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June 21, 2024

State of Rhode Island Office of the Health Insurance Commissioner

Re: Blue Cross and Blue Shield of Rhode Island
2025 Individual Rate Filing
SERFF# BCBS-134064448

Submitted on Behalf of the Rhode Island Office of Attorney General

The purpose of this letter is to provide a description of Lewis & Ellis, LLC's (L&E) actuarial analysis, as of June 21, 2024, regarding the proposed 2025 Individual Rate Filing for Blue Cross and Blue Shield of Rhode Island (BCBSRI or Company). The analysis is intended to assist the Rhode Island Office of Attorney General (OAG) in representing consumers' interests regarding the proposed rates.

FILING DESCRIPTION

1. BCBSRI is a not-for-profit insurer that provides health insurance coverage to Rhode Islanders. This filing proposes premiums for BCBSRI's Qualified Health Plans (QHPs), which will be available on HealthSource Rhode Island (HSRI) beginning January 1, 2025.

2. BCBSRI submitted proposed rates on May 13, 2024, with an average rate increase of 14.3%. This report is based on those proposed rates.

PURPOSE AND SCOPE

Pursuant to Rhode Island Gen. Laws §§27-36-1 and 27-36-2, the OAG is vested with the authority to enforce laws within the State of Rhode Island. This includes representing, protecting, and advocating on behalf of consumers at public rate hearings. The OAG is permitted to hire actuaries to review proposed rate filings and conduct discovery. Additionally, under R.I. Gen. Laws § 42-9.1-2(5), the Attorney General, as the State's Health Care Advocate, is obligated to advocate for quality and affordable health care for Rhode Islanders. This includes taking "all necessary and appropriate action… to secure and ensure compliance with the provisions of titles 23 and 27 [insurance] and to advocate for any changes necessary to support the goal of quality and affordable health care for all citizens of Rhode Island."

Pursuant to Rhode Island Gen. Laws §§ 27-19-6 and 27-20-6, a public rate hearing must be held for rates requested by BCBSRI in the individual market. The OAG has engaged L&E to perform an actuarial review of BCBSRI's 2024 filing for 2025 individual market ACA rates. L&E's

observations focus on assumptions that require further review[1] to ensure the proposed rates are not excessive, inadequate, or unfairly discriminatory[2]. Premium affordability is not within the scope of L&E's actuarial review.

SUMMARY OF RECEIVED DATA

BCBSRI provided the methodology used to develop the proposed 2025 Individual market premiums. The Company provided exhibits that demonstrated the quantitative development for each component of the premium request, including trend, morbidity adjustments, federal programs, administrative costs, and taxes and fees.

BCBSRI also provided additional exhibits and information as requested during the rate review process; however, L&E expects to have further questions after the hearing.

L&E ANALYSIS

The items outlined below are key filing assumptions for the proposed 14.3% rate increase.

1. TREND

Utilization Trends

The base period for claims experience is calendar year 2023. Because of the various care disruptions related to the Covid-19 virus starting in 2020, BCBSRI modified its typical trend development methodology the last few years; however, BCBSRI decided to return to its standard regression methodology for rating year 2025.

BCBSRI's typical methodology for developing utilization/mix trends involves using a linear regression model with three years of allowed claims on a per member per month (PMPM) basis to determine the best fit. Allowed claims are normalized for changes due to factors other than utilization or mix, and then 12 month rolling data points are used in the regression analysis. The claims were adjusted to remove Covid-19 vaccines and testing from the historical professional and outpatient utilization trends due to substantive variability that is not expected to be indicative of future trends.

Data was combined for the individual, small group, and large group markets to increase statistical credibility and remove market segment-specific trend data. BCBSRI did not provide any information on whether non-linear regression techniques were considered, whether seasonality in the claims data was directly considered, or how different weights may have been considered for more recent data.

[1] These are assumptions that have been identified as of the date of this report. The review is ongoing and other assumptions may continue to be reviewed.

