds a leverage adjustment into their rates to account for cost sharing leveraging. We have used the data provided by United to develop our own estimate and our analysis results in no change to United's assumption.¹¹

V. Assessments

UHIC and UHCNE include the cost of assessments for Childhood Immunizations, Adult Immunizations and the Children's Health Account in their medical claims projection. The cost for the Care Transformation Collaborative of RI is split between medical claims and retention.¹² The cost for Current Care is included in retention. United's approach to projecting the assessments included in the medical claim projection is to start with CY 2022 actuals and then apply two years of the pricing trend.

This rate filing starts with the 2022 assessment costs for Childhood Immunizations, Adult Immunizations and the Children's Health Account, applies the mix of United's children and adults, and trends forward. This equates to approximately \$8.31 PMPM. United did not reflect the FY 2024 assessments costs in their initial rate filing and the vaccination costs increased significantly compared to what was assumed¹³, but it was also discovered that United did not adjust the projected assessment costs to reflect Rhode Island residents only. 67% of United's small group enrollment are Rhode Island residents. When updating the assessments for both the final FY 2024 costs and the residency assumption, the projected assessment costs decrease to approximately \$7.24 PMPM.

¹⁰ If UHIC & UHCNE were to use a 1.8% medical FFS utilization & severity trend in 2023 and 2024 rather than 4.3%, this would decrease trends by approximately 2.5% each year. This is worth 5.0% over the entire projection period. The estimated impact to overall rates is determined assuming medical FFS represents approximately 70% of total claims and that total claims spending represents 83% of total premium.

¹¹ Since copayments and deductibles do not increase at the same rate as claims cost trends, the share of claims paid for by the insurer increases at a higher rate than total allowed costs. Insurers account for this by applying a leverage adjustment. To estimate this adjustment, UHIC and UHCNE started with their trended allowed claims and subtracted out projected cost sharing to simulate a projected net claims trend. Copay dollars were trended by the utilization trend, coinsurance dollars were trended by the PMPM trend (reflecting both utilization and cost trends) and deductible dollars were not trended at all. The result is a 0.8% leverage impact. We believe it is more appropriate to trend the deductible dollars and we have performed my own analysis on leverage. Our results are consistent with United's results.

¹² Approximately 11% of the costs for the Care Transformation Collaborative of RI is included in the medical claims projections and the remaining 89% in retention.

¹³ Assessments for vaccinations FY 2023 (July 1, 2022 – July 1, 2023) were \$14.78 per child and \$3.56 per adult. Assessments for vaccinations FY 2024 (July 1, 2023 – July 1, 2024) are \$24.83 per child and \$6.24 per adult.

Assumption #2: Revise the assumptions for RI assessments to reflect the updated vaccination costs for FY 2024 and the Rhode Island resident assumption. This would lower rates by approximately 0.2%.¹⁴

UHC and UHCNE has not completed the 2023 and 2024 assessment section of Tab IV of the RIOHIC template correctly as it does not reflect what is actually assumed in rates for all categories. In future filings, United should complete the projected assessment section of Tab IV of the Rhode Island OHIC rate template based on what is actually assumed in the rates for both the projected year and the prior year.

VI. COVID-19 Experience

United has provided COVID-19 costs related to treatment, testing and vaccines. They indicate that their total CY 2022 COVID-19 costs are \$12.14 PMPM.¹⁵ Consistent with last year's filing, UHC and UHCNE did not adjust their experience period data or the data used for trend purposes for the impact of COVID testing, vaccines, or treatment costs. UHC and UHCNE stated in last year's filing that any COVID related expenses will be replaced by non-COVID related expenses in future time periods such that the net impact is negligible.

VII. Risk Adjustment

UHC and UHCNE have assumed a 1.1% risk adjustment payable in its 2024 rate filing. This is a decrease in their assumption from the 2023 rate filing of 3.3%. Risk adjustment impacts the average rate change by -2.0%. United relied on estimates from Wakely simulations to determine their assumption for 2022 risk adjustment which is used in the 2024 rates. The Wakely simulations shows a 2.9% risk adjustment payable and then United applied a 38% credibility adjustment based on their credibility table using CY 2021 member months to arrive at the 1.1% payable assumption.¹⁶ The application of the credibility adjustment is new to this year's filing.

CMS posted the final 2022 risk adjustment results on June 30th. The results showed that United is paying \$600K in risk adjustment. This translates into a 3.4% adjustment to premium. When the 38% credibility adjustment is applied to the 3.4%, this translates to 1.3% rather than 1.1%. This change in assumption increase the rates by approximately 0.2%.

As described previously, United relies on blending Rhode Island with adjusted Massachusetts experience in their rate development. One of the adjustments is a morbidity adjustment which compares risk scores of the two states using the PLRS scores from the federal risk adjustment reports. In the initial rate filing the adjustment to Massachusetts experience was 1.160. Based on the final PLRS scores from CMS, the adjustment would decrease to approximately 1.14.¹⁷ This would decrease rates by approximately 1.2%.

¹⁴ Based on information provided by United.

¹⁵ Each insurer may define COVID treatment differently and therefore these amounts may not be comparable across insurers.

¹⁶ If the CY 2022 member months were used instead, the resulting credibility adjustment would be 35%. This results in no material change.

¹⁷ The final CMS risk adjustment for Massachusetts is a combination of individual and small group experience because Massachusetts is a merged market. United only uses small group experience from Massachusetts in their rate development, therefore the morbidity adjustment is only based on small group. Based on the Wakely reports, the United small group PLRS relative to the total United total merged market PLRS is .991. Therefore, an adjustment of .991 is applied to the final 2022 United Massachusetts PLRS to estimate the United small group only Massachusetts PLRS.

If United updates their rate filing to reflect both the change in the final Rhode Island CY 2022 risk adjustment results and the morbidity adjustment to the Massachusetts experience, the net impact is an approximately 1.0% decrease to rates.

Assumption #3: Revise the rate filing assumptions to reflect the final 2022 risk adjustment results. This results in a 1.0% net decrease to rates, which is a combination of the 0.2% due to the risk adjustment assumption change and -1.2% due to the change in the morbidity adjustment to the Massachusetts experience.

VIII. Projected MLR and Retention Charge

Using the federal definition, excluding adjustments for credibility, United projects an MLR for 2024 of 86.9% for the 2024 rating period which includes a 0.5% contribution to reserve. United also assumed a 0.5% contribution to reserve in the 2023 rate filing. United reports an MLR of 81.5% for CY 2020, 89.2% MLR for 2021, and 79% MLR for 2022.¹⁸

The retention charge of a rate includes the administrative expenses, taxes and fees, and the contribution to reserve. United is proposing an average retention charge of 17.1% for 2024. This is higher than the retention charge from 2023 of 15.8%.

Proposed Retention Charge (UHCNE + UHIC)	2024	2023	Change
ACA Taxes and Fees	0.0%	0.0%	0.0%
Premium Tax	2.0%	2.0%	0.0%
Other Retention Charge	0.6%	0.5%	0.2%
Contribution to Reserve (Profit/Risk Load)	0.5%	0.5%	0.0%
Investment Income Credit	0.0%	0.0%	0.0%
Administrative Expense Load	<u>14.0%</u>	<u>12.9%</u>	<u>1.1%</u>
Total Retention Charge	17.1%	15.8%	1.3%

Table 9: Proposed Retention Charge¹⁹

A primary driver of the rate increase is in the administrative expense load. United provided the following explanation for the increases in the expense load:

- *Inflationary pressures*
- *Percentage of premium expenses increasing due to overall premium increases*
- *Any shortfall of the 10.7% as required by the description of the Primary Care Spend Program is accomplished through grant payments to external parties which are accounted for in admin in the*

¹⁸ United stated that the reported MLR for 2022 reflects the 2018-2021 risk adjustment data validation (RADV) results as requested in the MLR reporting guidance provided by CMS. The 2022 MLR reported in the RIOHIC rate filing template does not reflect final 2022 risk adjustment results. There may be other updates to the 2022 MLR that are not reflected in what was reported in the initial rate filing.

¹⁹ United includes most of the cost for the Care Transformation Collaborative of RI and the total the cost for Current Care in retention. The cost of assessments for Childhood Immunizations, Adult Immunizations, Children's Health Account are included in their medical claims projection.

Small Group pricing filings. These grants are estimated to be 0.3% in 2023 and 1.0% in 2024 of the Primary Care Spend Program that is 10.7% of Medical expenses.”

The 1% shortfall translate to approximately \$5.75 PMPM.²⁰ It may not be appropriate for United to assume that there will be a shortfall in their 2024 primary care spending at this point in time and it may not appropriate to build that shortfall into the 2024 rates.

Assumption #4: Revise the rate filing assumptions to remove the 1.0% primary care spending shortfall from their administrative charges. This results in an approximate 1.4% decrease to rates.²¹

The table below shows the administrative expense PMPM charge for 2023 and 2024. As shown, the PMPM charge increased 26.1% from 2023 to 2024.²²

	United Small Group		
Admin Charges	2024	2023	Admin Charge Trend
Admin PMPM	\$93.87	\$74.42	26.1%

Table 10: Administrative PMPM Charge²³

If the \$5.75 PMPM primary care shortfall discussed above is removed from the 2024 administrative expenses charges, the 2024 administrative charge PMPM changes to approximately \$88 PMPM and the trend from 2023 to 2024 changes to 18.4%.

IX. Financial Position

A review of UHIC’s and UHCNE’s financial measures show that UHIC’s RBC position has remained healthy for the past four years, around 500% in 2019 and prior, with an increase to over 650% in 2021 and a further increase to 814% in 2022. The underwriting gain/loss and SAPOR²⁴ have also remained fairly consistent for UHIC. UHCNE’s RBC, SAPOR and underwriting gain/loss is consistently lower than UHIC through 2021. In 2022, UHCNE experienced a significant increase in their SAPOR, RBC and underwriting gain/loss. This was explained to OWA by RIOHIC to be due to the transfer of Medicare Advantage business from UHCNE to another United entity.

²⁰ This is based on 1% of the 2024 projected medical expense claims.

²¹ Note in the memos provided to RIOHIC on August 15, 2023, the estimated impact was originally a rate decrease of 0.8%. However, this calculation was updated which resulted in an impact of 1.4%.

²² From Tab IV Retention Charge, Administrative Expense Load PMPM reported in row 20 (line 7) excluding the assessments of \$3.78 PMPM in 2024 and 2023 shown as part of the amount in row 30 (line 7i “Other Admin Expenses”). This includes commissions.

²³The administrative charge shown here include commissions but exclude assessments.

²⁴ SAPOR is surplus as a percentage of revenue.

UHIC						
	2022	2021	2020	2019	2018	2017
9. Total (Lines 1 - 8.3)	\$43,772,644,000	\$53,114,149,629	\$55,111,543,011	\$56,470,146,239	\$55,304,713,087	\$51,176,778,978
29. Net Gain from Operations before Dividends	\$3,123,376,617	\$2,638,502,846	\$4,008,681,977	\$3,954,833,530	\$3,935,943,865	\$3,699,492,244
Underwriting G/L	7.1%	5.0%	7.3%	7.0%	7.1%	7.2%
55. Capital and Surplus December 31	\$7,200,474,486	\$8,146,535,672	\$8,219,768,234	\$9,092,976,254	\$8,574,087,987	\$6,784,990,282
SAPOR	16.4%	15.3%	14.9%	16.1%	15.5%	13.3%
30. Total Adjusted Capital	\$7,200,474,486	\$8,146,535,672	\$8,219,768,234	\$9,092,976,254	\$8,574,087,987	\$6,784,990,282
31. Authorized control level risk-based capital	\$885,025,263	\$1,224,069,942	\$1,275,995,904	\$1,688,536,287	\$1,600,314,403	\$1,436,352,532
RBC	813.6%	665.5%	644.2%	538.5%	535.8%	472.4%

Table 11: Summary of UHIC Financials

UHCNE						
	2022	2021	2020	2019	2018	2017
8. Total Revenues	\$656,561,973	\$1,584,388,273	\$1,433,651,095	\$1,305,229,228	\$1,160,842,788	\$974,456,602
24. Net Underwriting G/L	\$41,619,966	\$78,681,058	\$64,140,390	\$37,367,220	\$22,251,770	\$33,256,564
Underwriting G/L	6.3%	5.0%	4.5%	2.9%	1.9%	3.4%
49. Capital and Surplus end of reporting year	\$223,613,760	\$206,184,444	\$204,411,638	\$163,161,782	\$132,604,785	\$113,865,840
SAPOR	34.1%	13.0%	14.3%	12.5%	11.4%	11.7%
14. Total Adjusted Capital	\$223,613,760	\$206,184,444	\$204,411,638	\$163,161,782	\$132,604,785	\$113,865,940
15. Authorized control level risk-based capital	\$3,309,866	\$33,402,863	\$39,155,808	\$43,037,032	\$35,620,693	\$27,751,581
RBC	6756.0%	617.3%	522.0%	379.1%	372.3%	410.3%
Comprehensive (Individual & Group)						
7. Total Revenues	\$2,205,021	\$2,074,600	\$2,514,726	\$2,545,201	\$3,997,031	
24. Net Underwriting G/L	\$717,662	\$45,643	\$188,836	\$100,204	\$245,836	
Underwriting G/L	32.5%	2.2%	7.5%	3.9%	6.2%	

Table 12: Summary of UHCNE Financials

X. URRT

I have reviewed the URRT for consistency with the RIOHIC rate template. The CPAIR rates in the URRT are 0.1% higher compared to the rates in the RIOHIC rate template for the six UHCNE plans.

I also reviewed the CPAIRs in the OHIC template to United's actuarial memorandum attachments. The CPAIRs in the RIOHIC template are approximately 0.3% higher for each of the UHIC and UHCNE plans compared to the rates in the actuarial memorandum.

XI. Requested and Final Approved Rate Changes

The table below shows UHIC's and UHCNE's requested rate changes and OWA's summary of alternative assumption changes along with the impact to the rate change. OWA's rates are estimated and are subject to verification by United. After incorporating the assumption changes, the corresponding rate change may differ slightly.

