

August 7, 2024

State of Rhode Island Office of the Health Insurance Commissioner

Re: Aetna Life Insurance Company
2025 Large Group Rate Filing
SERFF# AETN-134081209

Submitted on Behalf of the Rhode Island Office of Attorney General

The purpose of this letter is to provide a summary of Lewis & Ellis, LLC's (L&E) actuarial analysis regarding the proposed 2025 Large Group Rate Filing for Aetna Life Insurance Company (ALIC, Aetna, or Company) and to assist the Rhode Island Office of Attorney General (OAG) in evaluating possible changes to the proposed rates.

FILING DESCRIPTION

1. ALIC is a for-profit organization that provides health insurance coverage to Rhode Islanders. This filing proposes premiums for ALIC's commercial major medical insurance that will be offered in the large group market in Rhode Island beginning January 1, 2025.
2. ALIC submitted proposed rates on May 13, 2024, with a 7.9% average rate increase relative to the rates effective in the first quarter of 2024.
3. As is typical in the large group market, the company provided a formula for producing rates. This formula considers the demographics of enrolled members, the specific benefits for that group, and the historical claims experience for that group. Consequently, no specific group should be expected to receive the 7.9% average increase described in this filing.

PURPOSE AND SCOPE

Pursuant to R.I. 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 Aetna’s 2025 large group rates. This letter is to assist the OAG in evaluating possible changes to the proposed rates, if applicable. L&E’s observations focus on producing rates that are not excessive, inadequate, or unfairly discriminatory¹. Premium affordability is not within the scope of L&E’s actuarial review.

SUMMARY OF RECEIVED DATA

The Company provided the rate manual used to determine premiums for a large group, including factor tables with variable amounts for plan designs, age, and industry. The filing also includes an actuarial memorandum and certification detailing the methodologies used to develop the proposed rates.

Aetna provided additional exhibits and information as requested during the rate review process.

L&E ANALYSIS

The items outlined below are key assumptions in the filing:

1. EXPERIENCE RATING METHODS

For groups with historical claims experience, a group-specific claim PMPM is calculated using 12 to 24 months of recent data. Historical experience is adjusted for changes to benefits, demographics, etc. The experience-based claims projection may be blended with a manual rate, based on the credibility considerations described below.

As is common in the industry, Aetna pools experience for high-cost claimants between groups, even for fully credible groups. The pooling charges used to accomplish this were provided in Appendix A provided in their initial filing.

2. MANUAL RATING METHODS

For groups with limited historical experience, premiums are based on a manual rate. This manual rate was developed based on claims from [REDACTED]

Due to the lack of Rhode Island membership, [REDACTED]

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>

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] L&E recommends that the company apply an adjustment of -1.3% to the manual rate, which represents [REDACTED] used in the company's analysis.

As shown in Appendix A, page U-20, Aetna's rating manual permits an unreasonably large degree of underwriting discretion. For example, the "Miscellaneous Actuarial Factor" is permitted to vary from 0 to 5. This means that if the filed rate is \$500 PMPM, the rate manual permits the underwriter to modify that rate to anywhere from \$0 to \$2,500 PMPM. This premium range expands further when other rating factors are considered. While Aetna has indicated that they have internal controls to prevent these factors from being used in an unfairly discriminatory manner, we note that Aetna's rating manual allows for more underwriting discretion than is typically seen in large group rating manuals.

3. PROJECTION ASSUMPTIONS

Both a group's actual claims experience and, if applicable, the manual rate are adjusted to reflect changes in cost over time. In the initial filing, Aetna assumes that claims increase by approximately 8.6% every 12 months. However, the initial filing did not provide support for this assumption. In response to inquiries by both OHIC and OAG, Aetna provided historical information relevant to their trend assumptions.

Medical trends are generally divided into two categories: unit cost and utilization trends. Unit cost trends relate to changes in the contracted prices between insurers and providers. While Aetna's assumed unit cost trends exceed recent averages, the current inflation environment makes such an increase possible.

