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August 8, 2024

State of Rhode Island Office of the Health Insurance Commissioner

Re: Blue Cross and Blue Shield of Rhode Island
2025 Small Group Rate Filing
SERFF# BCBS-134064404

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 regarding the proposed 2025 Small Group 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) that will be offered both off and on HealthSource Rhode Island (HSRI) beginning January 1, 2025.

2. BCBSRI submitted proposed rates on May 13, 2024, with an average rate increase of 15.6%. 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 and enforcement of the laws within the State of Rhode Island, including, but not limited to, representing, protecting, and advocating on behalf of consumers at public rate hearings, and the OAG is permitted to hire actuaries to review the proposed rate filing and conduct discovery. Also, pursuant to R.I. Gen. Laws § 42-9.1-2(5), the Attorney General, as the State's Health Care Advocate, is further obligated to carry out the mandate of the Health Care Advocate statute and advocate for quality and affordable health care for the people of Rhode Island and to take "all necessary and appropriate action… to secure and insure 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."

The OAG has engaged L&E to perform an actuarial review of BCBSRI's filing for 2025 Small Group market ACA rates. This letter is to assist the OAG in evaluating the proposed rates. L&E's

observations focus on producing rates that are not excessive, inadequate, or unfairly discriminatory[1]. 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 Small Group 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.

L&E ANALYSIS

The items outlined below are key filing assumptions for the proposed 15.6% rate increase.

1. UPDATED EXPERIENCE PERIOD CLAIMS

BCBSRI used its 2023 small group market claims as the baseline for developing the 2025 rates. Initially, BCBSRI provided an estimate of the completed 2023 small group claims based on claims paid through February 2024, along with an estimated completion factor. Subsequently, BCBSRI was asked to update the 2023 experience period estimate using claims paid through June 2024. This update revealed that the 2023 incurred and paid PMPM was revised downward by -0.4%.

Table 1: Updated Experience Period Claims

Benefit Category	2023 Experience Period Claims PMPM as of February	2023 Experience Period Claims PMPM as of June
Inpatient Hospital	$112.77	$110.32
Outpatient Hospital	$168.52	$167.74
Professional	$184.37	$184.88
Other Medical	$15.69	$15.70
Capitation	$4.16	$4.17
Prescription Drug	$114.57	$114.56
Total	$600.08	$597.37

If the updated 2023 experience period claims estimate is used, the 2025 premiums would decrease by approximately 0.4%.

[1] 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

2. TREND

Utilization Trends

The base period for claims experience is the calendar year 2023. Due to the various care disruptions related to the COVID-19 pandemic starting in 2020, BCBSRI adjusted its typical trend development methodology over the past few years. However, for the 2025 rating year, BCBSRI decided to return to its standard regression methodology.