[2] This is based on Actuarial Standards of Practice No. 8 http://www.actuarialstandardsboard.org/asops/regulatory-filings-health-benefits-health-insurance-andentities-providing-health-benefits/#312-regulatory-benchmark

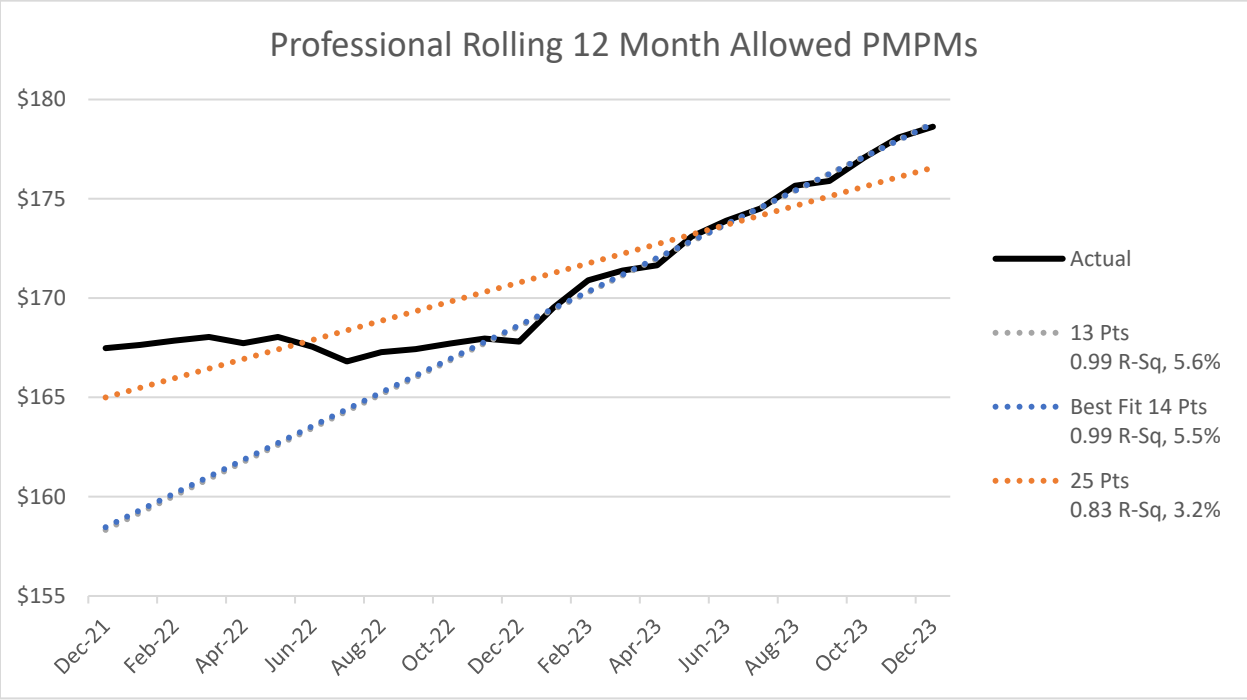
BCSRI indicated that it does not generally adjust for high cost claims when developing its trends; however, the Company believes it controls for high cost claims by choosing its inpatient trends based on utilization rather than PMPMs or in rare instances adjusting monthly PMPMs used in the regression analysis for specific members with rare, high cost conditions that have left the plan.

BCBRI determined the best fit by selecting the highest r-squared value from regression lines using the most recent two years of rolling 12-month data points, adding one additional data point for each test up to three years of data.

The best fit regression lines indicated historically high utilization and severity trends in the most recent two years. BCBSRI deviated from the best fit trend recommendations and used a trend that incorporated a more longitudinal view of utilization trends based on three years or twenty-five data points for all trend picks. BCBSRI noted that the overall utilization trends used in the rate development are 1.8% lower compared to the utilization trends based on the best fit recommendation.

An example of this analysis for the Professional category is shown in Chart 1, and the analysis results for all service categories are summarized in Table 1.