	UHC SG		
	Requested	Final Approved	Impact to Rate
2024 Calibrated Plan Adjusted Index Rate (CPAIR)	\$472.09	\$440.72	-6.6%
Medical FFS Utilization & Severity Trend	4.3%	1.8%	-2.9%
RI Assessment incl. in Medical Projections (PMPM)	\$8.31	\$7.24	-0.1%
Risk Adjustment (Payable)	1.1%	1.3%	0.2%
Morbidity Adjustment to MA Experience	1.160	1.140	-1.2%
Removal of 1% Primary Care Shortfall from Admin	1.0%	0.0%	-1.4%
Administrative PMPM Charge	\$88.12	\$77.77	-0.8%
Contribution to Reserves/Profit	0.5%	0.0%	-0.5%
CPAIR Change from 2023	14.7%	7.1%	

Table 13: UHC Requested and Final Approved Rate Change

	UHCNE SG		
	Requested	Final Approved	Impact to Rate
2024 Calibrated Plan Adjusted Index Rate (CPAIR)	\$462.68	\$431.63	-6.7%
Medical FFS Utilization & Severity Trend	4.3%	1.8%	-2.9%
RI Assessment incl. in Medical Projections (PMPM)	\$8.31	\$7.24	-0.1%
Risk Adjustment (Payable)	1.1%	1.3%	0.2%
Morbidity Adjustment to MA Experience	1.16	1.14	-1.2%
Removal of 1% Primary Care Shortfall from Admin	1.0%	0.0%	-1.4%
Administrative PMPM Charge	\$88.12	\$77.77	-0.8%
Contribution to Reserves/Profit	0.5%	0.0%	-0.5%
CPAIR Change from 2023	16.1%	8.3%	

Table 14: UHCNE Requested and Final Approved Rate Change

XII. Data Reliance, Limitations and Qualifications

This letter communicates our findings regarding our review of UHC’s and UHCNE’s small group rate filings (SERFF tracking numbers UHLC-133647720 and UHLC-133647730.) This letter also communicates the RI Health Insurance Commissioner’s final decisions. Distribution of this letter to parties other than RIOHIC by us or any other party does not constitute advice by us to those parties. The reliance of parties other than the RIOHIC on any aspect of our work is not authorized by us and is done at their own risk. In arriving at our findings, we used and relied on information provided by UHC and UHCNE. If this information is inaccurate

or incomplete, our findings and conclusions may need to be revised. While we have relied on the data provided by the company without independent investigation or verification, we have reviewed the information for consistency and reasonableness. Where we found the data inconsistent or unreasonable, we requested clarification. We have utilized generally accepted actuarial methodologies in arriving at our findings.

This letter includes work based on actuarial analysis conducted by Jenn Smagula who is a member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. This letter was peer reviewed by Bela Gorman who is a member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. They both meet the Academy's Qualification Standards to perform this work.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Jenn Smagula', written over a faint, light-colored rectangular stamp or watermark.

Jenn Smagula FSA, MAAA

Cc: Bela Gorman FSA, MAAA, OWA

Emily Maranjian, Executive Legal Counsel, RIOHIC

Cory King
Acting Health Insurance Commissioner
Office of the Health Insurance Commissioner
State of Rhode Island
1511 Pontiac Ave, Building 69-1
Cranston, RI 02920

13 September 2023

Large Group Market Rate Filings for Aetna Life Insurance Company (Aetna) for Rates Effective January 1, 2024: Actuarial Review Memo and Final RIOHIC Approved Decisions SERFF Filing #AETN-133595954

Dear Commissioner King,

At the request of the Rhode Island Office of the Health Insurance Commissioner (RIOHIC), Oliver Wyman Actuarial Consulting, Inc. (OWA) has performed an actuarial review of Aetna's large group market rate filing.

I. Rate Filing Process

This actuarial review letter focuses on the review of the filings that were submitted on May 1st, May 10th, and May 31st.¹ The filing on May 31st included an updated rate change reflecting the impact of the vaccine assessment.

Throughout the filing process, OWA corresponded with Robert F. McKinney of Aetna's actuarial team. An actuarial certification is included in the filing signed by Scott Cremens ASA, MAAA of Aetna Life Insurance Company. OWA submitted questions through SERFF on June 12th and received responses to questions through SERFF.

OWA provided considerations for alternative assumptions to RIOHIC on August 23, 2023. The RI Health Insurance Commissioner provided preliminary decisions to OWA on August 25, 2023. Aetna submitted revised rates on September 1, 2023. This memo summarizes considerations for alternative assumptions as well as decisions approved by the RI Health Insurance Commissioner.

II. Considerations for Alternative Assumptions and Final Approved Rate Change

¹ An updated RIOHIC template was also submitted on June 20th for purposes of separating out the premium tax line item in the retention tab.

Assumption #1: Revise the 2024 medical utilization & severity trend assumptions from 6.3% to 1.8%. These assumption changes would decrease the rates by approximately 3.3%.²

Contribution to Reserve: The RI Health Insurance Commissioner has approved a 1.0% contribution to reserve.

The table below shows Aetna’s requested rate change and final approved rate change. Note OWA has estimated how each individual assumption change impacts the overall rate change. Due to the interaction of assumptions, the actual impact may be slightly different due to each insurer’s own pricing models. However, the final rate change is not an estimate.

	Aetna LG		
	Requested	Final Approved	Impact to Rate Change
Medical Utilization & Severity Trend	6.3%	1.8%	-3.3%
Contribution to Reserves/Profit	4.0%	1.0%	-3.0%
Expected Overall Rate Change from 2023	6.6%	0.3%	

Table 1: Requested and Final Approved Rate Change

III. Proposed Rate Changes

The large group RI rate template requires the insurer to report the proposed average rate change for its entire large group book of business. The template requires the insurer to report the increase by quarter and then an annual rate change.

As of March 2023, there are 61 Rhode Island members enrolled.³ In the rate filing submitted on May 31st, Aetna requested a 6.6% annual rate change. The rate cap for large group insurers only applies to insurers with greater than one percent of the fully insured Rhode Island market, therefore it does not apply to Aetna.

The 2024 average rate change of 6.6% is driven by these key factors as reported by Aetna in Tab V of the Rhode Island OHIC rate template:

- 8.7% due to trend
- 3.1% due to the increase in the contribution to reserve

² Note in the memo provided to RIOHIC on August 23, 2023, the estimated impact was originally a rate decrease of 3.7%. However, this calculation was updated which resulted in an impact of 3.3%.

³ Aetna sold its first account in Rhode Island in April 2021.

- -5.5% due to overstatement of prior year projected claims⁴

IV. Experience & Trend Assumptions

Aetna sold its first Rhode Island large group account in April 2021 and currently has 61 members in Rhode Island, therefore there is limited data. Similar to prior years, Aetna completes Tab I of the RIOHIC template with their Connecticut experience. A review of actual claims experience shows that actual trends for Aetna’s Connecticut large group market are 13.2% in CY 2021 and 3.8% in CY 2022. The table below shows a three-year history of allowed claims PMPMs. Trends fluctuate by service category and while Aetna lost membership in Connecticut in 2021, they have since regained most of that membership in 2022.

Allowed Claims PMPM			
	CY 2020	CY 2021	CY 2022
Inpatient Hospital	\$116.87	\$101.25	\$124.54
Outpatient Hospital	\$250.91	\$304.61	\$311.52
Professional	\$139.44	\$165.64	\$167.10
Other Medical	\$0.00	\$0.00	\$0.00
Capitation	\$0.00	\$0.00	\$0.00
Prescription Drug	<u>\$108.74</u>	<u>\$125.95</u>	<u>\$120.82</u>
Total	\$615.96	\$697.45	\$723.97
Member Months	165,294	150,825	162,956

Allowed Claims PMPM Trend		
	CY 2021	CY 2022
Inpatient Hospital	-13.4%	23.0%
Outpatient Hospital	21.4%	2.3%
Professional	18.8%	0.9%
Other Medical	0.0%	0.0%
Capitation	0.0%	0.0%
Prescription Drug	<u>15.8%</u>	<u>-4.1%</u>
Total	13.2%	3.8%
Member Months Trend	-8.8%	8.0%

Table 2: Allowed Claims PMPM and Trend CY 2020 – CY 2022

Aetna is assuming an average annual trend assumption of 9.0% excluding leverage and 10.1% including leverage. This is higher than the trend assumption of 8.3% including leverage from last year’s final filing.⁵ Aetna stated that trends are developed based on their prospective view of national utilization trends combined with projected Rhode Island unit cost trends. Additional support including historical national data was provided which generally showed lower trends in 2022 compared to 2021. Aetna provided

⁴ Aetna uses Connecticut experience in their manual rate development, so the overstatement of prior year projected claims is due to improvement in the Connecticut experience.

⁵ Aetna’s initial rate filing assumed a 10.9% trend including leverage and this was lowered to 8.3% in the final rate filing.

several reasons why the historical data was not relied on including “Relying on our most recent historical data seems imprudent given meaningful impacts from the 2020 global pandemic, including utilization suppression. Both favorable inpatient severity mix and lower actuals in recent experience continue to reflect conditions unique to the COVID environment which are not expected to continue” and further stated that “our prior assumptions for medical utilization and severity/mix are being held at prior levels, despite lower trends reflected in the actuals.” Aetna also included two additional adjustments of 0.5% for economic pressure and 0.5% for high-cost drugs.

Trend Assumptions			
	Utilization &		
	Cost Trend	Severity Trend	Total Trend
Inpatient Hospital	3.2%	7.8%	11.2%
Outpatient Hospital	2.8%	6.2%	9.1%
Professional	1.7%	5.6%	7.4%
Other Medical	2.8%	6.2%	9.1%
Capitation	0.0%	0.0%	0.0%
Total Medical	2.6%	6.3%	9.1%
Prescription Drug	<u>4.8%</u>	<u>3.7%</u>	<u>8.6%</u>
Subtotal Excluding Leverage:	2.9%	5.9%	9.0%
Leverage			1.0%
Total Incl. Leverage:			10.1%

Table 3: Proposed Trend Assumptions

Aetna has one of the highest trend assumptions in the Rhode Island large group market and had the highest trend assumptions in their initial filing last year. Aetna stated that they have made no adjustments to their data used in trend development for COVID related expenses. The medical utilization & severity assumption is particularly on the high side. For the other primary insurers in Rhode Island, OWA is proposing medical FFS utilization & severity trend assumptions in the 1.1% to 2.4% range with an average of approximately 1.8%. It is recommended that Aetna assume a 2024 medical utilization & severity trend that represents the average of the other Rhode Island insurers of 1.8% rather than 6.3%.

Assumption #1: Revise the 2024 medical utilization & severity trend assumptions from 6.3% to 1.8%. These assumption changes would decrease the rates by approximately 3.3%.⁶

In addition to the trend assumptions above, Aetna adds a leverage adjustment into their rates to account for cost sharing leveraging. Since copayments and deductibles do not increase at the same rate as claims cost trends, the share of claims paid for by the insurers increases at a higher rate than total allowed costs. Insurers account for this by applying a leverage adjustment. Aetna’s overall leverage assumption is 1.1%

⁶ Note in the memo provided to RIOHIC on August 23, 2023, the estimated impact was originally a rate decrease of 3.7%. However, this calculation was updated which resulted in an impact of 3.3%.

which is consistent with last year. Aetna stated last year that this is based on information provided in Milliman Health Cost Guidelines.

V. Assessments

Aetna includes the cost of assessments for Childhood Immunizations, Adult Immunizations, and Children's Health Account in their retention. Tab IV of the RIOHIC template shows that Aetna includes 0.8% of premium for these RI assessments. This represents a slight increase from the 2023 rates where 0.7% was included for these assessments. Aetna did not indicate an amount for Care Transformation Collaborative of RI and Current Care in Tab IV of the RIOHIC template.

VI. COVID-19 Experience

Consistent with last year's filing, Aetna is not making any adjustments to the data in their experience rating formula or to the data used for trend development purposes for COVID related expenses.

VII. Projected MLR and Retention Charge

Using the federal definition and the current proposed rates, Aetna projects an 88.7% MLR for 2023 and 90.3% for 2024.⁷ Aetna reports an MLR of 83.6% for CY 2020, 90.9% MLR for 2021, and 93.6% MLR for 2022.⁸ The historical experience is based on Connecticut.

The retention charge of a rate includes the administrative expenses, taxes and fees, and the contribution to reserve. Aetna is proposing an average retention charge of 11.9% for 2024.⁹ This is higher than the retention charge from 2023 of 9.1% and the primary driver is the increase in the contribution to reserve assumption. It is noted that contribution to reserve/profit target of 4% is the highest compared to the other large group insurers in the market, with the next highest being at 3%.

⁷ This is coming from Tab VI MLR Exhibit in the RI rate template. This is prior to the credibility adjustment factor.

⁸ There may be updates to the 2022 MLR that are not reflected in what was reported in the initial rate filing.

⁹ The item "Premium Tax" line included a 2.0% charge for premium tax, 0.8% for assessments and 0.4% for insolvency risk. The assessments and insolvency risk has been included in the "Other Retention Charge" line for purposes of this memo.

Proposed Retention Charge	2024	2023	Change
ACA Taxes and Fees	0.0%	0.0%	0.0%
Premium Tax	2.0%	2.0%	0.0%
Other Retention Charge	1.1%	1.0%	0.1%
Contribution to Reserve (Profit/Risk Load)	4.0%	1.0%	3.0%
Investment Income Credit	0.0%	0.0%	0.0%
Administrative Expense Load	<u>4.6%</u>	<u>5.1%</u>	-0.5%
Total Retention Charge	11.7%	9.1%	2.6%

Table 4: Proposed Retention Charges¹⁰

VIII. Requested and Final Approved Rate Change

The table below shows Aetna’s requested rate change and final approved rate change. Note OWA has estimated how each individual assumption change impacts the overall rate. Due to the interaction of assumptions, the actual impact may be slightly different due to each insurer’s own pricing models. However, the final rate change is not an estimate.

	Aetna LG		
	Requested	Final Approved	Impact to Rate Change
Medical Utilization & Severity Trend	6.3%	1.8%	-3.3%
Contribution to Reserves/Profit	4.0%	1.0%	-3.0%
Expected Overall Rate Change from 2023	6.6%	0.3%	

Table 5: Requested and Final Approved Rate Change

IX. Data Reliance, Limitations and Qualifications

This letter communicates our findings regarding our review of Aetna’s large group rate filing (SERFF tracking numbers AETN-133595954). This letter also communicates the RI Health Insurance Commissioner’s final decisions. Distribution of this letter to parties other than OHIC by us or any other party does not constitute advice by us to those parties. The reliance of parties other than the OHIC on any aspect of our work is not authorized by us and is done at their own risk. In arriving at our findings, we used and relied on information provided by Aetna. If this information is inaccurate or incomplete, our findings and conclusions may need to be revised. While we have relied on the data provided by the company without independent investigation or verification, we have reviewed the information for consistency and

¹⁰ Aetna has indicated that the retention charge includes the cost for Childhood Immunizations, Adult Immunizations, and Children’s Health Account.

reasonableness. Where we found the data inconsistent or unreasonable, we requested clarification. We have utilized generally accepted actuarial methodologies in arriving at our findings.

This letter includes work based on actuarial analysis conducted by Jenn Smagula who is a member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. This letter was peer reviewed by Bela Gorman who is a member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. They both meet the Academy's Qualification Standards to perform this work.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Jenn Smagula', written over a light gray rectangular background.

Jenn Smagula FSA, MAAA

Cc: Bela Gorman FSA, MAAA, OWA

Emily Maranjian, Executive Legal Counsel, Rhode Island OHIC

Cory King
Acting Health Insurance Commissioner
Office of the Health Insurance Commissioner
State of Rhode Island
1511 Pontiac Ave, Building 69-1
Cranston, RI 02920

13 September 2023

**Large Group Market Rate Filing for Blue Cross and Blue Shield of Rhode Island (BCBSRI) for Rates Effective January 1, 2024: Actuarial Review Memo and Final RIOHIC Approved Decisions
SERFF Filing #BCBS-133633622**

Dear Commissioner King,

At the request of the Rhode Island Office of the Health Insurance Commissioner (RIOHIC), Oliver Wyman Actuarial Consulting, Inc. (OWA) has performed an actuarial review of BCBSRI's large group market rate filing.

