

August 5, 2024

State of Rhode Island Office of the Health Insurance Commissioner

Re: HPHC Insurance Company, Inc. (PPO)  
Harvard Pilgrim Health Care of New England, Inc. (HMO)  
2025 PPO and HMO Small Group Rate Filings  
SERFF# HPHC-134083530 & HPHC-134097021

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 PPO and HMO Small Group Rate Filings for HPHC Insurance Company (HPIC) and Harvard Pilgrim Health Care of New England (HPNE). The analysis is intended to assist the Rhode Island Office of Attorney General (OAG) in representing consumers' interests regarding the proposed rates.

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## FILING DESCRIPTION

1. HPIC and HPNE are both a part of Point32Health, Inc. and will be referred to collectively in this report as "HPHC" or "Company". Point32Health sold commercial health insurance policies through Tufts Insurance Company (PPO) and Tufts Associated Health Maintenance Organization (HMO), collectively referred to in this report as "Tufts", in Rhode Island from 2009 to 2023. Starting in 2024, Point32Health began transitioning these commercial health insurance policies to be sold through HPIC (PPO) and HPNE (HMO). All 2023 Tufts small group plans were mapped to similar 2024 HPHC plans. Historical experience data mentioned in this report refers to the Tufts historical experience that has transitioned to HPHC.
2. HPHC is a not-for-profit organization that provides health insurance coverage to Rhode Islanders. These filings propose premiums for HPIC's PPO Qualified Health Plans (QHPs) and HPNE's HMO QHPs that will be offered beginning January 1, 2025.
3. HPIC and HPNE submitted proposed rates on May 13, 2024, with an average rate increase of 10.2% for HPIC and 11.0% for HPNE. This report is based on those proposed rates.
4. The rating development methodology used for HPIC and HPNE is the same. The numerical results differ due to the claims experience, statistical credibility, risk adjustment, claim type distribution, membership distribution, etc, of each specific block. This report discusses the rating methodology used in both filings and discloses the numerical results for each entity separately.

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## 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 such an actuarial review for the 2025 Small Group market Affordable Care Act (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<sup>1</sup>. Premium affordability is not within the scope of L&E's actuarial review.

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## SUMMARY OF RECEIVED DATA

HPHC 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 the manual rate, trend, morbidity adjustments, federal programs, administrative costs, and taxes and fees.

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

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## L&E ANALYSIS

The items outlined below are the filing assumptions that are key to the proposed 10.2% rate increase for HPIC and the proposed 11.0% rate increase for HPNE.

### 1. EXPERIENCE CREDIBILITY

HPNE and HPIC experience was combined for rate development to increase the credibility of the base period experience. The combined experience was assigned credibility based on a full credibility standard of 140,000 member months. Since the combined experience consisted of 13,500 member months, the resulting credibility percentage calculated was 31%. L&E believes this approach is reasonable and appropriate.

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<sup>1</sup>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. MANUAL RATE

HPHC utilized its 2023 Massachusetts ACA business as the primary data source for calculating the manual rate. The data was normalized to represent the medical cost for a representative member with rating factors equal to 1.0 enrolled in a hypothetical plan with a benefit adjustment value equal to 1.0. The manual data was then trended and adjusted for morbidity differences, provider reimbursement differences, member distribution differences, changes in state assessments and mandates, etc. L&E believes this approach is reasonable and appropriate.

## 3. TREND

HPHC assumed an average annual experience trend assumption that varies slightly between HPIC (7.4%) and HPNE (7.2%) due to different claim category weightings. The trend assumption is composed of an average annual unit cost trend of 4.4% and an average annual utilization trend of 2.7%.

Unit cost trend for medical services is based on the Company's knowledge of various contracting arrangements for their contracted providers. Utilization trends for medical services are based on Massachusetts historical utilization trend experience. Pharmacy trends are based on historical and emerging utilization and AWP cost increases, changes in the contractual AWP discount percentage from year to year through updates to the PBM arrangement, and upcoming launches for both generic and brand/specialty drugs.

HPHC stated that the trend assumption includes 0.25% of margin in year one. L&E recommends that this margin be reflected in the contribution to surplus rather than in the trend assumption. This recommendation has no impact on rates and effectively reduces the trend assumptions to 7.3% (HPIC) and 7.1% (HPNE) for L&E's review of the trend assumption.

During the rate review process, HPHC provided four years of normalized historical allowed trends for the Rhode Island (Small Group and Large Group) business, both with and without Covid-19 claims. These trends yielded 3- and 4-year averages between 6.1% to 6.9%. L&E considered recent decreasing trends in CPI-U of approximately 2% from 2022 to 2024, which should put downward pressure relative to historical average allowed trends. Additionally, L&E observed that historical utilization trends were between 1.1% to 1.8% compared to the assumed 2.7%. Considering this information, L&E recommends an average annual utilization trend assumption of 1.5%. This utilization trend assumption change, along with the trend margin assumption, results in a total average annual trend assumption of 6.0% for HPIC and 5.7% for HPNE. This recommendation would decrease the proposed rates by 2.4% for HPIC and 2.6% for HPNE.

## 4. RISK ADJUSTMENT

HPHC calculated a credibility-blended risk adjustment transfer projection, consistent with the credibility-blending of the claims experience. The same credibility percentages were applied for risk adjustment as for the claims experience.