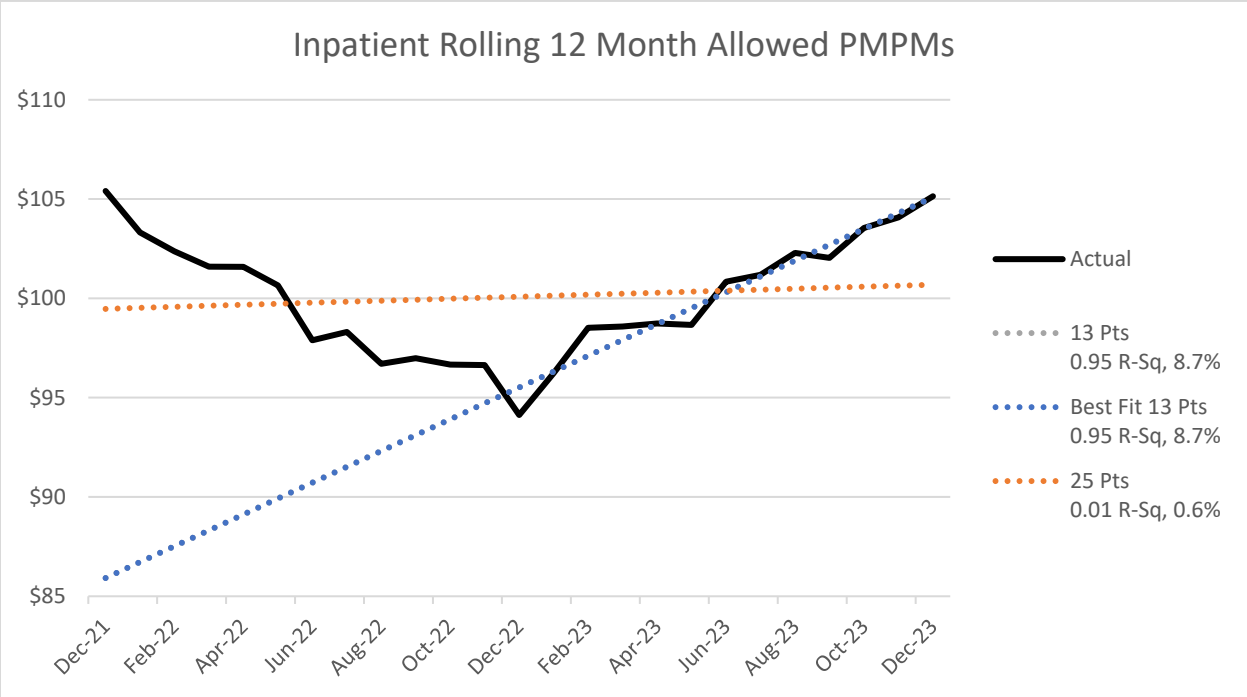
Chart 1: Professional Claims, 2021 - 2023



BCBSRI also deviated from its standard best fit regression analysis for Inpatient by using actuarial judgment to select a 0% trend. Inpatient PMPMs decreased significantly in 2022, but reversed course and increased significantly in 2023. BCBSRI noted a clear inflection point at the end of 2022, resulting in a poor fit for the 3-year trend line. The 8.7% trend based on the most recent two

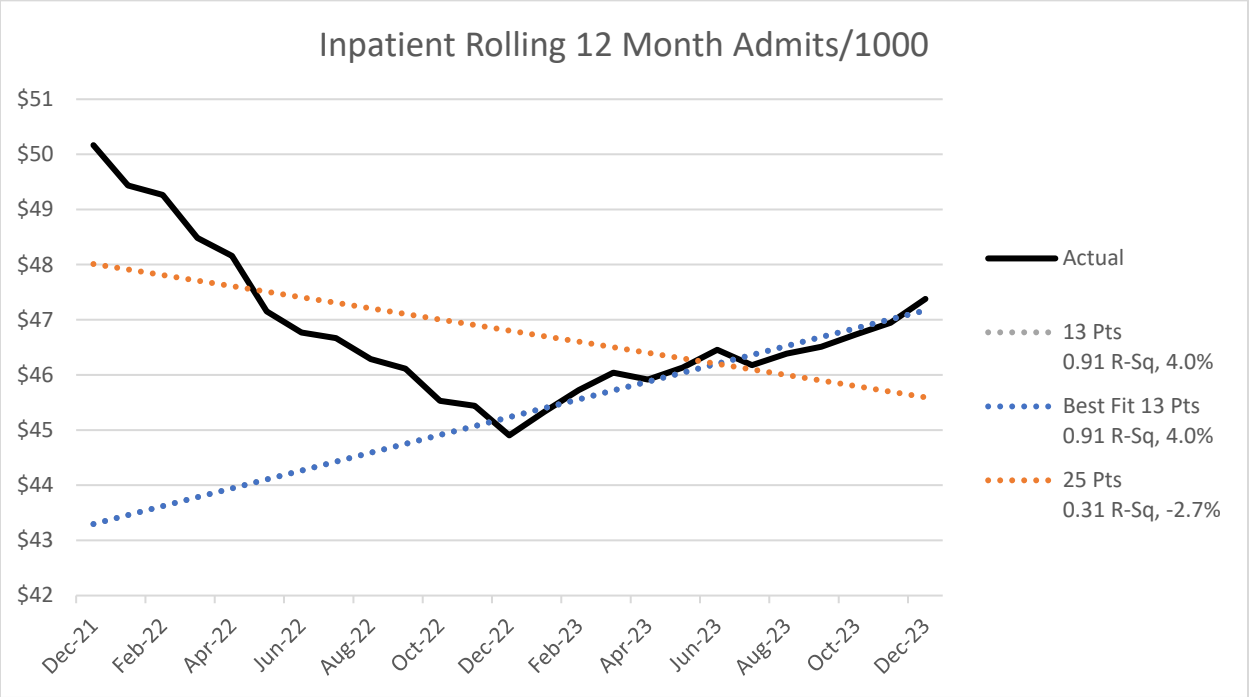
years of data was determined to be unreasonable for projecting future trends. By reviewing the Chart, the inflection point noted in the 2022 inpatient claims is clear.