I. Rate Filing Process

This actuarial review letter focuses on the review of the filings that were submitted on May 1, 2023. BCBSRI resubmitted a revised filing on June 1st. The rate change in the revised filing was unchanged but there were updates to other information presented in the filing.¹

Throughout the filing process, OWA corresponded with Brian Mackintosh, Michael Bodenrader, and Sarah Bewick of BCBSRI. An actuarial memorandum and certification are included in the filing signed by Sarah Bewick, ASA, MAAA. OWA submitted questions through SERFF on May 18th, July 3rd, and August 1st. In addition, OWA conducted phone calls with the BCBSRI team. OWA received responses for questions through SERFF. OWA also relied on responses to questions for the BCBSRI individual and small group filings that pertain to the BCBSRI large group filing.

OWA provided considerations for alternative assumptions to RIOHIC on August 21, 2023. The RI Health Insurance Commissioner provided preliminary decisions to OWA on August 25, 2023. BCBSRI submitted revised rates on September 6, 2023. This memo summarizes considerations for alternative assumptions as well as decisions approved by the RI Health Insurance Commissioner.

¹ In the June 1st version, BCBSRI revised the "Components of Premium" tab to be more consistent with internal expectations of the drivers of the rate change.

II. Considerations for Alternative Assumptions and Final Approved Rate Change

Assumption #1: Revise the annual medical utilization & severity trend assumptions from 1.4% to 1.2%. These assumption changes would decrease the rates by approximately 0.2%.

Contribution to Reserve: The RI Health Insurance Commissioner has approved a 1.0% contribution to reserve.

The table below shows BCBSRI’s requested rate change and final approved rate change. Note OWA has estimated how each individual assumption change impacts the overall rate change. Due to the interaction of assumptions, the actual impact may be slightly different due to each insurer’s own pricing models. However, final rate change is not an estimate.

	BCBSRI LG		
	Requested	Final Approved	Impact to Rate Change
Medical Utilization & Severity Trend	1.4%	1.2%	-0.2%
Contribution to Reserves/Profit	2.0%	1.0%	-1.0%
Expected Overall Rate Change from 2023	10.2%	8.8%	

Table 1: Requested and Final Approved Rate Change

III. Proposed Rate Changes

The large group RIOHIC rate template requires the insurer to report the proposed average rate change for its entire large group book of business. The template requires the insurer to report the increase by quarter and then an annual rate change.

As of March 2023, there were 63,321 members. BCBSRI has requested an overall 10.2% annual rate increase. The table below shows the rate change by quarter. BCBSRI projects this rate change by projecting claims and premium for their groups for each renewal month and then aggregates their projections to calculate a projected annual rate change. There is significant variation by quarter due to the diversity of the groups that renew each quarter. Since the large group rating formula is an experience rating formula, each group’s own experience will influence the overall rate increase.

Renewal Quarter and Year	Proposed Average Rate Change	% of Renewals (Membership)
1Q 24 Renewals	11.3%	52%
2Q 24 Renewals	11.8%	20%
3Q 24 Renewals	4.3%	17%
4Q 24 Renewals	12.7%	11%
Total	10.2%	100%

Table 2: Average Rate Changes by Quarter

The 2024 average rate change of 10.2% is driven by these key factors as reported by BCBSRI in Tab V of the RIOHIC rate template:

- 6.0% due to trend
- 3.5% due to understatement of prior year claims²
- 1.2% due to increase in contribution to reserve

IV. Experience & Trend Assumptions

A review of actual allowed claims experience shows that actual trends for BCBSRI's large group market was 11.2% from 2020 to 2021 and 4.1% from 2021 to 2022. BCBSRI has also lost members the past two years, decreasing by 3.2% in 2021 and decreasing an additional 6.5% in 2022.

² The understatement of prior year claims is primarily driven by an overstatement of pharmacy rebates and an understatement of non-claims payments to providers, or out of system payments. BCBSRI provided additional details through their responses in SERFF.

Allowed Claims PMPM			
	CY 2020	CY 2021	CY 2022
Inpatient Hospital	\$105.19	\$112.63	\$107.46
Outpatient Hospital	\$128.96	\$146.68	\$155.17
Professional	\$149.70	\$173.68	\$182.33
Other Medical	\$11.44	\$14.65	\$16.17
Capitation	\$0.89	\$0.75	\$0.68
Prescription Drug	<u>\$88.91</u>	<u>\$90.88</u>	<u>\$99.52</u>
Total	\$485.09	\$539.26	\$561.32
Member Months	842,642	815,930	762,874

Allowed Claims PMPM Trend		
	CY 2021	CY 2022
Inpatient Hospital	7.1%	-4.6%
Outpatient Hospital	13.7%	5.8%
Professional	16.0%	5.0%
Other Medical	28.1%	10.4%
Capitation	-15.8%	-10.0%
Prescription Drug	<u>2.2%</u>	<u>9.5%</u>
Total	11.2%	4.1%
Member Months Trend	-3.2%	-6.5%

Table 3: Allowed Claims PMPM and Trend CY 2020 – CY 2022

BCBSRI is assuming an average annual trend assumption of 6.5% excluding leverage and 7.5% including leverage. This is a decrease from last year’s trend assumptions of 7.2% excluding leverage and 8.0% including leverage. The table below shows BCBSRI’s trend assumptions by service category. The average medical cost trend is 4.3%, compared to 4.1% last year. The average medical utilization & severity trend is 1.4%³, compared to 3.0% last year. BCBSRI’s trend assumption is driven by the unit cost trend component and the pharmacy trend component as shown in the table below.

³ BCBSRI individual, small group, and large group all use the same trend assumptions by service category, but the weights by service category are different which causes total trends to differ slightly. In addition, the small group rate filing Year 2 trend includes an additional month of trend to project to 1Q.

Trend Assumptions			
	2 Year Avg Cost	2 Year Avg Util & Severity	2 Year Avg Total
Inpatient Hospital	6.1%	-2.4%	3.6%
Outpatient Hospital	4.8%	2.2%	7.1%
Professional	2.9%	2.8%	5.8%
Other Medical	2.9%	2.8%	5.8%
Capitation	0.0%	0.0%	0.0%
Total Medical	4.3%	1.4%	5.7%
Prescription Drug	<u>1.7%</u>	<u>8.2%</u>	<u>10.1%</u>
Subtotal Excl. Leverage			6.5%
Leverage			0.9%
Total Incl. Leverage			7.5%

Table 4: Proposed Trend Assumptions

The table below shows BCBSRI’s inpatient hospital outpatient hospital and professional unit cost trend assumptions for 2023 and 2024. On combined inpatient and outpatient basis, the unit cost trend is 5.4% for both 2023 and 2024. BCBSRI has provided a detailed unit cost increase schedule for hospital and the numbers align with the rate filing.

Unit Cost Trend	Year 1 2023	Year 2 2024
Hospital Inpatient	6.3%	6.5%
Outpatient Hospital	4.7%	5.3%
Professional	2.5%	3.7%

Table 5: Unit Cost Trends

BCBSRI utilization & severity trends are developed based on regression analyses across the combined individual, small group, and large group insured markets. BCBSRI provided a series of regression charts by service category: inpatient hospital, outpatient, physician, and pharmacy. For inpatient utilization, regressions are performed on admissions per 1000 with COVID vaccines and testing claims removed. For the other service categories, BCBSRI adjusts allowed claims PMPMs for price, removes COVID testing and vaccine claims, and then performs regression analysis. Due to the impact of COVID-19 on CY 2020 utilization, 2020 data is not used in the regression analysis for the medical service categories. BCBSRI has also adjusted the data for age.

We performed our own trend analysis on BCBSRI’s individual, small group and large group insured data combined. The combined pool represents approximately 122,000 enrollees but the enrollment has ranged from a high of 138,000 enrollees in 2019 to the most recent enrollment of 122,000. We received monthly data from January 2018 through March 2023, adjusted for IBNR, and primarily relied on claims incurred through February 2023.⁴ We subtracted out COVID vaccines and testing from the data. We then performed an actuarial trend analysis using the most recent data (Table 6) and also comparing the most

⁴ The original data provided was paid through March 2023. BCBSRI provided updated monthly medical allowed PMPMs for January through March 2023 paid through June 2023.

recent data from 2023 and 2022 to 2019 (Table 7), due to the impact COVID had on both 2020 and 2021 utilization. As shown annual medical PMPM trends adjusted for COVID vaccines and testing range from 3.2% to 6.8% when comparing results across the two tables. Also note that trends appear to be increasing in the later time periods in both sets of results and it is most dramatic in the results shown in Table 6 in the “Rolling 3 Trend” column.

BCBS Fully-Insured Market (IND, SG, LG)				
Medical Only Less COVID Vaccines & Testing				
Allowed Medical Claims PMPM		Rolling 3 Trend	Rolling 6 Trend	Rolling 12 Trend
October	2022	4.6%	1.3%	3.5%
November	2022	5.2%	1.7%	3.0%
December	2022	2.5%	2.9%	1.8%
January	2023	8.5%	6.6%	3.7%
February	2023	13.0%	9.0%	5.0%
Average of last 5 data points		6.8%	4.3%	3.4%

Table 6: OWA Medical Trend Analysis- Most Recent Trends

BCBS Fully-Insured Market (IND, SG, LG)				
Medical Only Less COVID Vaccines & Testing and Three-Year Annualized				
Allowed Medical Claims PMPM		Total Rolling 3 Trend	Total Rolling 6 Trend	Total Rolling 12 Trend
October	2022	3.5%	2.8%	2.8%
November	2022	4.3%	3.8%	3.0%
December	2022	3.8%	3.6%	2.9%
January	2023	4.5%	4.0%	3.4%
February	2023	4.3%	4.3%	3.9%
Average of last 5 data points		4.1%	3.7%	3.2%

Table 7: OWA Medical Trend Analysis- Most Recent Data Compared to 2019

BCBSRI also provided monthly unit cost trends, therefore we were able to adjust (normalize) the allowed claims PMPM for impacts due to changes in unit costs. This allows us to analyze utilization and severity trends. A summary of the results is shown below, using again both the most recent data (Table 8) and the most recent data compared to 2019 (Table 9). As shown annual medical utilization and severity trends adjusted for COVID vaccines and testing, range from 0.4% to 3.3% when comparing results across the two tables. Also note that there is fluctuation in the results from the most recent time period (Table 8) although trends appear to be increasing overall in the later time periods. Trends are more stable in the comparison of 2019 to the most recent data (Table 9).

BCBS Fully-Insured Market (IND, SG, LG)				
Medical Only Less COVID Vaccines & Testing Adjusted for Unit Cost				
Allowed Medical Claims PMPM		Rolling 3 Trend	Rolling 6 Trend	Rolling 12 Trend
October	2022	1.8%	-1.5%	0.8%
November	2022	2.3%	-1.1%	0.2%
December	2022	-0.5%	0.0%	-1.1%
January	2023	4.6%	3.2%	0.6%
February	2023	8.4%	5.2%	1.6%
Average of last 5 data points		3.3%	1.2%	0.4%

Table 8: OWA Medical Trend Analysis- Most Recent Data Utilization & Severity Trends⁵

BCBS Fully-Insured Market (IND, SG, LG)				
Medical Only Less COVID Vaccines & Testing and Three-Year Annualized and Adjusted for Unit Cost				
Allowed Medical Claims PMPM		Total Rolling 3 Trend	Total Rolling 6 Trend	Total Rolling 12 Trend
October	2022	1.5%	0.8%	0.8%
November	2022	2.2%	1.7%	1.0%
December	2022	1.6%	1.5%	0.9%
January	2023	2.0%	1.7%	1.3%
February	2023	1.5%	1.8%	1.6%
Average of last 5 data points		1.7%	1.5%	1.1%

Table 9: OWA Medical Trend Analysis- Most Recent Data Compared to 2019 Utilization & Severity Trends⁶

BCBSRI provided data to show that their age factors have increased 0.4% on average from 2019 to 2022. After accounting for the impact of unit cost and aging, we have determined a utilization & severity trend assumption range from 0% to 2.9% using the most recent data (Table 8) and 0.7% to 1.3% using 2019 data compared to the most recent data (Table 9).⁷ The overall average is 1.1%.

BCBSRI is assuming an annual 1.4% medical utilization & severity trend assumption in this large group filing. BCBSRI individual, small group, and large group all use the same trend assumptions by service category, but the weights by service category are different which causes total trends to differ slightly. Consistent with the BCBSRI individual market filing the alternative assumption is based on a reduction of 0.2% to the annual medical utilization & severity trend.

⁵ The utilization & severity trends shown in this table are based on allowed claims PMPMs adjusted for changes in unit cost.

⁶ Ibid.

⁷ These ranges were determined by normalizing for the average change in age factors. We also reviewed the paid to allowed ratios for the past three years and there is little change, suggesting very little plan design changes and therefore we made no adjustments to the trend analysis for induced demand.

Assumption #1: Revise the annual medical utilization & severity trend assumptions from 1.4% to 1.2%. These assumption changes would decrease the rates by approximately 0.2%.⁸

We also analyzed pharmacy trends. The table below shows a historical pharmacy trend range from 11.4% to 11.9% with trends being fairly stable. BCBSRI is assuming 10.3% which is below this range. BCBSRI stated that their pharmacy trend are developed in conjunction with their pharmacy benefit manager (PBM) and reflect the impact of changes to contracts in future periods and the impact of new drugs.

BCBS Fully-Insured Market (IND, SG, LG)				
Pharmacy Only				
Allowed Pharmacy Claims PMPM		Rolling 3 Trend	Rolling 6 Trend	Rolling 12 Trend
October	2022	13.7%	13.6%	11.7%
November	2022	11.5%	12.0%	11.2%
December	2022	10.1%	10.1%	10.9%
January	2023	11.7%	12.7%	11.9%
February	2023	10.8%	11.2%	11.3%
Average of last 5 data points		11.6%	11.9%	11.4%

Table 10: OWA Pharmacy Trend Analysis

V. COVID-19 Experience

BCBSRI has provided COVID-19 costs related to treatment, testing and vaccines. They indicate that their total CY 2022 COVID-19 costs are \$13.50 PMPM.⁹ BCBSRI has made an adjustment of 0.988 to account for the expected reduction of COVID vaccines & testing costs in 2024 compared to 2022, along with an adjustment due to the reinstatement of prior authorizations that were waived during the public health emergency.

VI. Projected MLR and Retention Charge

Using the federal definition, excluding adjustments for credibility, BCBSRI projects an MLR for 2024 of 88.1% which includes a 2.0% contribution to reserve. BCBSRI reports an MLR of 84.0% for CY 2020, 86.4% MLR for 2021, and 87.2% MLR for 2022.¹⁰

The retention charge of a rate includes the administrative expenses, taxes and fees, and the contribution to reserve. BCBSRI is proposing an average retention charge of 15.1% for 2024. This is consistent with the retention charge from 2023 although there are differences by component. The administrative expense load has decreased from 11.3% to 10.3%, while the contribution to reserve has increased from 1% to 2%.

