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August 7, 2024

State of Rhode Island Office of the Health Insurance Commissioner

Re: Neighborhood Health Plan of Rhode Island
2025 Individual QHP Rate Filing
SERFF# NHRI-134103963

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 Individual Qualified Health Plan (QHP) Rate Filing for Neighborhood Health Plan of Rhode Island (NHPRI 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. NHPRI is a not-for-profit health maintenance organization (HMO) insurance company that provides health insurance coverage to Rhode Islanders. This filing proposes premiums for NHPRI's QHPs that will be offered on HealthSource Rhode Island (HSRI) beginning January 1, 2025.

2. NHPRI initially submitted proposed rates on May 13, 2024, with an average rate increase of 5.6%. 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."

A public rate hearing must be held for a requested rate increase of 10% or higher by an insurer covering 10,000 or more individual lives per Rhode Island Gen. Laws §§27-19-6(f) and 27-20-

6(f). In the event a public rate hearing is not triggered, Rhode Island law [§§27-19-6(j)(2)-(k), 27-20-6(j)(2)-(k), and 27-36-2(a)] allows the OAG to hire actuaries to review the proposed rate filings.

The OAG has engaged L&E to perform such an actuarial review for the 2025 Individual market QHP 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

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

NHPRI also provided additional exhibits and information as requested by the OAG during the rate review process.

L&E ANALYSIS

The items outlined below are the key filing assumptions underlying the proposed 5.6% rate increase.

1. CLAIMS TREND

NHRPI assumed a 7.1% average annual allowed claims trend in their initial filing. This assumption consists of a 5.6% unit cost trend and a 1.4% utilization trend. The unit cost assumption is based on anticipated contracted changes and historical cost trends. The utilization assumption is based on a historical utilization trend analysis, consideration of prior filing trend assumptions, a review of industry trends, and actuarial judgment.

The 7.1% average annual allowed claims trend assumption includes inpatient and outpatient hospital unit cost trends of 5.0% for 2025. However, pursuant to 230-RICR-20-30-4.10(D)(6)(e)(1), these assumptions should not exceed the most recent available CPI-U, excluding food and energy, plus one percent. The assumed unit cost trend was based on the December 2023 CPI-U, excluding food and energy. The CPI-U, excluding food and energy for June 2024, is 3.3%. Therefore, the assumed inpatient and outpatient hospital unit cost trends for 2025 should not exceed 4.3%. If these two assumptions are decreased to 4.3%, the average annual allowed claims trend assumption would be reduced to 6.9%.

Additionally, as part of the rate review, L&E received monthly allowed claims per member per month (PMPM) from January 2019 through December 2023, paid through March 2024. Additionally, NHPRI provided normalized historical trend information for 2020 through 2023, both with and without COVID-19 claims. L&E analyzed the historical trends using multiple different averaging methods and

[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

considered the recent decreasing trends in CPI-U. A 6.9% trend assumption was within the range of resulting trends from that analysis. Therefore, L&E recommends an average annual trend assumption of 6.9%. Decreasing the average annual trend assumption to 6.9% would decrease the proposed rates by 0.3%.

2. MEDICAID REDETERMINATION

The company's adjustment for the impact of Medicaid Redetermination is included in the morbidity factor and is a factor of 1.016. NHPRI calculated this adjustment using 2023 paid claims plus the Medicaid experience for those members that moved from Medicaid, divided by 2023 paid claims, excluding members that were redetermined from Medicaid; this produces a morbidity load of 1.016.

L&E believes this calculation would be more appropriate with two changes:

a. Using allowed claims instead of paid claims in both the numerator and denominator. This change removes the impact of cost-sharing differences between Medicaid and ACA, as well as removes the impact of starting new cost-sharing requirements midyear.
b. Keeping the members that were redetermined from Medicaid in the denominator. The morbidity factor is being applied to NHRPI's experience with these members included. Therefore, the factor needs to account for this otherwise it would double count the impact of these claims.

With these two changes, the factor increases to 1.024, which would increase the proposed rates by 0.8%.

3. RISK ADJUSTMENT

A company's risk adjustment transfer payment (payable or receivable) is dependent on the Company's morbidity relative to the Individual market and the Individual market's average premium rate.

NHPRI consistently transfers payments into the risk adjustment program since the Company has a disproportionately healthy population relative to their competitor in the Rhode Island Individual market.

