

August 5, 2024

State of Rhode Island Office of the Health Insurance Commissioner

Re: UnitedHealthcare of New England and United Healthcare Insurance Company
2025 Rhode Island LG Rate Filing
SERFF Tracking #: UHLC-134066731

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 UnitedHealthcare of New England and United Healthcare Insurance Company (UHC or Company) and to assist the Rhode Island Office of Attorney General (OAG) in evaluating possible changes to the proposed rates.

FILING OVERVIEW

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1. UHC submitted proposed rates on May 13, 2024, with an average 14.9% rate increase.
 - The rate increase calculation is based on actual premiums and claims for all renewing 51+ groups. It is consistent with the methodology used in last year's filing and approved by the RI Health Insurance Commissioner.
 - The 14.9% rate increase is broken down into a 14.5% increase for groups with 51-99 employees and a 15.2% increase for 100+ groups.
2. The filed trend is 10.3% for 2024 and 9.7% for 2025. Therefore, the primary driver of the rate increase is the trend.
3. UHC had 115 groups, 6,613 contracts, and 12,314 members enrolled as of February 28, 2024.

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.”

This letter is to assist the OAG in evaluating 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

UHC provided the OHIC Large group Rate Filing Template, Actuarial Memorandum, Rate Manual and Supporting Attachments, and Trend Support Exhibits. The rating manual shows the development of the proposed 2025 large group market premiums. Within this file, the Company outlines the starting base rates by plan, along with all adjustments applied to the base rate to adjust for the rating population. The Actuarial Memorandum provides narrative support for both new and renewal business and also outlines how credibility is determined.

After a request from L&E, UHC provided additional support exhibits. L&E also reviewed the response files received from the OHIC inquiries, which included additional trend support files and other support exhibits.

L&E ANALYSIS

The items outlined below are key filing assumptions:

1. RATING PROCESS

For the manual rate development, UHC uses their standard large group base rate review process. This process compares current manual premium rates to the needed revenue. It is an automated and standardized process used across all legacy UHC markets to test the adequacy of the current manual rates and to determine if a pricing adjustment to manual rates is required. Utilizing this process, UHC determined that the January 1, 2025, manual rates for large groups need to be increased by approximately 3.3%. The combination of the previously approved 9.8% annual trend assumption with the base rate increase of 3.3% produces an average year-over-year manual rate increase of approximately 13.4%.

The experience rate begins with the total claims for the most recently incurred experience available, excluding the most recent month, and is adjusted for completion (e.g., incurred in month 24, paid in month 25). Claims exceeding a certain pooling level are removed. If plan changes were made during the experience period, the experience is adjusted to reflect the current plan level. UHC projects 2025 claims using actual CY 2023 experience and projects this forward to 2025. The 2025 projected premium is calculated by applying the projected retention charges to the 2025 projected claims. The required rate change is determined by comparing the projected 2025 premium to the 2024 premium.

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>

The projected rate is then credibility blended with a manual rate. The manual rate is blended based on a credibility factor, using the table below:

Member Month		Credibility Percentage
From	To	
	<1000	9%
1001	2000	15%
2001	3000	20%
3001	4000	25%
4001	5000	30%
5001	6000	34%
6001	7000	38%
7001	8000	42%
8001	9000	50%
9001	10000	58%
10001	11000	66%
11001	12000	69%
12001	13000	72%
13001	14000	75%
14001	15000	77%
15001	16000	80%
16001	17000	82%
17001	18000	85%
18001	19000	87%
19001	20000	89%
20001	21000	91%
21001	22000	93%
22001	23000	96%
23001	24000	98%
24001	25000	100%

The formula that derives the credibility scale above can be found in the rating manual. The member months are calculated by summing the number of employees and dependents in the group for each month over the 24 most recent months of experience.

2. TREND

UHC assumes a 10.3% pricing trend for 2024 and 9.7% for 2025. The trends are determined by reviewing recent claims experience at the market level for several broad medical expense categories (inpatient, professional, pharmacy, etc.), with utilization, unit cost, benefit leveraging, and business mix identified for each category.

Unit cost projections are developed based on evaluations of current and anticipated provider contract economics, as well as consideration of both current and expected changes in non-contracted provider cost exposure. The Company provided Schedule A1 which summarizes the RI and non-RI market contract assessment by service category for RI residents.

In determining the projected utilization/mix assumption, the company first examines national historical experience for medical and pharmacy services. To eliminate business mix issues, the national experience is limited to accounts that exist in both the prior and current periods of

experience. UHC refers to this as a “Same Store” assessment. Schedule B1 compares “Same Store” allowed claim costs between the most recent complete years. The change in allowed cost is adjusted for demographics, working day differences, COVID-19 abatement, and other minor changes. The estimated national unit cost (Schedule A2) is subtracted from this total to determine a national historic utilization/mix trend.