Chart 2: Inpatient Claims, 2021 - 2023



BCBSRI also observed a higher trend in PMPMs compared to Admits/1000, indicating an increase in mix of around 4-5% in the most recent two years as shown in Chart 3 below. This increase was related to high-cost cases in 2023 for cardiac conditions, spine procedures, neurosurgery, and transplants. It should be noted that there was a relatively low frequency of spine procedures, neurosurgery, and transplants over this one-year period.

Chart 3: Inpatient Admits, 2021 - 2023



BCBSRI used their standard best fit regression analysis for pharmacy claims, noting that, unlike other service categories, pharmacy allowed claims have shown little variability over time, including through the pandemic. Therefore, BCBSRI used the best fit approach. By reviewing Chart 4 below, pharmacy utilization trends appear more stable relative to other service categories.

Chart 4: Pharmacy Claims, 2021 – 2023

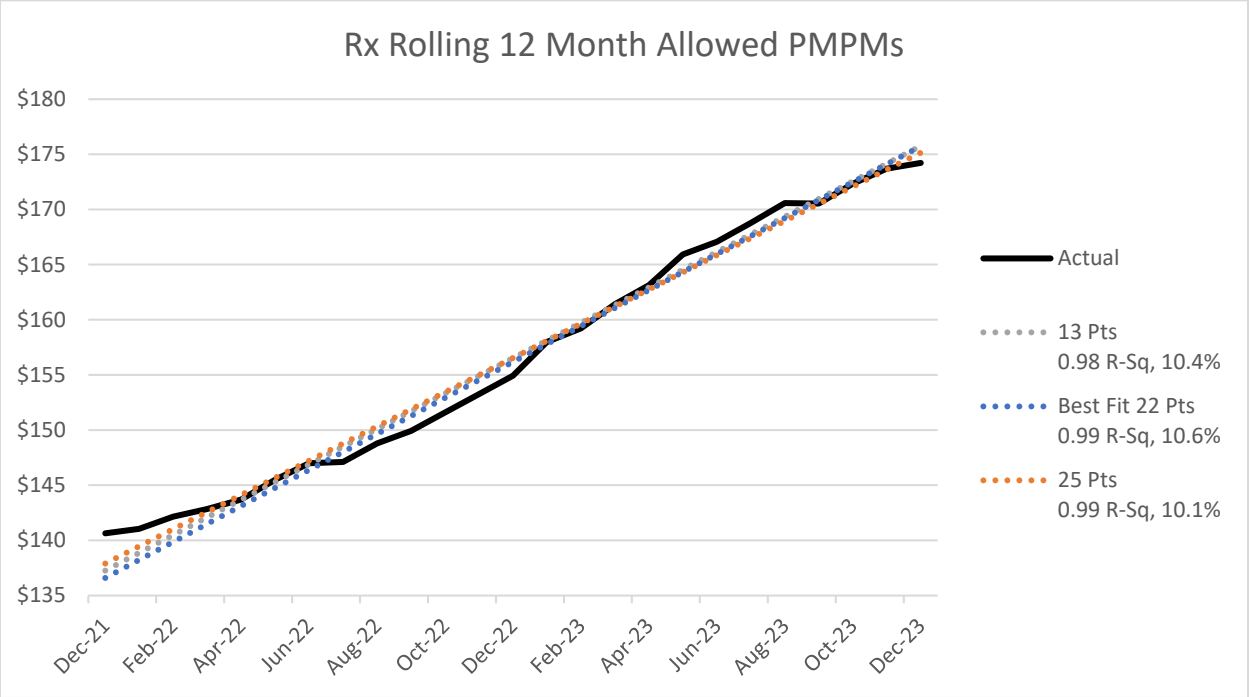


Table 1 shows the results of the regression analysis by service category.

Table 1: Utilization Trend Regression Analysis Results

Utilization Trends				
Service Category	**Selected**	**Best Fit[3]**	**13 Points**	**25 Points**
Inpatient	0.0%	8.7%	8.7%	0.6%
Outpatient	4.5%	6.0%	6.1%	4.5%
Professional	3.2%	5.5%	5.6%	3.2%
Pharmacy	10.6%	10.6%	10.4%	10.1%

Unit Cost Trends

Cost projection factors are developed for inpatient, outpatient, and professional services. These factors represent anticipated unit price increases from the 2023 experience period to the 2025 rating period. BCBSRI's Enterprise Analytics team estimated these price projection factors based on actual provider contract changes to date and best estimates of price changes for provider contracts

[3] The Best Fit for Inpatient was thirteen data points, Outpatient was eighteen data points, Professional was fourteen data points and Pharmacy was twenty-two data points.

not yet finalized. This methodology is consistent with the approach used in the 2024 rate development.