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

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

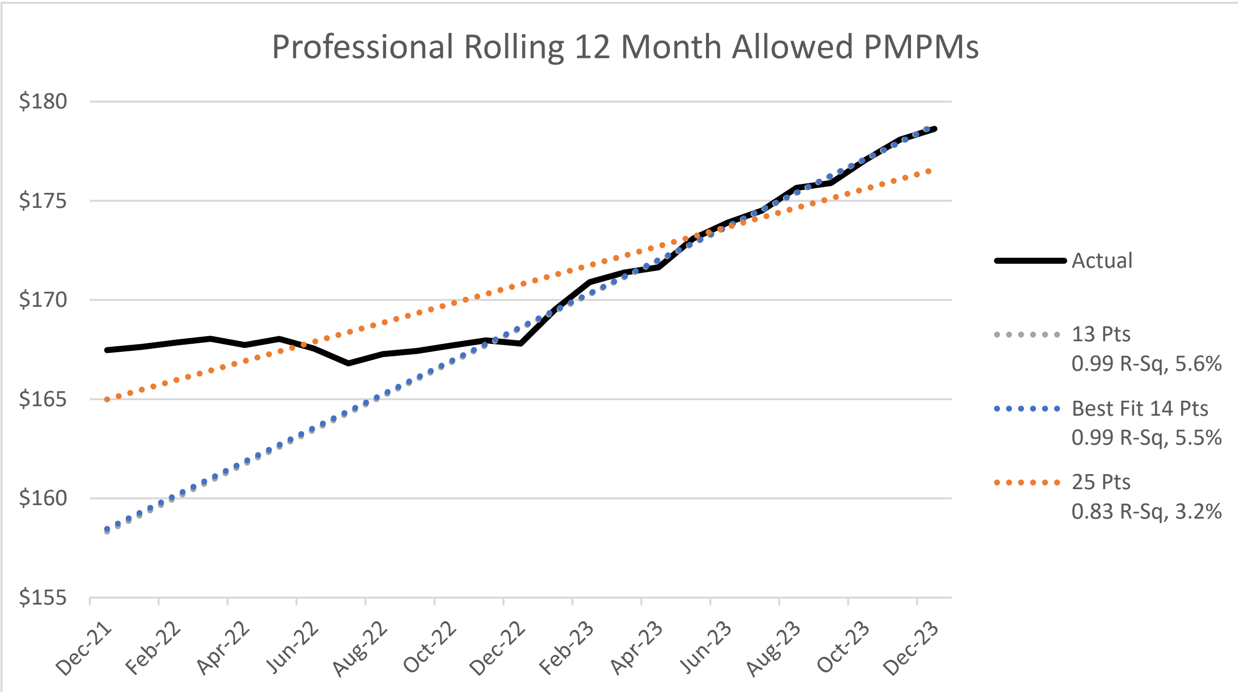
BCBSRI indicated that it generally does not adjust for high-cost claims when developing its trends. However, the company believes it controls for high-cost claims by basing its inpatient trends on utilization rather than PMPMs. In rare instances, it adjusts monthly PMPMs used in the regression analysis for specific members with rare, high-cost conditions who have left the plan.

BCBSRI determined the best fit by selecting the regression line with the highest R-squared value using the most recent two years of rolling 12-month data points, progressively adding one additional data point for each test up to a total of three years of data.

The best fit regression lines indicated historically high utilization and severity trends in the most recent two years. However, BCBSRI deviated from these recommendations, opting for a trend that incorporated a more longitudinal view of utilization trends based on three years, or 25 data points, for all trend selections. BCBSRI noted that the overall utilization trends used in the rate development are 1.8% lower than those based on the best fit recommendation.