To develop a forward-looking utilization/mix component, UHC assesses expected changes from administrative initiatives, provider contracting, economic conditions, environmental impacts, policy provisions, regulatory changes, and technological advancements (Schedule B2). The aggregate utilization/mix change is determined and then applied at the service level to create the service level splits (Schedule B3). Given the variation in service level trends, aggregate medical and pharmacy projected trends are developed, and service level splits are based on proportional historical experience.

The below table shows the breakdown in trend by service category.

Service Category	2024 Trend	2025 Trend
Hospital Inpatient	9.9%	8.3%
Hospital Outpatient	10.6%	9.5%
Professional	10.1%	9.4%
Prescription Drugs	12.2%	11.8%
Capitation (professional)	7.5%	9.1%
Other	9.9%	9.4%
Total	10.3%	9.7%

The utilization, unit cost, and benefit leveraging components vary by service category and are provided in the trend development files. There is also a flat 0.8% component for all service categories that represents the trend impact of age and gender changes.

The leveraging trend, which varies from 0.3% to 2.0% by service category, represents the impact of member cost-share leveraging on the net claims cost trend. Support for the benefit leveraging component was provided in Schedule D.

In the company’s calculation of the projected increase, they are using a trend of 12.0% for 2023, which is higher than the previously approved trend of 9.8%. We recommend using the previously approved trend of 9.8% for 2023 in the calculation of the projected renewal increase. Additionally, we observe that UHC’s proposed utilization and aggregate trend assumptions are significantly higher than the majority of all filed ACA trends over the last three years. We also note that the projected trends of 10.3% and 9.7% for 2024 and 2025 are the highest in the RI large group market. L&E recommends lowering the utilization/mix trend, as well as a small reduction in the other trend components, so that the aggregate trend is 8.0% for 2024 and 2025, which is on the high end but more in line with the other assumed trends in the market.

The revisions above have an impact of -4.1% on the projected rate increase.

3. RETENTION

The table below shows the breakdown of the retention costs as a percentage of premium. These values were provided in the “2025 LG OHIC Rate Template_6.7.2024.xlsx” file.

Category	%
ACA Fees and Taxes	0.0%
Premium Tax	2.0%
Other Retention Charge	0.0%
Contribution to Reserve	2.0%
Investment Income Credit	0.0%
Payroll and Benefits	3.4%
Outsourced Services	0.4%
Auditing and Consulting	0.3%
Commissions	0.1%
Marketing and Advertising	0.2%
Legal Expenses	0.1%
Other Taxes, Licenses, and Fees	0.0%
Reimbursements by Uninsured Plans	0.0%
Other Admin Expenses	2.3%
Total	10.8%

The 2025 retention of 10.8% is an increase from 2024, which had a total retention charge of 9.9% of premium. The increase is primarily due to the increase in Contribution to Reserve from 1.0% to 2.0%. Last year, the Health Insurance Commissioner approved a 1.0% profit for carriers in the large group market. In response to the inquiries, the Company stated that the 2.0% CTR is justified because of their limited membership and volatile claim patterns.

Regarding the profit assumption in the filing, we note that the year-end 2023 RBC ratio is 681% for UHCNE and 694% for UHIC. Due to the capital and surplus levels of the Companies and their affiliates, we do not think an increase in profit from the previously approved 1.0% is necessary.

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

4. UNDERWRITING

The Company applies underwriting after the final calculated required premium to reflect considerations on a case-by-case basis when they are not otherwise captured in the rating methodology. The cumulative underwriting adjustments are limited to +/- 25% for new business and +/- 50% for renewal business.

In response to L&E’s inquiry, the Company provided a table summarizing the underwriting adjustment ranges used in Q1 of 2024 at the group level. The Company notes that UHC uses

consistent, rational, objective, and financially sound actuarial criteria when renewing groups, which includes analyzing the demographic changes and loss ratios of each group.

OBSERVATIONS

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

TREND:

The trend assumptions UHC has assumed are higher than both what has been assumed by other RI LG carriers and market-wide in the ACA market over the last three years. L&E believes that the 10.3% and 9.7% annual trend assumptions for 2024 and 2025 should be reduced to 8.0% which is more in line with market averages. L&E also recommends that the Company use the trend for 2023 of 9.8% which was the previously approved trend for the projected renewal rate increase calculation. These two changes have a combined -4.1% impact on the overall rate increase.

PROFIT:

In this filing, UHC increased the Contribution to Reserve from 1.0% to 2.0%. Due to the capital and surplus levels of the Company and its affiliates, we do not think an increase in profit from the previously approved 1.0% is necessary.

RI ASSESSMENTS:

At the time of the initial filing, the final updated Rhode Island assessments had not been released. L&E recommends that UHC 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
UHC LG Proposal	+14.9%
2023 Trend in Renewal Calc	-1.1%
Lower Trend	-3.0%
Profit	-1.1%
Revised RI Assessments	-0.2%
UHC LG Revised	+10.5%

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



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



Josh Hammerquist, FSA, MAAA
Vice President & Principal
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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
- 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 5, 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 UHC. 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, as applicable.
- 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 UHC 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 the findings.
- 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.