Neighborhood uses the estimated 2023 transfer payment as the basis for developing the estimated 2025 transfer amount. During the rate review process, actual risk adjustment transfer amounts for 2023 were released by the Center for Medicaid and Medicare Services (CMS). NHPRI's actual 2023 transfer payment was $828K less than the estimated 2023 payment used to project the 2025 transfer. After accounting for the actual 2023 transfer amount, the updated estimate of the risk adjustment payment decreases rates by 0.6%.

4. CONTRIBUTION TO SURPLUS

After paying for administrative and claims costs, NHPRI, 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. The historical RBC ratios are shown in the table below.

2019	2020	2021	2022	2023
211%	253%	236%	224%	[redacted]

[redacted]

Plan Year	Requested	Approved
2023	3.0%	1.0%
2024	1.0%	1.0%
2025	1.0%	

[redacted] Additionally, L&E acknowledges that the commercial major medical business is only approximately 10% of the Company's total business.

However, L&E notes the following changes since last year:

- [redacted]
- [redacted]
- NHPRI's sole ACA market competitor is filing a significantly larger rate increase, which is expected to increase membership for NHPRI in 2025. While increasing membership may be expected to increase capital and surplus in the long term, in the short term it will decrease the RBC ratio and surplus held in months of claims (assuming no outside capital/surplus infusions, etc.).

Additionally, given that NHPRI only has one other ACA market competitor, if either carrier were to become insolvent or leave the market for any other reason, it would present a high risk to the remaining carrier. As the sole remaining carrier, this carrier would be left to unexpectedly absorb the membership of the insolvent carrier, straining the remaining carriers surplus.

[redacted]

- [redacted]
- [redacted]

Based on an evaluation of the most recent available unified rate review template (URRT) public use files (PUFs) published by the Center for Medicare and Medicaid Services (CMS), the average filed contribution to surplus is 3.0%. Given the information discussed above, L&E does not believe it is appropriate for the contribution to surplus to be below average. L&E believes that, in this case, a contribution to surplus lower than 3.0% presents a significant risk of Company insolvency.

Increasing the contribution to surplus from 1.0% to 3.0% would increase the proposed rates by 2.0%.

OBSERVATIONS

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

1. TREND

L&E recommends an average annual trend assumption of 6.9%, which is a reduction to the filed 7.1% in order to maintain compliance with 230-RICR-20-30-4.10(D)(6)(e)(1) based on the CPI-U as of June 2024. Decreasing the average annual trend assumption to 6.9% would decrease the proposed rates by 0.3%.

2. MEDICAID REDETERMINATION

L&E believes the calculation of the Medicaid Redetermination portion of the morbidity factor would be more appropriate with two changes:

a. Using allowed claims instead of paid claims in both the numerator and denominator. This change removes the impact of cost-sharing differences between Medicaid and ACA, as well as removes the impact of starting new cost-sharing requirements midyear.
b. Keeping the members that were redetermined from Medicaid in the denominator. The morbidity factor is being applied to NHRPI's experience with these members included. Therefore, the factor needs to account for this otherwise it would double count the impact of these claims.

These changes increase the Medicaid Redetermination portion of the morbidity factor from 1.016 to 1.024, which would increase the proposed rates by +0.8%

3. Risk Adjustment

L&E observed that the actual 2023 risk adjustment transfer amount materially differed from the estimated 2023 risk adjustment transfer amount used in the development of the 2025 risk adjustment transfer assumption. Reflecting the actual 2023 transfer amount would decrease rates by 0.6%.

4. Contribution to Surplus

Based on decreasing trend in NHPRI's RBC Ratio and surplus held in month of claims, as well as a comparison of these metrics at a nationwide level, L&E believes that a contribution to surplus lower than 3.0% present significant risk of Company insolvency. Increasing the contribution to surplus from 1.0% to 3.0% would increase the proposed rates by 2.0%.

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

Component	
NHPRI Proposal	+5.6%
Trend	-0.3%
Morbidity	+0.8%
Risk Adjustment	-0.6%
Contribution to Surplus	+2.0%
L&E Recommendation	**+7.6%**

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
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ASOP 41 DISCLOSURES

The Actuarial Standards Board (ASB), vested by the U.S.-based actuarial organizations[2], 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[3], 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 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 1, 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 NHPRI. 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 NHPRI 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 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.