⁸ If BCBSRI were to use a 1.2% annual medical utilization & severity trend in 2023 and 2024 rather than 1.4%, this would decrease trends by approximately 0.2% each year. This is worth 0.4% over the entire projection period. The estimated impact to overall rates is determined assuming medical represents approximately 82% of total claims and that total claims spending represents 85% of total premium.

⁹ Each insurer may define COVID treatment differently and therefore these amounts may not be comparable across insurers

¹⁰ There may be updates to the 2022 MLR that are not reflected in what was reported in the initial rate filing.

BCBSRI includes 1.1% in their rates for RI assessments and fees, and last year this amount was 0.8%. The driver of the increase is due to an increase in childhood and adult immunizations. As shown in Table 12, BCBSRI is assuming a \$2.88 PMPM Childhood Immunization Assessment and a \$3.23 PMPM Adult Immunization Assessment.

Proposed Retention Charge	2024	2023	Change
ACA Fees and Taxes	0.0%	0.0%	0.0%
Premium Tax	2.0%	2.0%	0.0%
Other Retention Charge	1.1%	0.8%	0.3%
Contribution to Reserve (Profit/Risk Load)	2.0%	1.0%	1.0%
Investment Income Credit	-0.3%	-0.1%	-0.3%
Administrative Expense Load	<u>10.3%</u>	<u>11.3%</u>	<u>-1.0%</u>
Total Retention Charge	15.1%	15.1%	0.1%

Table 11: Proposed Retention Charge¹¹

Assessment	2024 BCBSRI Assumptions		2023 BCBSRI Assumptions	
	PMPM	Premium Impact	PMPM	Premium Impact
Childhood Immunization Account	\$2.88	0.4%	\$1.74	0.3%
Adult Immunization Account	\$3.23	0.5%	\$1.82	0.3%
Children's Health Account	\$1.11	0.2%	\$1.12	0.2%
Care Transformation Collaborative of RI	\$0.78	0.1%	\$0.66	0.1%
Current Care	<u>\$1.00</u>	<u>0.2%</u>	<u>\$1.00</u>	<u>0.2%</u>
Total	\$9.00	1.4%	\$6.35	1.1%

Table 12: RI Assessments

VII. Financial Position

A review of BCBSRI's financial measures show that BCBSRI's RBC level in 2022 is 637%. This is lower than the RBC from 2021, but higher than 2018 and on par with the RBC from 2019.

¹¹ The Other Retention Charge Line includes the amount for assessments included in retention (Childhood Immunization Account, Adult Immunization Account, and Children's Health Account.) The charges for the Care Transformation Collaborative of RI and Current Care are included in the medical claims portion of the rate.

	BCBSRI					
	2022	2021	2020	2019	2018	2017
8. Total Revenues	\$1,883,598,404	\$1,795,520,104	\$1,707,243,198	\$1,698,166,372	\$1,708,865,057	\$1,719,351,097
24. Net Underwriting G/L	\$19,004,861	\$9,239,068	\$7,713,021	\$28,874,085	\$36,858,723	\$8,177,236
Underwriting G/L	1.0%	0.5%	0.5%	1.7%	2.2%	0.5%
49. Capital and Surplus end of reporting year	\$408,954,854	\$434,692,861	\$415,814,234	\$371,583,769	\$298,658,624	\$292,996,877
SAPOR	21.7%	24.2%	24.4%	21.9%	17.5%	17.0%
14. Total Adjusted Capital	\$408,954,583	\$434,692,861	\$415,814,234	\$371,583,769	\$298,658,624	\$292,996,877
15. Authorized control level risk-based capital	\$64,201,018	\$63,315,995	\$58,616,377	\$58,232,394	\$57,430,307	\$58,588,774
RBC	637.0%	686.5%	709.4%	638.1%	520.0%	500.1%

Table 13: Summary of Financials

VIII. Requested and Final Approved Rate Change

The table below shows BCBSRI's requested rate change and final approved rate change. Note OWA has estimated how each individual assumption change impacts the overall rate change. Due to the interaction of assumptions, the actual impact may be slightly different due to each insurer's own pricing models. However, the final rate change is not an estimate.

	BCBSRI LG		
	Requested	Final Approved	Impact to Rate Change
Medical Utilization & Severity Trend	1.4%	1.2%	-0.2%
Contribution to Reserves/Profit	2.0%	1.0%	-1.0%
Expected Overall Rate Change from 2023	10.2%	8.8%	

Table 14: Requested and Final Approved Rate Change

IX. Data Reliance, Limitations and Qualifications

This letter communicates our findings regarding our review of BCBSRI's large group rate filing (SERFF tracking number BCBS-133633622.) This letter also communicates the RI Health Insurance Commissioner's final decisions. Distribution of this letter to parties other than RIOHIC by us or any other party does not constitute advice by us to those parties. The reliance of parties other than the RIOHIC on any aspect of our work is not authorized by us and is done at their own risk. In arriving at our findings, we used and relied on information provided by BCBSRI. If this information is inaccurate or incomplete, our findings and conclusions may need to be revised. While we have relied on the data provided by the company without independent investigation or verification, we have reviewed the information for consistency and reasonableness. Where we found the data inconsistent or unreasonable, we requested clarification. We have utilized generally accepted actuarial methodologies in arriving at our findings.

This letter includes work based on actuarial analysis conducted by Jenn Smagula who is a member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. This letter was peer reviewed by Bela Gorman who is a member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. They both meet the Academy's Qualification Standards to perform this work.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Jenn Smagula', written in a cursive style.

Jenn Smagula FSA, MAAA

Cc: Bela Gorman FSA, MAAA, OWA

Emily Maranjian, Executive Legal Counsel, RIOHIC

Cory King
Acting Health Insurance Commissioner
Office of the Health Insurance Commissioner
State of Rhode Island
1511 Pontiac Ave, Building 69-1
Cranston, RI 02920

13 September 2023

Large Group Market Rate Filings for Cigna Health and Life Insurance Company (CIGNA) for Rates Effective January 1, 2024: Actuarial Review Memo and Final RIOHIC Approved Decisions SERFF Filing #CCGP-133657941

Dear Commissioner King,

At the request of the Rhode Island Office of the Health Insurance Commissioner (RIOHIC), Oliver Wyman Actuarial Consulting, Inc. (OWA) has performed an actuarial review of CIGNA's large group market rate filing.

I. Rate Filing Process

This actuarial review letter focuses on the review of the filings that were submitted on May 1st, May 22nd, and June 8th and June 20th.¹ The filing submitted on May 22nd included an updated rate change reflecting the impact of the vaccine assessment.

Throughout the filing process, OWA corresponded with Xiao Li of CIGNA's actuarial team. An actuarial certification is included in the filing signed by Michael Kaplan FSA, MAAA, Actuarial Senior Director. OWA submitted questions through SERFF on June 13th and received responses to questions through SERFF.

OWA provided an actuarial rate review memo to RIOHIC on August 22, 2023. The RI Health Insurance Commissioner provided preliminary decisions to OWA on August 25, 2023. This memo summarizes the decisions approved by the RI Health Insurance Commissioner.

II. Considerations for Alternative Assumptions and Final Approved Rate Change

¹ The updated RIOHIC template submitted on June 8th reflected an update to the projected MLRs in Tab VI and the updated RIOHIC template submitted on June 20th reflected an update to the Tab I data to reflect pharmacy data net of rebates.

There were no considerations for alternative assumptions with this rate filing and the RI Health Commissioner has determined that this rate filing will be accepted as filed without modification. The table below shows requested and final approved rate change.

	CIGNA LG		
	Requested	Final Approved	Impact to Rate Change
Contribution to Reserves/Profit	1.0%	1.0%	0.0%
Expected Overall Rate Change from 2023	5.9%	5.9%	

Table 1: Requested and Final Approved Rate Change

III. Proposed Rate Changes

The large group RI rate template requires the insurer to report the proposed average rate change for its entire large group book of business. The template requires the insurer to report the increase by quarter and then an annual rate change.

As of March 2023, there are 325 Rhode Island members enrolled. In the rate filing submitted on May 22nd, CIGNA requested a 5.9% annual rate change. The rate cap for large group insurers only applies to insurers with greater than one percent of the fully insured Rhode Island market, therefore it does not apply to CIGNA.

The 2024 average rate change of 5.9% is driven by these key factors as reported by CIGNA in Tab V² of the Rhode Island OHIC rate template:

- 6.4% due to trend
- -1.5% due to revisions to pricing factors
- 0.7% due to assessments.

IV. Experience & Trend Assumptions

CIGNA provided their Rhode Island experience for CY 2020, CY 2021, and CY 2022. A review of actual claims experience shows that actual trends for CIGNA’s large group market is 8.5% in CY 2021 and 35.2% in CY 2022. Trends fluctuate by service category and in total due to the low membership and changes in membership each year.

² This is based on the RIOHIC template received on June 20th.

Allowed Claims PMPM			
	CY 2020	CY 2021	CY 2022
Inpatient Hospital	\$132.42	\$94.40	\$270.41
Outpatient Hospital	\$152.80	\$244.52	\$257.70
Professional	\$140.54	\$136.77	\$149.11
Other Medical	\$29.41	\$25.47	\$14.22
Capitation	\$24.02	\$25.61	\$27.35
Prescription Drug	<u>\$84.65</u>	<u>\$84.75</u>	<u>\$108.25</u>
Total	\$563.85	\$611.52	\$827.05
Member Months	9,284	7,282	5,432

Allowed Claims PMPM Trend		
	CY 2021	CY 2022
Inpatient Hospital	-28.7%	186.5%
Outpatient Hospital	60.0%	5.4%
Professional	-2.7%	9.0%
Other Medical	-13.4%	-44.2%
Capitation	6.6%	6.8%
Prescription Drug	<u>0.1%</u>	<u>27.7%</u>
Total	8.5%	35.2%
Member Months Trend	-21.6%	-25.4%

Table 2: Allowed Claims PMPM and Trend CY 2020 – CY 2022

CIGNA is assuming an average annual trend assumption of 6.5% excluding leverage and 7.3% including leverage. This is consistent with CIGNA’s trend assumption from last year excluding leverage and slightly lower than the trend assumption including leverage of 7.6%. The table below shows CIGNA’s trend assumptions by service category. CIGNA stated that their utilization and mix trend is developed by looking at historical averages and then adjusting them for expected future impacts. The unit cost trend is developed using CIGNA’s knowledge in changes in provider and pharmacy contracted rates.

Trend Assumptions			
	Utilization &		
	Cost Trend	Severity Trend	Total Trend
Inpatient Hospital	1.1%	4.2%	5.4%
Outpatient Hospital	1.0%	4.2%	5.3%
Professional	3.4%	4.2%	7.8%
Other Medical	7.2%	4.2%	11.7%
Capitation	0.0%	4.2%	4.2%
Total Medical	1.6%	4.2%	5.9%
Prescription Drug	<u>8.0%</u>	<u>2.3%</u>	<u>10.5%</u>
Subtotal Excluding Level	2.5%	4.0%	6.5%
Leverage			0.7%
Total Incl. Leverage:			7.3%

Table 3: Proposed Trend Assumptions

In addition to the trend assumptions above, CIGNA adds a leverage adjustment into their rates to account for cost sharing leveraging. Since copayments and deductibles do not increase at the same rate as claims cost trends, the share of claims paid for by the insurer increases at a higher rate than total allowed costs. Insurers account for this by applying a leverage adjustment. CIGNA’s overall leverage assumption is 0.7% which is lower than last year’s assumption of 1.0%. CIGNA stated that this is calculated by running their book through the current and then proposed pricing engines at a point in time. They then compare the allowed and paid trends to get an average leverage impact.

V. Assessments

CIGNA includes the cost of assessments for Childhood Immunizations³, Adult Immunizations, and Children’s Health Account in their retention. Tab IV of the RIOHIC template shows that CIGNA includes 2.1% of premium for these RI assessments. This represents an increase from the 2023 rates where 0.9% was included for these assessments. CIGNA did not indicate an amount for Care Transformation Collaborative of RI and Current Care in Tab IV of the RIOHIC template.

VI. COVID-19 Experience

CIGNA is not making any adjustments to the data in their experience rating formula for COVID related costs. CIGNA stated that they considered expected COVID related impacts in their trend assumption including the impact from vaccines, testing, treatment, deferred non-COVID utilization and other shifts in utilization due to COVID. CIGNA assumed a net reduction of 1.56% in their trend assumption due to these various impacts.

³ CIGNA stated in last year’s filing that they do not have the ability to report the immunization assessment by adult and children so they provided a blended amount as noted under Adult Immunization Account.

VII. Projected MLR and Retention Charge

Using the federal definition and the current proposed rates, CIGNA projects a 93.8% MLR for 2023 and 92.9% for 2024.⁴ CIGNA reports an MLR of 98.7% for CY 2020, 92.8% MLR for 2021, and 115.5% MLR for 2022.⁵

The retention charge of a rate includes the administrative expenses, taxes and fees, and the contribution to reserve. CIGNA is proposing an average retention charge of 11.3% for 2024. This is higher than the retention charge from 2023 of 10.3%. The primary driver of the increase is due to the increase in assessments.

Proposed Retention Charge	2024	2023	Change
ACA Fees and Taxes	0.0%	0.0%	0.0%
Premium Tax	2.0%	2.0%	0.0%
Other Retention Charge	0.0%	0.0%	0.0%
Contribution to Reserve (Profit/Risk Load)	1.0%	1.0%	0.0%
Investment Income Credit	0.0%	0.0%	0.0%
Administrative Expense Load	<u>8.3%</u>	<u>7.3%</u>	<u>1.0%</u>
Total Retention Charge	11.3%	10.3%	0.9%

Table 4: Proposed Retention Charges⁶

VIII. Requested and Final Approved Rate Change

The table below shows CIGNA's requested rate change and the final approved rate change. The requested and final approved rate change are the same.

	CIGNA LG		
	Requested	Final Approved	Impact to Rate Change
Contribution to Reserves/Profit	1.0%	1.0%	0.0%
Expected Overall Rate Change from 2023	5.9%	5.9%	

Table 5: Requested and Final Approved Rate Change

IX. Data Reliance, Limitations and Qualifications

⁴ This is coming from Tab VI MLR Exhibit in the RIOHIC rate template submitted on June 20th. This is prior to the credibility adjustment factor.

⁵ This is coming from Tab VI MLR Exhibit in the RIOHIC rate template submitted on June 20th. This is prior to the credibility adjustment factor. There may be updates to the 2022 MLR that are not reflected in what was reported in the initial rate filing.

⁶ CIGNA has indicated that the retention charge includes the cost for Children Immunizations, Adult Immunizations and Children's Health Account.