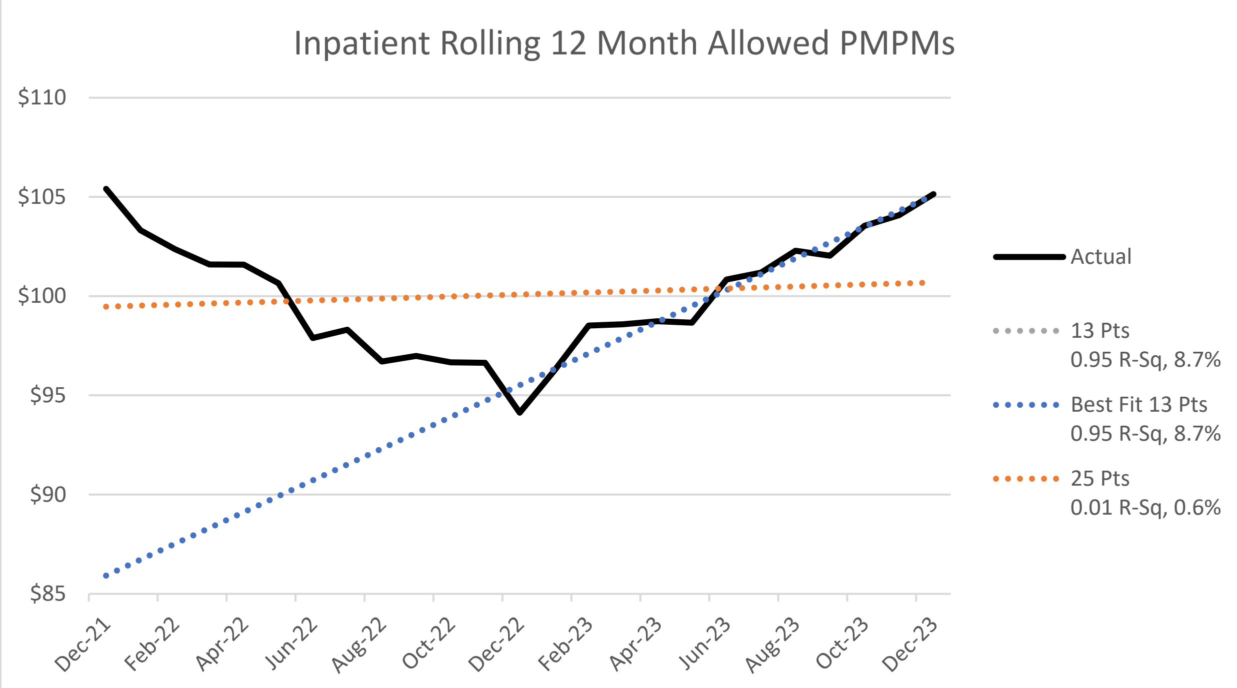
An example of this analysis for the Professional category is illustrated in Chart 1, while the analysis results for all service categories are summarized in Table 1.

Chart 1: Professional Claims, 2021 - 2023



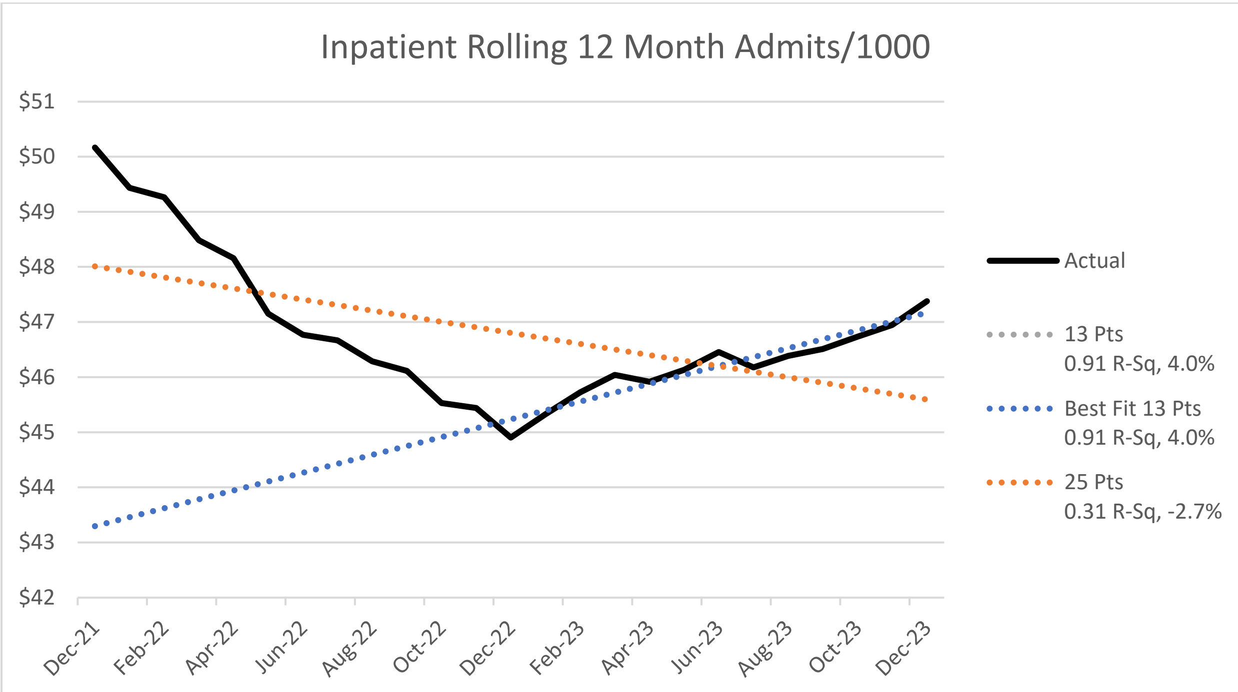
For Inpatient trends, BCBSRI also deviated from its standard best fit regression analysis by using actuarial judgment to select a 0% trend. Although Inpatient PMPMs decreased significantly in 2022, they reversed course and increased significantly in 2023. BCBSRI identified a clear inflection point at the end of 2022, which resulted in a poor fit for the 3-year trend line. The 8.7% trend based on the most recent two years of data was deemed unreasonable for projecting future trends. As shown in the chart, the inflection point in the 2022 inpatient claims is evident.