For all hospital facilities not yet negotiated, price increases were estimated based on the current CPI-U annual increase + 1%, which has been their historical approach. At the time of filing, the January 2024 CPI of 3.9% was used; however, the most current CPI-U value is 3.4% for May 2024. Considering the updated CPI-U value, L&E recommends the second-year unit cost trends for the hospital inpatient and hospital outpatient service categories be estimated using 4.4% (3.4% + 1%) in the development.

Since inpatient and outpatient claims account for 48% of projected claims and this recommendation only impacts the second year trend assumption (i.e., 2024 to 2025), this produces an approximate overall 0.2% rate reduction.

2. REINSURANCE:

BCBSRI assumes a $47.51 payment from the State Reinsurance Program. This estimate was developed by trending BCBSRI's 2023 individual market claims by member to 2025 and applying the State Reinsurance Program's 2025 parameters. L&E considers the methodology to be reasonable and appropriate. If the assumed trend is revised, the receivable under the Reinsurance Program should be updated using the revised trend.

3. RISK ADJUSTMENT:

A company's risk adjustment transfer payment (payable or receivable) is dependent on the Company's morbidity relative to the entire Individual market and the Individual market's average premium rate. BCBSRI has consistently received transfer payments from the federal Risk Adjustment program because the Company has an unhealthy population relative to the Rhode Island Individual market.

BCSRI developed its 2025 risk adjustment estimate by starting with the actual 2022 risk adjustment final payment and the 2023 risk adjustment from the Centers for Medicare and Medicaid Services (CMS) interim transfer report. These values were then trended to 2025 using an assumed statewide premium trend assumption.

BCBSRI estimated a $63.79 PMPM risk transfer for 2023, using the methodology described above, which resulted in a Risk Adjustment transfer of $70.78 PMPM for 2025. The table below illustrates the approach and final amount.

Table 2: Risk Adjustment Development Exhibit

	2022 Final	2023 Interim	Average
Transfer Amount PMPM	$55.45	$63.79	
2022-2023 Statewide Premium Trend	1.061		
2023-2024 Statewide Premium Trend	1.059	1.059	
2024-2025 Statewide Premium Trend	1.090	1.090	
Trended Transfer Amount PMPM	$67.92	$73.64	$70.78

CMS normally releases the final risk adjustment results around June 30th of each calendar year; however, CMS has indicated that the final 2023 risk adjustment report will be delayed until late July 2024. To provide insight regarding the 2023 risk adjustment transfer payment, L&E requested both insurers in the Rhode Island individual market to provide the RATEE file submitted to CMS. Based on this information, L&E's best estimate for BCBSRI's 2023 risk adjustment receivable for the individual market is $12,252,585 or $59.83 PMPM.

L&E notes that the most common industry approach for developing risk adjustment estimates is to use the base year only, as opposed to averaging with prior years. If this approach is used with the revised 2023 risk adjustment receivable of $59.83 PMPM and BCBSRI's assumed 2024 and 2025 statewide premium trend assumption of 1.059 and 1.090, the 2025 risk adjustment receivable is $69.06 PMPM. This would increase 2025 premiums by approximately 0.3%.

Table 3: Alternative Risk Adjustment Development Exhibit

	2023 Final
Transfer Amount PMPM	$59.83
2022-2023 Statewide Premium Trend	N/A
2023-2024 Statewide Premium Trend	1.059
2024-2025 Statewide Premium Trend	1.090
Trended Transfer Amount PMPM	$69.06

4. HIGH-COST RISK POOL CHARGES AND RECOVERIES

In 2018, CMS introduced the High-Cost Risk Pool (HCRP) program into the ACA's risk adjustment program to help mitigate the costs associated with high-cost claimants. The program partially reimburses insurers, at a 60% coinsurance rate, for enrollees with high claims costs above $1,000,000. These parameters have remained constant since 2018. CMS assesses the costs of this program and charges each insurer a set percentage of premium by market to cover the program's costs.