This letter communicates our findings regarding our review of CIGNA's large group rate filing (SERFF tracking numbers CCGP-133657941). This letter also communicates the RI Health Insurance Commissioner's final decisions. Distribution of this letter to parties other than OHIC by us or any other party does not constitute advice by us to those parties. The reliance of parties other than the OHIC on any aspect of our work is not authorized by us and is done at their own risk. In arriving at our findings, we used and relied on information provided by CIGNA. If this information is inaccurate or incomplete, our findings and conclusions may need to be revised. While we have relied on the data provided by the company without independent investigation or verification, we have reviewed the information for consistency and reasonableness. Where we found the data inconsistent or unreasonable, we requested clarification. We have utilized generally accepted actuarial methodologies in arriving at our findings.

This letter includes work based on actuarial analysis conducted by Jenn Smagula who is a member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. This letter was peer reviewed by Bela Gorman who is a member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. They both meet the Academy's Qualification Standards to perform this work.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Jenn Smagula', written over a faint, light-colored background.

Jenn Smagula FSA, MAAA

Cc: Bela Gorman FSA, MAAA, OWA

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11 September 2023

Large Group Market Rate Filing for Harvard Pilgrim Health Care of New England, Inc (HPHCNE) and HPHC Insurance Company, Inc. (HPIC) for Rates Effective January 1, 2024: Actuarial Review Memo and Final RIOHIC Approved Decisions. SERFF Filing #HPHC-133655859

Dear Commissioner King,

At the request of the Rhode Island Office of the Health Insurance Commissioner (RIOHIC), Oliver Wyman Actuarial Consulting, Inc. (OWA) has performed an actuarial review of HPHCNE and HPIC's large group market rate filing.

I. Rate Filing Process

This actuarial review letter focuses on the review of the filings that were submitted by HPHCNE and HPIC on May 1st and May 25th of 2023.¹ Rates remained unchanged from the version submitted May 1st.

Throughout the filing process, OWA corresponded with HPHCNE and HPIC's actuary Besart Stavileci FSA, MAAA. An actuarial certification is included in the filing signed by Besart Stavileci. OWA submitted questions through SERFF on May 18th, June 14th, and June 30th. In addition, OWA conducted a phone call with Mr. Stavileci. OWA received responses for questions through SERFF. OWA also relied on responses to questions for the Harvard Pilgrim Health Care of New England (HPHCNE) and HPHC Insurance Company, Inc. (HPIC) small group filings that pertain to this large group filing.

From 2009 to 2023, Point32Health has sold commercial health insurance policies in Rhode Island through Tufts Associated Health Maintenance Organization, Inc. (TAHMO) and Tufts Insurance Company, Inc. (TICO), jointly referred to as Tufts Health Plan (THP). Beginning on renewal in 2024, Point32Health is migrating all commercial policies issued in Rhode Island from TAHMO to HPHCNE, and from TICO to HPIC. Effective in 2024, there will no longer be TAHMO and TICO rate filings. HPHCNE and HPIC are submitting this 2024

¹ The updated RIOHIC template submitted on May 25th was updated for errors in the Prescription Drug trend in Tab I and Chronic Care Sustainability Initiative PMPM's in Tab IV, updates to better reflect trend in the Components of Premium Change in Tab V and updates to 2024 premium and claims reflecting an enrollment and plan mix adjustment in Tab VI. The HPHCNE and HPIC Large group rating manual originally submitted May 5th was revised on May 25th to correct an inadvertent omission regarding underwriting adjustments.

filing as renewing blocks of business, populating various filing exhibits with historical TAHMO and TICO experience.

OWA provided considerations for alternative assumptions to RIOHIC on August 21, 2023. The RI Health Insurance Commissioner provided preliminary decisions to OWA on August 25, 2023. HPHCNE and HPIC submitted revised rates on September 6, 2023. This memo summarizes considerations for alternative assumptions as well as decisions approved by the RI Health Insurance Commissioner.

II. Considerations for Alternative Assumptions and Final Approved Rate Change

Assumption #1: Revise the allowed medical utilization and severity trend assumptions from 2.4% to 2.1% in Year 1 and from 2.2% to 1.9% in Year 2. This assumption change will decrease the rate change by approximately 0.5%.²

Assumption #2: Revise the paid medical trend applied to the 2021 base experience from 3.8% to 2.8%. This assumption change will decrease the rate change by approximately 0.4%.

Assumption #3: Revise the assessment calculation to reflect that assessments only apply to Rhode Island residents instead of applying these charges to all members. This changes the assessment PMPM from \$14.86 to \$10.80 and will decrease the rate change by approximately 0.7%.

Assumption #4: Revise the COVID-19 adjustment to completely remove the impact of adjustment factors applying to the COVID-19 portion in the base experience. This change will decrease the rate change by approximately 0.3%.³

The table below shows HPHCNE's and HPIC's requested rate change and final approved rate change. Note OWA has estimated how each individual assumption change impacts the overall rate. Due to the interaction of assumptions, the actual impact may be slightly different due to each insurer's own pricing models. However, the final rate change is not an estimate.

² Note in the memos provided to RIOHIC on August 21, 2023, the estimated impact was originally a rate decrease of 0.4%. However, this calculation was updated which resulted in an impact of 0.5%.

³ Note in the memos provided to RIOHIC on August 21, 2023, the estimated impact was originally a rate decrease of 0.4%. However, this calculation was updated which resulted in an impact of 0.3%.

	HPHCNE & HPIC LG		
	Requested	Final Approved	Impact to Rate Change
2023 Medical Utilization & Severity trend (excluding leverage)	2.4%	2.1%	-0.2%
2024 Medical Utilization & Severity trend (excluding leverage)	2.2%	1.9%	-0.3%
2022 Medical Trend Adjustment to 2021 RI LG Claims in Experience Base	3.8%	2.8%	-0.4%
RI Assessment	\$14.86	\$10.80	-0.7%
Revise Covid base experience adjustment	n/a	n/a	-0.3%
Contribution to Reserves/Profit	0.0%	0.0%	0.0%
Expected Overall Rate Change from 2022	12.0%	10.0%	

Table 1: Requested and Final Approved Rate Changes⁴

III. Proposed Rate Changes

The large group RIOHIC rate template requires the insurer to report the proposed average rate change for its entire large group book of business. The template also requires the insurer to report the rate change by quarter and then an annual rate change.

As of March 2023, there were 6,112 members of which 3,139 are HPHCNE and 2,973 are HPIC. In the rate filing submitted on May 1st, HPHCNE and HPIC requested a combined 12.0% rate change. For 2024, HPHCNE and HPIC indicate that premium needs by quarter have been calculated for the combined HPHCNE and HPIC block for added credibility. The quarterly increases are the same for HPHCNE and HPIC. Because the distribution of enrollment varies by quarter for HPHCNE and HPIC, the aggregate annual rate increases vary. The average annual rate increases are 12.4% for HPHCNE and 11.6% for HPIC.

⁴ For 2024, HPHCNE and HPIC develops rates for the combined HPHCNE and HPIC block for added credibility. The average annual rate increase proposed was 12.4% for HPHCNE and 11.6% for HPIC. The final approved average annual rate increase is 10.4% for HPHCNE and 9.6% for HPIC.

Renewal Quarter and Year	Proposed Average Rate Change	% of Renewals (Membership)
1Q 24 Renewals	10.6%	33.2%
2Q 24 Renewals	12.6%	30.1%
3Q 24 Renewals	13.8%	25.8%
4Q 24 Renewals	10.5%	10.9%
Total	12.0%	100.0%

Table 2: HPHCNE and HPIC Large Group Average Rate Changes by Quarter

The 2024 average rate change of 12.0% is driven by these key factors as reported by HPHCNE and HPIC in Tab V of the Rhode Island OHIC rate template:

- 6.5% for trend and leverage
- 4.1% for changes in underlying experience data and rate methodology
- 1.2% for an additional ½ year of aging
- 0.9% for increases in Rhode Island assessments
- -1.0% for change in contribution to reserve

IV. Rate Development Methodology Changes

For 2024, HPHCNE and HPIC indicate that premium needs by quarter have been calculated for the combined HPHCNE and HPIC block for added credibility. Groups may purchase HMO (HPHCNE) and PPO (HPIC) plans side-by-side.

HPHCNE and HPIC have updated their rate development methodology in this 2024 filing from the methodology used for the TAHMO and TICO large group filings in prior years, which was based on a manual rate developed several years ago with trend applied annually. The new methodology reflects a more traditional rate development approach utilizing base period claims experience with adjustments, trending the base forward then adjusting for items such as pharmacy rebates, differences in COVID-19 expenses between the experience period and the projection period, state assessments and mandates, fixed medical costs including supplemental non-claim provider payments, and other benefit change impacts from the transition to the HPHC platform. Administrative expenses and taxes and fees are applied as a percentage of premium with a final adjustment for aging to arrive at the required premium.

HPHCNE and HPIC state that their Rhode Island large group TAHMO and TICO blocks remain partially credible and volatile. For added credibility in their new 2024 rate methodology, they combine the Rhode Island experience from both TAHMO and TICO and use claims experience for two years, 2021 and 2022, for their base period experience. HPHCNE and HPIC state that COVID-19 related costs are included in the base experience and they make a single adjustment to the projected claims for anticipated differences between the experience period and the projection period.

Prior to applying trend to project the base claims to 2024, the base experience is normalized to reflect rating factors and benefit factors equal to 1.0. After normalizing the base experience, an adjustment is applied to the 2022 Rhode Island Tufts experience to bring it in line with provider contracting expectations for 2023.⁵

There are two steps within HPHCNE and HPIC's new rate development methodology where assumptions and adjustments may be driving an overstatement of projected claims. This relates to the medical trend assumption used to project the 2021 base period claims to 2022 (discussed in Section V, Experience and Trend Assumptions) and the adjustment to the base period COVID-19 experience in their new rate methodology (discussed in Section VII, COVID Expenses.)

V. Experience & Trend Assumptions

The table below shows a three-year history of allowed claims PMPMs. A review of actual claims experience shows that actual trends for HPHCNE and HPIC's large group market are 19.2% in 2021 and -3.5% in 2022. Trends fluctuate by service category and membership increased slightly by 1.2% in 2021 but then decreased by 12.0% in 2022. The small size of the segment and changes in membership lead to volatility in claim costs and trends.

⁵ The net value of the unit cost adjustment is 1.014 which represents two items. The first is an adjustment of 1.05 which reflects the migration from current Rhode Island Tufts provider contracts to current Rhode Island Harvard Pilgrim contracts. HPHCNE and HPIC stated that the 1.05 adjustment also reflects differences in payment policies, medical policies, and audit practices between the THP and HPHC entities. We were unable to validate the 1.05 adjustment and do not have an alternative assumption. Then an additional unit cost trend adjustment of -3.4% is assumed for 2023 which represents provider contract efforts to bring the Rhode Island Harvard Pilgrim contracts more in line with Rhode Island Tufts contracts as the Tufts discounts are higher than the Harvard Pilgrim discounts.

Allowed Claims PMPM (HPHC & HPIC)			
	CY 2020	CY 2021	CY 2022
Inpatient Hospital	\$97.63	\$134.48	\$98.82
Outpatient Hospital	\$122.41	\$139.72	\$142.16
Professional	\$169.25	\$197.77	\$180.07
Other Medical	\$26.58	\$23.70	\$29.71
Capitation	\$0.66	\$0.55	\$0.49
Prescription Drug	<u>\$67.32</u>	<u>\$80.29</u>	<u>\$105.17</u>
Total	\$483.84	\$576.51	\$556.41
Member Months	77,591	78,993	69,497

Allowed Claims PMPM Trend (HPHC & HPIC)		
	CY 2021	CY 2022
Inpatient Hospital	37.7%	-26.5%
Outpatient Hospital	14.1%	1.7%
Professional	16.8%	-8.9%
Other Medical	-10.8%	25.4%
Capitation	-16.1%	-11.6%
Prescription Drug	<u>19.3%</u>	<u>31.0%</u>
Total	19.2%	-3.5%
Member Months Trend	1.8%	-12.0%

Table 3: Allowed Claims PMPM and Trend CY 2020 – CY 2022

With the transition from Tufts contracts to Harvard Pilgrim contracts in Rhode Island, HPHCNE and HPIC’s Year 1 pricing trends include a one-time adjustment to account for anticipated medical cost reductions due to provider network re-contracting initiatives to bring the Harvard Pilgrim contracts in line with the existing Tufts level of provider discount. HPHCNE and HPIC stated that currently the Tufts contracts are more discounted than the Harvard Pilgrim contracts. Since the average trend submitted by HPHCNE and HPIC includes this one-time cost adjustment, the table below shows the Year 2 trends which are representative of trend assumptions excluding the one-time adjustment for provider network re-contracting. HPHCNE and HPIC small group and large group filings utilize the same underlying trend assumptions.⁶

As shown in the table below, HPHCNE and HPIC are using a 6.9% trend assumption excluding leverage and a 7.3% trend assumption including leverage. Last year’s comparable annual trend assumption was 7.2% including leverage.⁷ The average medical cost trend is 3.5%, compared to 2.4% last year. The average

⁶ Small group and large group trend assumptions only differ due to the way leverage is reflected and slight rounding differences.

⁷ This 7.2% trend for the prior year is calculated to reflect a pharmacy trend gross of rebates. In the 2023 filing, the total trend including leverage reported in the RIOHIC template was 4.9% which reflected a -2.2% pharmacy trend net of rebates driven by a one-time adjustment reflecting improved pharmacy rebates due to a change in PBMs in 2023. With HPHC’s new rate methodology in 2024, trends are now reported gross of pharmacy rebates.

medical utilization & severity trend is 2.2% which is lower than last year’s assumption of 3.2%. The overall pharmacy trend is 12.2% which compares to an 11.2% trend last year.⁸

Trend Assumptions			
	Cost Trend	Utilization & Severity Trend	Total Trend
Inpatient Hospital	3.5%	2.2%	5.7%
Outpatient Hospital	3.5%	2.2%	5.7%
Professional	3.5%	2.2%	5.7%
Other Medical	3.5%	2.2%	5.7%
Capitation	3.5%	2.2%	5.7%
Total Medical	3.5%	2.2%	5.7%
Prescription Drug	9.8%	2.1%	12.2%
Subtotal Excluding Leverage:	4.8%	2.1%	6.9%
Leverage			0.3%
Total Incl. Leverage:			7.3%

Table 4: HPHCNE and HPIC Large Group Allowed Trend Assumptions⁹

HPHCNE and HPIC stated that Rhode Island experience is not credible to use for trend analysis purposes. Medical utilization & severity trends are based on Harvard Pilgrim and Tufts Commercial fully insured Massachusetts data. Specifically, HPHCNE and HPIC stated that they reviewed HPHC Massachusetts fully insured paid trends and THP Massachusetts fully insured paid trends focusing on key data points from 2019 trend, the two-year annualized trend between 2019 and 2021, and 2022 trends. Medical unit cost trends are developed based on Rhode Island provider contracts and estimates for future changes to those contracts. Pharmacy trends are set in aggregate based on historical utilization, AWP cost increases, changes in AWP discounts from PBM arrangements, and upcoming drug launch pipelines.