Aetna initially assumed a utilization/mix trend of 2.7% and noted that, given the lack of internal Rhode Island claims data, the utilization and mix trends were held flat at the levels approved in the 1/1/2024 rate filing, which OHIC set to align with other larger carriers in the state. In one of the company's responses, they acknowledged that the trends submitted in the initial template were overstated by 0.5% due to an inadvertent increase in case mix.

The actuarial justification provided by the Company was not considered sufficient to fully assess the trend assumption. L&E believes that a 0.1% reduction is necessary for the trend assumption to be more reasonable with market averages.

4. RETENTION

Page U-23 to U-27 of the rating manual contains the various retention components added to projected claims to develop the final large group premiums. These components vary by type of coverage and group size, allowing for substantial modification due to underwriter discretion.

Aetna is projecting that their 2025 administrative costs will be similar to their filed 2024 levels with the total retention in this filing decreasing from 8.7% to 8.6%.

At the time of the initial filing, the final Rhode Island assessments had not been released. L&E recommends that Aetna updates these assessments to reflect the final numbers, which has an impact of +0.2% on the overall rate change.

The rates also include an allowance for profit margin. Aetna has proposed a 1.0% profit margin in this filing, consistent with the 1.0% profit approved by the RI Commissioner in the previous year's filing. Given the capital and surplus level of the Company and its affiliates, we find the profit of 1.0% to be reasonable.

OBSERVATIONS

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

1. TREND OVERSTATEMENT:

Aetna initially assumed a utilization/mix trend of 2.7% and notes that given the lack of internal RI claims data, the utilization and mix trends were being held flat at the levels approved in the 1/1/2024 rate. However, the trends submitted in the initial template were overstated by 0.5% as the case mix was inadvertently increased.

L&E believes that trend assumption should be reduced by 0.1% to be in line with typical trend values.

After adjustments, a utilization trend of 2.2% and total trend of 8.0% is reasonable.

2. MANUAL RATE ADJUSTMENT:

To determine if an experience adjustment was needed for the manual rate, [REDACTED] L&E recommends that the Company uses an adjustment of -1.3% to the manual rate, which represents the average of the three data points used in the company's analysis.

3. RHODE ISLAND ASSESSMENTS:

At the time of the initial filing, the final updated Rhode Island assessments had not been released. L&E recommends that Aetna updates these assessments to reflect the final numbers, which has an impact of +0.2% on the overall rate change.

IMPACT ON OVERALL RATE INCREASE

A breakdown of L&E's observations by rating component is provided below:

Component	Rate Change
Aetna LG Proposal	+7.9%
Trend Overstatement	-0.5%
Trend Reduction	-0.1%
Manual Rate Adjustment	-1.3%
Revised RI Assessments	+0.2%
Aetna LG Revised	+6.2%

Please note that the impact on the rates is an estimate, and the actual impact may differ due to the Company's pricing model.

Sincerely,



Robert Dorman, ASA, MAAA
Vice President & Consulting Actuary
Lewis & Ellis, LLC



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



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

ASOP 41 DISCLOSURES

The Actuarial Standards Board (ASB), vested by the U.S.-based actuarial organizations², 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 Conduct³, 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:

- Robert Dorman, ASA, MAAA, Vice President & Consulting Actuary.
- Josh Hammerquist, FSA, MAAA, Vice President & Principal.
- Dave Dillon, FSA, MAAA, MS, Senior Vice President & Principal.

IDENTIFICATION OF ACTUARIAL DOCUMENTS

The date of this document is August 7, 2024. The date (a.k.a. “latest information date”) through which data or other information has been considered in performing this analysis is August 5, 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 ALIC. 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 possible changes to 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 ALIC for reasonableness; however, not every aspect of the data has been audited. Neither L&E, nor the responsible actuaries, assume responsibility for the 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 by the data, the results may be accordingly affected.

² 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.

³ 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 our observations. These include but may not be limited to the ongoing Covid-19 virus.
- 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.