Table 4: Net High-Cost Risk Pool Development Exhibit

	2025 PMPM
HCRP Recoveries	$0.29
HCRP Charge	$4.33
HCRP Net	$4.04

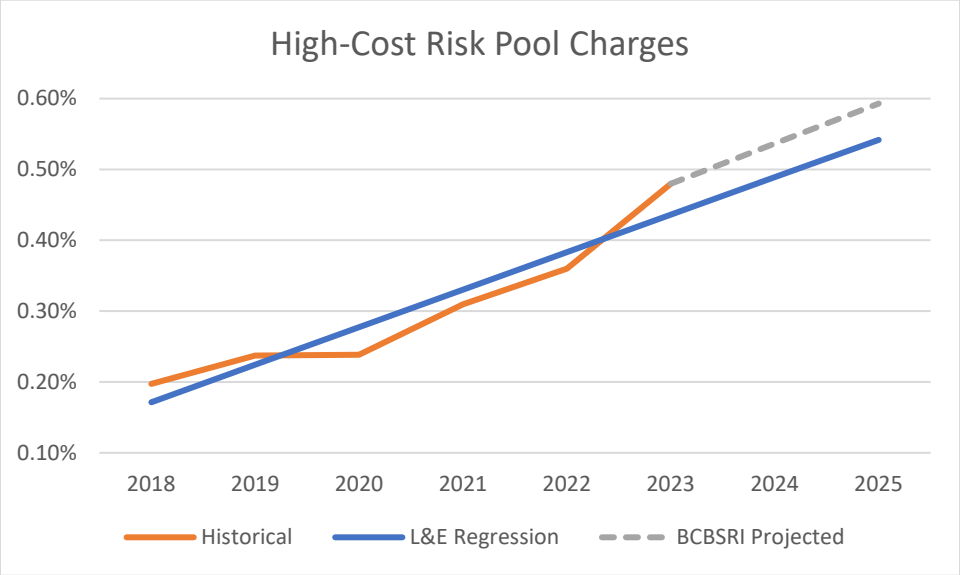
High-Cost Risk Pool Charges

BCBSRI estimated the 2025 HCRP Charges by taking the average increase each year as a percentage of premium and applying two years of that percentage to the 2023 charges. This approach considers the historical average increase, giving the 2023 charges 100% credibility, and it assumes the historical rate of increase will continue to compound on top of the already high 2023 charges.

L&E believes that a traditional linear regression is a better approach to estimate these costs. A linear regression approach would account for the historical charges, while also including the

impact of the historical trend. Applying linear regression to the HCRP charges as a percentage of premium would reduce 2025 premiums by approximately 0.1%.

Chart 5: High-Cost Risk Pool Charges



High-Cost Risk Pool Recoveries

BCBSRI estimated the HCRP Recoveries for 2025 by calculating the simple average PMPM recovery over the entire period of the program from 2018 through 2023. This calculation does not account for trends nor the varying member months by year. The nationwide payouts from the HCRP have increased by an annualized 22.5% due to the impact of leveraging claims exceeding $1,000,000. Applying this annual trend to the historical recoveries and weighting the results by BCBSRI's member months would reduce 2025 premiums by approximately 0.2%.

5. GENE AND CELL THERAPY

BCBSRI used the Wholesale Acquisition Cost (WAC) of the drugs expected to be utilized in 2025. They then applied the reinsurance parameters for the ACA High-Cost Risk Pool, the 1332 program, and the expected specific excess reinsurance for gene therapy that BCBSRI expects to purchase for 2025. After applying the expected member cost sharing and dividing by the current population, BCBSRI developed the PMPM adjustment which assumed a 10% probability that eligible members would receive these treatments in 2025. However, it remains unclear from the responses received as of the date of this report whether BCBSRI anticipates any discounts or rebates for these drugs, and if so, how that would affect the projected cost PMPM after accounting for reinsurance.

L&E also recommends that BCBSRI provide an estimate of the expected impact of the drugs on other projected treatment costs for 2025. This information would help determine if the costs of the