Chart 2: Inpatient Claims, 2021 - 2023



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

Chart 3: Inpatient Admits, 2021 - 2023



BCBSRI applied their standard best fit regression analysis for pharmacy claims, noting that, unlike other service categories, pharmacy allowed claims have shown little variability over time, even during the pandemic. Consequently, BCBSRI used the best fit approach for this category. As illustrated in Chart 4, pharmacy utilization trends appear more stable compared to other service categories.

Chart 4: Pharmacy Claims, 2021 – 2023

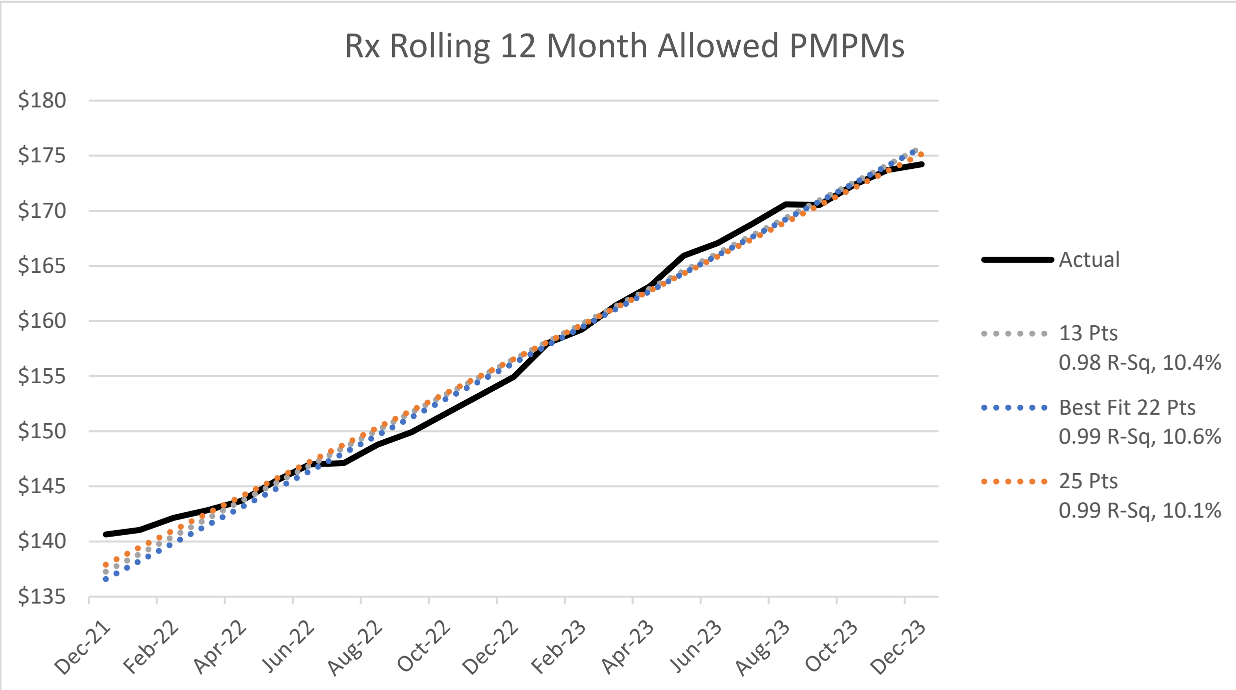


Table 2 shows the results of the regression analysis by service category.