We performed our own trend analysis using Harvard Pilgrim and Tufts fully insured Massachusetts claim data provided by HPHCNE and HPIC. The combined pool represents approximately 322,000 enrollees but the enrollment has ranged from a high of 380,000 enrollees in 2018 to the most recent enrollment of 322,000. We received monthly data from January 2018 through February 2023, adjusted for IBNR, but since the claims were only paid through February 2023 for the HPHC portion of the data, we primarily

⁸Pharmacy trends shown are gross of rebates. In the 2023 filing, HPHNC and HPIC reported a -2.2% pharmacy trend net of rebates driven by a one-time adjustment reflecting improved pharmacy rebates due to a change in PBMs in 2023. HPHCNE and HPIC indicate that the comparable pharmacy trend gross of rebates in 2023 was 11.2%.

⁹Note that medical trend assumptions represent the Year 2 trends reported in Tab II of the RIOHIC template. Year 1 trends include a one-time decrease in medical unit cost trend to reflect renegotiation of HPHCNE and HPIC provider contracts. HPHCNE and HPIC’s Year 1 medical cost trend is -3.4% and medical utilization & severity trend is 2.4%. Pharmacy trend assumptions shown are average annualized trends reported in Tab II of the RIOHIC template which differ slightly from trends used in rate development and trends reported in the prior memo to RIOHIC on August 21, 2023. Average trend with leverage applied in HPHCNE and HPIC’s 2024 rate development blending Year 1 and Year 2 trend is 4.5% with 2.6% medical trend and 12.9% pharmacy trend.

relied on claims incurred through January 2023.¹⁰ We subtracted out COVID vaccines and testing from the data. We then performed an actuarial trend analysis using the most recent data (Table 6), and also compared the most recent data from 2023 and 2022 to 2019 (Table 7), due to the impact COVID had on both 2020 and 2021 utilization. As shown below, annual allowed medical PMPM trends adjusted for COVID vaccines and testing range from 2.2% to 4.5% when comparing results across the two tables. Also note that trends appear to be increasing in the later time periods and more significantly with the most recent trends shown in Table 6.

Harvard Pilgrim(HPHC & HPIC) and Tufts (TAHMO & TICO) Massachusetts Medical Only Less COVID Vaccines & Testing				
Allowed Medical Claims PMPM		Rolling 3 Trend	Rolling 6 Trend	Rolling 12 Trend
September	2022	1.0%	0.4%	3.9%
October	2022	4.5%	1.6%	3.9%
November	2022	4.1%	1.5%	3.2%
December	2022	3.4%	2.2%	2.4%
January	2023	6.3%	5.4%	3.0%
Average of 5 data points		3.9%	2.2%	3.3%

Table 5: OWA Medical Trend Analysis – Most Recent Trends

Harvard Pilgrim(HPHC & HPIC) and Tufts (TAHMO & TICO) Massachusetts Medical Only Less COVID Vaccines & Testing; 3-Year Annualized				
Allowed Medical Claims PMPM		Total Rolling 3 Trend	Total Rolling 6 Trend	Total Rolling 12 Trend
September	2022	3.7%	3.6%	3.7%
October	2022	4.4%	3.6%	3.7%
November	2022	4.7%	4.1%	3.8%
December	2022	4.6%	4.2%	3.8%
January	2023	5.1%	4.7%	4.1%
Average of 5 data points		4.5%	4.0%	3.8%

Table 6: OWA Medical Trend Analysis – Compared to 2019

We estimated medical utilization and severity trends using their historic allowed claim PMPM data and adjusted for cost trend impacts using calendar year unit cost trends provided by HPHCNE and HPIC. After adjusting for unit cost changes, or price, we have calculated an allowed utilization & severity trend

¹⁰ HPHCNE & HPIC submitted Harvard Pilgrim and Tufts Massachusetts data separately. Tufts Massachusetts data was provided through March 2023, paid through April 2023 but Harvard Pilgrim Massachusetts data was only provided through February 2023, paid through February 2023.

assumption ranging from 0.5% to 1.1% using the most recent data (Table 6) and 1.0% to 1.7% using the most recent data compared to 2019 data (Table 7).¹¹

HPHCNE and HPIC large group allowed medical utilization and severity trend assumptions for the 2024 filing are 2.4% for Year 1 and 2.2% for Year 2. HPHCNE and HPIC provided the key data points in the table below as support for their assumptions stating that the reasonable range for the paid annualized medical utilization and severity trend is 1.5% to 2.5%.¹² Their analysis focused on highlighted normalized paid annual trends from 2019 to 2022 excluding COVID vaccines and testing claims.

	Historic Normalized Utilization / Mix Trends*				
	2019		2-year annualized 2021		2022
	All Claims	All Claims	Without COVID vaccine / testing	All Claims	Without COVID vaccine / testing
HPHC MA	3.4%	2.2%	0.7%	-2.5%	-1.2%
THP MA	1.9%	3.1%	1.6%	-0.5%	0.5%

* Normalized for age, cost sharing (induced utilization), and HCCs above \$250k
 * Note that THP 2019 normalized trend is normalized using age and cost sharing factors specific to THP

HPHCNE and HPIC stated they weighted pre-COVID 2019 experience trends more heavily and chose a paid medical utilization and severity trend assumption at the upper end of their range at 2.25%.¹³

In addition to using the high end of their range, HPHCNE and HPIC added 0.25% for Rhode Island volatility for a total paid trend of 2.5% including leveraging or a 2.2% trend on an allowed basis.¹⁴ For 2023 (Year 1) only, HPHCNE and HPIC added an additional 0.25% to account for high-cost medical gene therapy for a Year 1 medical utilization and severity trend of 2.75% including leveraging or a 2.4% trend on an allowed basis. HPHCNE and HPIC also noted they were seeing some trend increases in emerging 2023 experience compared to the CY 2022 trends, which is consistent with our analysis.

Comparing OWA’s estimated allowed historic medical utilization and severity trends of 0.5% to 1.7% and the HPHCNE and HPIC allowed trend assumption of 2.2%, it is reasonable to assume that the heavier weighting of pre-COVID trends combined with the additional 0.25% for volatility drives HPHCNE and HPIC’s trend choice to a more conservative point than warranted by the data. Considering the volatility in experience during these time frames, we believe it is reasonable to assume trends at the high end of our historic trend analysis range of 1.7% plus an additional 0.2% to account for increases in the 2023 emerging experience, for a total allowed medical utilization and severity trend of 1.9%. Our 1.9% estimate is 0.3% lower than HPHCNE and HPIC’s allowed trend assumption of 2.2%.¹⁵ This 0.3% reduction would change

¹¹ We also reviewed HPHC and THP data separately and compared to normalized trend data provided by HPHCNE and HPIC for the highlighted time periods discussed in the next section and saw that normalized data generally aligned with our own unnormalized data points for the separate HPHC and THP entities, so we did not pursue further data for normalization.

¹² The trends shown in the table include approximately 0.35% for leveraging.

¹³ If HPHCNE and HPIC weight the three highlighted time periods for the combined HPHC and THP block evenly, the average paid trend is approximately 1.1%. Weighting HPHCNE and HPIC’s highlighted data points to arrive at a 2.25% trend requires at least 75% weight on the pre-Covid trends which does not appear to weight or reflect the current experience appropriately.

¹⁴ The 2.2% allowed trend reported by HPHCNE and HPIC appears to be calculated by reducing the paid trend of 2.5% by 0.35% for leveraging for a 2.15% allowed trend and then rounding to 2.2%.

¹⁵ HPHCNE and HPIC assumes a 2.2% allowed medical utilization and severity trend for both Year 1 and Year 2 then adds an additional load in Year 1 only to account for gene therapy costs for a Year 1 allowed medical utilization trend of 2.4%.

their assumptions from 2.4% to 2.1% in Year 1 and from 2.2% to 1.9% in Year 2. These assumptions better reflect the more current experience and are also more in line with OWA's alternative assumptions for other insurers.

Assumption #1: Revise the medical utilization & severity allowed trend assumptions from 2.4% to 2.1% in Year 1 and from 2.2% to 1.9% in Year 2. This assumption change would decrease the rates by approximately 0.5%.¹⁶

OWA also reviewed the pharmacy trend data and saw that historical experience does not vary significantly from HPHCNE and HPIC's trend assumptions, so we do not have alternative pharmacy trend assumptions.

In addition to the allowed trend assumptions discussed above, HPHCNE and HPIC adds a leverage adjustment into their rates to account for cost sharing leveraging. Since copayments and deductibles do not increase at the same rate as claims cost trends, the share of claims paid for by the insurer increases at a higher rate than total allowed costs. Insurers account for this by applying a leverage adjustment. To estimate this adjustment, HPHCNE and HPIC used their pricing model to calculate a leverage adjustment for each plan design. HPHCNE and HPIC's leverage assumption across all plans is 0.7%. HPHCNE and HPIC accounts for leveraging by using paid trends, which include leveraging, to project large group claims in their rate development formula.

HPHCNE and HPIC are also including a 1.0% adjustment for aging. This is to account for the aging that can occur with renewing business. Details were provided by HPHCNE and HPIC on its calculation and the adjustment is consistent with the prior year filing. This is a factor that should continue to be monitored.

Rate Development – Medical Trend Assumption to Project 2021 Claims to 2022

HPHCNE and HPIC trends the 2021 base experience to 2022 using 3.8% medical trend and 13.9% pharmacy trend. HPHCNE and HPIC states that their Rhode Island experience is not credible for trend development purposes and they have historically used Massachusetts THP commercial fully insured experience for Rhode Island pricing trends. HPHCNE and HPIC states that the actual Massachusetts THP paid medical trend was 2.8% for 2022. HPHCNE and HPIC's 2022 trend choice assumes the 2.8% Massachusetts THP trend plus an additional 1% for volatility resulting in a total medical PMPM paid trend of 3.8% which was applied to the HPHCNE and HPIC 2021 Rhode Island large group claim PMPM.

As discussed above, HPHCNE and HPIC medical trend assumptions for 2023 and 2024 are based on both Harvard Pilgrim and Tufts Health Plan commercial fully insured Massachusetts data. The use of only the Massachusetts Tufts Health Plan data to trend from 2021 to 2022 is inconsistent with using both Tufts and Harvard Pilgrim data for 2023 and 2024 trends.

We performed our own trend analysis for 2022 allowed medical PMPM trends using the Massachusetts HPHC and THP monthly trend data provided by HPHCNE and HPIC. With COVID-19 vaccine and testing costs removed, our analysis of Massachusetts data shows 2022 allowed trends of 1.4% for HPHC and 3.5%

¹⁶ Note in the memos provided to RIOHIC on August 21, 2023, the estimated impact was originally a rate decrease of 0.4%. However, this calculation was updated which resulted in an impact of 0.5%.

for THP resulting in an allowed trend for combined Massachusetts entities of 2.4%. Adjusting our combined trend for leveraging using 0.35% assumed by HPHCNE and HPIC results in a paid trend of 2.8%.

Based on our analysis, it is reasonable to assume a 2022 paid trend of 2.8% which also aligns with HPHCNE and HPIC’s trend choice before they added 1% for volatility. Adding an additional 1% for volatility for purposes of trending from 2021 to 2022 appears more conservative than the data warrants.

Assumption #2: Revise the paid medical trend applied to 2021 base experience from 3.8% to 2.8%. This assumption change would decrease the rates by approximately 0.4%.

VI. Assessments

HPHCNE and HPIC includes the cost of assessments for Childhood Immunizations, Adult Immunizations, Children’s Health Account, Care Transformation Collaborative of RI and Current Care in their medical claims projection. Tab IV of the RIOHIC template shows that HPHCNE and HPIC includes \$14.86 PMPM for these RI assessments as shown in the table below.

Assessment	2024 Assumptions		2023 Assumptions	
	PMPM	Premium Impact	PMPM	Premium Impact
Childhood Immunization Account	\$5.11	0.8%	\$3.04	0.5%
Adult Immunization Account	\$4.95	0.7%	\$2.83	0.4%
Children's Health Account	\$2.15	0.3%	\$1.94	0.3%
Care Transformation Collaborative of RI	\$1.64	0.2%	\$1.48	0.2%
Current Care	<u>\$1.00</u>	<u>0.1%</u>	<u>\$1.00</u>	<u>0.1%</u>
Total	\$14.86	2.2%	\$10.29	1.5%

Table 7: HPHCNE and HPIC Rhode Island Assessments

HPHCNE and HPIC provided a detailed build-up of assessments which indicated that they were applying RI assessment rates to all insured members. Since RI assessments only apply to Rhode Island residents, HPHCNE and HPIC have overstated the PMPM value for assessments. The revised PMPM charge for the assessments when applying the charge to Rhode Island residents only is \$10.80.¹⁷

Assumption #3: Revise the assessment calculation to reflect assessments applying to Rhode Island residents instead of applying charges to all members. This changes the assessment PMPM from \$14.86 to \$10.80 and would decrease rates by approximately 0.7%.

VII. COVID-19 Expenses

HPHCNE and HPIC have provided COVID-19 costs related to treatment, testing and vaccines for their Rhode Island experience. HPHCNE and HPIC projects COVID-19 vaccine, testing, and treatment costs to be \$10.13

¹⁷ In response to OWA questions, HPHCNE and HPIC provided a revised assessment value of \$10.80 based on RI residents, which represent about 75% of their block.

PMPM in 2024 compared to the base experience amounts of \$33.05 PMPM in 2021 and \$11.49 PMPM in 2022. The projected 2024 amount of \$10.13 includes \$3.58 PMPM for vaccine costs and \$6.55 PMPM for treatment and testing costs.

Rate Development - Adjustments for COVID-19 in Base Experience

As stated previously in Section IV, HPHCNE and HPIC includes COVID-19 related expenses in the base experience used for rate development. Their new rate methodology adjusts for COVID-19 costs by subtracting the trended base period COVID-19 PMPM from the projected 2024 COVID-19 PMPM.

By including COVID-19 expenses in the base experience in their new rate methodology, all other adjustments applying to the base experience are also applied to the COVID-19 portion of the base experience. These adjustments include 2022 medical and pharmacy trend applied to the 2021 claim PMPM, the unit cost adjustment due to the migration from THP to HPHC provider contracts, and 2023 and 2024 medical and pharmacy trend. Applying these adjustments to the COVID-19 portion in the base experience leads to an overstatement in projected claims. HPHCNE and HPIC attempted to adjust out the overstatement in the COVID-19 adjustment later in the calculation by applying a trend factor of 1.074 to the COVID-19 portion of the base experience. However, this 1.074 factor only addresses the 2023 and 2024 medical trend impact and does not incorporate the other base experience adjustments needed to remove all of the overstatement. Our estimate shows that the adjustment needed to the COVID-19 PMPM in the base experience is approximately 1.14 compared to the 1.074 shown in the rate development.

