

August 16, 2023
Cory King
Acting Health Insurance Commissioner
Rhode Island Office of the Health Insurance Commissioner
Cory.King@ohic.ri.gov

Re: HPHC Insurance Company, Inc. (HPIC)
Harvard Pilgrim Health Care of New England, Inc. (HPHC NE)
2024 Rhode Island Rate Filing – Small Group HMO & PPO

Dear Acting Commissioner King:

This memorandum was prepared in response to Rhode Island Office of the Attorney General's (RI OAG) recommendation for a rating increase of -1.3% for HPHC NE and -1.9% for HPIC, as developed and deemed reasonable by Lewis & Ellis (LE) on behalf of the RI OAG. The filed rate increases for HPHC NE and HPIC for 2024 RI SG are 11.9% and 11.0% respectively.

Harvard Pilgrim Health Care (HPHC) has reviewed LE's calculations underlying the RI OAG recommendation and has determined that these calculations are incomplete and inappropriate to compare to HPHC's manual rates for several reasons. As such, the recommendation to reduce the HPHC NE rates by 13.2% and HPIC rates by 12.9% would result in rates that are not actuarially sound or sufficient. Furthermore, the recommended rate increases of -1.3% and -1.9% for HPHC NE and HPIC do not pass a reasonability check considering that the block's risk adjusted MLR for calendar year 2022 is 83%.

Risk Adjustment

The rating recommendations developed by LE relying on RI SG 2022 experience do not account for ACA Risk Adjustment transfers. The inclusion of this adjustment in rate development is an industry standard and identified as a rate development component both in the RI Small Group OHIC Template and in the Federal Unified Rate Review Template (URRT) and failing to account for this component is likely to result in rates that are deficient or excessive. The 2022 CMS Risk Adjustment results published on June 30, 2023, show a payment for both HPHC NE (TAHMO) and HPIC (TICO). Reflecting an expectation for risk adjustment payment, including estimated impact of model changes to 2024, results in an ~8% increment to rates on a combined basis, before adjusting for credibility.

Rate Development Methodology

RI OAG's recommended rating actions are based on comparing the rates developed by LE against the manual rates developed by HPHC. The methodology employed by LE is incongruent with HPHC's manual rate development; in filing documents and during rate review, HPHC has clearly documented that LE's approach is not representative of HPHC's rate development methodology. Therefore, a comparison of the two sets of rates without normalizing for methodology differences is generally inadequate. Key differences include:

- HPHC's manual rate is calibrated to a hypothetical plan with a modeled actuarial/benefit value of 1.0, whereas the rate that LE has developed reflects the average actuarial/benefit value in the claim experience. This is the rough equivalent of comparing rates for a portfolio of only Platinum plans against a portfolio of Platinum, Gold, Silver, and Bronze plans combined; this is a flawed comparison. LE has not adjusted for this, resulting in the significant difference between rates filed by HPHC and those developed by LE. Please note that HPHC's manual rate is adequately adjusted for Actuarial Value at the plan level in Tab III of the RI Small Group OHIC Template
- HPHC has developed a single manual rate for HPHC NE and HPIC entities. Groups may purchase plans side-by-side from both entities, and we treat the RI SG block as a single risk pool. LE has

developed rates for each entity separately

- LE's developed rates fail to account for ACA Risk Adjustment transfer payments and High-Cost Risk Pool (HCRP) charges
- The approach the LE has relied on does not adequately account for changes in non-fee-for-service claims items from the experience period to the projection period

For further validation, HPHC has provided OHIC and Oliver Wyman with development detail and assumptions for 1) the development of the manual rates for RI SG 2024, 2) the development of rates relying on two-years of RI Small Group experience, and 3) the development of rates relying on 2022 RI Small Group experience. Developed using the same methodology and adequately reflecting ACA Risk Adjustment, the three sets of results are within a 2.5% range, before any credibility adjustments.

The recommended rate increases of -1.3% and -1.9% for HPHC NE and HPIC, in addition to deficiencies outlined above, are based on assigning 45% and 37% partial credibility to these rates, using 60,000 member-months or 5,000 members as a full credibility standard. HPHC believes that the number of member months to achieve partial or full credibility cannot be set in isolation, without considering stability/volatility of loss ratios, changes in mix of services, and persistency and enrollment patterns of the underlying experience.

As shown in the URRT files, the CY2022 member months are 12,406 for HPHCNE (TAHMO) and 8,268 for HPIC (TICO). On a combined basis, the total member months for the block are 20,674, or ~1,720 total members. In compliance with the URRT guidelines, we have referenced industry sources and ASOP25 "Credibility Procedures," in assigning credibility to this experience. More specifically, Section 3.4 "Professional Judgment," of this ASOP guides the actuary to "exercise professional judgment when using a credibility procedure," recognizing that an established process or mathematical model may not always be sufficiently adequate.

We have assessed that the experience should be assigned 0% credibility for the following reasons:

- On an annual basis, we've developed rates based on the experience of the RI SG block; this experience has produced a wide range of rate increases, even when the block was larger in size. These results have continuously been shared with OHIC and LE, and the pattern of these increases was erratic and would have been disruptive to our members. These rating actions, if implemented, would have been either inadequate or excessive, for various rating years.
- The RI SG block has continued to shrink. As a result of ongoing changes in risk mix, without appropriate adjustment, prior experience may not be adequately representative of future cost and utilization patterns.
- In evaluating the data sources to develop rates, in accordance with ASOP23, we have evaluated the appropriateness of the RI SG experience and have assessed greater benefit from relying on alternative data. This is also in alignment with LE's recommendation based on their review of RI SG 2023 rates.

Considering the above, we have assessed that, even with a partially credible approach, the use of RI SG experience does not increase accuracy and simply introduces additional volatility. It remains our view that our manual rates that were developed for 2024 remain the most reliable source for adequate pricing of our RI Small Group Business. Keeping affordability in mind, HPHC has continued to price RI SG policies using mature market administrative charges, despite growing pressure on administrative expenses associated with a shrinking block of business. Furthermore, based on summaries of requested 2024 rate increases in RI published by OHIC on June 16, 2023, HPHC is the only carrier to have filed rates with 0% contribution to surplus across all commercial segments.

We respectfully submit that OHIC does not solely rely upon the RI OAG's recommendations based on LE's analysis when reviewing HPHC's manual rates for all of the reasons listed in this memorandum.

Harvard Pilgrim Health Care
1 Wellness Way
Canton, MA 02021
harvardpilgrim.org



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Sincerely,

A handwritten signature in black ink, appearing to read "BStavileci", written over a light gray rectangular background.

Besart Stavileci, FSA, MAAA
Manager, Actuarial Services
Point32Health

Cc: Tracey Carter, Point32Health
Ryan Pandolfini, Point32Health
Kathryn Skouteris, Point32Health
Erin Boles Welsh, Poin32Health
Jennifer Smagula, Oliver Wyman
Lynda Johnson, Oliver Wyman
Jordan Broadbent, Rhode Island Office of the Attorney General
Traci Hughes, Lewis & Ellis
David Dillon, Lewis & Ellis
Josh Hammerquist, Lewis & Ellis