Table 2: Utilization Trend Regression Analysis Results

Utilization Trends				
Service Category	Selected	Best Fit[2]	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 to 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 the best estimates of price changes for provider

[2] 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.

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

For all hospital facilities with contracts not yet negotiated, price increases were estimated using the current CPI-U annual increase plus 1%, which aligns with their historical approach. At the time of filing, the January 2024 CPI of 3.9% was used. However, the most recent CPI-U value is 3.3% for June 2024. Considering the updated CPI-U value, L&E recommends that the second-year unit cost trends for hospital inpatient and outpatient service categories be estimated at 4.3% (3.3% + 1%) in the development.

Since inpatient and outpatient claims account for 47% of projected claims and this recommendation impacts only the second-year trend assumption (i.e., 2024 to 2025), this results in an approximate overall rate reduction of 0.2%.

3. RISK ADJUSTMENT:

A company's risk adjustment transfer payment (payable or receivable) depends on the company's morbidity relative to the entire Small Group market and the market's average premium rate. BCBSRI has consistently received transfer payments from the federal Risk Adjustment program because it serves a less healthy population compared to the Rhode Island Small Group market.

BCBSRI developed its 2025 risk adjustment estimate by starting with the actual 2022 risk adjustment final payment and the 2023 risk adjustment data 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.

BCBSRI estimated a $4.10 PMPM risk transfer for 2023, using the methodology described above, which resulted in a Risk Adjustment transfer of $4.89 PMPM for 2025. The table below illustrates the approach and final amount.

Table 3: Risk Adjustment Development Exhibit

	2022 Final	2023 Interim	Average
Transfer Amount PMPM	$3.74	$4.10	
2022-2023 Statewide Premium Trend	1.092		
2023-2024 Statewide Premium Trend	1.039	1.039	
2024-2025 Statewide Premium Trend	1.150	1.150	
Trended Transfer Amount PMPM	$4.87	$4.90	$4.89

On July 22, 2024, CMS released the final 2023 risk adjustment results. The actual 2023 risk adjustment for BCBSRI in the Small Group market was $1.86 PMPM.

L&E notes that the most common industry approach for developing risk adjustment estimates is to use the base year only, rather than averaging with prior years. If this approach is applied using the revised 2023 risk adjustment receivable of $1.86 PMPM and BCBSRI's assumed statewide premium trend assumptions of 1.039 for 2024 and 1.150 for 2025, the 2025 risk adjustment receivable would be $2.22 PMPM. This change would increase 2025 premiums by approximately 0.4%.

Table 4: Alternative Risk Adjustment Development Exhibit

	2023 Final
Transfer Amount PMPM	$1.86
2022-2023 Statewide Premium Trend	N/A
2023-2024 Statewide Premium Trend	1.039
2024-2025 Statewide Premium Trend	1.150
Trended Transfer Amount PMPM	$2.22

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 claims costs exceeding $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 the premium by market to cover these costs.