Assumption #4: Revise the COVID-19 adjustment to completely remove the impact of adjustment factors applying to the COVID-19 portion in the base experience. This change would decrease the rates by approximately 0.3%.¹⁸

VIII. Projected Medical Cost Ratio and Retention Charge

Using the federal definition and under the proposed rates, HPHCNE projects an 88.9% MLR for 2023 and an 89.4% MLR for 2024.¹⁹ HPIC projects a 97.8% MLR for 2023 and an 89.4% MLR for 2024.²⁰

HPHCNE and HPIC also reported historical MLRs in Tab VI based on the federal definition.²¹ For TAHMO, the MLR is 76.0% for 2020, 95.0% for 2021, and 92.9% for 2022. For TICO, the MLR is 107.4% for CY 2020, 108.4% for CY 2021 and 97.2% for CY 2022. For the combined TAHMO and TCIO entities, the MLR is 89.8% for 2020, 101.7% for 2021, and 93.7% for 2022.²²

The retention charge of a rate includes the administrative expenses, taxes and fees, and the contribution to reserve. HPHCNE and HPIC proposed an average retention charge of 13.7%. For 2023, the retention charge

¹⁸ Note in the memos provided to RIOHIC on August 21, 2023, the estimated impact was originally a rate decrease of 0.4%. However, this calculation was updated which resulted in an impact of 0.3%.

¹⁹ This is from Tab VI MLR Exhibit in the RI rate template. This is prior to the credibility adjustment factor.

²⁰ Ibid.

²¹ Historical MLR's are from Tab VI MLR Exhibit in the RI rate template. They are prior to the credibility adjustment factor.

²² There may be updates to the 2022 MLR that are not reflected in what was reported in the initial rate filing.

was 15.8%. The table below shows the components of retention. HPHCNE and HPIC has proposed a contribution to reserve assumption of 0.0% in 2024 which is lower than the assumption of 1.0% from the 2023 rate filing.

Proposed Retention Charge	2024	2023	Change
ACA Fees and Taxes	0.0%	0.0%	0.0%
Premium Tax	2.0%	2.0%	0.0%
Other Retention Charge	0.0%	0.0%	0.0%
Contribution to Reserve (Profit/Risk Load)	0.0%	1.0%	-1.0%
Investment Income Credit	0.0%	0.0%	0.0%
Administrative Expense Load	<u>11.7%</u>	<u>12.7%</u>	<u>-1.1%</u>
Total Retention Charge	13.7%	15.8%	-2.1%

Table 8: HPHCNE and HPIC Retention Charges

IX. Financial Position

A review of TAHMO's financial measures show that TAHMO's RBC position has decreased from 712.4% in 2021 to 613.8% in 2022. The underwriting gain/loss was steady at 2% to 3% but decreased to -0.8% in 2021 and has declined further to -1.0% in 2022. The SAPOR²³ has decreased from 30.7% in 2021 to 24.0% in 2022.

	TAHMO					
	2022*	2021*	2020	2019	2018	2017
8. Total Revenues	\$2,963,623,714	\$2,773,179,809	\$2,798,892,444	\$2,698,353,911	\$2,581,958,897	\$2,555,327,303
24. Net Underwriting G/L	-\$30,526,018	-\$23,061,853	\$76,576,206	\$64,165,199	\$72,911,770	\$85,992,431
<i>Underwriting G/L</i>	<i>-1.0%</i>	<i>-0.8%</i>	<i>2.7%</i>	<i>2.4%</i>	<i>2.8%</i>	<i>3.4%</i>
49. Capital and Surplus end of reporting year	\$711,733,566	\$852,681,676	\$738,870,321	\$748,323,163	\$642,456,738	\$644,286,474
<i>SAPOR</i>	<i>24.0%</i>	<i>30.7%</i>	<i>26.4%</i>	<i>27.7%</i>	<i>24.9%</i>	<i>25.2%</i>
14. Total Adjusted Capital	\$711,733,566	\$852,681,676	\$738,870,321	\$748,323,162	\$642,456,738	\$644,286,474
15. Authorized control level risk-based capital	\$115,954,780	\$119,693,706	\$121,103,639	\$111,559,193	\$101,285,836	\$93,089,036
<i>RBC</i>	<i>613.8%</i>	<i>712.4%</i>	<i>610.1%</i>	<i>670.8%</i>	<i>634.3%</i>	<i>692.1%</i>

Table 9: TAHMO Financials²⁴

A review of TICO's financial measures show that TICO's RBC position decreased in 2021 to 534.1% but has increased in 2022 to 578.9%. TICO's underwriting gain/loss has been volatile year to year but increased from 2021 to 2022.

²³ SAPOR is surplus as a percentage of revenue.

²⁴ TAHMO financial data based on amended 2022 financial statement and includes a restatement of 2021 Capital and Surplus and the Authorized control level risk-based capital.

	TICO					
	2022	2021	2020	2019	2018	2017
8. Total Revenues	\$392,747,102	\$350,691,959	\$312,553,610	\$312,500,551	\$294,435,615	\$278,780,892
24. Net Underwriting G/L	\$12,164,019	\$6,899,114	-\$5,586,842	\$16,911,003	\$10,256,311	-\$11,961,236
Underwriting G/L	3.1%	2.0%	-1.8%	5.4%	3.5%	-4.3%
49. Capital and Surplus end of reporting year	\$83,427,650	\$76,838,407	\$69,677,169	\$74,104,038	\$70,788,022	\$52,607,155
SAPOR	21.2%	21.9%	22.3%	23.7%	24.0%	18.9%
14. Total Adjusted Capital	\$83,427,650	\$76,838,407	\$69,677,169	\$74,104,038	\$70,788,022	\$52,607,155
15. Authorized control level risk-based capital	\$14,411,793	\$14,387,007	\$11,670,898	\$11,259,632	\$10,976,297	\$11,089,644
RBC	578.9%	534.1%	597.0%	658.1%	644.9%	474.4%

Table 10: TICO Financials

X. Requested and Final Approved Rate Change

The table below shows HPHCNE and HPIC's requested rate change and final approved rate change. Note OWA has estimated how each individual assumption change impacts the overall rate. Due to the interaction of assumptions, the actual impact may be slightly different due to each insurer's own pricing models. However, the final rate change is not an estimate.

	HPHCNE & HPIC LG		
	Requested	Final Approved	Impact to Rate Change
2023 Medical Utilization & Severity trend (excluding leverage)	2.4%	2.1%	-0.2%
2024 Medical Utilization & Severity trend (excluding leverage)	2.2%	1.9%	-0.3%
2022 Medical Trend Adjustment to 2021 RI LG Claims in Experience Base	3.8%	2.8%	-0.4%
RI Assessment	\$14.86	\$10.80	-0.7%
Revise Covid base experience adjustment	n/a	n/a	-0.3%
Contribution to Reserves/Profit	0.0%	0.0%	0.0%
Expected Overall Rate Change from 2022	12.0%	10.0%	

Table 11: Requested and Final Approved Rate Change

XI. Conclusion

This letter communicates our findings regarding our review of HPHCNE and HPIC's large group rate filing (SERFF tracking number HPHC-133655859). This letter also communicates the RI Health Insurance Commissioner's final decisions. Distribution of this letter to parties other than OHIC by us or any other

party does not constitute advice by us to those parties. The reliance of parties other than the OHIC on any aspect of our work is not authorized by us and is done at their own risk. In arriving at our findings, we used and relied on information provided by HPHCNE and HPIC. If this information is inaccurate or incomplete, our findings and conclusions may need to be revised. While we have relied on the data provided by the company without independent investigation or verification, we have reviewed the information for consistency and reasonableness. Where we found the data inconsistent or unreasonable, we requested clarification. We have utilized generally accepted actuarial methodologies in arriving at our findings.

This letter is based on actuarial review and actuarial analysis conducted by Lynda Johnson and peer reviewed by Jenn Smagula. Lynda Johnson is a member of the American Academy of Actuaries and an Associate of the Society of Actuaries. Jenn is a member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. Jenn meets the qualification standards for reviewing the actuarial analysis represented in this memo.

Sincerely,

A handwritten signature in black ink, appearing to be 'Jenn Smagula', written over a light gray rectangular background.

Jennifer Smagula FSA, MAAA

Cc: Bela Gorman FSA, MAAA, OWA
Lynda Johnson ASA, MAAA, OWA
Emily Maranjian, Executive Legal Counsel, RIOHIC

Cory King
Acting Health Insurance Commissioner
Office of the Health Insurance Commissioner
State of Rhode Island
1511 Pontiac Ave, Building 69-1
Cranston, RI 02920

13 September 2023

Large Group Market Rate Filings for UnitedHealthcare Insurance Company (UHIC) and UnitedHealthcare of New England (UHCNE) for Rates Effective January 1, 2024: Actuarial Review Memo and Final RIOHIC Approved Decisions SERFF Filing # UHLC-133647781

Dear Commissioner King,

At the request of the Rhode Island Office of the Health Insurance Commissioner (RIOHIC), Oliver Wyman Actuarial Consulting, Inc. (OWA) has performed an actuarial review of UHIC's and UHCNE's (United's) large group market rate filing.

I. Rate Filing Process

This actuarial review letter focuses on the review of the filing that were submitted on May 1, 2023 and July 11th. The filing on July 11th included revised information related to assessment but there was no change to the requested rate change.

Throughout the filing process, OWA corresponded with UHIC and UHCNE's assistant pricing director, Elvira Tananykin. An actuarial memorandum and actuarial certification is included in the filing signed by Michael Duberowski FSA, MAAA. OWA submitted questions through SERFF on June 6th, July 3rd, and July 25th. OWA also conducted a phone call with Ms. Tananykin. OWA received responses for questions through SERFF. OWA also relied on responses to questions for the UHIC & UHCNE small group filings that pertain to UHIC & UHCNE large group filing.

OWA provided considerations for alternative assumptions to RIOHIC on August 15, 2023. The RI Health Insurance Commissioner provided preliminary decisions to OWA on August 25, 2023. BCBSRI submitted revised rates on September 6, 2023. This memo summarizes considerations for alternative assumptions as well as decisions approved by the RI Health Insurance Commissioner.

II. Considerations for Alternative Assumptions and Final Approved Rate Change

Assumption #1: Revise the overall medical FFS utilization & severity trend assumptions from 4.3% to 1.8%. These assumption changes would decrease the rates by approximately 2.9%.

Assumption #2: Revise the rate filing assumptions to remove the 1.0% primary care spending shortfall from their projected medical claims. This results in an approximate 0.9% decrease to rates.

Assumption #3: Revise the assumptions for RI assessments to reflect the updated vaccination costs for FY 2024 and the Rhode Island resident assumption. This would lower rates by approximately 0.1%.

Contribution to Reserve: The RI Health Insurance Commissioner has approved a 1.0% contribution to reserve.

In future filings, United should complete the projected assessment section of Tab IV of the Rhode Island OHIC rate template based on what is actually assumed in the rates for both the projected year and the prior year.

The table below shows United’s requested rate change and final approved rate change. Note OWA has estimated how each individual assumption change impacts the overall rate change. Due to the interaction of assumptions, the actual impact may be slightly different due to each insurer’s own pricing models. However, final rate change is not an estimate.

	UHIC and UHCNE LG		
	Requested	Final Approved	Impact to Rate
Medical FFS Utilization & Severity Trend	4.3%	1.8%	-2.9%
Removal of 1% Primary Care Shortfall from Medical Projection	1.0%	0.0%	-0.9%
RI Assessment incl. in Medical Projections (PMPM)	\$8.31	\$7.24	-0.1%
Contribution to Reserves/Profit	3.0%	1.0%	-2.0%
Expected Overall Rate Change from 2023	12.4%	5.9%	

Table 1: Requested and Final Approved Rate Change

III. Proposed Rate Changes

The large group RIOHIC rate template requires the insurer to report the proposed average rate change for its entire large group book of business. The template requires the insurer to report the increase by quarter and then an annual rate change.

As of February 2023, there were 11,303 members. UHIC and UHCNE have requested a 12.4% annual rate increase.

Renewal Quarter and Year	Proposed	
	Average Rate Change	% of Renewals (Membership)
1Q 24 Renewals	12.4%	27.1%
2Q 24 Renewals	12.4%	25.0%
3Q 24 Renewals	12.4%	24.0%
4Q 24 Renewals	12.4%	23.9%
Total	12.4%	100.0%

Table 2: Average Rate Changes by Quarter

UHC and UHCNE projects 2024 claims by using actual CY 2022 experience and projects forward to 2024 using the actual trend from 2022, and the 2023 & 2024 proposed trend from this rate filing. The 2024 projected premium is calculated by applying the 2024 retention charges to the 2024 projected claims. The required rate change is then determined by comparing the projected 2024 premium to the estimated 2023 premium. The 2023 premium is a blend of actual premium for groups that have already renewed and projected premium for those who have not yet renewed. UHC and UHCNE provided exhibits to support their calculations. The exhibits provided by United calculate rate changes by account and separate the 51-99 groups from the 100+ groups. The 51-99 groups represent 64 accounts and the projected average rate change for these groups is 25.0%. The 100+ groups represent 30 accounts and the projected average rate change for these groups is 4.5%. The projected average rate changes have a wide variation, from -68% to +315%. United was asked if the volatility is considered when the developing the requested rate increase or if pooling thresholds & charges were considered. United indicated that neither of these items are considered.¹

The 2024 average rate change of 12.4% is driven by these key factors as reported by United in Tab V of the Rhode Island OHIC rate template:

- 9.0% due to trend
- 2.4% due to the increase in the contribution to reserve
- 0.9% due to increases in the administrative charges²

IV. Experience & Trend Assumptions

A review of claims experience shows that actual trends for UHC and UHCNE’s large group market increased 7.9% in 2021 and 7.0% in 2022. The table below shows a three-year history of allowed claims PMPMs. Membership for UHC and UHCNE decreased 18.2% in 2021 and an additional 16.0% in 2022. The small size of the segment and changes in membership lead to volatility in claim costs and trends. Due to credibility, UHC and UHCNE does not rely solely on their Rhode Island data for trend projections.

¹ It is necessary to project the required revenue in 2024 in order to calculate the average rate change. The rate changes by account provided in this rate filing are not representative of the actual rate changes by account as United will implement floors and ceilings on the rate changes to limit volatility, along with blending experience with manual rates and pooling large losses.

² This is outside of the impact of changes in assessments.

Allowed Claims PMPM			
	CY 2020	CY 2021	CY 2022
Inpatient Hospital	\$83.80	\$101.58	\$100.96
Outpatient Hospital	\$166.85	\$176.09	\$188.85
Professional	\$99.65	\$111.76	\$113.36
Other Medical	\$0.08	\$0.07	\$0.07
Capitation	\$51.82	\$53.43	\$59.35
Prescription Drug	<u>\$82.07</u>	<u>\$79.75</u>	<u>\$96.61</u>
Total	\$484.27	\$522.68	\$559.20
Member Months	202,402	165,598	139,099

Allowed Claims PMPM Trend		
	CY 2021	CY 2022
Inpatient Hospital	21.2%	-0.6%
Outpatient Hospital	5.5%	7.2%
Professional	12.2%	1.4%
Other Medical	-17.1%	-3.3%
Capitation	3.1%	11.1%
Prescription Drug	<u>-2.8%</u>	<u>21.1%</u>
Total	7.9%	7.0%
Member Months Trend	-18.2%	-16.0%

Table 3: Allowed Claims PMPM and Trend CY 2020 – CY 2022

UHIC and UHCNE are assuming an average annual trend assumption of 8.8% excluding leverage and 10.3% including leverage. This is an increase from last year's trend assumptions of 6.9% excluding leverage and 7.9% including leverage. The table below shows UHIC and UHCNE's trend assumptions by service category. The average medical cost trend is 4.8%, compared to 3.1% last year. The average medical utilization & severity trend is 3.7%, compared to 3.4% last year. The average medical fee-for-service (FFS) utilization & severity trend is 4.3%.³

³ This excludes capitation.