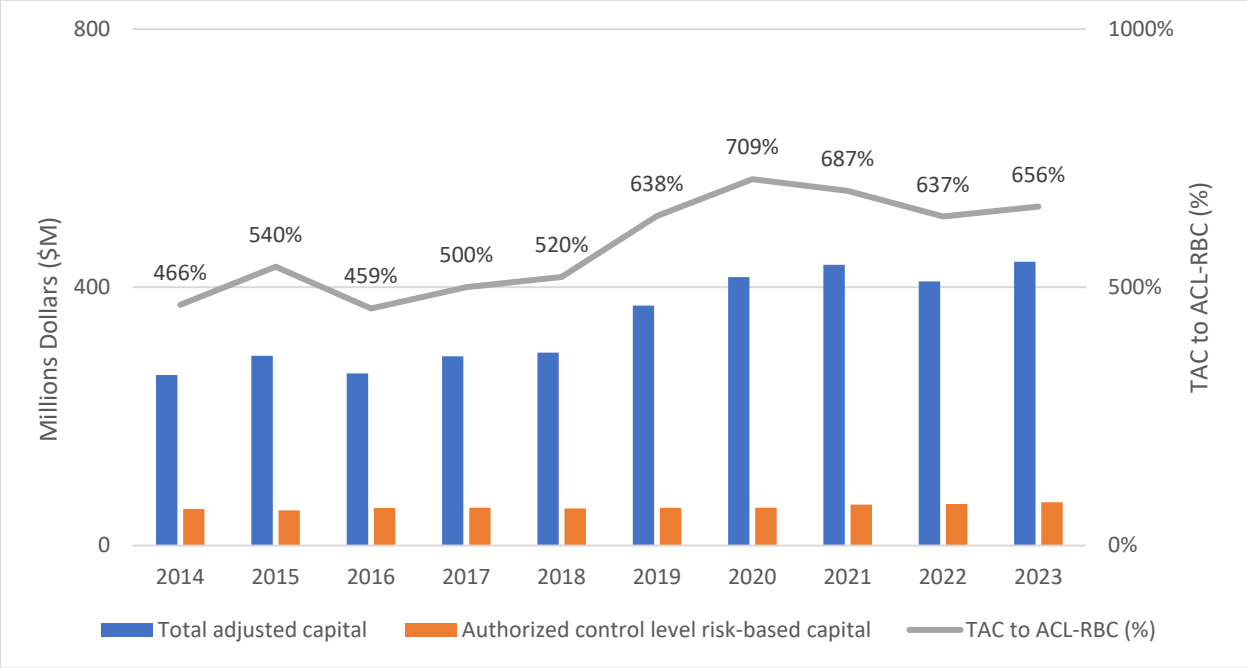
drugs are anticipated to be offset by a significant reduction in other treatment expenses for members receiving these treatments.

6. CONTRIBUTION TO SURPLUS:

After paying for administrative and claims costs, BCBSRI, as a not-for-profit entity, places any excess funds into an unassigned funds account (i.e., surplus). This surplus is set aside to protect consumers from unexpected adverse financial conditions realized by the Company.

A common metric to assess surplus is the risk-based capital (RBC) ratio. Since 2019, BCBSRI's RBC ratio has remained above historical norms, as shown below:

Chart 6: BCBSRI Historical RBC Ratio



Prior to the Covid-19 pandemic, BCBSRI included a 4.0% contribution to surplus (i.e., margin) in their rates. For 2021, the Company reduced the requested margin to 2.0% in recognition of the favorable claims experience resulting from the pandemic. Table 5 shows the requested and approved contribution to reserves for recent years. BCBSRI has filed for a 2% contribution to reserve in the current filing for 2025.

Table 5: BCBSRI Contribution to Surplus Exhibit

Plan Year	Requested	Approved
2021	2.0%	2.0%
2022	2.5%	0.0%
2023	1.0%	1.0%
2024	2.0%	1.0%
2025	2.0%	

L&E believes that the Company's recent RBC levels are in line with industry averages for the ACA marketplace. L&E also believes BCBSRI's 2025 2% profit margin assumption is in line with industry standards; however, the reduction in prior individual market assumptions does not appear to have materially impacted the Company's RBC position relative to its historical position.

OBSERVATIONS

As noted above, L&E has the following observations regarding key assumptions in the filing:

1. TRENDS

The inpatient hospital, outpatient hospital, and professional unit cost trends are based on a prospective approach and utilize BCBSRI's best estimate for contracts that are unknown at the time of pricing. L&E notes that CPI-U has been decreasing in recent months, and it appears that the Company's assumption for unit costs is conservative.

L&E recommends reducing the inpatient and outpatient unit cost trends for the second year from 5.1% to 4.6% for inpatient and 4.2% to 3.9% for outpatient. This change produces an approximate 0.2% rate decrease.

2. REINSURANCE:

L&E believes that the projected reinsurance receivable be revised to reflect the impact of changes to the trend assumption; however, the impact is expected to be immaterial.

3. RISK ADJUSTMENT:

L&E believes that the 2025 risk adjustment transfer amount should be determined using the actual 2023 risk adjustment amount as published by CMS when it becomes available. Until that becomes available, L&E believes the risk adjustment determined using both Insurer's RATEE file should be used. In addition, L&E observes that the most common approach in the

industry is using the most recent risk adjustment results, trended to 2025. This approach would increase the rates by approximately 0.3%.