Table 5: Net High-Cost Risk Pool Development Exhibit

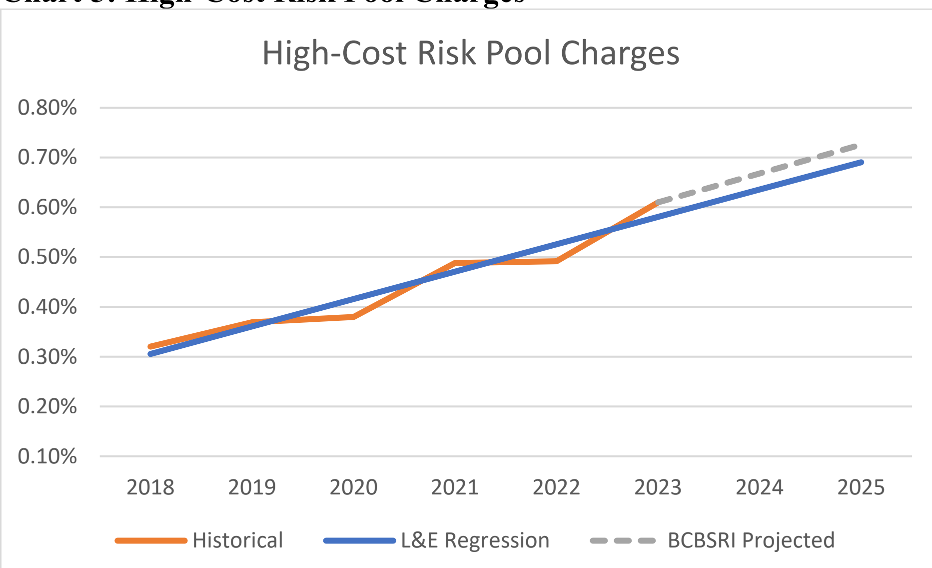
	2025 PMPM
HCRP Recoveries	$0.60
HCRP Charge	$5.25
HCRP Net	$4.65

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 that percentage over two years to the 2023 charges. This approach considers the historical average increase, giving the 2023 charges 100% credibility, and 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 more suitable approach to estimate these costs. A linear regression would account for historical charges while also considering 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

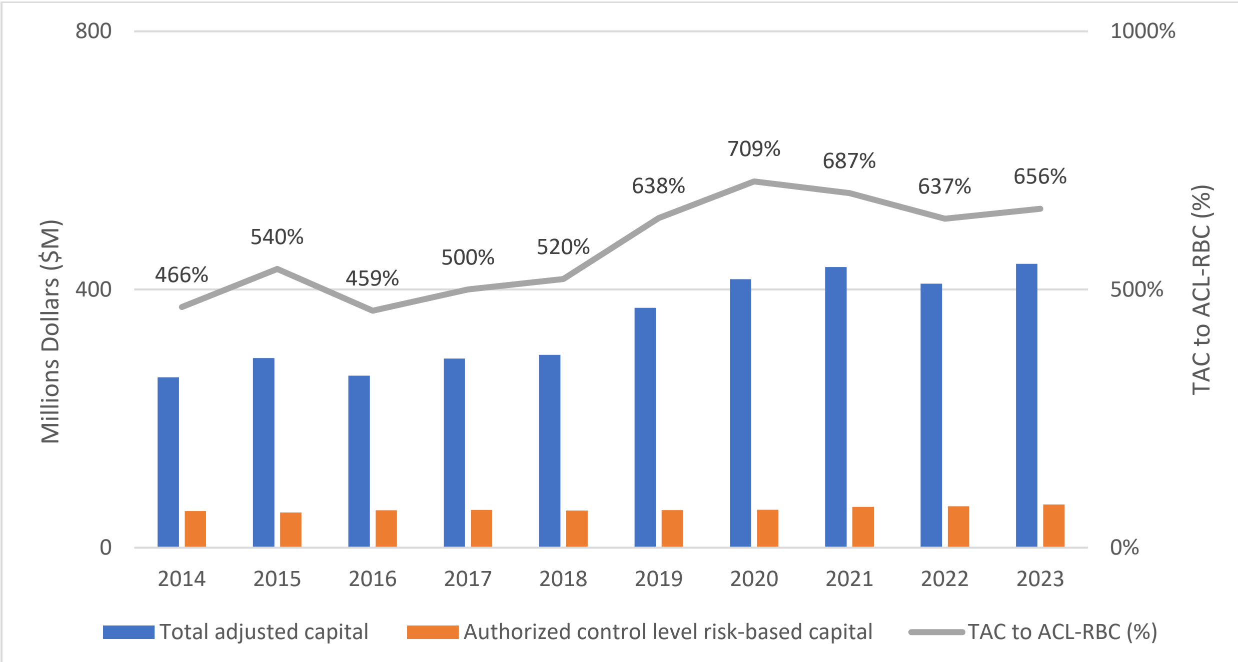
BCBSRI estimated the HCRP recoveries for 2025 by calculating the simple average PMPM recovery over the entire period of the program from 2018 through 2023. This calculation does not account for trends or the varying member months by year. Nationwide, payouts from the HCRP have increased by an annualized 22.5% due to the impact of leveraging claims exceeding $1,000,000. Applying this annual trend to historical recoveries and weighting the results by BCBSRI's member months would reduce 2025 premiums by approximately 0.2%.