Trend Assumptions			
	Utilization &		
	Cost Trend	Severity Trend	Total Trend
Inpatient Hospital	4.3%	2.9%	7.3%
Outpatient Hospital	3.8%	4.7%	8.7%
Professional	4.2%	4.7%	9.1%
Other Medical	4.8%	4.9%	9.9%
Capitation	9.9%	0.0%	9.9%
Total Medical	4.8%	3.7%	8.7%
Prescription Drug	4.7%	4.8%	9.7%
Subtotal Excluding Leverage:	4.8%	3.9%	8.8%
Leverage			1.4%
Total Incl. Leverage:			10.3%

Table 4: Proposed Trend Assumptions

As they have done in prior rate filings, UHIC and UHCNE provided a significant amount of detail related to their trend development and the data and methodology is the same for the large group filing as the small group filing. Given that United Rhode Island specific data is not credible for trend analysis purposes, utilization and severity trends are developed at the nationwide level based on actual experience and adjusted for items such as the impact of technology, environmental, network contracting, administrative initiatives, and the number of workdays. These adjustments are primarily developed on a national company-wide level. United provided information to show that the nationwide 2022 medical utilization & severity trend is -0.8% (prior to adjustments) and it is the adjustments that lead to the overall 3.7% medical utilization & severity trend. The two largest adjustments are for “economic” and “contracting”, valued at 3.8% and 0.8% respectively. Quantitative support was requested for these items. United did not provide quantitative support but instead provided these responses:

- 3.8% Economic: “During 2022, sudden inflationary pressures resulted in temporary one-time utilization decreases especially for medical claims. In contrast, our pharmacy claims increase dramatically under this sudden increase in inflation. Our national first quarter 2023 claims have verified that our trends have reverted to above normal levels which indicate that delayed care is now being sought.”
- 0.8% Contracting: “Since we develop utilization mix assumptions based on national experience, this component represents expected changes in utilization patterns based on changes in in-network designations, consolidation of provider groups, and shifts in service across the country.”

OWA is not able to validate these adjustments, or the overall medical utilization & severity trend assumption based on the information provided by United.

Given United’s reliance on national data to develop trends and the lack of credibility with United’s Rhode Island specific data, it is not reasonable to develop Rhode Island trend assumptions specific to United’s own Rhode Island data. It is reasonable to assume that United should have medical utilization & severity trends

in line with other major Rhode Island insurers and that Rhode Island specific utilization & severity trend assumptions would be more appropriate than national trend assumptions given the differences in utilization patterns and the impact from COVID across the country. For the other primary insurers in Rhode Island, OWA is proposing medical FFS utilization & severity trend assumptions in the 1.1% to 2.4% range with an average of approximately 1.8%.

Assumption #1: Revise the overall medical FFS utilization & severity trend assumptions from 4.3% to 1.8%. These assumption changes would decrease the rates by approximately 2.9%.⁴

In addition to the trend assumptions above, UHIC and UHCNE adds a leverage adjustment into their rates to account for cost sharing leveraging. We have used the data provided by United to develop our own estimate and our analysis results in no change to United's assumption.⁵

In the United small group filing, it was discovered that one of the drivers of the increase is in the administrative expense load was due to a shortfall of the 10.7% Primary Care Spend program described further below:

- *Any shortfall of the 10.7% as required by the description of the Primary Care Spend Program is accomplished through grant payments to external parties which are accounted for in admin in the Small Group pricing filings. These grants are estimated to be 0.3% in 2023 and 1.0% in 2024 of the Primary Care Spend Program that is 10.7% of Medical expenses."*

In the United large group filing, this shortfall is built into the projected medical claims. It may not be appropriate for United to assume that there will be a shortfall in their 2024 primary care spending at this point in time and it may not appropriate to build that shortfall into the 2024 rates.

Assumption #2: Revise the rate filing assumptions to remove the 1.0% primary care spending shortfall from their projected medical claims. This results in an approximate 0.9% decrease to rates.⁶

V. Assessments

UHIC and UHCNE include the cost of assessments for Childhood Immunizations, Adult Immunizations and the Children's Health Account in their medical claims projection. The cost for the Care Transformation Collaborative of RI is split between medical claims and retention.⁷ The cost for Current Care is included in

⁴ This is based on updating the trend assumptions in United's file "2024 United 51+ Cap Projection Support."

⁵ Since copayments and deductibles do not increase at the same rate as claims cost trends, the share of claims paid for by the insurer increases at a higher rate than total allowed costs. Insurers account for this by applying a leverage adjustment. To estimate this adjustment, UHIC and UHCNE started with their trended allowed claims and subtracted out projected cost sharing to simulate a projected net claims trend. Copay dollars were trended by the utilization trend, coinsurance dollars were trended by the PMPM trend (reflecting both utilization and cost trends) and deductible dollars were not trended at all. The result is a 1.4% leverage impact. We believe it is more appropriate to trend the deductible dollars and we have performed my own analysis on leverage. Our results are consistent with United's results.

⁶ The estimated impact to overall rates is determined assuming that total claims spending represents 88% of total premium.

⁷ Approximately 11% of the costs for the Care Transformation Collaborative of RI is included in the medical claims projections and the remaining 89% in retention.

retention. United's approach to projecting the assessments included in the medical claim projection is to start with CY 2022 actuals and then apply two years of the pricing trend.

This rate filing starts with the 2022 assessment costs for Childhood Immunizations, Adult Immunizations and the Children's Health Account, applies the mix of United's children and adults, and trends forward. This equates to approximately \$8.31 PMPM. United did not reflect the FY 2024 assessments costs in their initial rate filing and the vaccination costs increased significantly compared to what was assumed⁸, but it was also discovered that United did not adjust the projected assessment costs to reflect Rhode Island residents only. 67% of United's small group enrollment are Rhode Island residents. When updating the assessments for both the final FY 2024 costs and the residency assumption, the projected assessment costs decrease to approximately \$7.24 PMPM.

Assumption #3: Revise the assumptions for RI assessments to reflect the updated vaccination costs for FY 2024 and the Rhode Island resident assumption. This would lower rates by approximately 0.1%.⁹

UHC and UHCNE has not completed the 2023 and 2024 assessment section of Tab IV of the RIOHIC template correctly as it does not reflect what is actually assumed in rates for all categories. In future filings, United should complete the projected assessment section of Tab IV of the Rhode Island OHIC rate template based on what is actually assumed in the rates for both the projected year and the prior year.

VI. COVID-19 Experience

United has provided COVID-19 costs related to treatment, testing and vaccines. They indicate that their total CY 2022 COVID-19 costs are \$12.81 PMPM.¹⁰ Consistent with last year's filing, UHC and UHCNE did not adjust their experience period data or the data used for trend purposes for the impact of COVID testing, vaccines, or treatment costs. UHC and UHCNE stated in last year's filing that any COVID related expenses will be replaced by non-COVID related expenses in future time periods such that the net impact is negligible.

VII. Projected MLR and Retention Charge

Using the federal definition, excluding adjustments for credibility, United projects an MLR for 2024 of 89.4% for the 2024 rating period which includes a 3.0% contribution to reserve. United reports an MLR of 88.5% for CY 2020, 91.4% MLR for 2021, and 90.7% MLR for 2022.¹¹

The retention charge of a rate includes the administrative expenses, taxes and fees, and the contribution to reserve. United is proposing an average retention charge of 11.9% for 2024. This is higher than the retention charge from 2023 of 9.8% and the primary driver is the increase in the contribution to reserve assumption.

⁸ Assessments for vaccinations FY 2023 (July 1, 2022 – July 1, 2023) were \$14.78 per child and \$3.56 per adult. Assessments for vaccinations FY 2024 (July 1, 2023 – July 1, 2024) are \$24.83 per child and \$6.24 per adult.

⁹ Based on information provided by United.

¹⁰ Each insurer may define COVID treatment differently and therefore these amounts may not be comparable across insurers.

¹¹ There may be updates to the 2022 MLR that are not reflected in what was reported in the initial rate filing.

Proposed Retention Charge	2024	2023	Change
ACA Fees and Taxes	0.0%	0.0%	0.0%
Premium Tax	2.0%	2.0%	0.0%
Other Retention Charge	0.0%	0.0%	0.0%
Contribution to Reserve (Profit/Risk Load)	3.0%	1.0%	2.0%
Investment Income Credit	0.0%	0.0%	0.0%
Administrative Expense Load	<u>6.9%</u>	<u>6.8%</u>	<u>0.1%</u>
Total Retention Charge	11.9%	9.8%	2.1%

Table 5: Proposed Retention Charge¹²

VIII. Financial Position

A review of UHIC's and UHCNE's financial measures show that UHIC's RBC position has remained healthy for the past four years, around 500% in 2019 and prior, with an increase to over 650% in 2021 and a further increase to 814% in 2022. The underwriting gain/loss and SAPOR¹³ have also remained fairly consistent for UHIC. UHCNE's RBC, SAPOR and underwriting gain/loss is consistently lower than UHIC through 2021. In 2022, UHCNE experienced a significant increase in their SAPOR, RBC and underwriting gain/loss. This was explained to OWA by OHIC to be due to the transfer of Medicare Advantage business from UHCNE to another United entity.

	UHIC					
	2022	2021	2020	2019	2018	2017
9. Total (Lines 1 - 8.3)	\$43,772,644,000	\$53,114,149,629	\$55,111,543,011	\$56,470,146,239	\$55,304,713,087	\$51,176,778,978
29. Net Gain from Operations before Dividends	\$3,123,376,617	\$2,638,502,846	\$4,008,681,977	\$3,954,833,530	\$3,935,943,865	\$3,699,492,244
Underwriting G/L	7.1%	5.0%	7.3%	7.0%	7.1%	7.2%
55. Capital and Surplus December 31	\$7,200,474,486	\$8,146,535,672	\$8,219,768,234	\$9,092,976,254	\$8,574,087,987	\$6,784,990,282
SAPOR	16.4%	15.3%	14.9%	16.1%	15.5%	13.3%
30. Total Adjusted Capital	\$7,200,474,486	\$8,146,535,672	\$8,219,768,234	\$9,092,976,254	\$8,574,087,987	\$6,784,990,282
31. Authorized control level risk-based capital	\$885,025,263	\$1,224,069,942	\$1,275,995,904	\$1,688,536,287	\$1,600,314,403	\$1,436,352,532
RBC	813.6%	665.5%	644.2%	538.5%	535.8%	472.4%

Table 6: Summary of UHIC Financials

¹² United includes most of the cost for the Care Transformation Collaborative of RI and the total the cost for Current Care in retention. The cost of assessments for Childhood Immunizations, Adult Immunizations, Children's Health Account are included in their medical claims projection.

¹³ SAPOR is surplus as a percentage of revenue.

UHCNE						
	2022	2021	2020	2019	2018	2017
8. Total Revenues	\$656,561,973	\$1,584,388,273	\$1,433,651,095	\$1,305,229,228	\$1,160,842,788	\$974,456,602
24. Net Underwriting G/L	\$41,619,966	\$78,681,058	\$64,140,390	\$37,367,220	\$22,251,770	\$33,256,564
Underwriting G/L	6.3%	5.0%	4.5%	2.9%	1.9%	3.4%
49. Capital and Surplus end of reporting year	\$223,613,760	\$206,184,444	\$204,411,638	\$163,161,782	\$132,604,785	\$113,865,840
SAPOR	34.1%	13.0%	14.3%	12.5%	11.4%	11.7%
14. Total Adjusted Capital	\$223,613,760	\$206,184,444	\$204,411,638	\$163,161,782	\$132,604,785	\$113,865,940
15. Authorized control level risk-based capital	\$3,309,866	\$33,402,863	\$39,155,808	\$43,037,032	\$35,620,693	\$27,751,581
RBC	6756.0%	617.3%	522.0%	379.1%	372.3%	410.3%
Comprehensive (Individual & Group)						
7. Total Revenues	\$2,205,021	\$2,074,600	\$2,514,726	\$2,545,201	\$3,997,031	
24. Net Underwriting G/L	\$717,662	\$45,643	\$188,836	\$100,204	\$245,836	
Underwriting G/L	32.5%	2.2%	7.5%	3.9%	6.2%	

Table 7: Summary of UHCNE Financials

IX. Requested and Final Approved Rate Change

The table below shows United's requested rate change and final approved rate change. Note OWA has estimated how each individual assumption change impacts the overall rate change. Due to the interaction of assumptions, the actual impact may be slightly different due to each insurer's own pricing models. However, the final rate change is not an estimate.

	UHIC and UHCNE LG		
	Requested	Final Approved	Impact to Rate
Medical FFS Utilization & Severity Trend	4.3%	1.8%	-2.9%
Removal of 1% Primary Care Shortfall from Medical Projection	1.0%	0.0%	-0.9%
RI Assessment incl. in Medical Projections (PMPM)	\$8.31	\$7.24	-0.1%
Contribution to Reserves/Profit	3.0%	1.0%	-2.0%
Expected Overall Rate Change from 2023	12.4%	5.9%	

Table 8: Requested and Final Approved Rate Change

X. Data Reliance, Limitations and Qualifications

This letter communicates our findings regarding our review of UHIC's and UHCNE's large group rate filing (SERFF tracking numbers UHLC-133647781). This letter also communicates the RI Health Insurance Commissioner's final decisions. Distribution of this letter to parties other than OHIC by us or any other party does not constitute advice by us to those parties. The reliance of parties other than the OHIC on any aspect of our work is not authorized by us and is done at their own risk. In arriving at our findings, we used and relied on information provided by UHIC and UHCNE. If this information is inaccurate or incomplete, our findings and conclusions may need to be revised. While we have relied on the data provided by the company without independent investigation or verification, we have reviewed the information for

consistency and reasonableness. Where we found the data inconsistent or unreasonable, we requested clarification. We have utilized generally accepted actuarial methodologies in arriving at our findings.

This letter includes work based on actuarial analysis conducted by Jenn Smagula who is a member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. This letter was peer reviewed by Bela Gorman who is a member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. They both meet the Academy's Qualification Standards to perform this work.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Jenn Smagula', written over a light gray rectangular background.

Jenn Smagula FSA, MAAA

Cc: Bela Gorman FSA, MAAA, OWA

Emily Maranjian, Executive Legal Counsel, Rhode Island OHIC