Regarding the experience portion of the projected risk adjustment transfer, HPHC relied on the final 2022 CMS risk adjustment report and any available 2023 Wakely information for Rhode Island,

adjusted for any expected model changes in 2024 and 2025. During the rate review process, actual risk adjustment transfer amounts for 2023 were released by the Center for Medicaid and Medicare Services (CMS). HPHC's actual 2023 risk adjustment transfer was consistent with expectations.

Regarding the manual portion of the projected risk adjustment transfer, HPHC applied a morbidity adjustment to the manual rate (Massachusetts small group market experience) reflecting the difference between the morbidity within the data source and the estimated average small group market morbidity in Rhode Island. Therefore, the manual portion of the rate development is adjusted to the morbidity level of the composite small group market at the claims level. Accordingly, the manual portion of the projected risk adjustment transfer assumes no transfer amount. However, it does assume an estimated amount for the high-cost risk pool charge.

L&E believes this approach is reasonable and appropriate.

## 5. MORBIDITY ADJUSTMENT

As discussed in the previous section, HPHC applied a morbidity adjustment to the manual rate (Massachusetts small group market experience), reflecting the difference between the morbidity within the data source and the estimated average small group market morbidity in Rhode Island.

The 2023 risk adjustment report released by CMS during the rate review process provided actual Rhode Island small group market statewide average morbidity. HPHC proposes, and L&E agrees, that the morbidity adjustment be updated to reflect this information, which reduces the proposed rates by 1.0% for both HPNE and HPIC.

## 6. CONTRIBUTION TO SURPLUS

After paying for claims and administrative costs, HPHC, 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 any unexpected adverse financial conditions for the Company.

A common metric to assess surplus is the risk-based capital (RBC) ratio. The RBC ratios for each entity from 2019 to 2023 are shown in the table below. HPHC is a subsidiary of Point32Health, Inc. and may have access to additional capital through the parent organization. However, L&E has not assessed the financial position of the parent organization, and the surplus levels for HPNE have been materially declining from 2019 to 2023. Therefore, surplus levels should continue to be closely monitored each year.

	2019	2020	2021	2022	2023
<b>HPIC</b>	511%	643%	558%	441%	496%
<b>HPNE</b>	493%	368%	320%	353%	298%

For plan year 2023, HPHC proposed a contribution to surplus assumption of 1.0%; however, this was reduced to 0.5% by OHIC. For the plan year 2024, HPHC a 0.0% contribution to surplus was proposed and approved. For the plan year 2025, HPHC proposed a 0.0% contribution to surplus.

The impact of unit cost and utilization trends on the RBC formula means that surplus must increase each year for the RBC ratio to remain stable. Therefore, a 0.0% contribution to surplus is expected to reduce the RBC ratio over time unless the company includes margin in other assumptions.

As discussed previously in the ‘Trend’ section, 0.25% of margin is included within year one of the trend portion of the 2025 rate development. L&E recommends that the 0.25% margin included within the year one trend portion of the rate development be reflected in the contribution to surplus rather than in the trend assumption. This recommendation has no impact on rates.

L&E believes that the Company’s recent RBC levels and the proposed contribution to surplus, including the 0.25% that was filed within the trend assumption, are not unreasonable.

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## OBSERVATIONS

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

### 1. TREND

L&E recommends that the 0.25% margin included within the year one trend portion of the rate development be reflected in the contribution to surplus rather than in the trend assumption. This recommendation has no impact on rates.

L&E recommends an average annual trend assumption of 6.0% for HPIC and 5.7% for HPNE based historical average annual trends and recent declining trends in CPI-U. This recommendation would decrease the proposed rates by 2.4% for HPIC and 2.6% for HPNE.

### 2. MORBIDITY ADJUSTMENT

The 2023 risk adjustment report released by CMS during the rate review process provided actual Rhode Island small group market statewide average morbidity. HPHC proposes, and L&E agrees, that the morbidity adjustment be updated to reflect this information, which reduces the proposed rates by 1.0%.

A breakdown of L&E’s calculated rate change by rating component is provided below:

Component	HPIC	HPNE
<b>HPHC Proposal</b>	+10.2%	+11.0%
<b>Trend</b>	-2.4%	-2.6%
<b>Morbidity</b>	-1.0%	-1.0%
<b>L&amp;E Recommendation</b>	<b>+6.5%</b>	<b>+7.0%</b>

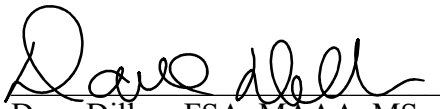
Sincerely,



Traci Hughes, FSA, MAAA  
Vice President & Principal  
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

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## ASOP 41 DISCLOSURES

The Actuarial Standards Board (ASB), vested by the U.S.-based actuarial organizations<sup>2</sup>, 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<sup>3</sup>, 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:

- Traci Hughes, FSA, MAAA, Vice President & Principal.
- 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 5, 2024. The date (a.k.a. “latest information date”) through which data or other information has been considered in performing this analysis is July 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 HPHC. 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 HPHC 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.

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<sup>2</sup> 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.

<sup>3</sup> 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.