4. HIGH-COST RISK POOL:

L&E recommends that the High-Cost Risk Pool recoveries be increased from $0.29 to $1.20, and the High-Cost Risk Pool charge be decreased from $4.33 to $3.96. This change produces an approximate 0.1% rate decrease.

5. GENE AND CELL THERAPY:

L&E recommends that the Company provide additional information to determine if the proposed adjustment factor is reasonable and appropriate.

6. CONTRIBUTION TO SURPLUS:

L&E believes that the Company's recent RBC levels and assumed profit margins are typical for the ACA marketplace.

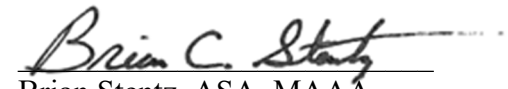
IMPACT ON OVERALL 2025 PROPOSED RATES

As of the date of this report, the following table summarizes the range of reasonable 2025 rate changes based on L&E's rate review, analysis, and assessment of the underlying filing assumptions:

Component	Rate Change
BCBSRI Proposal	+14.3%
Trends	-0.2%
Reinsurance	+0.0%
Risk Adjustment	+0.3%
High-Cost Risk Pool	-0.3%
Gene and Cell Therapy	N/A
Contribution to Surplus	N/A
L&E Recommendation[4]	**+14.2%**

[4] Differences due to rounding

Sincerely,



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ASOP 41 DISCLOSURES

The Actuarial Standards Board (ASB), vested by the U.S.-based actuarial organizations[5], promulgates Actuarial Standards of Practice (ASOPs) for use by actuaries when providing professional services in the United States.

Each of these organizations requires its members, through its Code of Professional Conduct[6], to observe the ASOPs of the ASB when practicing in the United States. ASOP #41 provides guidance to actuaries with respect to actuarial communications and requires certain disclosures which are contained below.

IDENTIFICATION OF THE RESPONSIBLE ACTUARIES

The responsible actuaries are:

- Brian Stentz, ASA, MAAA, Vice President & Principal.
- Dave Dillon, FSA, MAAA, MS, Senior Vice President & Principal.
- Josh Hammerquist, FSA, MAAA, Vice President & Principal.

IDENTIFICATION OF ACTUARIAL DOCUMENTS

The date of this document is June 21, 2024. The date (a.k.a. "latest information date") through which data or other information has been considered in performing this analysis is June 20, 2024.

DISCLOSURES IN ACTUARIAL REPORTS

- The contents of this report are intended for the use of the Rhode Island Office of Attorney General. The authors of this report are aware that it will be distributed to third parties. Any third party with access to this report acknowledges, as a condition of receipt, that they cannot bring a suit, claim, or action against L&E, under any theory of law, related in any way to this material.

- Lewis & Ellis is financially and organizationally independent from BCBSRI. L&E is not aware of anything that would impair or seem to impair the objectivity of the work.

- The purpose of this report is to assist the OAG in evaluating the proposed rates.

- The responsible actuaries identified above are qualified as specified in the Qualification Standards of the American Academy of Actuaries.

- Lewis & Ellis has reviewed the data provided by BCBSRI for reasonableness; however, not every aspect of the data has been audited. Neither L&E, nor the responsible actuaries, assume responsibility for items that may have a material impact on the analysis. To the extent that there are material inaccuracies in, misrepresentations in, or lack of adequate disclosure, the results may be accordingly affected.

[5] The American Academy of Actuaries (Academy), the American Society of Pension Professionals and Actuaries, the Casualty Actuarial Society, the Conference of Consulting Actuaries, and the Society of Actuaries.

[6] These organizations adopted identical *Codes of Professional Conduct* effective January 1, 2001.

- L&E is aware that there may be subsequent events which could have a material impact on the observations. These include but may not be limited to CMS' pending 2023 Risk Adjustment final report.

- There are no other documents or files that accompany this report.

ACTUARIAL OBSERVATIONS
The actuarial observations of the report can be found in the body of this report.

METHODS, PROCEDURES, ASSUMPTIONS, AND DATA
The methods, procedures, assumptions, and data used by the actuaries can be found in the body of this report.

ASSUMPTIONS OR METHODS PRESCRIBED BY LAW
This report was prepared as prescribed by applicable law, statutes, regulations, and other legally binding authority.

RESPONSIBILITY FOR ASSUMPTIONS AND METHODS
The actuaries do not disclaim responsibility for material assumptions or methods.

DEVIATION FROM THE GUIDANCE OF AN ASOP
The actuaries have not deviated materially from the guidance set forth in the applicable ASOPs.