5. CONTRIBUTION TO SURPLUS:

After covering administrative and claims costs, BCBSRI, as a not-for-profit entity, places any excess funds into an unassigned funds account, known as the surplus. This surplus is set aside to protect consumers from unexpected adverse financial conditions faced 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 6 shows the requested and approved contribution to reserves for recent years. In the current filing for 2025, BCBSRI has requested a 1.25% contribution to reserves.

Table 6: BCBSRI Contribution to Surplus Exhibit

Plan Year	Requested	Approved
2021	2.0%	2.0%
2022	2.5%	0.0%
2023	1.0%	0.0%
2024	2.0%	0.0%
2025	1.25%	

L&E believes that BCBSRI's recent RBC levels are in line with industry averages for the ACA marketplace. L&E also considers BCBSRI's 2025 profit margin assumption of 1.25% to be consistent with industry standards. However, the reduction in prior small group market assumptions does not appear to have materially impacted the company's RBC position relative to its historical levels.

OBSERVATIONS

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

1. UPDATED EXPERIENCE PERIOD CLAIMS

L&E recommends using the updated 2023 small group experience period claims, estimated with claims paid through June 2024, in the 2025 rate development. This adjustment increases the starting claims from $600.08 PMPM to $597.37 PMPM, resulting in an approximate 0.4% rate decrease.

2. 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 the CPI-U has been decreasing in recent months, indicating that the company's assumption for unit costs may be conservative.

L&E recommends reducing the unit cost trends for the second year from 5.1% to 4.7% for inpatient and from 4.2% to 4.0% for outpatient. This adjustment results in an approximate 0.2% rate decrease.

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 on July 22, 2024. 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 0.4%.

4. HIGH-COST RISK POOL:

L&E recommends that the High-Cost Risk Pool recoveries be increased from $0.60 to $1.94, and the High-Cost Risk Pool charge be decreased from $5.25 to $4.99. This change produces an approximate 0.3% rate decrease.

5. 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	+15.6%
Experience Period Claims Updated	-0.4%
Trends	-0.2%
Risk Adjustment	+0.4%
High-Cost Risk Pool Recoveries	-0.2%
High-Cost Risk Pool Charges	-0.1%
Contribution to Reserves	N/A
L&E Recommendation[3]	**+15.2%**

Sincerely,

Brian Stentz, ASA, MAAA
Vice President & Principal
Lewis & Ellis, LLC.

Dave Dillon, FSA, MAAA, MS
Senior Vice President & Principal
Lewis & Ellis, LLC.

Josh Hammerquist, FSA, MAAA
Vice President & Principal
Lewis & Ellis, LLC.

[3] Differences due to rounding

ASOP 41 DISCLOSURES

The Actuarial Standards Board (ASB), vested by the U.S.-based actuarial organizations[4], 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[5], 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 August 8, 2024. The date (a.k.a. "latest information date") through which data or other information has been considered in performing this analysis is June 30, 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.

[4] 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.

[5] 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 the release of the July 2024 CPI by the U.S. Bureau of Labor Statistics.

- 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.